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TECHNICALS & TRENDS

August 2019 Edition

Canadian farmers are expected to harvest the smallest canola crop in four years, according to Statistics Canada on Tuesday. They estimated canola production to be 18.5 million tonnes, down 9% year over year. This is below estimates of 18.9 million tonnes. One would think this should be very bullish for canola, however, the futures haven't increased significantly. What is Statistics Canada track record for this August report? Over the past five years, the August production estimate isn't the best barometer of what final productions numbers could be. They usually underestimate all Canadian crops by an average of 7%. The final crop figures in December are usually higher. This month canola has continued its sideways range between $442/ton and $454/ton approximately. I've been reviewing with suitable farms a strategy where they get paid to wait in this sideways market. You may be familiar with Buying Calls to profit when the market increases. Instead of being on the side of paying a premium and wanting the market to go up.....you can be on the other side of collecting a premium and wanting the market to stay below a certain level. When you sell options the time decay works in your favor instead of not when you buy options.

Here is an example to give you a picture.....

Right now with canola trading sideways I believe for the next couple months canola could stay below $460/ton on the November futures. I sold a $460/ton call and collected $5.50/ton. This means clients immediately collected $5.50/ton and put it in their pocket (account).

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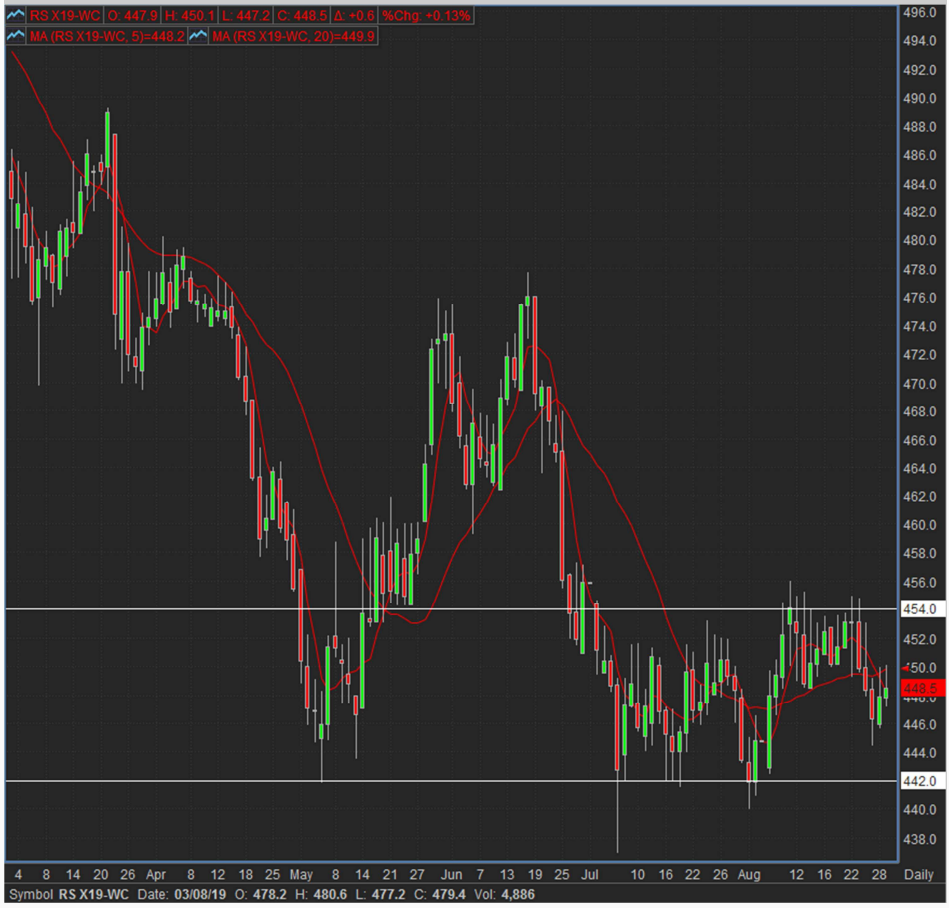
With any trade there is risk involved and in this case I want to see canola stay below $465.50/ton ($460/ton strike + $5.50/ton).My viewpoint is if canola increases producers will be selling their physical canola, which helps reduce any loss on the position.

Canola November Futures



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Wheat markets have been continuing their trend lower this month.

- Minneapolis wheat is making new contract lows.
- Chicago wheat is 20 cents/bu from the lows.
- Kansas wheat is right at the lows.

Ample global supplies and technical selling have been the main culprits. Reversal action recently from corn and soybeans has lent some stability, but it still hasn't been enough. All wheat production from StatsCan came in at 31.25 million tonnes versus the average estimate of 32.4 million and compared to last year's 32.2 million tonnes. One thing that may affect Canada's wheat exports is the new deal Trump may have with Japan.

Japan was Canada's third largest wheat customer through the first 10 months of the 2018-2019 crop year, buying 1.46 million tonnes. Typically, this amounts to around $500 million worth of Canadian wheat annually. I don't believe this is going to be an issue for our exports given Trumps past track record of pulling out of trade agreements and Canada's decades long track record with Japan.

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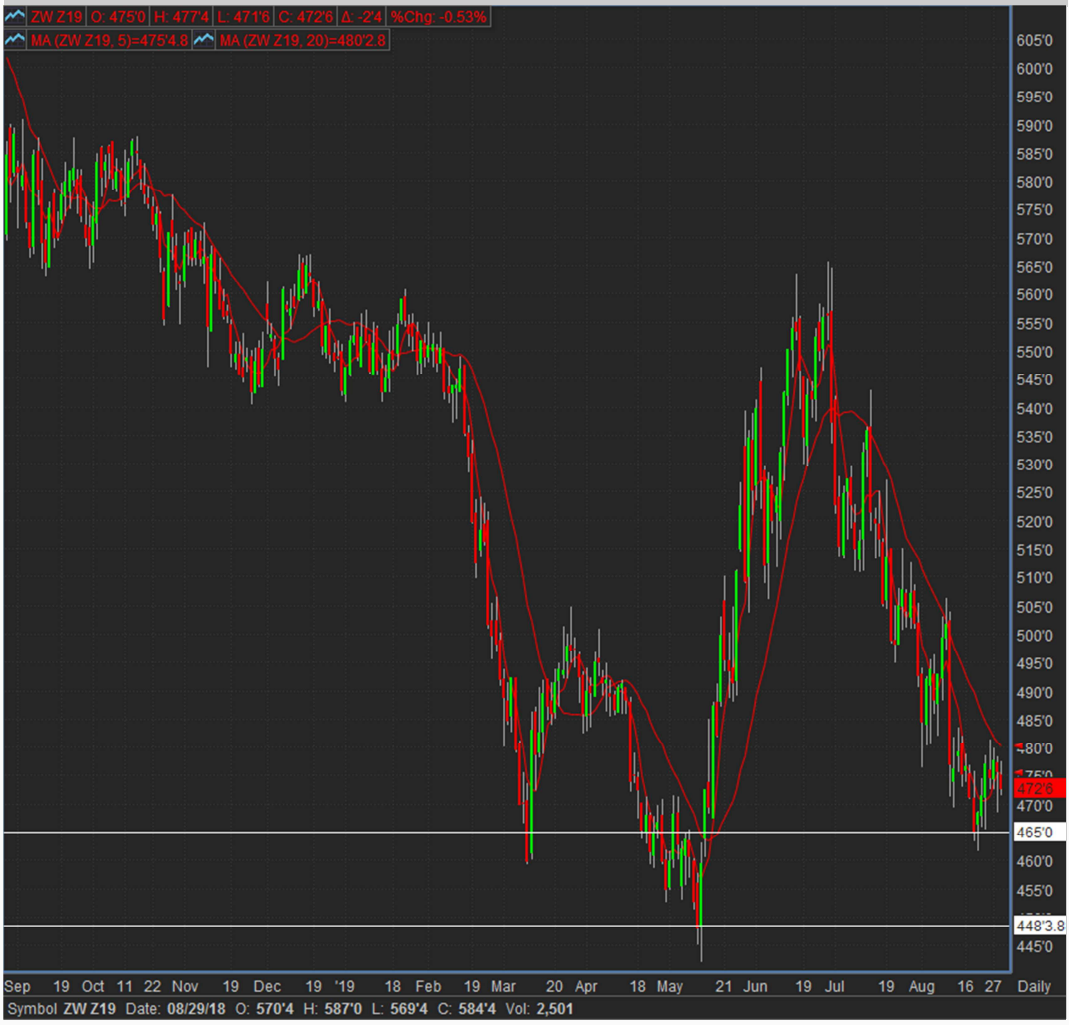
Chicago Wheat December Futures



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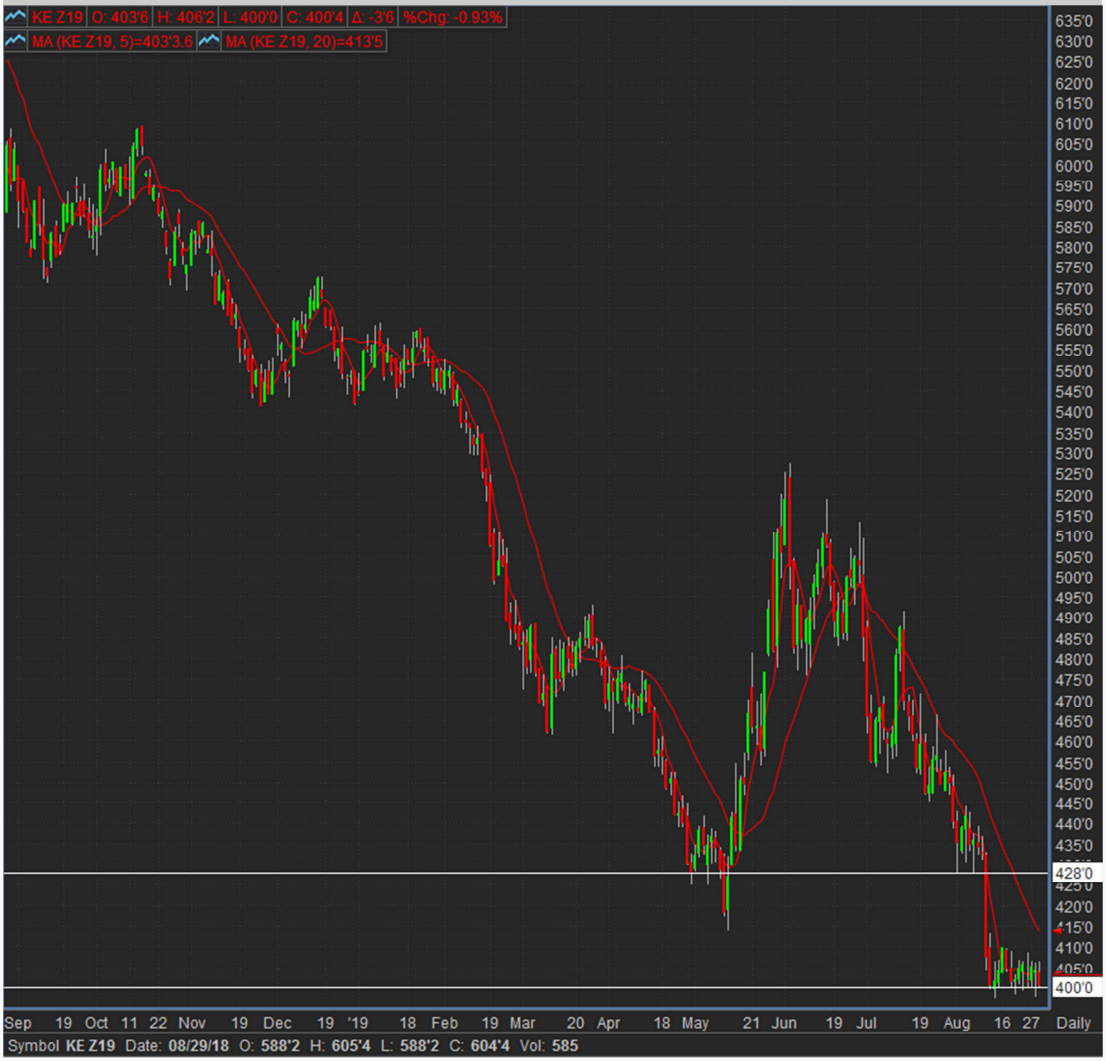
Kansas Wheat December Futures



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Minneapolis Wheat December Futures

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This week's U.S crop progress report showed 57% of the U.S. corn crop was rated good to excellent, up from 56% last week and in line with expectations. There may be a race to get the U.S. corn crop to fully mature ahead of the frost season. You may have thought, or still do think corn could go significantly higher. One thing I like to watch is what side the 'big traders' are on. The trend following funds for corn have flipped to being net short 56,441 contracts as of August 20th, meaning they think prices are going lower. There could be more weakness against the September contract this week as the delayed pricing contracts must be executed by Friday. Last week the Pro Farmer crop tour estimated U.S. corn yield as 163.3 bushels per acre, down 3.7% from the August USDA estimate at 169.5 bushels per acre. This could be supportive for prices, but we won't know for sure until end of harvest. Reversal action has been shown on the charts and some funds are covering their shorts on fresh news that Trump could be announcing a "giant package" for the U.S. ethanol industry. As always, no one in the trade knows what to expect, but the tweet produced short covering as the bears are fearful of enlarged U.S. ethanol demand.

