PI FINANCIAL
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AG TECHNICALS & TRENDS

February 2020 Edition

The theme going forward for investors is the impact Covid-19 (Coronavirus) is having on the world economy. China announced that 43% of its manufacturing companies are back online, which up 10% from last week. While this seems positive, it is much slower than expected. Commodity markets are ignoring that China announced earlier this month they are cutting tariffs on more than 1,700 U.S. goods. Tariffs on U.S. soybeans will drop from 30% to 27.5% while on meat that includes pork, beef and chicken from 30% to 5%. The Chinese tariff cuts are more symbolic than helping demand for U.S. farm goods. China really needs to order duty free import licenses - like they did for U.S. soybeans in October. Grain and livestock markets this week tumbled leaving many wondering, where is the bottom?

How long have stock market corrections lasted in the past?

A correction is defined as a 10% decline in one of the major indices (S&P 500, TSX etc.) from a recent 52-week high to close. Historical analysis shows these correction result in a 13% decline and take about four months to recover to prior levels on average. However, a four month recovery on average only happens if the markets do not fall into bear market territory....down 20% from a high. The most recent corrections occurred from September 2018 to December 2019 when the S&P 500 bounced in and out of correction throughout the autumn before plunging into a bear market on Christmas Eve.

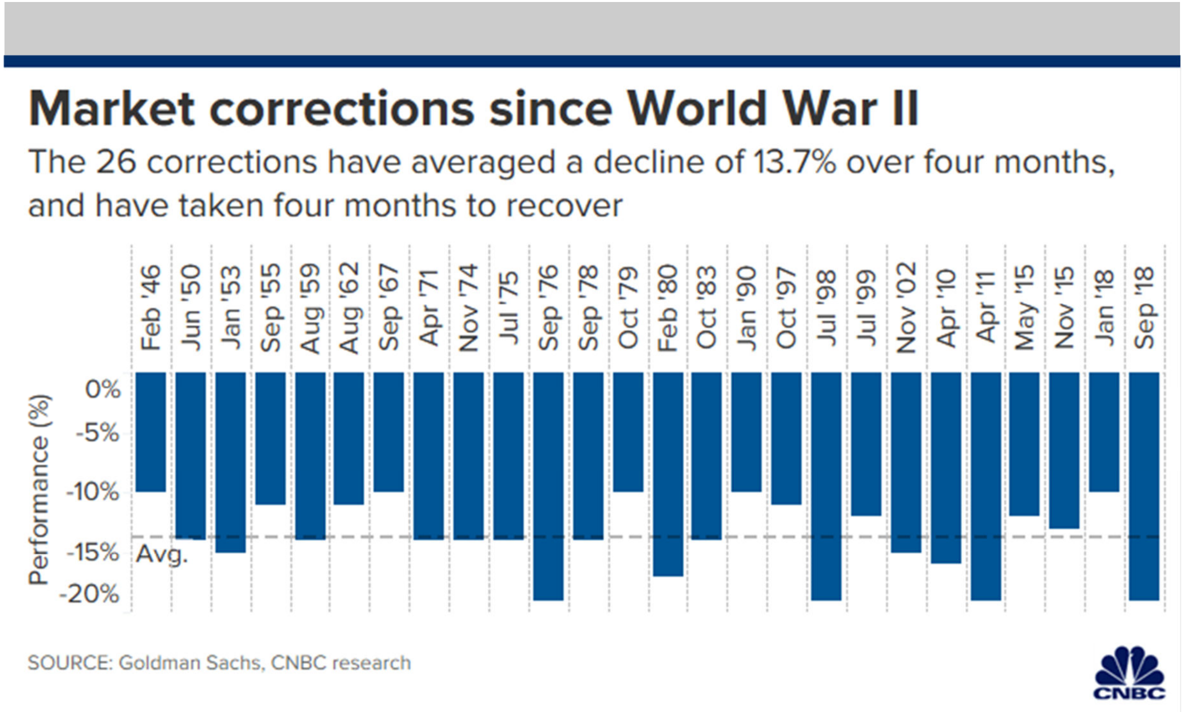
How bad can it get?

