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# **TECHNICALS & TRENDS**

*December 2018 Edition*

This month I'm going to write my commentary a bit different.

**I'm going to focus on trends that I think will shape the markets in 2019.**

- Will the 'stock markets' bring the commodity markets' lower?
- Are we going to see a rally in soybeans and canola?
- What one word would I use to describe the wheat market going forward?
- Why might corn prices increase or decrease?

Let's begin.....

## **Will the 'stock markets' bring the 'commodity markets' lower?**

All major North American stock markets have tumbled in the last three months of the year bringing into question if this ten year bull market is losing steam. There have been a couple main drivers for the recent decline:

### ***1. Reaction to rising interest rates***

Up until recently interest rates were virtually at zero. This meant investors that wanted a “safe return” in bonds received very little in return. Instead of accepting a small return, investors turned to putting their money in the stock market. Thus, this ten year market increase started because more investors that might not have turned to the stock market for better returns were



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now. However, central banks in the U.S. and Canada are starting to increase interest rates again. Investors are starting to do the opposite of what they did before and take money out of the stock market and put it into less risky investments (bonds) that have a higher return than before. You may have already noticed that the interest you are paid in your savings account has increased, which is caused from interest rates starting to rise.

**10 Year Canadian Interest Rate Chart**



## **2. Trade tensions**

You have probably heard something about the trade wars that has been happening around the world. A major obstacle for Canada was the new NAFTA deal now called the United States-Mexico-Canada Agreement (USMCA). One thing that is notable is the words “free trade” appear nowhere in the new name. Canada did make a real concession in opening our dairy industry a bit more to U.S. producers. It still only amounts to giving Americans access to only 3.6% of the Canadian market. Weigh that against ending the threat of big tariffs against Canadian-made cars exported to the U.S. Two tariffs that are still in place many wanted to be

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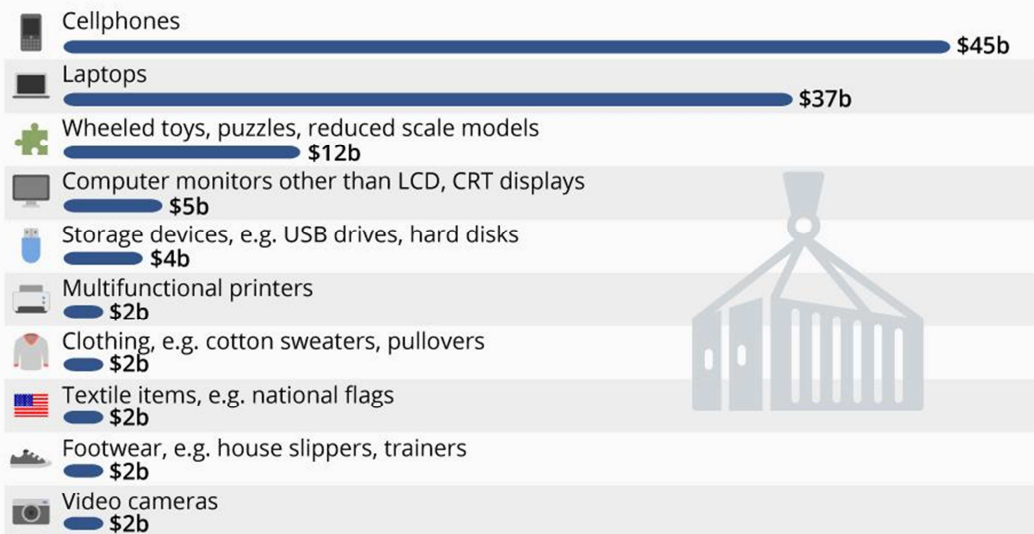
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resolved with the new agreement are the 25% tariff on imports of Canadian steel and 10% on imports of Canadian aluminum. Other than the USMCA, the bigger issue is the trade wars currently going on between the U.S. & China. This is part of Trump's plan to 'Make America Great Again'. He wants to bring more jobs to America and not help other countries (like China) grow anymore. With these new tariffs on China, their growth is "only" expected to be 7%. Canada would be ecstatic with that amount of growth! It seems that Trump is willing to talk more with China lately, but nobody knows how productive these talks are.



### China Tariffs: Are These Trump's Next Targets?

Value of top U.S. imports from China in 2017 which haven't been hit with tariffs yet\*



\* Item descriptions for reference only and are not exhaustive of category.