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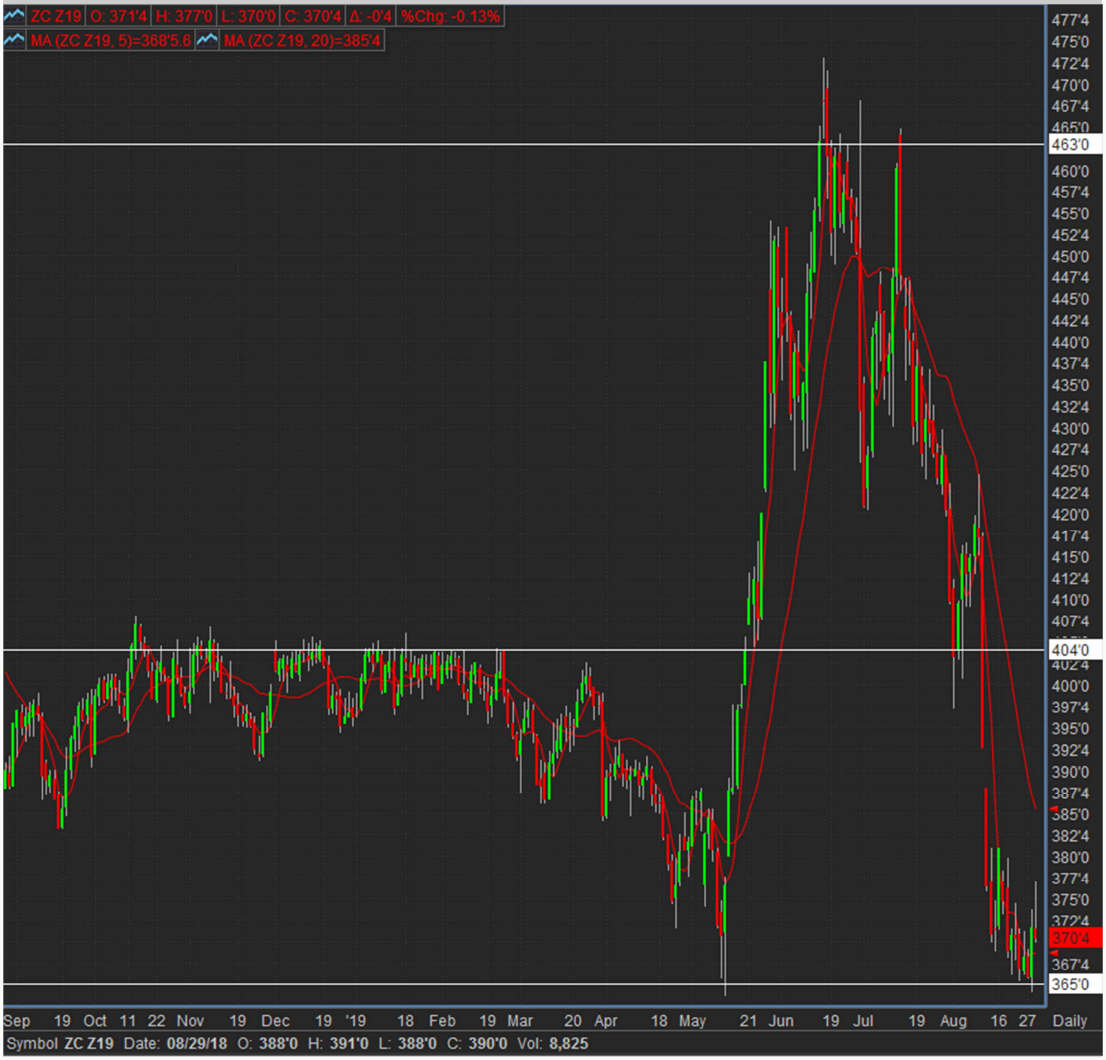
Corn December Futures



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When the Canadian Dollar increased in June and into July it was looking like we could see an 80 cent dollar. However, more global tensions and fears of a recession have brought the Canadian Dollar back down to the 75 cent level on the September futures. The Bank of Canada could be forced to step in to avoid the economy from losing momentum. This could be done by lowering interest rates as early as their next announcement on September 4th. Now there are some who believe the Canadian and U.S. central banks are on a different path with rates. Meaning, the Canadian Dollar could still increase higher. Traders will be watching economic data closely for signs of a slowing economy. My farm clients welcome a lower Canadian Dollar and have asked if they should protect themselves from an increase. With all of the negativity I believe producers don't need protection from the loonie going higher right now.

