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TECHNICALS & TRENDS

August 2016 Edition

Highlighted: Canola, Wheat, Soybeans & Cattle

The November canola contract has gone from $530/ton on June 15th to a low of $442/ton on July 25th. That is a 17% approx. move down in canola prices in just over a month. Some of this weakness was probably caused by the Chinese government planning to impose new dockage rules on imports of Canadian canola effective Sept 1st. The dockage allowances for Canadian canola will be pegged at 1%, down from the old mark of 2.5%. As I write this report, November canola is up $2/ton, currently at $453/ton. Is a rebound going to happen now or will the trend continue lower? My view is I don't see there being enough supporting evidence for prices to get back up above the $500/ton range. I've had new crop canola protection on since the middle of May when we saw prices around $520/ton. The price continued up to a high of $532/ton, but my goal is always to put protection in for farms at good profitable levels. Remember, you are never going to always buy or sell at the exact low or high. For operations that don't have any canola protection on, I would look at adding some around these levels. If you have some protection on or have sold your physical canola, you might be able to wait until prices come up another $10/ton-$20/ton.

Canola November futures contract:

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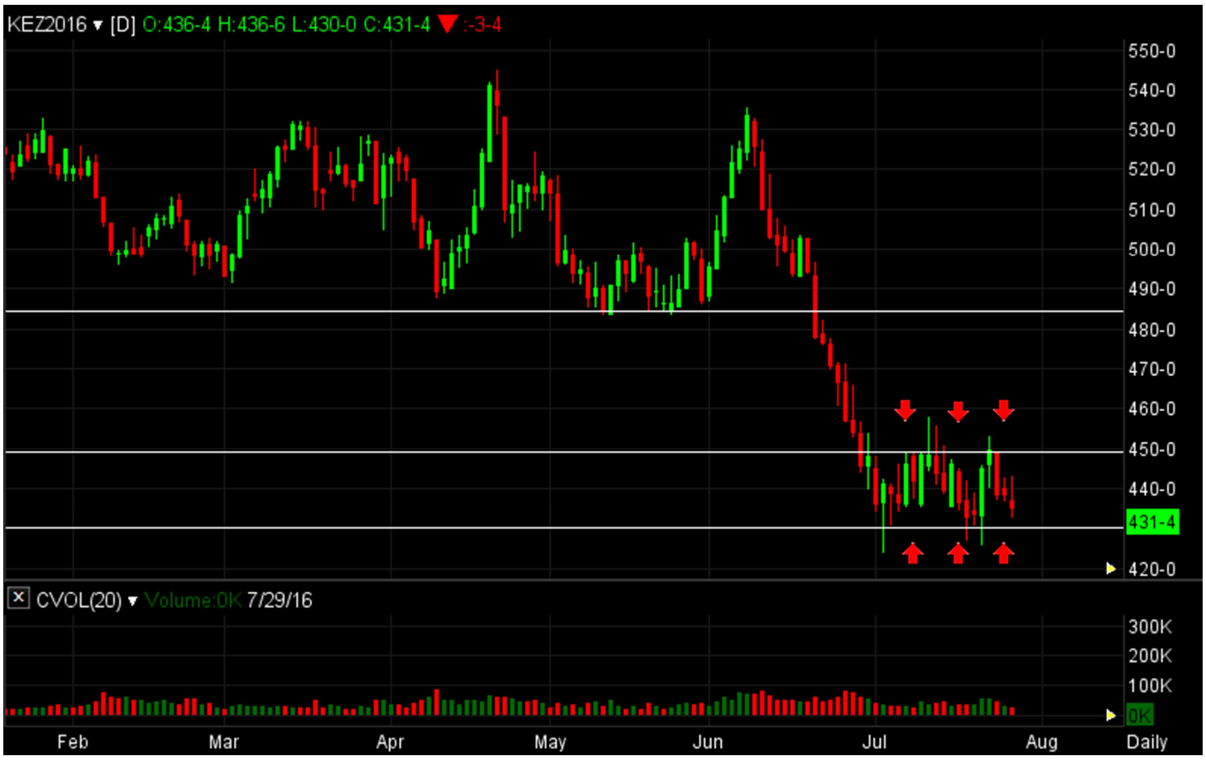
This month wheat is seemingly to be in a short term sideways range. ‘How low can wheat go?’ is a common question I’ve been getting lately. I’ve had some farms say to me $3 ago back in 2013 wheat can’t go any lower. The trends in wheat are still pointing that the price could go lower. Also, fundamentally there is still quite a bit of carryover from last year supporting prices staying low. Now you have heard my bearish comments….here are the bullish. Shorter term, we could see wheat rally. We have seen around a $1 decline approx. in a month possibly showing we could be oversold. Right now you may be saying that you don’t want to put protection in this low down for your wheat. Consider using a spread strategy to help reduce the cost. You get the protection you want, but at a lower cost. And remember, if wheat starts to rally you can always sell your options to regain some of your premium back.

Kansas City December Wheat futures contract:



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Chicago December Wheat futures contract:

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Last month soybeans were still considered to be in an uptrend. However, that has changed fairly quickly. This could been the biggest one-month fall (16% decline) in more than two years as fears ease over potential yield losses due to unfavorable weather. Soybeans have come under pressure as updated weather models have reduced concerns about the threat of hot, dry weather during a critical phrase of crop development. The support (floor) level of $10.80 I was watching has been broken and I added protection in at that level for operations. We will have a better idea a month from now as there is still time for a weather market to return. U.S. Department of Agriculture weekly U.S. export sales for the current marketing season of a negative 1,400 tons of soybeans were below expectations for sales of 250,000 to 450,000 tons.

Soybean November futures contract:

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Feeder cattle has still continued its downtrend. The slope of the decline is flattening and the spikes higher are not as high as they were previously (indicated by the arrows in the chart below). I'm watching for the slope to converge with the short term support at $134. At that point, I could either see another significant break lower, or a sideways trend could emerge. Overall, I have had feeder cattle protection in place for clients for quite some time. A sideways trend might warrant taking off the protection to preserve premium and a break lower would signal to add protection.

October Feeder cattle futures contract:

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