TECHNICALS & TRENDS

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Highlighted: CDN$, Cattle, Canola

On January 20, the CDN$ reached a low of $0.6809 and has since moved higher. I am now watching $0.7250 as a resistance (ceiling) level for the dollar to stay under. The next point of resistance would be around $0.750 (see chart below). With the fairly quick drop & subsequent increase in the dollar, we have seen the implied volatility increase. This means if you want to buy options they are typically more expensive. There are some operations that benefit from a lower dollar (Ex livestock getting paid in USD) and others that do not want to see the dollar climb anymore (Ex. Buying machinery from the US). In both of these situations, we have been reviewing spread strategies to add protection in to help increase revenue reduce the cost.

Canadian Dollar March contract:

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Feeder and live cattle have continued their downward trend. We have been adding more protection for operations out until June with the increase we saw in mid-January. $145 and $117 can be considered support for feeders and live respectively (see charts below). The trends are starting to roll over showing continued weakness is a good possibility.

Our views remain bearish on cattle until there are positive signs the trends are changing.

Feeder Cattle March contract:

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Today, canola has broken below a support of around $485, a sideways range established for the past couple of months (see chart below). The next downside we could see could be $475. Overall, since Sept 2015 canola has been in a sideways range from a low of $463 to a high of $499.60. I read an interesting article about how Agri Benchmark, a global non-profit network, completed three in-depth case studies of the on-farm competitiveness of rapeseed/canola versus other oilseed crops in Canada, Hungary and Ukraine.

Noted points were:

- Soybeans tend to be preferred when liquidity or production risk is an issue.
- Canola is more responsive to intensive management and higher input levels, making it more successful on high-performing farms.
- Crop mix influences oilseed choice. Wheat and canola go well together, while corn pairs well with soybeans or sunflowers.

The study showed that soybeans have clearly established themselves as the number two oilseed behind canola in Manitoba's Red River Valley, with an average return of more than $200 per hectare — 45 per cent higher than canola. Canadian soybean acreage has increased from 3.58 million acres in 2009 to 5.4 million in 2015. What does this information mean for canola? Short term, maybe nothing….watch the trends I mentioned above. Long term, we could see more soybeans across the prairies competing with canola (factor dependent ex weather).

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Canola May contract: