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TECHNICALS & TRENDS

August 2018 Edition

Today Statistics Canada released their crop production estimates as of July 31st. Here is a small summary of the report....

	2018	2017 to 2018
	Thousands of tonnes	% Change
Total wheat	28,987	-3.3
Durum wheat	5,034	1.4
Spring wheat	21,559	-2.7
Winter wheat	2,394	-16.1
Canola	19,162	-10.2
Oats	3,305	-11.5
Soybeans	7,010	-9.2
Barley	7,992	1.3

**Source: Statistics Canada*

Many clients have been asking me 'is this the bottom?' for canola. Below is a chart on canola going back to November 2017.You can see that around $490/ton is an important floor (support) that has been held for the last year. While nobody knows how big the canola crop is actually going to be, traders could look at around $490/ton as an area to buy based on technicals. From August 20th to 28th canola declined $23/ton approximately leaving the market oversold. Yet another technical sign this could be a bottom....short term. I want to say 'short term' because harvest pressure could still push the market lower at some point. For now, I've established positions for clients around $490/ton to take advantage of the possible upside.

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Canola November Futures

For past couple of months the Canadian Dollar has been in an upward trend. However, the last couple of days might show that the trend could be broken with a decline of 1 cent. Canada's economy remained flat in June, with a disappointing GDP release of 0% that was shy of the estimate of 0.1%. NAFTA remains in the spotlight with senior officials from both the U.S. and Canada saying that a new NAFTA pact could be signed as early as today. Earlier in the week, Mexico and the U.S. reached a new trade agreement and Canada is expected to follow suit. A NAFTA deal getting completed should be positive for the Canadian Dollar, right? Keep in mind the market is always forward look so positive developments in NAFTA may already be priced in. Traders are going to be shifting more of their focus on how Bank of Canada Governor

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Stephen Poloz was downplaying the possibility of aggressive rate increases. This could cause the loonie to decrease, but overall I don't think Poloz is going to have more of an aggressive pace for raising interest rates than the Federal Reserve in the U.S. If Canada was more aggressive in raising rates, the Canadian Dollar could increase more than the U.S. Dollar which would be bad for exports etc. Top end on the Canadian Dollar December futures I'm watching is 78 cents and around 76.2 on the bottom.

Canadian Dollar December Futures

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All wheat contracts had a significant rally in July. I mentioned to my clients that around $6.50/bu on the Minneapolis December futures would be a good idea to either add hedges and/or sell new crop. Wheat on the December futures has declined from the August 7th highs 62.6 cents on Chicago, 75.6 cents on Kansas and 66.6 cents on Minneapolis. The increase in July seemed to be from funds capitalizing on the dry weather news in the world. Commitment of Traders report showed the first week of August managed money was long 133,276 contracts of Chicago, Kansas and Minneapolis wheat. This number is important because of that total the Chicago wheat position was the largest from managed money trades since September 2012. Also, the Kansas City position was just shy of the July 2017 record. After that news of dry weather faded and rains were in the forecast it appears funds liquidated some of their position causing the market to decline. With this decline funds are starting to re-enter some of their positions given the oversold market.

Chicago Wheat December Futures

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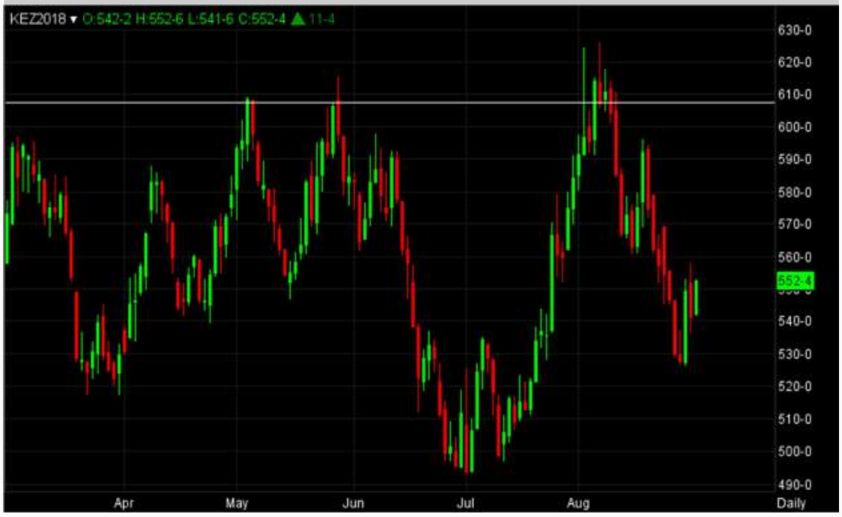
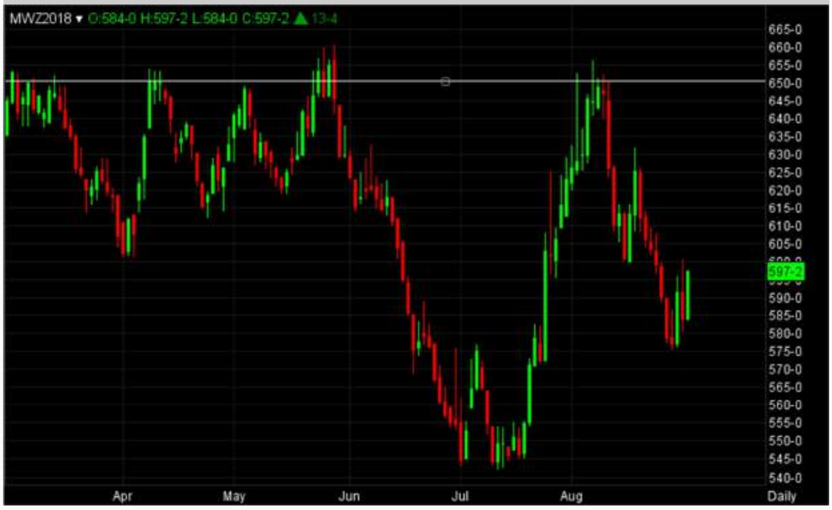
Kansas Wheat December Futures



