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Adam Pukalo
Commodity Futures Advisor

TECHNICALS & TRENDS

December 2017 Edition

Another year is wrapping up! 2017 wasn't short on the news front....Donald Trump was elected as the 45th President, tensions with North Korea intensified, there was a massacre in Las Vegas and countless celebrities are accused of sexual misconduct. Negative news always seems to dominate the media, but 2017 wasn't all that bad. There were amazing acts of heroism and generosity from Hurricanes Irma, Harvey and Maria, women in Saudi Arabia were granted permission to drive and it has been the greenest year ever for the UK's electricity production. Reflecting what has happened in the past (good and bad) is the first step to changing the future. You may have heard that the definition of insanity is doing the same thing over and over again and expecting different results. This is one reason why my viewpoints of the markets are based upon systems to take the emotion out of the markets and to adapt when the markets aren't moving in your favor. Every year I like to review the commodities I watch closest for clients to give them a picture of where the markets were and where they could be headed.

Commodity	2017 % Return*
Canola	1.83% DECREASE
Minneapolis Wheat	10.53% INCREASE
Chicago Wheat	10.83% DECREASE
Kansas City Wheat	12.48% DECREASE
Soybeans	3.04% DECREASE
Soybean Oil	6.17% DECREASE
Soybean Meal	1.58% INCREASE
Corn	9,84% DECREASE
Oats	2.10% INCREASE
Lean Hogs	11.92% INCREASE
Feeder Cattle	21.38% INCREASE
Live Cattle	21.04% INCREASE
Canadian Dollar	6.32% INCREASE
Oil (WTI)	6.97% INCREASE
Natural Gas	19.06% DECREASE

**Nearby futures month. Return from open on Jan 3, 2017 to Dec 28, 2017 close.*

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Before discussing what canola futures have done this month I want to comment on developing news that could greatly impact the canola industry. The Chinese government may approve three new biotechnology patents on seeds for Canadian canola producers. These new Canadian developed seeds are said to trigger potential extra $400 million in annual export sales to China. One part of negotiations that could greatly benefit the Canadian canola producer is China eliminating the steep tariffs they have on all canola imports. Eliminating those tariffs as part of a new Canada-China trade deal could result in $1.5 billion in annual canola exports to China. If this does get approved, expect the Chinese regulatory processes could move slowly. Canola is the single largest commodity Canada exports to China with annual sales topping more than $10 billion US a year.

This month canola futures have continued the decline from November. From a high in the beginning of November, the March canola futures have now declined almost $45/ton. The soybean complex declining has been the main factor. Since mid-December the Canadian Dollar increased two cents, which is starting to add more downward pressure. With the large decline this fast canola is oversold and may rebound higher. I'm watching canola to hold $480/ton on the March futures.

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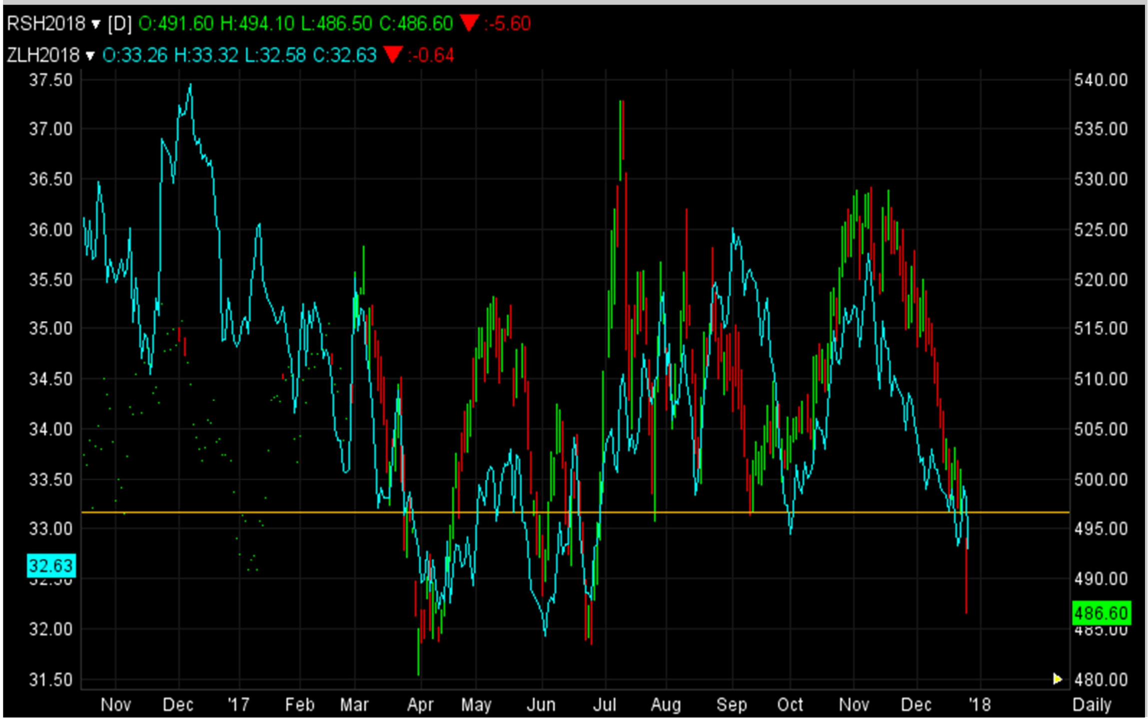
Canola (Yellow) & Soybean Oil (Blue) March Futures



