Adam Pukalo
Associate Portfolio Manager
Commodity Futures Advisor

TECHNICALS & TRENDS

December 2019 Edition

2019 was an eventful year and I'm sure 2020 won't be any different! For my last report of 2019, I want to give you some events/information I think worthwhile to know from this year, what happened with commodity prices and trends I'm going to be watching in 2020. Let's begin......

- Canadian canola exports to China were halted on March 21st. Canola futures immediately dropped $15/tonne on the day it was announced.
- Stock market worries grow from a signal of the yield curve inverting. This is a key financial indicator that says a recession could be coming. Learn more here.
- U.S. - China tariff war escalates, then deescalates, then escalates again....you get the picture. Currently, tension has subsided with a Phase 1 Deal supposed to be signed next month.
- Interest rates get cut across the world, but not in Canada. Central banks in Brazil, Australia, New Zealand, India and most importantly the U.S. all cut rates
- Brexit is finally happening, maybe? The latest is British MP's are backing reelected Boris Johnson's plan to leave the EU on January 31st.

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- Canadian farmland values increased 3% on average according to a mid year FCC report. Alberta increased 1.6%, Saskatchewan 2.9% and Manitoba 6.2%. Read the report here.

Where did all of this leave 2019 commodity performance?

Overall, the best performing commodity was Palladium up 57.1%, followed by U.S. crude oil 35.90%.

Agricultural/livestock performance was...

- Lean hogs +15.70%
- Wheat (Chicago) +10.50%
- Soybeans +5.20%
- Corn +4.0%
- Live Cattle +2.30%
- Feeder cattle -1.30%
- Wheat (Kansas) -1.80%
- Wheat (Minne) -1.83%

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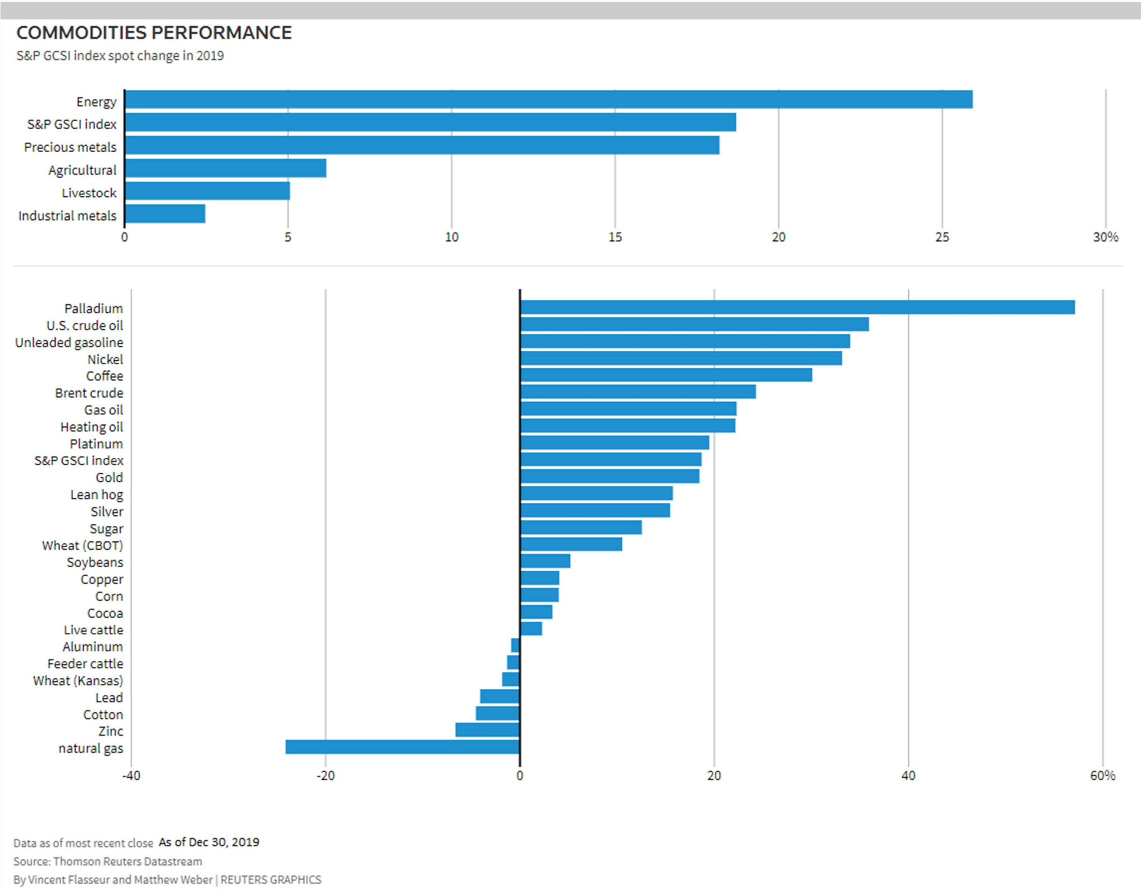

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What am I going to be watching for in 2020 and beyond?