Sources: United States International Trade Commission, Bloomberg



The Statistics Portal  
www.statista.com

On day to day movements, the stock market can affect grain and livestock markets. Whenever

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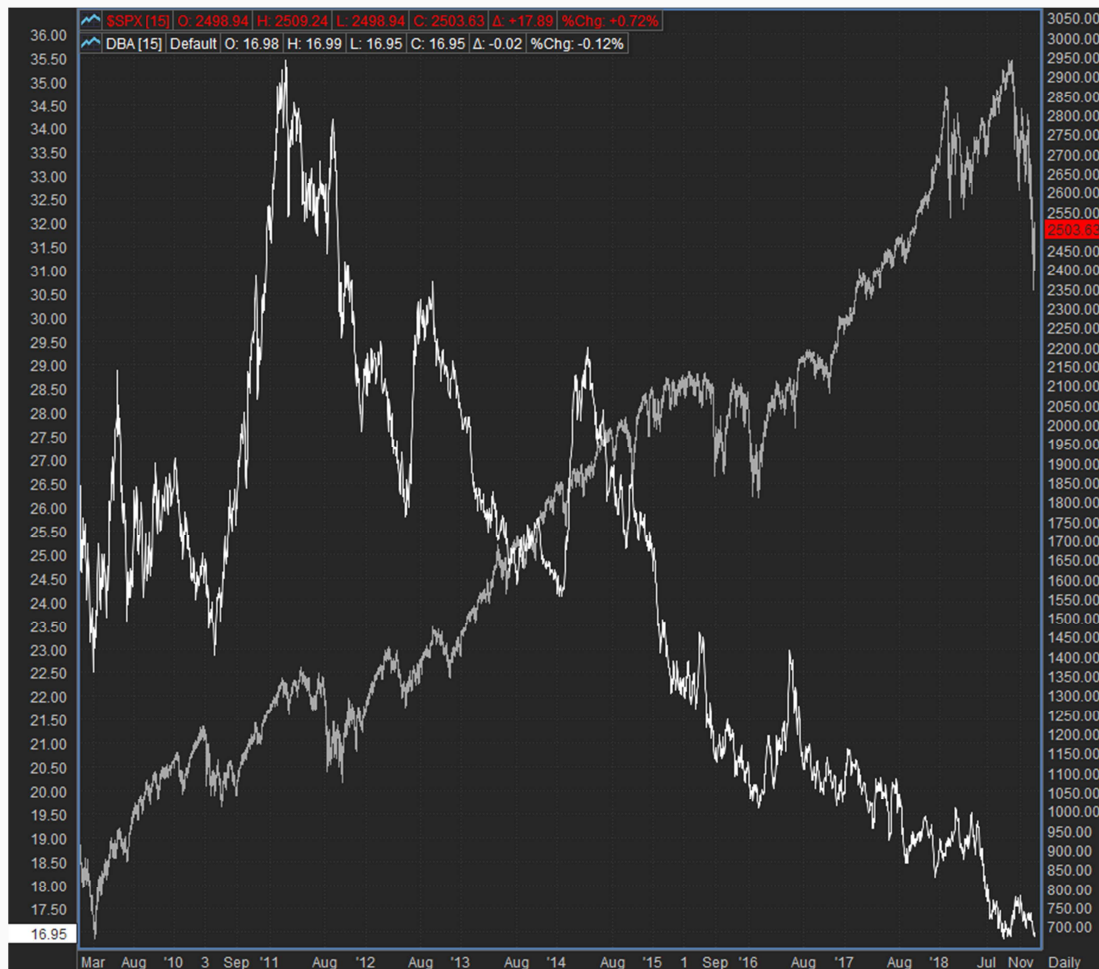
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you here that "the funds are selling" it doesn't matter whether it is shares of Apple or wheat they will just be betting the market is going down or having to exit because of margin calls. You will see currencies and energy (oil/natural gas) have more volatility than possibly grain & livestock in the coming year. Below is a graph of how the Invesco DB Agriculture Fund has performed relative to the S&P 500 in the last ten years. The top holdings in this Invesco's agriculture fund as of December 28, 2018 were Live cattle (13.21%), Soybeans (12.81%), Corn (12.50%), Wheat (12.30%), Sugar (12.27%), Cocoa (11.90%), (Coffee 9.52%), Lean Hogs (8.58%), Feeder Cattle (4.33%) and Cotton (2.55%). In the last ten years, the S&P 500 has increased 178% whereas Invesco's DB Agriculture Fund has declined 36%. I think the stock markets could dictate some volatility in the grain markets in 2019 if let's say the Canadian Dollar keeps decreasing this will affect canola prices. However, I don't believe that there is a recession coming in the U.S. or Canada in the next year, which would help stabilize the stock market and commodity markets together.



