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TECHNICALS & TRENDS

February 2019 Edition

I want to start with discussing on the most common question I've been asked recently....."what is going on with wheat?!". In the last month using yesterday's close, March Chicago wheat declined 56.2 cents, Kansas City 40.2 cents, and Minneapolis 7.4 cents. Momentum indicators are extremely oversold for Chicago and Kansas City wheat. 'Oversold' is a term traders use that refers to a time where an assets has traded lower in price and has the potential for a bounce. What some don't realize is that oversold conditions can last for a long time, and therefore being oversold doesn't mean a price rally will come soon. This is the contract end for the March futures so often there is volatility.

One answer why wheat has declined this much is purely due to technical selling from traders exiting positions at contract end. Wheat has broken some important support (floor) levels that has probably triggered sell orders and we may not see the tide turn until after March delivery notices are over. A fundamental reason that could explain some of this decline is cheaper exports from producers including Russia & Ukraine have weighed on demand for U.S. supplies. There is still a lot of global supply and if U.S. prices are undercut this could drag the futures lower. This all being said I've been talking with client mostly about any old crop wheat they have. You may be going through the scenario of now having to roll contracts to the next month. It may make more sense from a cost standpoint to sell your wheat and replace using futures or options. All cases are different, but this is one way futures & options can help give you more marketing flexibility.

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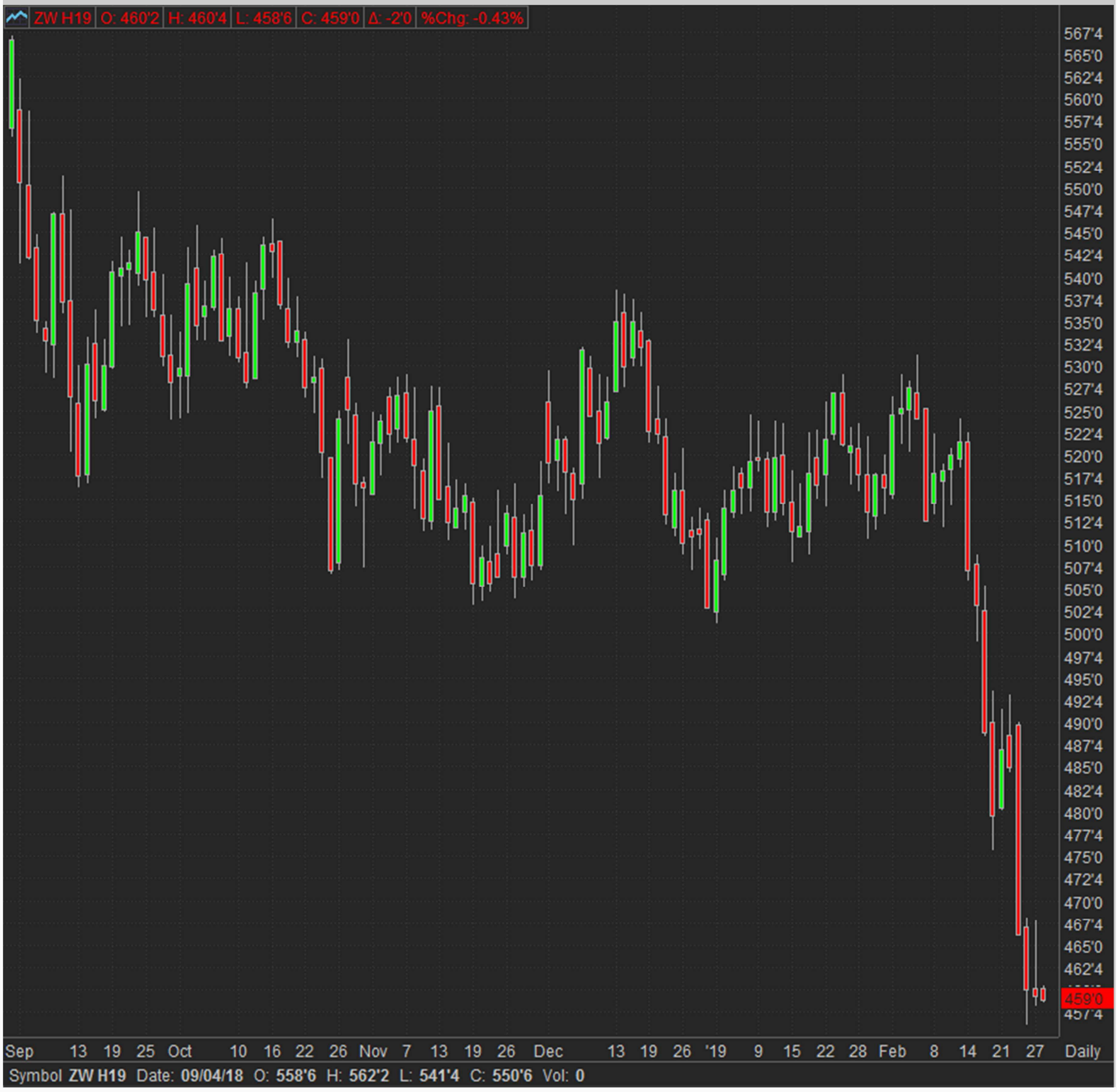
Chicago Wheat March Futures