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Canadian Dollar September Futures

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Cattle futures have had a wild ride to say the least this month. On August 9th a fire destroyed the Tyson Foods plant in Holcomb Kansas. It had the capacity to slaughter 6,000 head a day of cattle - or about 5% of the U.S. beef production. The fire created a glut dragging the futures to the lowest in almost three years. This announcement was after the markets closed and the next day cattle futures went limit down.

'Limit down' refers to the maximum amount by which the price of a commodity futures contract may decline in one day. Exchanges do this to avoid flash crashes because computer generated trading is more common than ever.In the case of feeder cattle futures, the maximum it can decline in a day is $4.50 and live cattle $3.

Estimated time to rebuild the plant is three to six months. Profit margins for packers are above $400 per head of cattle slaughtered, up from around $150 before the fire and well above the previous record of $308, according to HedgersEdge.com. The USDA has announced they are going to investigate whether there is evidence of price manipulation, collusion or other unfair practices

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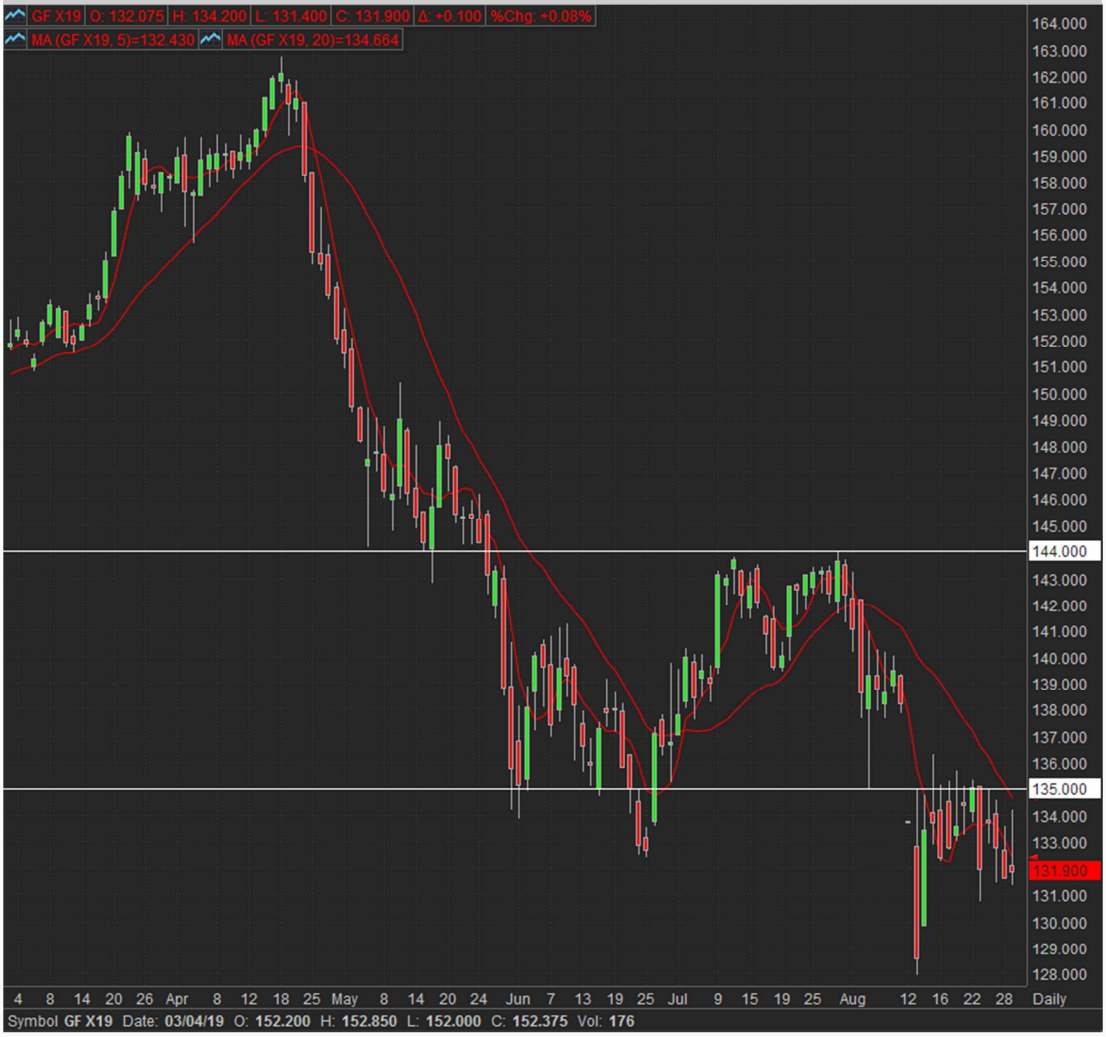
Feeder Cattle November Futures