If you have read any of my previous reports, you will know I don't like to give predictions on the price markets are going to be. My approach is to look at what information everyone is given, make actionable scenarios based on that information, then react accordingly. Markets are more unpredictable to unforeseen Tweets, policy changes, etc. that my views can change.

1. Canola on the way up?

In November, China lifted the ban on Canadian pork and beef, which was imposed in June. A main reason for the lift is China is struggling with an outbreak of African Swine Fever that has decimated the country hog herds. Pork exports from Canada to China total $518 million in 2018. China was Canada's third largest market for pork exports. The country was also growing in importance for beef producers with the value of Canadian beef exports to China increasing from just under $5 million in 2011 to $82 million last year. Having the pork and beef ban lifted is positive news for canola going forward. However, it seems that we need China more than they need us in this situation. Canada has found different markets with exports to Europe climbing 222% in the first nine months of 2019 relative to last year. This number is deceiving because 2018-2019 exports are still estimated to be 1.6 million ton lower than the previous year showing China is still important to us. Also, it is hard to replace a trade partner that was 40% of our canola seed. Possible lower than expected carryout, a bearish outlook for the Canadian Dollar and a strong soy market are keeping canola prices steady. China lifting the ban on Canadian canola could be just the catalyst to send prices higher in 2020. I'm still looking at hedging clients 2020 crop as producers can't market their crop based on hope of a deal.

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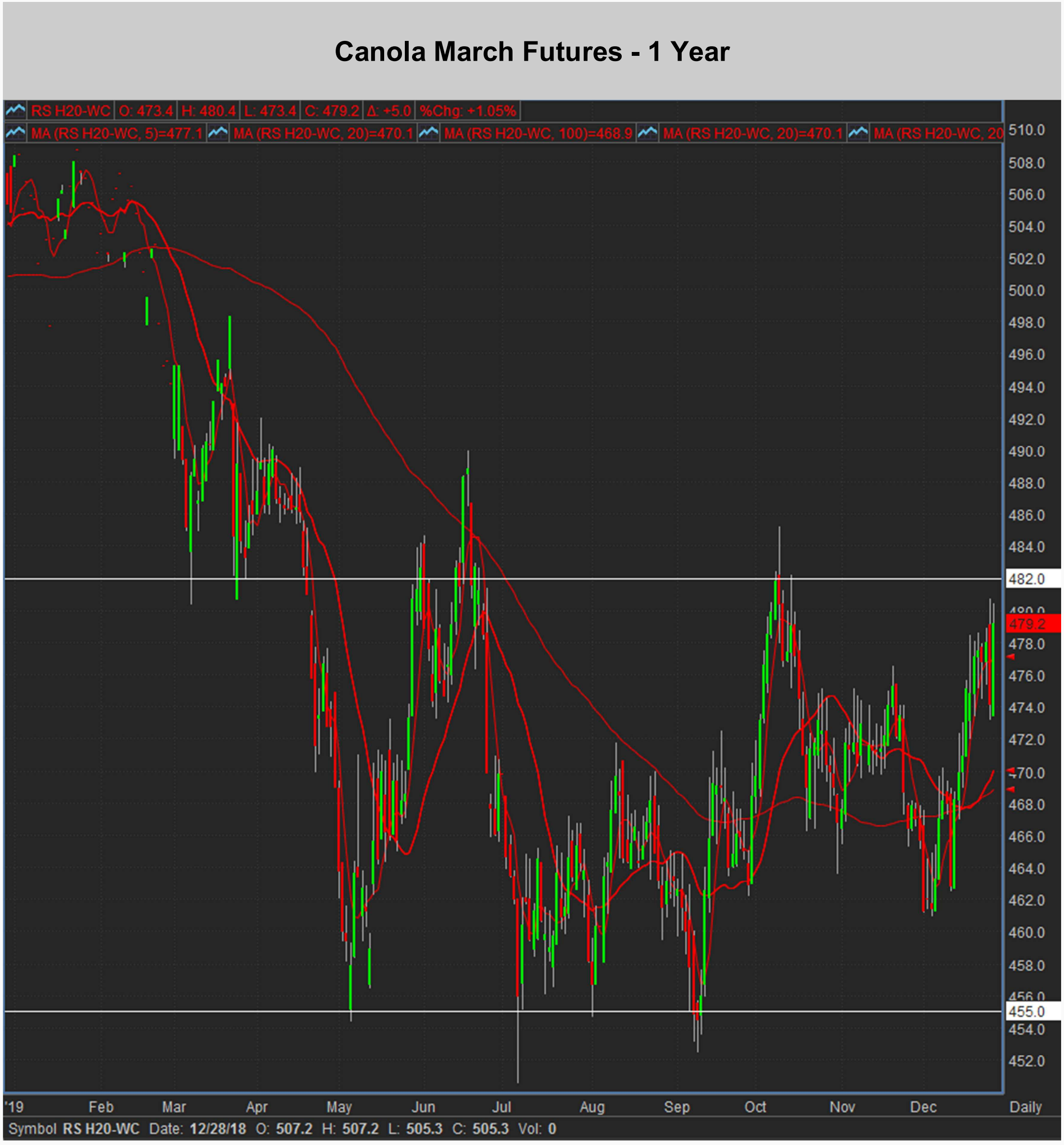