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You may be starting to hear a lot of predictions on where the loonie could be headed in 2018. My prediction is this.....I don't have one. There are a lot of factors still to be decided that could influence which way our loonie could go. Oil prices, NAFTA, indicators on the health of the Canadian economic (GDP, housing, employment etc.) and interest rates could all move in a way somebody didn't predict and foil where they thought it could go. Instead, I'm going to base my 2018 Canadian Dollar strategies on developments along the way and predetermined levels that I would consider buying or selling given the circumstances at that time. One area of support (a floor) that has held is 77.50 on the March futures. If the futures break this level, I would be inclined to go short. Protecting from an increase in the loonie isn't as well defined. Today a sideways range was broken that has held for the last couple months to bring 80 cents or higher in sight. I would still be cautious about buying the loonie here unless there were other fundamental factors to support the technicals.

Canadian Dollar March Futures

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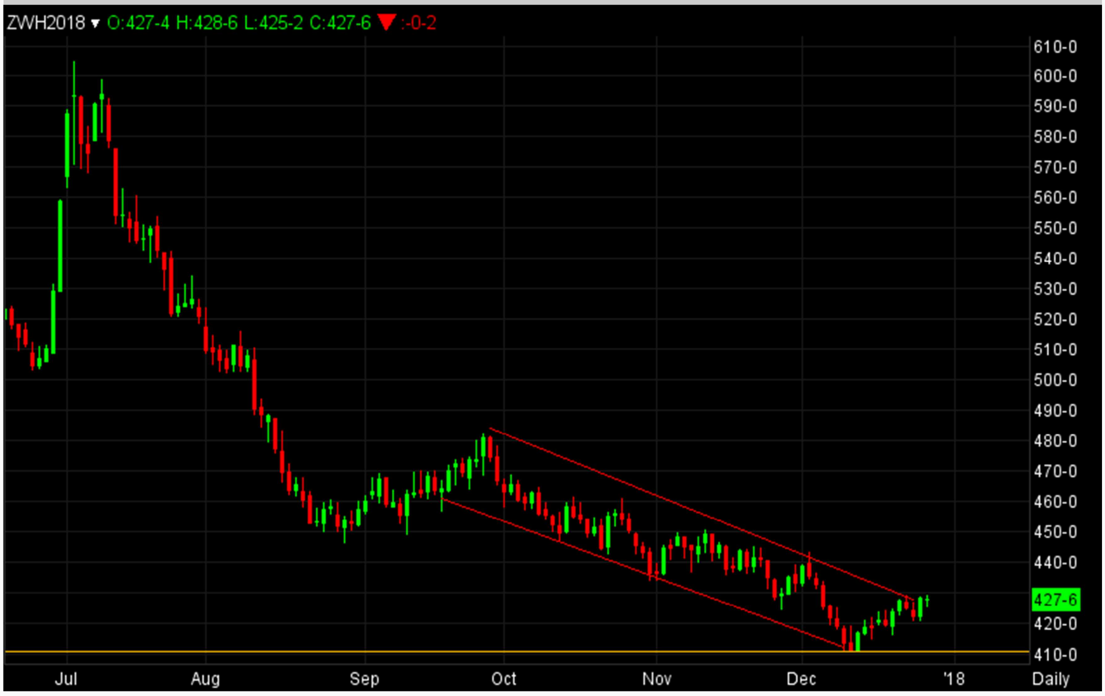
In a monthly report on December 12th, the USDA offered few surprises to grain markets as it confirmed large global inventories. The USDA raised its forecast for world wheat stocks in 2017-18 to a new record, while also increasing the expected stockpile in the US. Trend following speculative funds have still continued to add positions in that bet on wheat will still decline. However, a weaker US Dollar recently may provide some support. Shorter term, selling may be drying up as momentum indicators have started to turn up. We didn't see some type of a "harvest low" in last year until the beginning of January. Longer term wheat could still decline more, but there are opportunities to sell on rallies. Currently, I am watching the spread between Minneapolis and Chicago wheat to narrow more for new crop.