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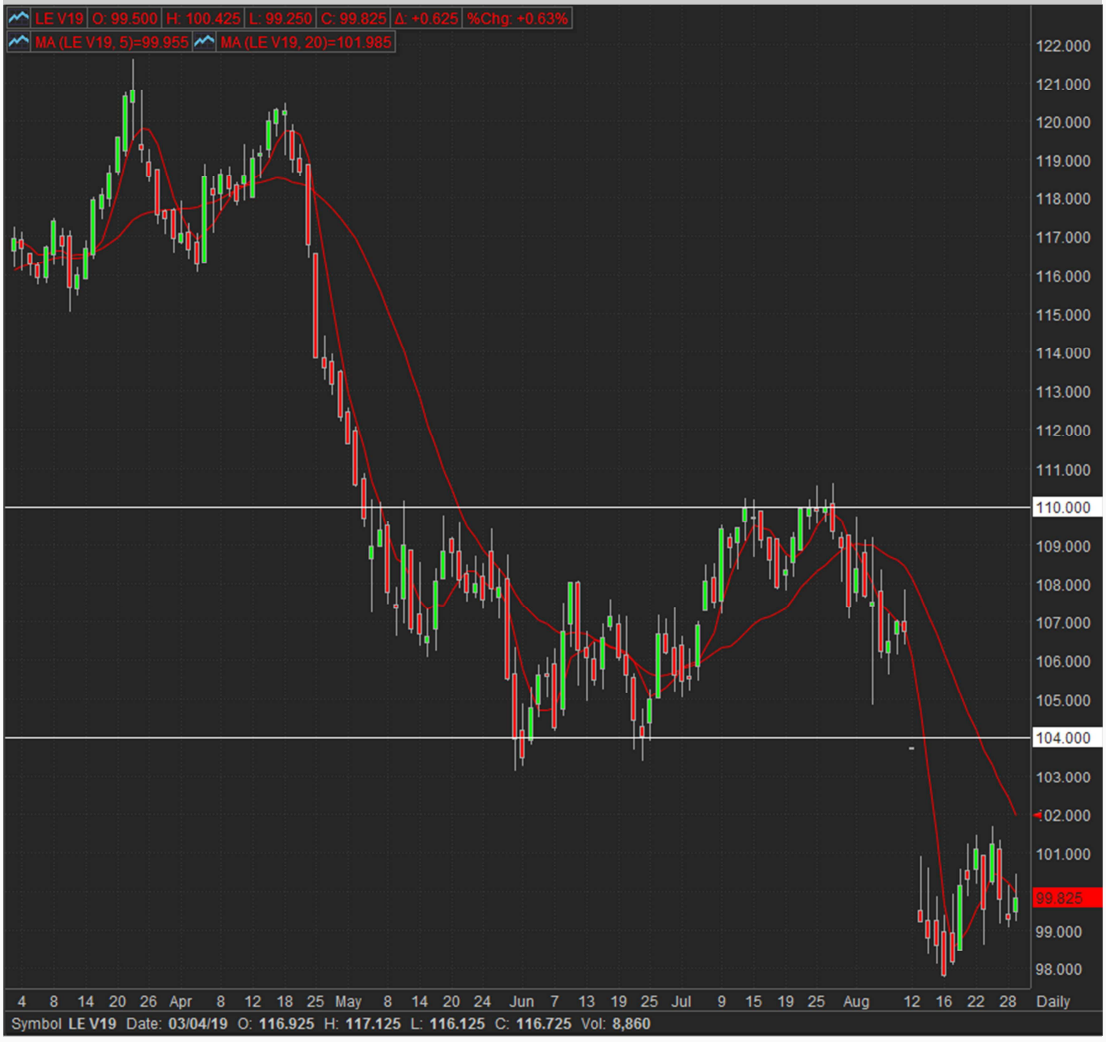
Live Cattle October Futures



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