Adam Pukalo
Commodity Futures Advisor

TECHNICALS & TRENDS

February 2017 Edition

Highlighted: Canola, Canadian Dollar, Wheat, Corn, Cattle

Before I start this months review and look ahead I want to mention some significant market moves we saw today.Today we saw at the highs canola up $16/ton, Chicago wheat up 15 cents/bu, soybeans up 32 cents/bu, and corn up 17 cents/bu. At the close, canola was up $6/ton, Chicago wheat up 6 cents/bu, soybeans up 14 cents/bu, and corn up 6 cents/bu.

Why the volatility?

Last night Bloomberg reported that President Trump may be considering a biofuel plan between activist billionaire investor Carl Icahn and the leading U.S. biofuel trade group This news on the ethanol mandate changes probably caused the rally we saw in the day on the grains. The decline was likely caused from Wall Street Journal Amy Harder reporting on the Dow Jones Newswire that the White House denies rumors on ethanol mandate changes. Almost simultaneously grain futures sold off after this news hit. Overall, it is still a strong day for the grains and now farms can be patient to either take profit on call/long positions or to wait for opportunities to protect higher up.

On the canola front, a bottom has seemed to have formed around $518/ton on the July futures. I have taken profit for clients on their put protection and for some replaced with call options or futures. My view is that we are going to see higher canola prices come spring time. Until then, there may be volatility associated with soybean oil & soybeans that gives opportunities to go long or short depending on the direction. A resistance (ceiling) I'm watching is close to $540/ton on the July futures. This is a level we have come off from before and would consider for shorter term protection or evaluate at the time about using November puts instead.

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Adam Pukalo

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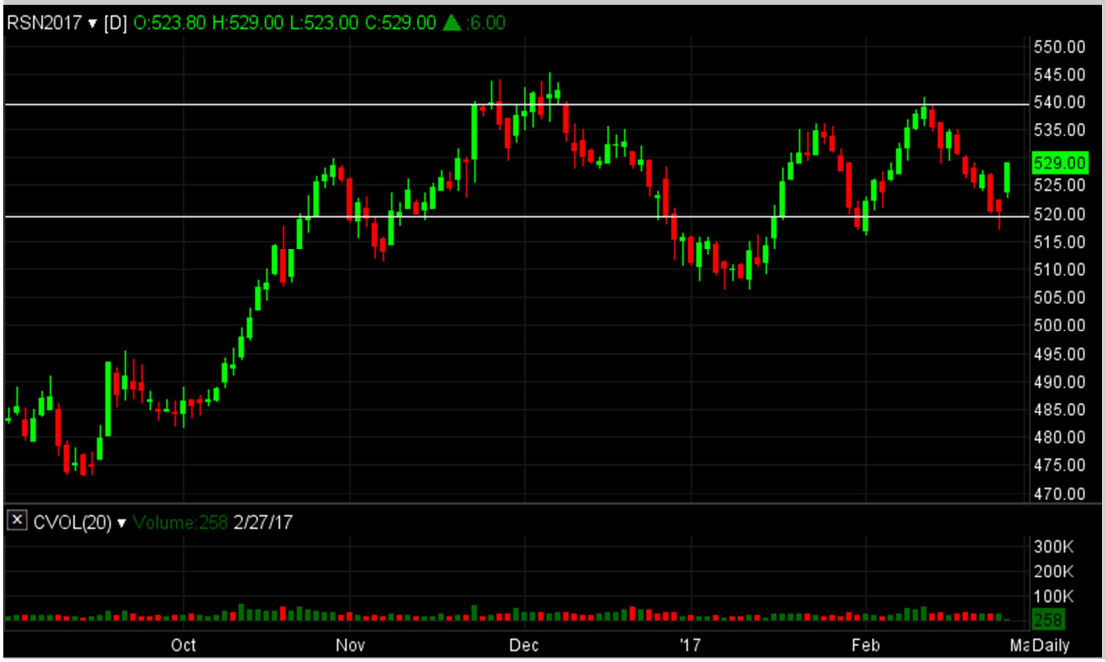
Canola July Futures



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The Canadian Dollar is nearing a short term support (floor) level of 75.20 cents approx. on the June futures. We have seen today already that this level is breaking. The last three consecutive days have been negative and down now already over 1 cent. Even though we are below 75.20 cent approx. currently, I would watch it for the close to be below this level. If this happens, we could see the loonie heading down to 74 cents. Today at 9AM CST the Bank of Canada will be making an interest rate announcement. The expectation is for rates to be kept the same. Any other news could cause significant volatility.