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**Are we going to see a rally in soybeans & canola?**

Nobody knows what Trump is going to do, say or Tweet next (he might not even know himself!). Thus, for anybody to even give a prediction of where a particular grain is going to be at the end of 2019 is throwing a dart. I want to outline if certain situations happen how the market may react. Earlier this month it was reported that China's December soybean imports



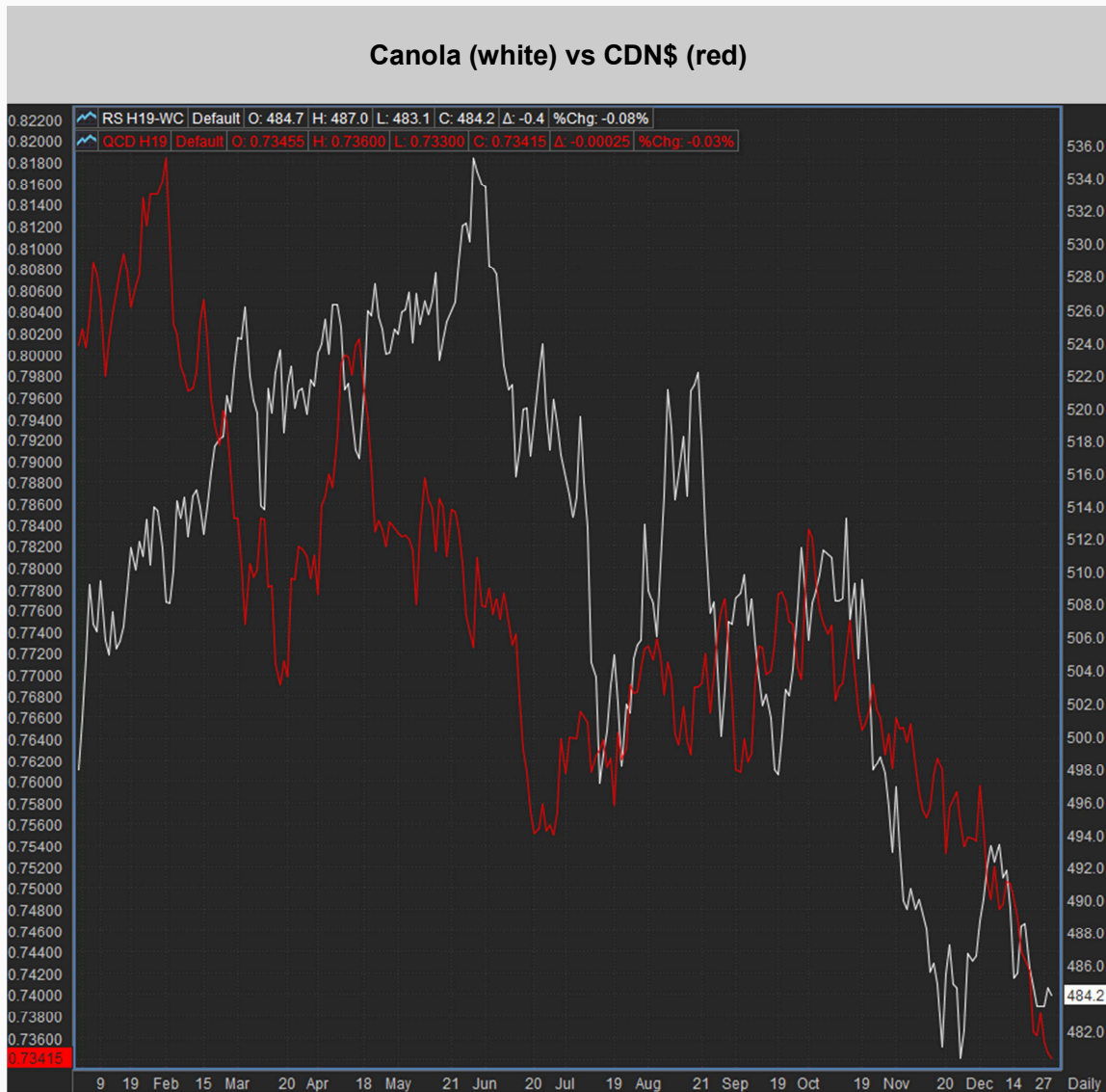
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are expected to drop 37% to 6 million tons from 9.574 million tons a year ago. US weekly exports inspections report showed soybeans are 42% behind from a year ago. China is starting to buy soybeans, but the question still remains how much and will it continue. If strong buying is shown, this could help soybean prices increase as traders will view this as positive news. I don't think that if there is any type of rally it will start some type of longer term uptrend. This is the time of year where there could be weather issues in Brazil so traders will be reacting to any type of news. The fundamental situation for soybeans is still quite negative with record US and South America production numbers. In other words, I think producers should be looking at taking advantage of any rallies to lock in profitable prices on their soybeans. For canola, I've been saying for quite some time that producers should have sold when prices were higher. That was then and this is now.....I'm telling producers that there could still be more downside in canola longer term if the soybean market does decline. One trend to watch for canola will be the impact of the Canadian Dollar. The Canadian Dollar has slid five cents approximately since the beginning of October (following the stock market volatility). Yet canola really hasn't increased in price and has actually declined - see chart below. This has showed how overpriced canola was relative to what it should have been priced at. Now the question is if the Canadian Dollar does increase if canola could decline more. I suspect that canola is fairly well priced at this level and it is trading closer to where it should be. Come the New Year canola prices could recover some from the recent decline, which will give producers an opportunity to sell.