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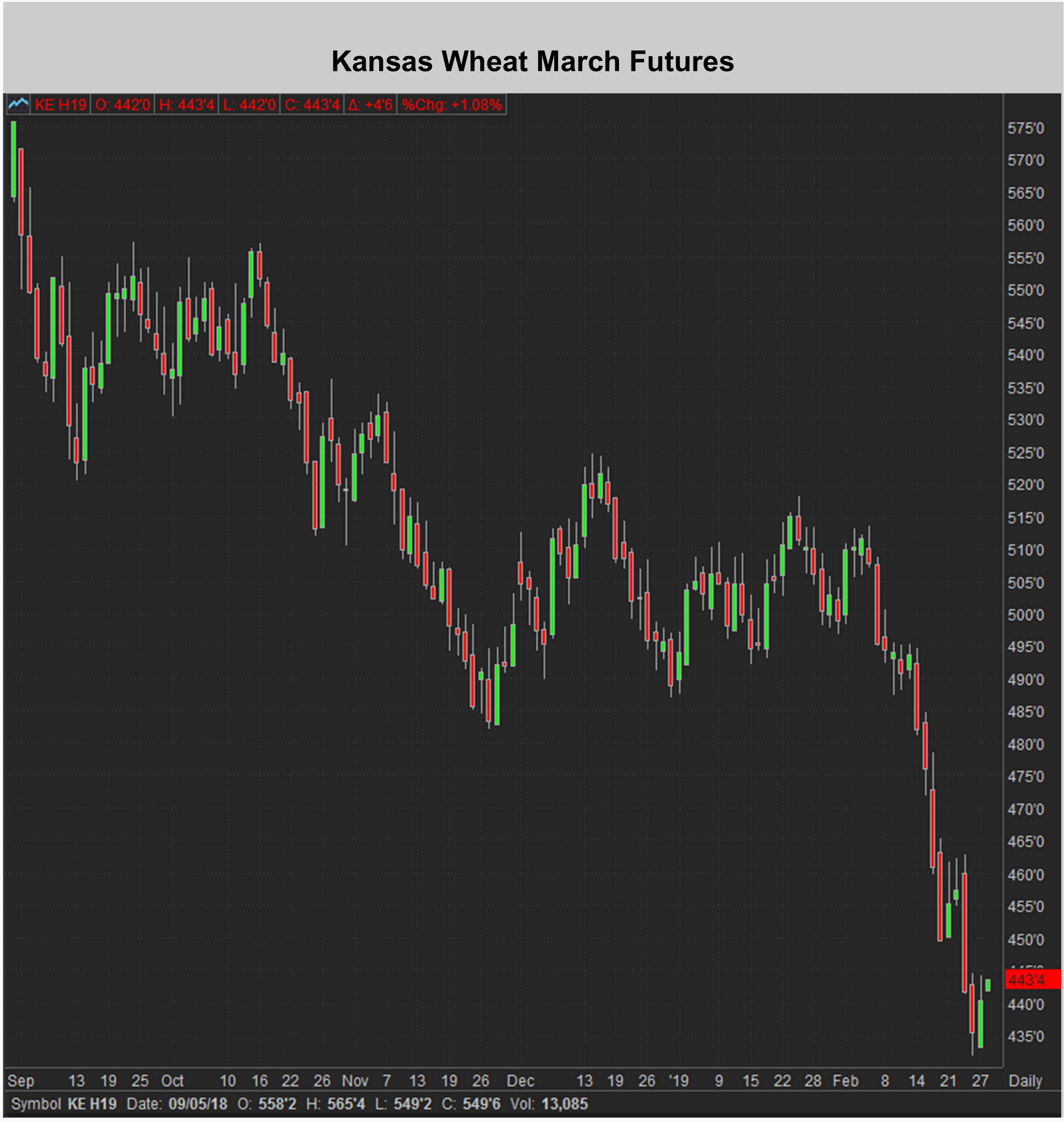