Minneapolis Wheat December Futures



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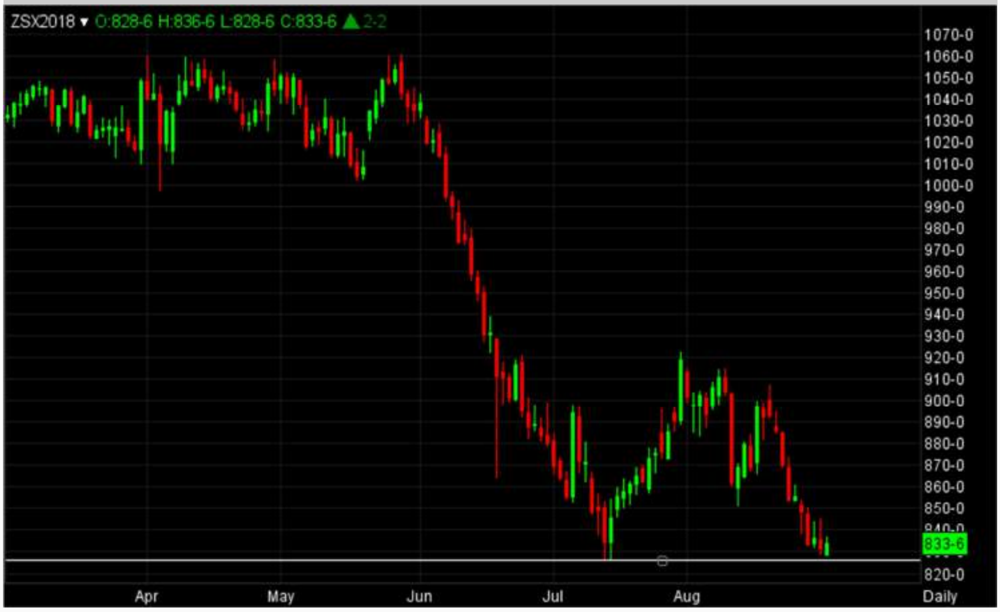
The soybean market is oversold and vulnerable for a bounce. Critical levels are starting to be reached that if broken soybeans could decline further. The low on the November contract was set on July 16th at $8.262. Now the futures are only around 5 cents away from there. Although the technicals show a bounce could occur, supply fundamentals continue to support beans declining. FC Stone has estimated the soybean yield in the U.S. at 53.8 bushels per acre, 2.2 bushels above the August USDA estimate and 0.8 bushels above the Pro Farmer Tour. With the recent Chinese demand for Brazil's soybeans due to the U.S. tariffs and with the Argentine drought, supplies are very low in South America. This month alone the Argentine peso is down 40% and the Brazilian real is down 10%. I've read that hoarding soybeans as a hedge against inflation could be an issue into the new 2018-2019 growing season.

Soybean November Futures



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Long Term Soybean Futures

Cattle futures have declined from their highs recently. Overall, the market is in a sideways trend. Supply signals are bearish, but there is exceptionally strong demand in the U.S. The number of cattle on feedlots earlier this month 90 days or more was 11% above a year ago and 8% above the 5 year average. On August 24th, the USDA Cattle on Feed was slightly bearish relative to expectations. Placements for the month of July came in at 107.9% of last year, which was above the expectations of 106.3% (still within trade range estimates).Export and domestic demand is very strong as beef prices are higher than last year or 2016. Hopes that a NAFTA deal has provided some underlying support for the market. A longer term supportive force may be if the disease issues in China intensify. I'm referring to the African swine fever, or ASF, that was first reported on August 3rd. The virus is highly contagious, and once infected pigs usually die within two to ten days. There is no vaccine so the only choice is to destroy all affected and potentially affected animals.

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Feeder Cattle October Futures

Live Cattle October Futures

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