Chicago Wheat March Futures



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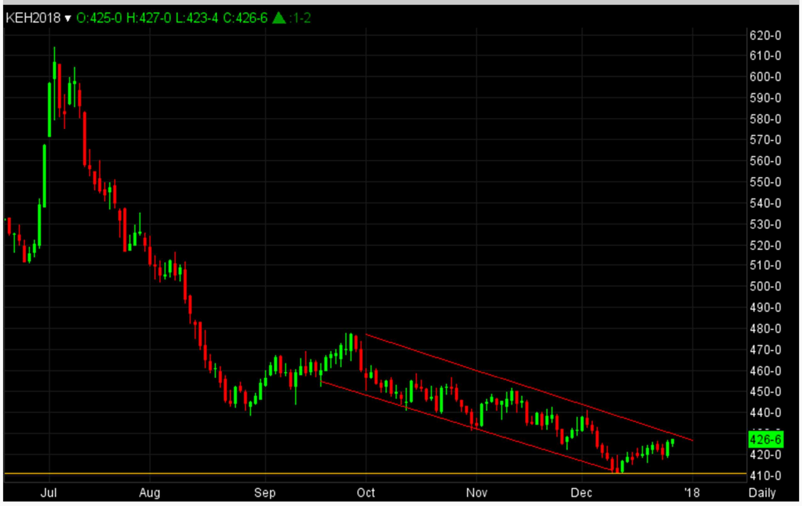
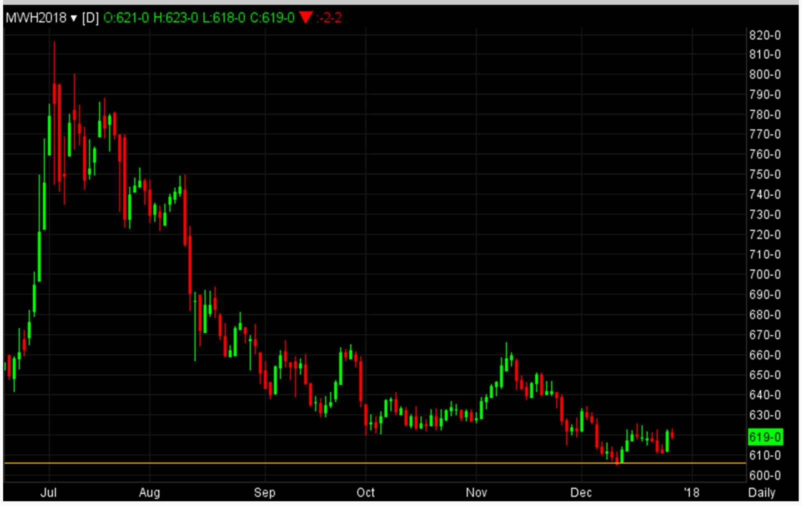
Kansas Wheat March Futures



Minneapolis Wheat March Futures



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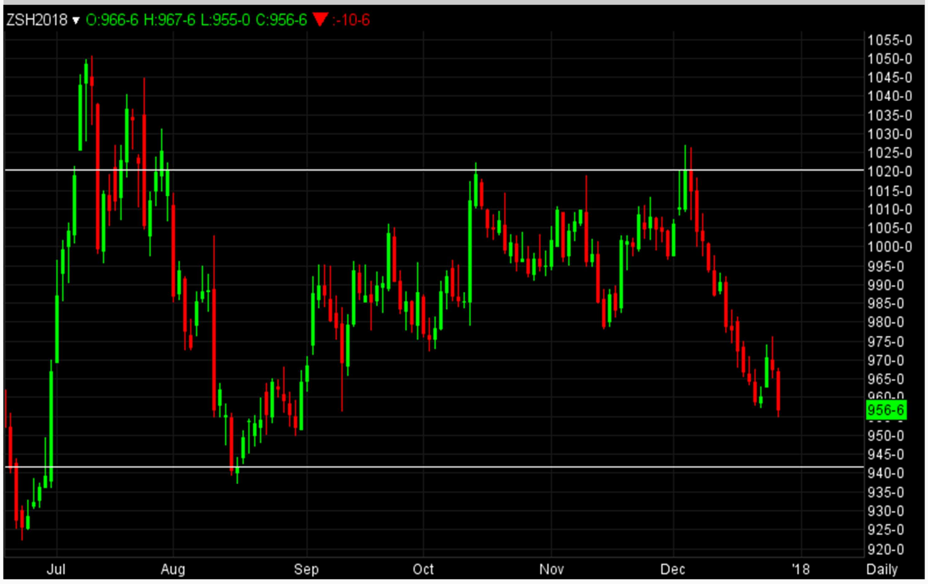
This is the time of year where weather in South America dictates the volatility. Earlier this week soybeans had support as dry weather patterns were thought to occur in Argentina, reducing yield potential in the #3 global soy producers after the United States and Brazil. However, just today there is now favorable South American weather that may boost yields, adding to the glut of global supplies. Scattered rains are expected to continue in central Brazil and expand into northern states in the next 10 days, as reported by Commodity Weather Group. This is the key reproductive period for soybeans and the weather in Brazil continues to be nearly ideal. Speculative investors expanded net short positions last week, as reported in the COT report. I've protected for clients around the $10 per bushel area on the March futures, but now may be the time to start considering taking some profit. $9.40 per bushel is a floor I'm watching to hold.

Soybean March Futures



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Cattle markets have declined from their highs, but we are still ahead of where they were last year. There has been a lot of news how feedlots have continued to have strong profitability, good feeding margins and we've been placing more cattle on feed. The export demand in Canada for beef is on pace for its highest year since 2010. This is mostly seen due to increased sales into the U.S. Japan, Hong Kong and Mexico. 96% of our export market went to these places and it will be interesting to see if it continues into 2018. The impact of your basis on local cash prices will be another key factor to watch going forward. Cattle futures could start a gradual uptrend in the weeks ahead. This increase could be caused by a sharp drop in beef production expected from the 4th quarter to the 1st quarter. Production normally falls 150-350 million pounds for this period, but it is expected to fall 440 million pounds this season, the third largest drop on record. The largest drop on record was from 2013/2014 and that year February 2014 cattle moved from around $135/cwt in December to a contract higher of $153/cwt in February. History is no guarantee, but it can be a guide. If you have sold your cattle at these lower prices, consider how you can replace it using options. Right now to Buy a Call Option on feeder cattle futures, which is a 50,000 pound contract, the cost is $2,500US to replace your cattle. This is a risk limited strategy that gives you all the upside in the price from now until the beginning of April

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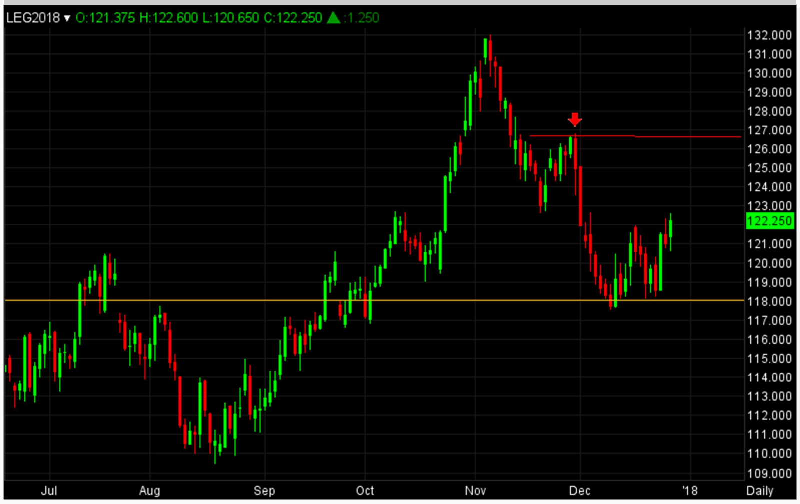
Feeder Cattle March Futures

Live Cattle February Futures



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