Canadian Dollar June Futures

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Adam Pukalo
Commodity Futures Advisor

Wheat has been developing a stair pattern since the beginning of the year. One report I watch to give an indication of where the market may be headed is the Commitment of Traders report compiled by the CME Group. Last Friday, the COT report showed that managed money traders reduced their net short position by 42,500 contracts and are now short 40,047. Combine this reduction in short positions with significant reduced winter wheat acrage this year and a sub-par yield around 43 bushels per acre could see ending stocks fall below 800 million bushels. This possibly means we could see wheat futures still to increase short to medium term. I've been looking at low cost ways for clients to participate if we see a rally in wheat. For 7 cents, I've been able to allow clients the upside in wheat from now until July.

Chicago Wheat July Futures

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Adam Pukalo
Commodity Futures Advisor

Kansas Wheat July Futures

Minneapolis Wheat July Futures

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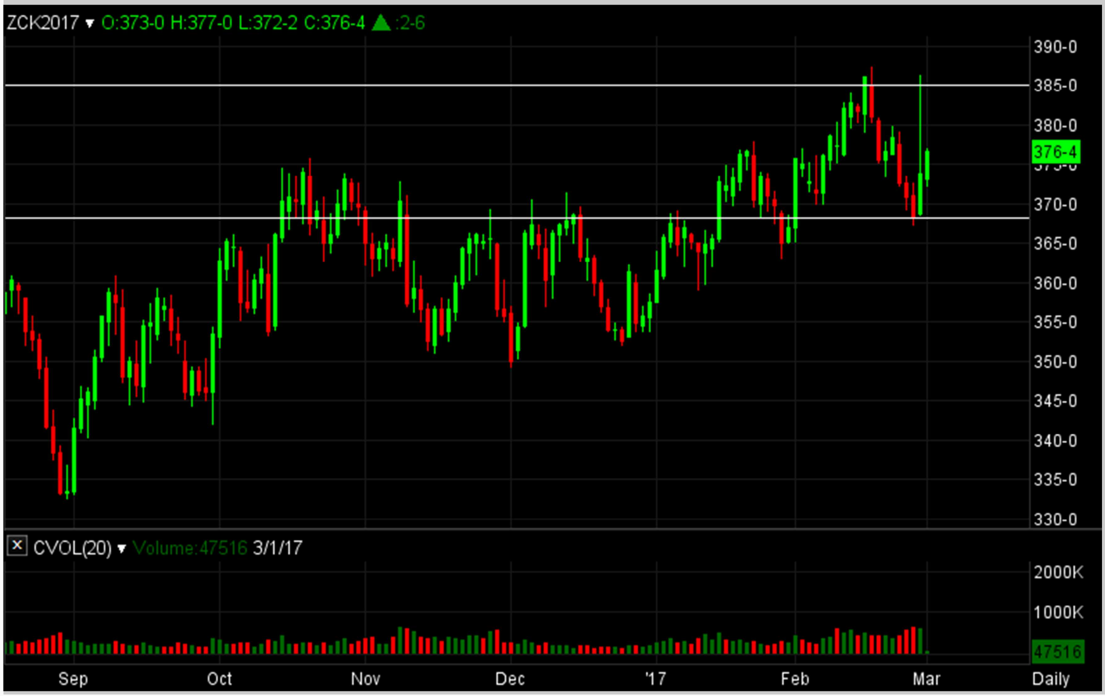
Commodity Futures Advisor

For corn, the market may have priced-in a 2.2 billion bushel ending stocks total at last week's lows.A potential shift in demand and weather outlooks suggest the need for some weather premium are potential supportive forces. One weather analyst I follow is calling for a drier and warmer bias in the U.S. The one caveat was if an El Nino develops, the chances would be greatly reduced. In the short term, the uncertainly concerning the ethanol mandates could cause significant volatility. It will not happen overnight, but a 1% increase in ethanol share of gasoline consumption would be 530 million bushels. The progression towards this increase with current positive technical trends, a decrease in expected acres for next year could all lead to higher 2017/2018 corn prices.

Corn May Futures



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Adam Pukalo
Commodity Futures Advisor

The last month cattle futures have experienced a sideways to higher trend. Operations are now probably watching their provinces price insurance program premiums. Depending on the operation, I have some protection in for next year. Otherwise, I have been just being patient given the trend may keep moving higher. Recently the futures have been discounted to the cash market leading to the bullish action. The USDA estimated cattle slaughter came in at 115,000 head yesterday.This brings the total for the week so far up 231,000 head, up 217,000 last week at this time and up 215,000 a year ago. USDA boxed beef cutout value were up $2.64 at mid-session yesterday and closed $3.25 higher.

Feeder Cattle May Futures

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Adam Pukalo
Commodity Futures Advisor

Live Cattle July Futures

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Commodity Futures Advisor

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