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**What one word would I use to describe the wheat market in 2019?**

Wheat could be a more profitable crop than it was last year for some farms. There is an improving profit picture and production advantages might make wheat an attractive option versus soybeans for the US farmer. INTL FCStone was predicting a 5-10% increase in wheat acres for 2019, but now it might end up only around 2.5%. The drop in acres will depend on soybeans acres and how the extremely wet weather in the US Southern Plains this fall delayed harvest of summer row crops and the planting of double-crop wheat acres. Currently, it is looking more like US farms will be planting less soybeans in 2019. There has been a lot of talk that those acres will move into corn, but they won't all be able to so wheat may take some. For the 2019/2020 marketing year, the USDA forecasts 51 million acres of all wheat in the US. That compares to nearly 48 million acres in 2018, but is dramatically lower than the 56 million acres planted five years ago. This year the one word I would use to describe the wheat market in 2019 would be quality. Coming into the 2018 marketing year there was an extremely big shortage of million quality wheat - especially high protein. As a result, grain companies offered high bids to acquire high-protein wheat to blend with poor-quality 2017 and 2016 wheat supplies. Rather than leave your marketing up to what the futures market may or may not do I would focus on production practices that aim to achieve high-quality wheat.





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USDA SUPPLY/DEMAND				
US WHEAT	Dec	Dec	Nov	Dec
	USDA	USDA	USDA	USDA
	16-17	17-18	18-19	18-19
Area (MAcres)				
Planted	50.1	46.0	47.8	47.8
Harvested	43.9	37.5	39.6	39.6
Yield (Bu/Acre)	52.7	46.3	47.6	47.6
Beginning Stocks (MBu)	976	1,181	1,099	1,099
Production	2,309	1,740	1,884	1,884
Imports	118	157	140	140
<b>Total Supply</b>	<b>3,402</b>	<b>3,078</b>	<b>3,123</b>	<b>3,123</b>
Food	949	964	970	970
Seed	61	63	69	69
Feed/Residual	161	50	110	110
Domestic Total	1,171	1,078	1,149	1,149
Total Exports	1,051	901	1,025	1,000
Use, Total	2,222	1,979	2,174	2,149
<b>Ending Stocks</b>	<b>1,181</b>	<b>1,099</b>	<b>949</b>	<b>974</b>
<b>Stocks/Use Ratio</b>	<b>53.2%</b>	<b>55.5%</b>	<b>43.7%</b>	<b>45.3%</b>

USDA SUPPLY/DEMAND				
WORLD WHEAT	Dec	Dec	Nov	Dec
(Million Metric Tons)	USDA	USDA	USDA	USDA
	16-17	17-18	18-19	18-19
Supply				
Beginning Stocks	244.39	261.04	279.00	279.94
<b>Production</b>	<b>756.51</b>	<b>763.06</b>	<b>733.51</b>	<b>733.41</b>
Imports	178.91	179.19	175.81	175.79
Use				
Feed, Domestic	147.57	147.65	140.96	141.96
Total Domestic	739.86	744.16	745.80	745.25
Exports	183.35	181.23	178.79	177.36
<b>Ending Stocks</b>	<b>261.04</b>	<b>279.94</b>	<b>266.71</b>	<b>268.10</b>
<b>Stocks/Use Ratio</b>	<b>35.3%</b>	<b>37.6%</b>	<b>35.8%</b>	<b>36.0%</b>

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### **Why might corn prices increase or decrease?**

I want to start by saying that if soybeans turn lower corn will follow. However, there could be some supportive factors going forward to help corn increase if the grain markets are stable. In October, Trump directed the EPA to begin the process of allowing the year round sale of E15, gasoline with a higher percentage of corn-based ethanol than standard has at the pump. Most gas sold is mixed with 10% ethanol, while E15 is mixed with 15% ethanol. Keep in mind it takes time for policies to come into effect. I don't think there will be an immediate increase in the demand for corn as a result of the potential expansion of E15 use. Also, while corn prices may increase, it is still expected in the US to bring lower profits than soybeans next year given the costs associated with planting the crop. Currently, the US market is assuming that there will be a substantial increase in US planted corn acres for 2019, which is one reason why the futures continue to have a narrow trading range. Corn imports from China are expected to start in January, which would be supportive for prices. I wouldn't get too excited about the expected buying because nothing is firm yet. As we go through the winter corn is going to be torn to find the proper balance of how many acres are going to be planted verses soybeans. If demand remains strong and acreage doesn't boom, we might finally see some upward price movement.



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