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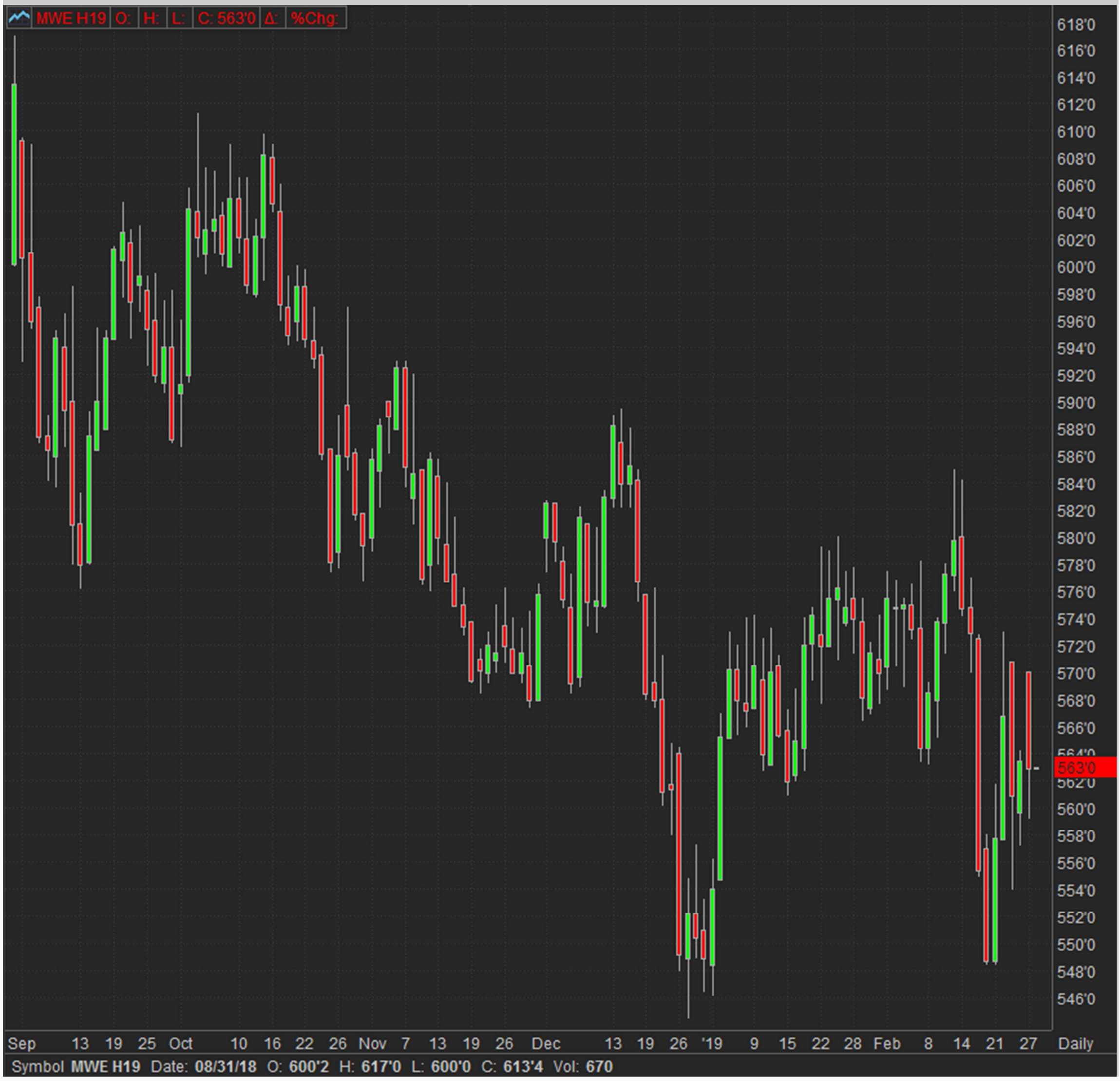
Minneapolis Wheat March Futures



