Adam Pukalo
Commodity Futures Advisor

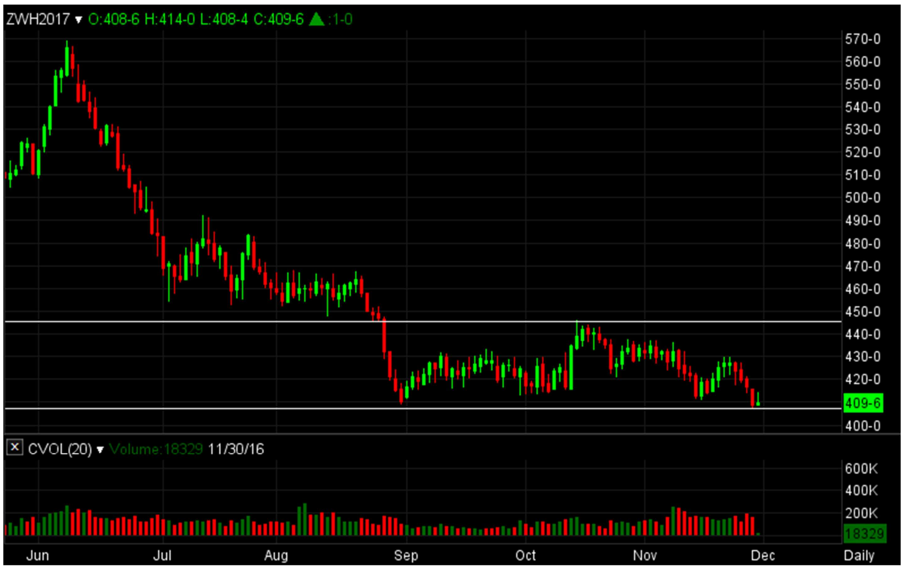
TECHNICALS & TRENDS

December 2016 Edition

Highlighted: Wheat, Canola, Soybeans, CDN$ & Oil

Wheat has been in a sideways trend from September until now (see charts below). Both March Chicago and Kansas City Wheat futures have had a 30 cent approximate range. Why might this be? One reason may be is traders are already net short (expecting wheat will go down) a near record position. This has kept the futures lower and the overall fundamental long term outlook isn't sparking them to take any profit (short covering). If a short covering rally were to take place, a lot of volatility could be seen. Quality problems and/or protein content have plagued the world wheat markets for month. This started with the US winter wheat crop last year and continued with problems during the French wheat harvest. Once farms here in Canada sell their poor quality wheat that will go mostly for feed, farms that have good quality wheat are definitely the ones that will come out ahead because there isn't much around. There is still a record supply of wheat that could keep driving prices lower. I've been creating strategies for clients that protect them if wheat goes lower and doesn't limit their gain. Also, there are ways I have been helping reduce the cost of these strategies. Overall, we are close to the support (floor) for wheat and if this glut continues prices could inch lower.

March Chicago Wheat futures contract:



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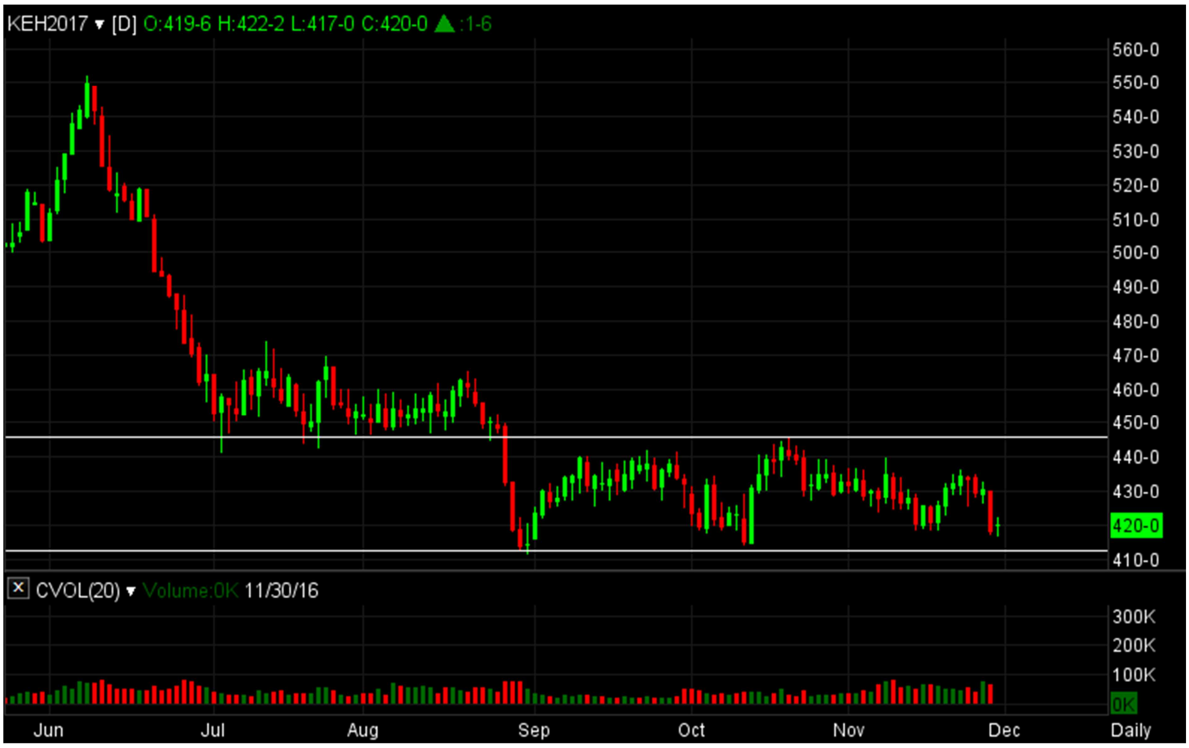
March Kansas City Wheat futures contract:



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On November 28th canola hit a high of $540.70/ton. This $540/ton area can be seen as a resistance or ceiling price. There have been a few contributing factors:

1. Weather related issues across the Prairies
2. Weakening Canadian Dollar
3. Increasing soybean prices.

I ran a few different numbers on just how much canola has follow the weakening Canadian Dollar and increasing soybean prices. September 6th the March Canadian Dollar futures hit 78 cents and has since declined to 74.5 cents, or 4.50%. Now in that same timeframe the comparable canola contract has increased 10%. If we see the Canadian Dollar head back closer to 70 cents, this would definitely be a supporting factor for prices to stay higher up or increase more. As for soybean prices and canola, I looked at a similar scenario. Early August the March canola futures were at a low of $460/ton and have now increased to $532/ton (15%). Also, soybeans prices in that same timeframe increased 11% from $9.40/bu to $10.45/bu. You have to account for the currency factor, but it still shows a correlation between the two. For canola, I've been reviewing strategies to protect until March and/or May. Typically canola prices rise in June so I don't want to pay the extra premium for my farm clients all the way out until July.

Canola March futures contract:

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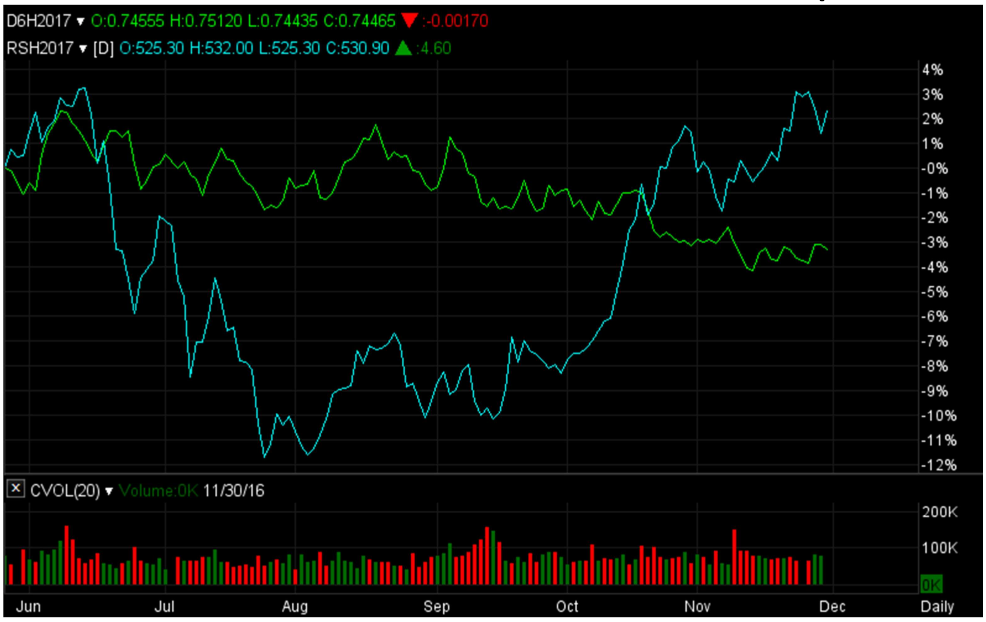
Canola & Canadian Dollar March futures contract comparison:



Canola & Soybean March futures contract comparison:

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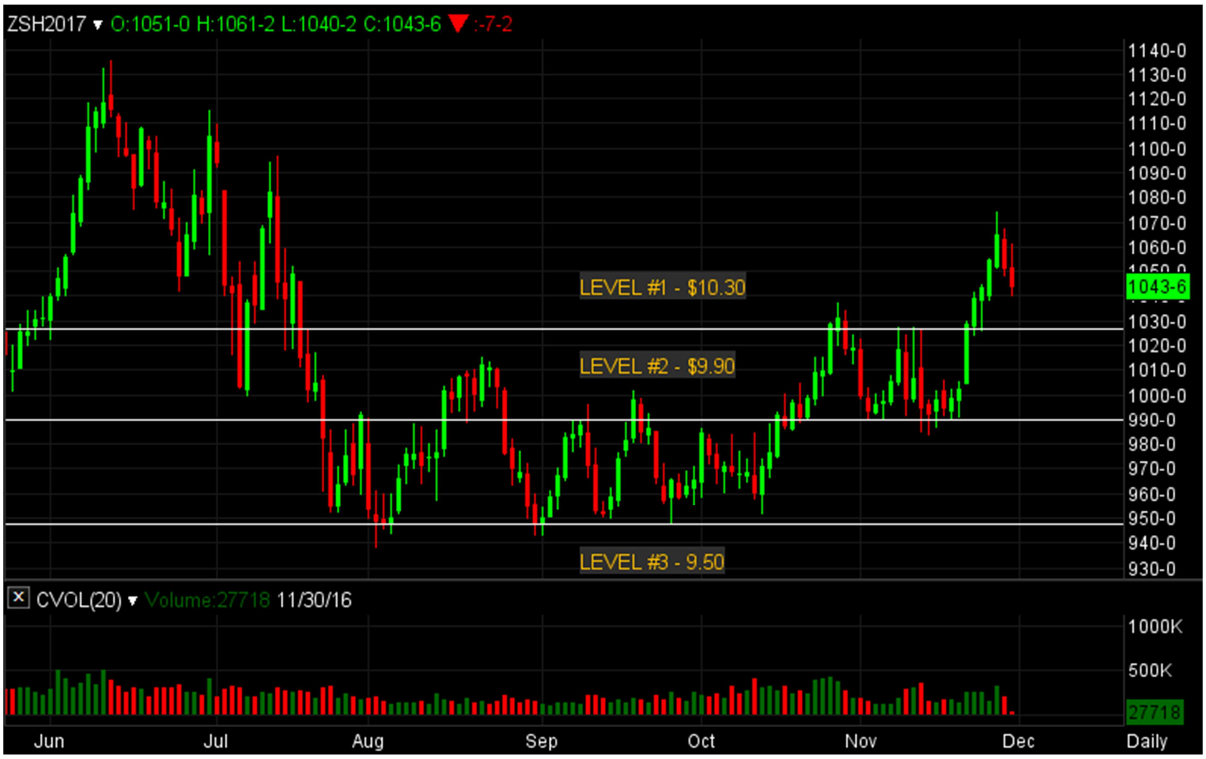
In regards to soybeans, the market has seemed to have priced-in the enormous demand from China, but a very bearish supply outlook continues to be there. Interesting the recent US Dollar rally, further weakness in the Brazilian currency and continued good weather for South America has not affected soybeans from increasing. Traders have recently increased their long positions in hopes for some type of South American weather problem. If weather is normal, world ending stocks will be at a record high. If producers continue to shift away from wheat and corn to soybeans, the soybean planted area in the US are adjusted higher to 88 million acres and US ending stocks could surge to a record high 711 million bushels. I've been reviewing strategies with clients when we see these rallies to add in protection. Demand could decline leaving a record ending stocks causing prices to fall.