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2. Time to sell and put your money under the mattress?

As I mentioned above, there are economic signals (in particular the yield curve) that are showing the U.S. markets could be facing some tough times ahead. This is the time of year where I read any analysts view on where they think "the market" is going to go. Most of what I read is either analyst called for an "epic" stock market crash or on the total opposite side predicting double digit gains. There aren't many opinions in between. From my research, I'm led to believe that there is no reason to panic and sell your entire retirement portfolio. I am holding anywhere from 10-30% in cash for clients depending on their unique situation. There are good reasons to stay invested for the majority of your portfolio. Below Graph #1 shows if you invested $10,000 in the S&P/TSX Index at the beginning of 1999 to the end of 2018 it would be worth $36,050. This would have increased more in 2019. You can see that it isn't all a smooth ride. Over the past three decades there has always been volatility in the markets. I'm never supposed to use the word 'guarantee', but I can guarantee that volatility will always be around! When market volatility occurs, it may be tempting to pull your money out of the market. However, that could have a significant impact on your investments longer term. Graph #2 shows that it is still worthwhile to be invested in the broad markets because time in the market is important. Missing out of some of the top days in the markets could impact your returns longer term. Overall, I'm going to stay the course with the majority of my clients, but take some profits along the way and hold some cash for opportunities.

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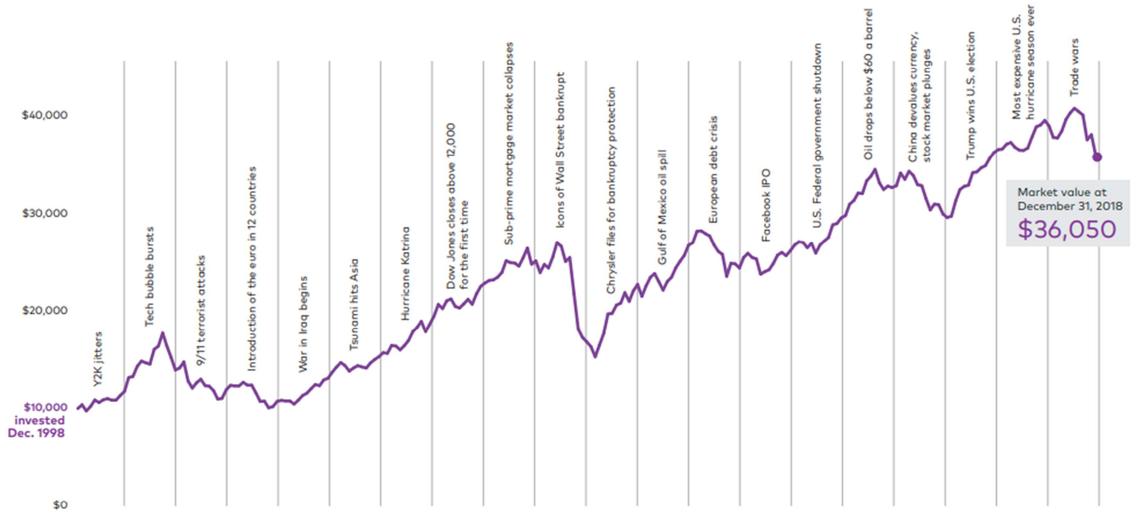
TSX 1999-2018 Return



Year ended Dec. 31	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Calendar returns	31.7%	7.4%	-12.6%	-12.4%	26.7%	14.5%	24.1%	17.3%	9.8%	-33.0%	35.1%	17.6%	-8.7%	7.2%	13.0%	10.6%	-8.3%	21.1%	9.1%	-8.9%

Source: Morningstar Direct, S&P/TSX Composite Total Return Index, as at December 31, 2018 (compounded monthly).
All information in Canadian dollars unless otherwise stated. The information provided is for illustrative purposes only and is not meant to provide investment advice. You cannot invest directly in an index.

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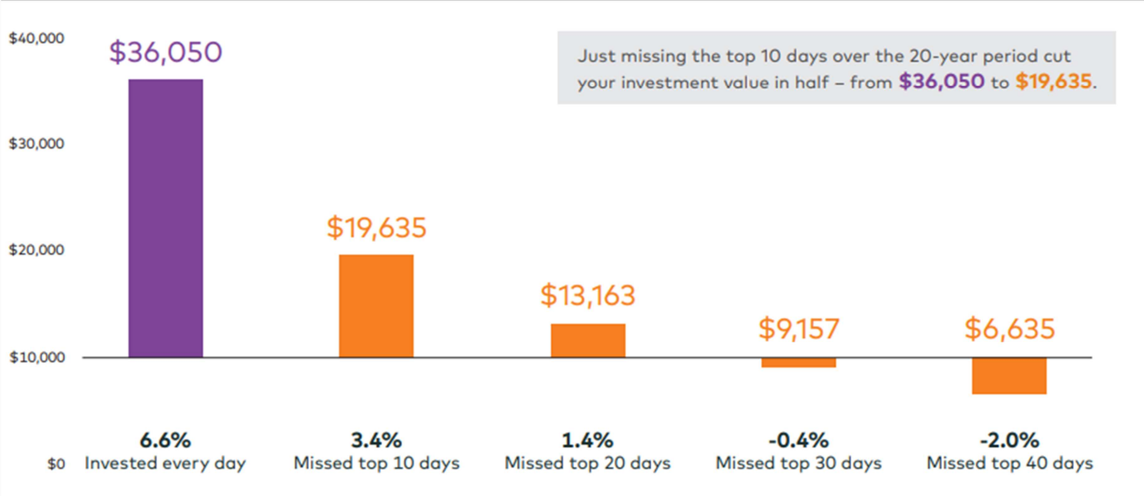
What happens when you try to time the market?



$10,000 investment in the S&P/TSX Composite Total Return Index for the 20 years ended December 31, 2018.

Source: AGF Investment Operations as at December 31, 2018. For illustrative purposes only. You cannot invest directly in an index. Past returns are not indicative of future results.

3. Could the Canadian Dollar continue being the best performing currency in 2020?

The Canadian Dollar has been the best performing G10 currency in 2019. Except for a decline in business optimism, the Canadian economy performed well in 2019

- Annualized economic growth in the first three quarters averaged 1.77% a slight advance over the 1.65% pace in 2018.

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- Job creation was more than one-third higher in 2019, averaging 25,900 a month through November - and that includes a loss of 71,200 one month in the largest single-month drop since the financial crisis.
- Unemployment reached its lowest point in 45 years in May at 5.40%. The monthly average through November of 5.664% was slightly better than 2018's average of 5.825%

The Bank of Canada was secure enough about the strength of the economy to avoid rate cuts by other central banks. This will keep foreign investment in Canada. If the U.S.-China trade deal could unleash business spending and propel a new round of economic expansion, the fundamentals are behind the loonie to go higher. Historically, growth in Canada has been highly correlated to optimism in the U.S. manufacturing sector. A trade deal between the U.S. and China could be more expansion in the US and more expansion in the US could help the loonie and our economy. I'm not overly bullish on our loonie, but will be watching for supportive signs.

Bank of Canada Historical Interest Rate

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Canadian Dollar Futures - 2 Year

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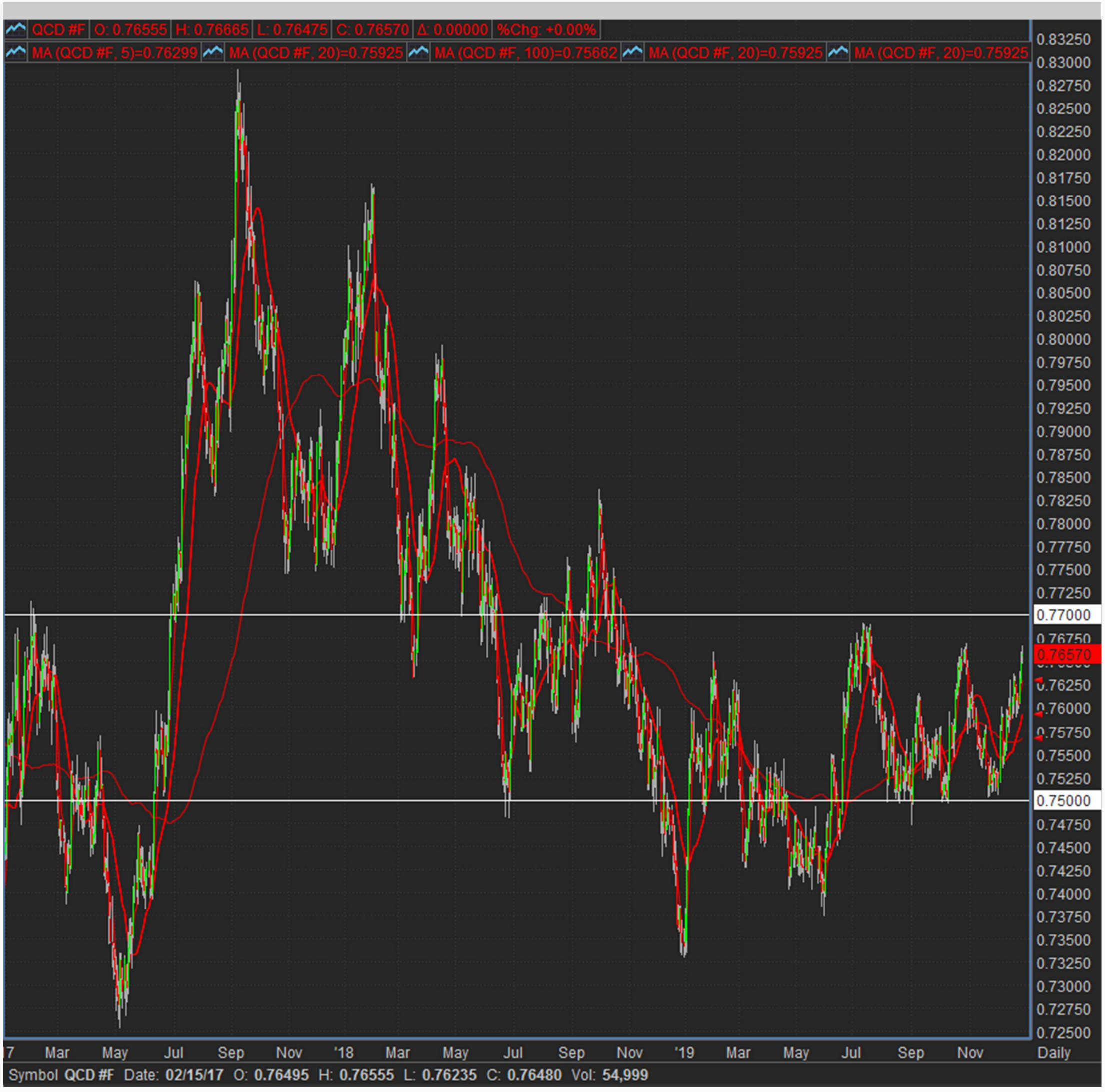

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4. Could financing services get better and easier for all producers?

Technology is only going to change farming more. Big data is a term that describes the large volume of data that inundates a business on a day-to-day basis, such as your field crop data The amount of data isn't important, but what the organizations do with it is. Farmers Edge, a data-driven technology that helps farmers run efficient operations, announced they have partnered with Manitoba's credit unions to use field data to create customized loans. The model will allow bankers to consider progressive farming practices and operation performance – not just equity and yields when crafting financing options. Loan officers will have better visibility of the operation they're working with if the producer chooses to share that data when discussing financing.

Cheap money (low interest rates), increased borrowing power from high land values and new technology to value farms could be of benefit to those wanting to expand. The trend of collecting more information on farms I believe will only continue. Optimization is definitely a reason and could be valuable information for you to improve your farm. Maybe one day producers will be paid for information about their farm rather than the other way around.

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