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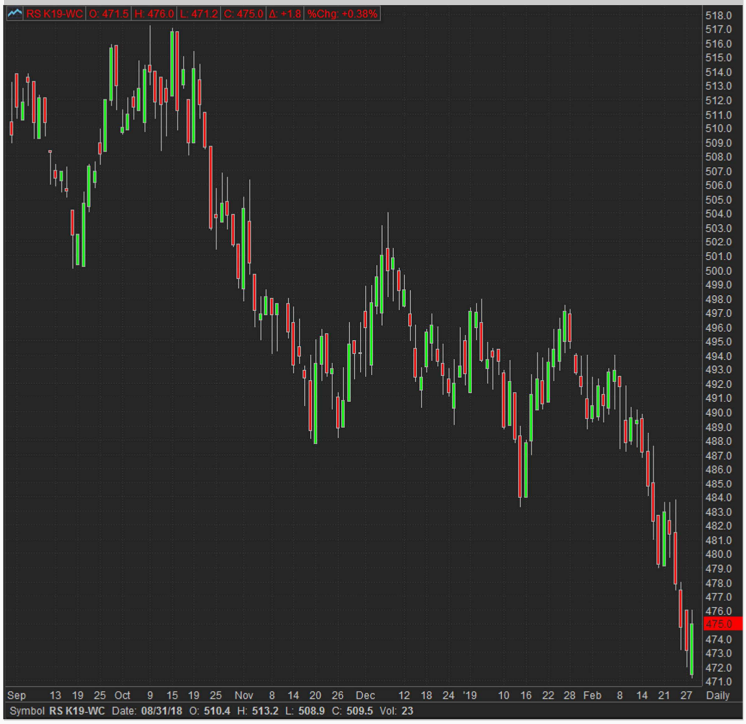
Canola declined $16.40/ton in that last month on the March contract using yesterday's close. Technicals are bearish and fundamentals may be setting up for that too. Ending stocks may climb to three million tonnes by the end of July, which compares to the 2017-2018 carryout of 2.499 million. I've been mentioning to clients there could be a rally come May/June, but there needs to be a plan if this doesn't happen. Some farms I talk to are undersold on their canola and may be looking for that Spring rally. If you don't have a good percentage of your canola sold, it may be time to consider selling some if you need cash flow. You could then watch the futures closely and if a rally looks like it could take place you can replace what you have sold. There seems to be some optimism that talks between the U.S. and China are progressing closer to a deal than before. An announcement of a trade deal would give soybeans a boost and would help bring up canola. However, you probably don't want to wait for that to happen in case a deal isn't made for some time.