Soybean March futures contract:



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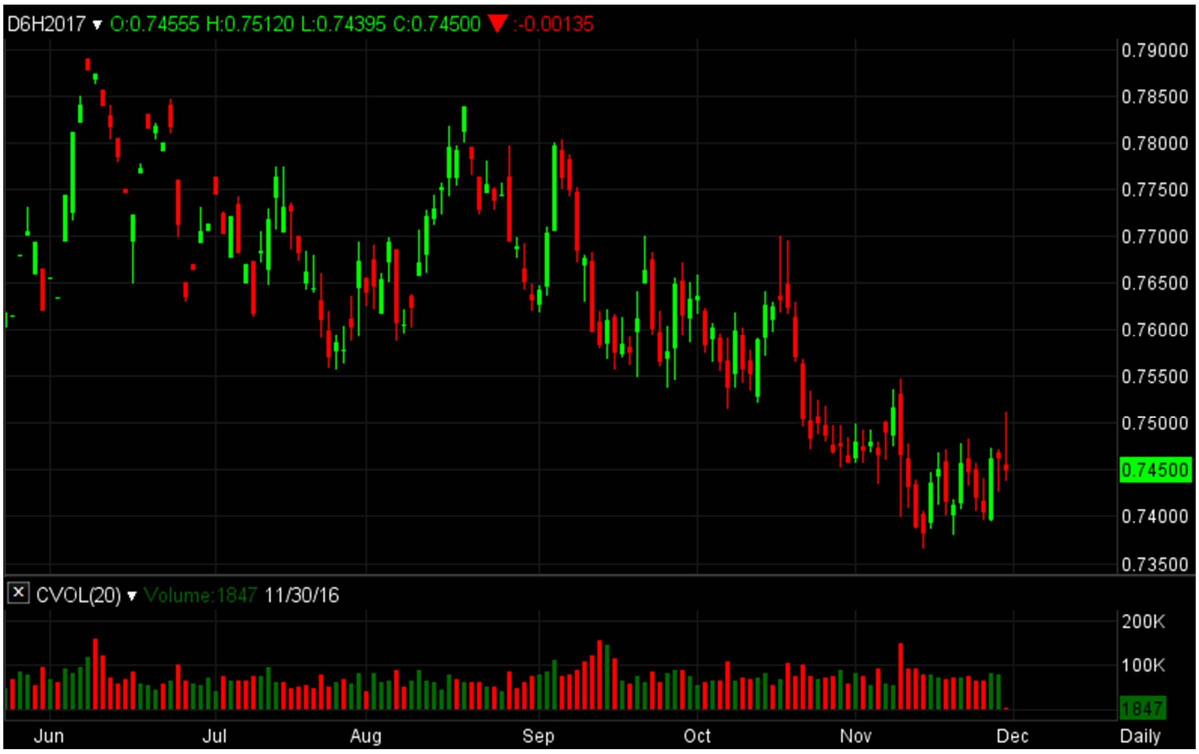
Just today, OPEC has reached a deal among all 14 member countries to cut oil production for the first time since 2008. The cut will be 1.3 million barrels a day from 33.8b/d to 32.5 b/d. Oil prices today have spiked 8%, but the Canadian Dollar is down. You might be asking yourself why. This might be a day where the news is being traded and driving the price of oil up to overbought levels. Also, there is still uncertainty in the OPEC agreement whether these production cut numbers will be met by year end. Looking at the charts, the Canadian Dollar is still definitely in a downward trend. It may not continue and just trade in a couple cent range. I have not been adding any Canadian Dollar hedges in for this reason. If we see declines down to the 72 cent range, I will review strategies at that time.

Canadian Dollar March futures contract:



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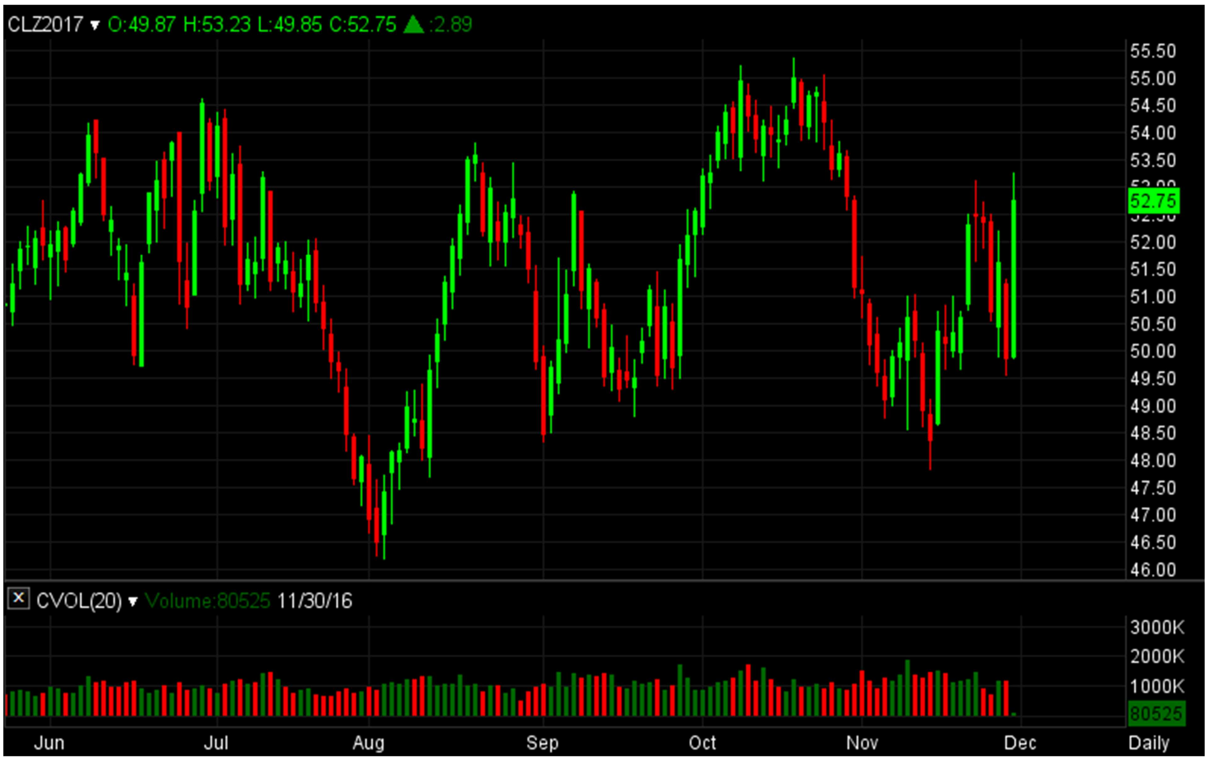
Oil March futures contract:



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