Canola March Futures



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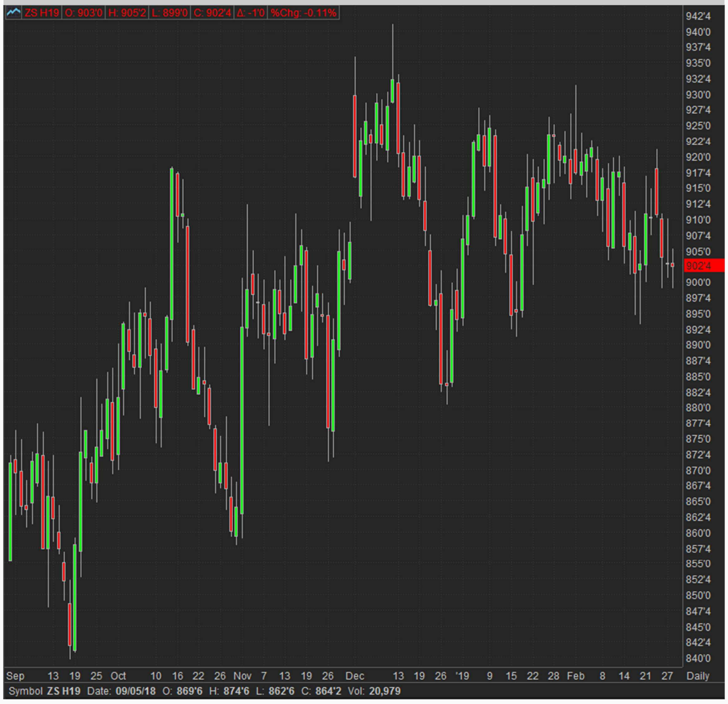
Trump announced this month to delay the March 1st deadline for the tariffs. There has been some positive news to help soybean prices, but there will need to be a firm deal for any sustained rally. Supposedly trade negotiators are working on six memorandums of understandings that may be approved by both sides sometime in March. One of these agreements is specifically about agriculture. Trade teams are looking at a list of 10 items for China to reduce the U.S. trade deficit. The goal is to reduce the U.S. deficit 20% each year for the next 5 years. There will continue to be additional trade rumors & news coming. Recently, China has committed to buy an additional 10 mmt of U.S. soybeans. This would represent nearly one-third of China's entire U.S. soybean imports in 2017, according to the USDA. No time frame was given for the purchase. The bigger story is if China does buys an additional $30 billion a year of U.S. agricultural products, including soybeans corn and wheat. One thing is for certain is there are still a lot of soybeans in the world and without a trade deal complete prices could drift lower.

Soybean March Futures



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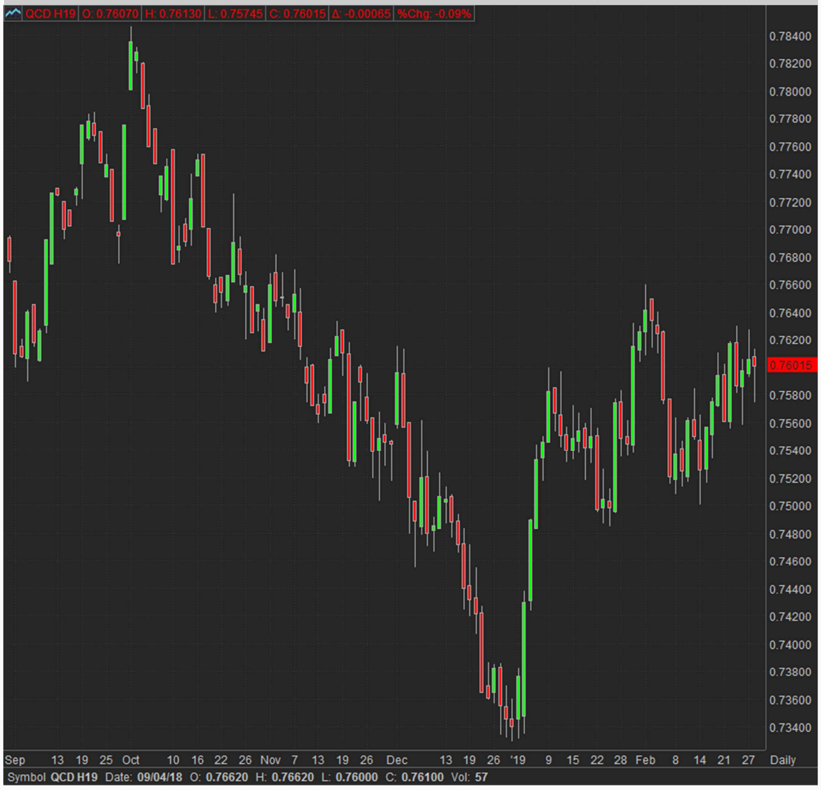
The Canadian Dollar has stayed higher recently. President Trump tweeted that OPEC should ‘relax’ on cuts, which had some negative effect on oil futures initially. However, there was a surprise weekly drop in U.S. crude supplies that helped oil to regain the losses. If OPEC continues with their cuts, it could still be positive or neutral for the Canadian Dollar. As for the US Dollar, the Federal Reserve Chairman signaled patience on raising interest rates further. This helped the U.S. dollar fall to a three week low. This is positive news for the Canadian Dollar. I’m looking at the 76.5 cent level to be a short term ceiling that the futures haven’t been above in some time. At this point, I don’t know if hedging from an increase in the Canadian Dollar is the best idea. I’m being patient and if anything looking at short positions. Expectation is next Wednesday, March 6th for the Bank of Canada to keep rates unchanged at 1.75%

Canadian Dollar March Futures



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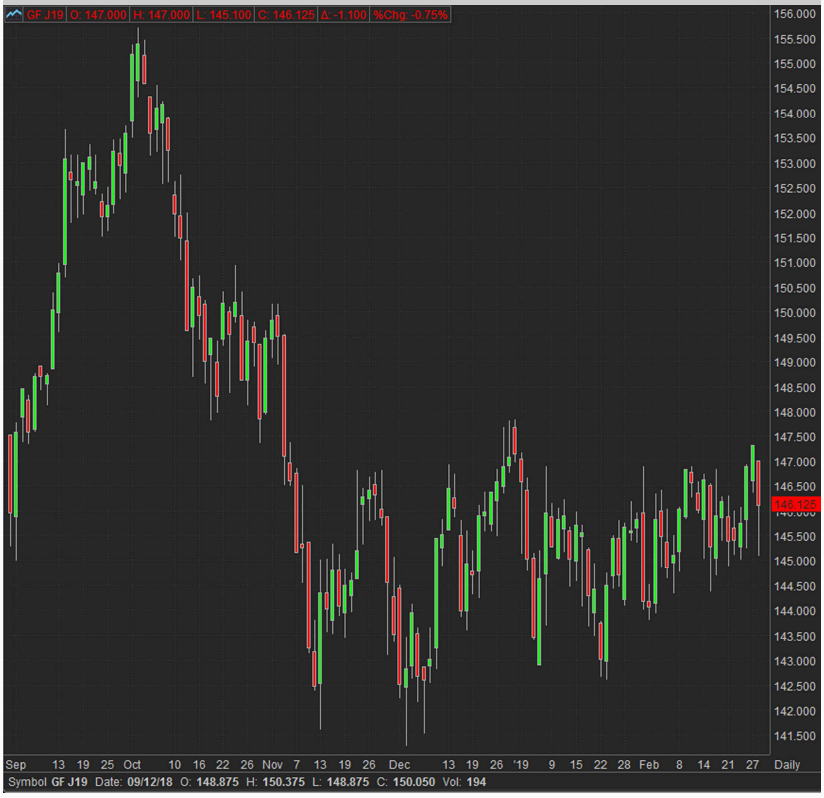
The live cattle futures have stayed in a strong uptrend this month. Feeders have traded more sideways. April live cattle has inched higher to post new contract highs for 4 of the past 5 trading sessions. Live cattle futures are now in overbought territory. At the beginning of this report I talked about how oversold conditions could stay for some time and this is the same thing for overbought conditions. "The trend is your friend" in this case. Producers that need to look at protecting their fat cattle should consider some type of protection using futures/option or insurance. On the fundamental side, yesterday the USDA estimated cattle slaughter to be 119,000 head. This was up from 108,000 last week and up from 117,000 a year ago at this time.

Feeder Cattle April Futures



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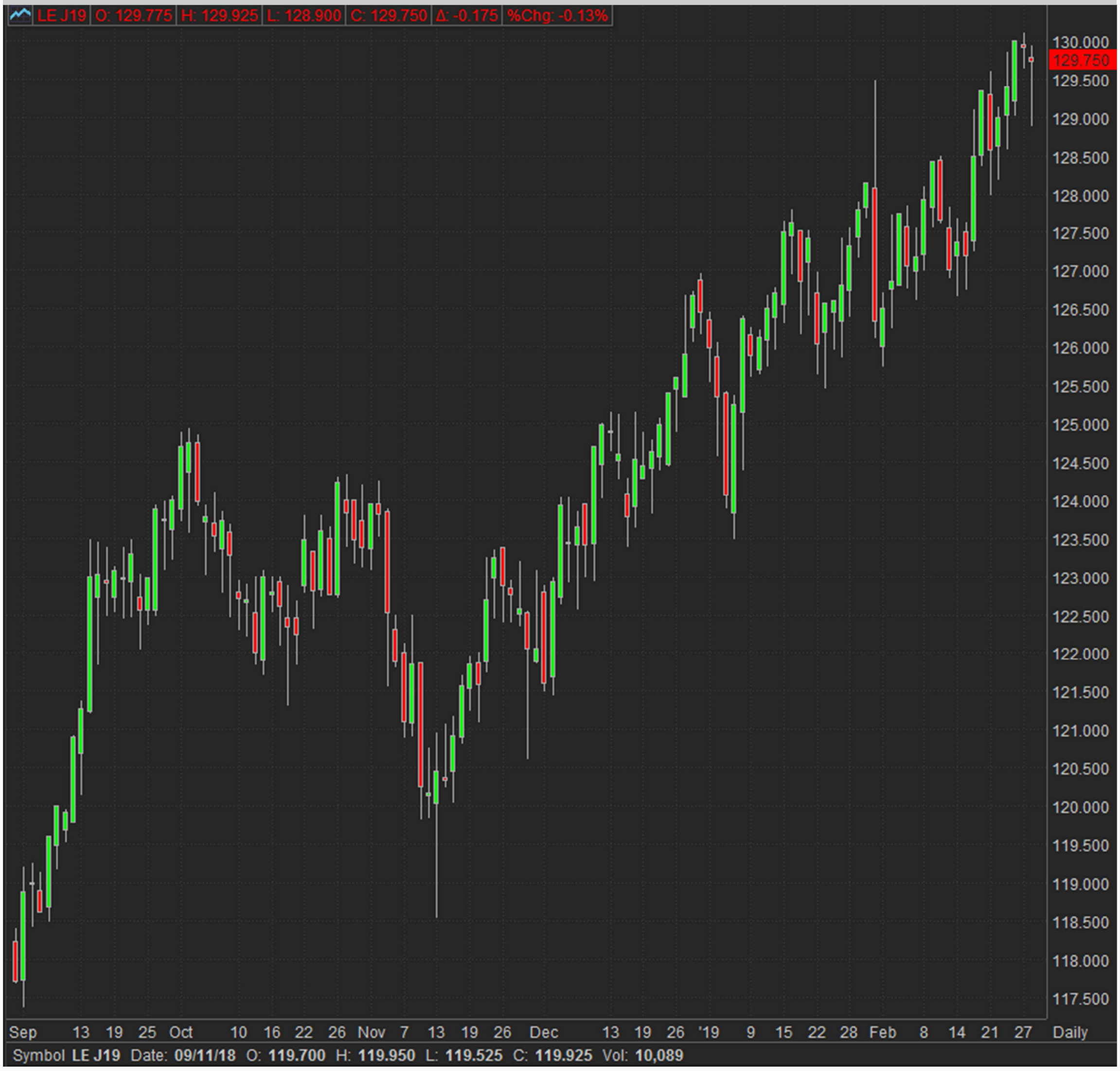
Live Cattle April Futures



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