There have been 12 bear markets since World War II with an average decline of 32.5%, as measured on a close-to-close basis. The last bear market was October 2007 to March 2009, when the market dropped 57% and then took more than four years to recover.

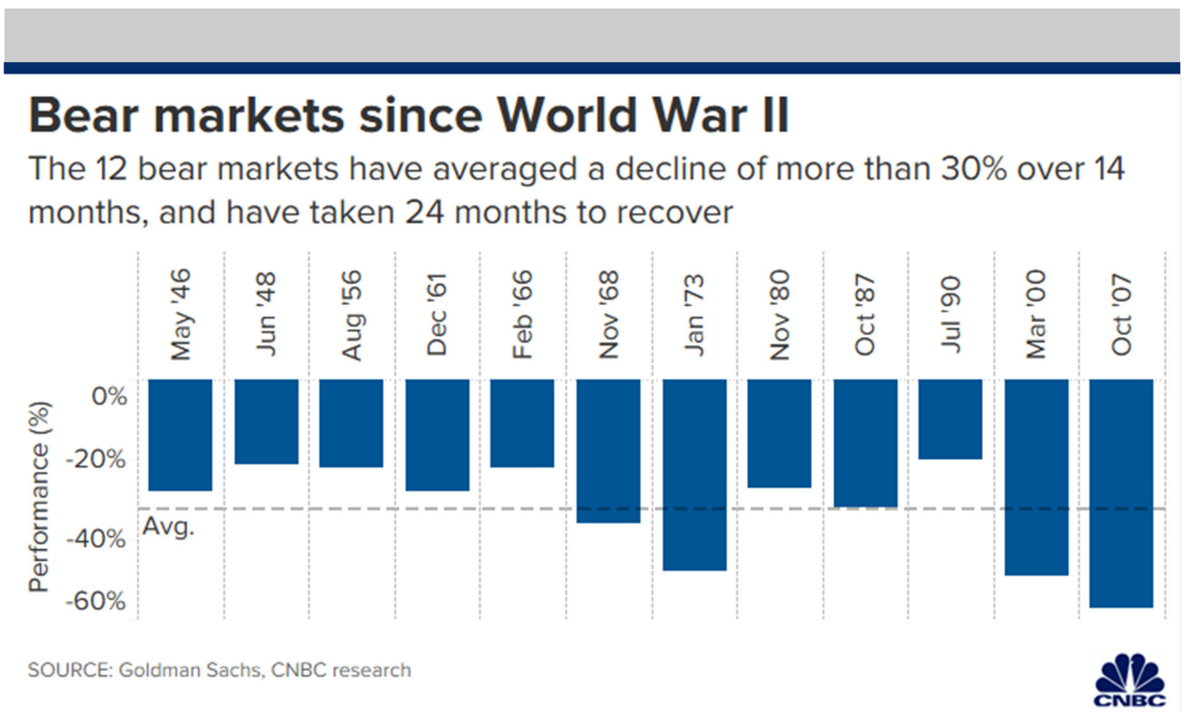
Bear markets have lasted 14.5 months on average have taken two years to recover on average.

I advise clients on their grain risk management AND their retirement portfolio.

All markets are connected and I find my bird-eyes approach of a lot of markets helps me reduce risk for my clients in multiple areas.



Market corrections since World War II
The 26 corrections have averaged a decline of 13.7% over four months, and have taken four months to recover
Feb '46
Jun '50
Jan '53
Sep '55
Aug '59
Aug '62
Sep '67
Apr '71
Nov '74
Jul '75
Sep '76
Sep '78
Oct '79
Feb '80
Oct '83
Jan '90
Oct '97
Jul '98
Jul '99
Nov '02
Apr '10
Apr '11
May '15
Nov '15
Jan '18
Sep '18
Performance (%)
0%
-5%
-10%
-15%
-20%
Avg.
SOURCE: Goldman Sachs, CNBC research
CNBC



Bear markets since World War II
The 12 bear markets have averaged a decline of more than 30% over 14 months, and have taken 24 months to recover
May '46
Jun '48
Aug '56
Dec '61
Feb '66
Nov '68
Jan '73
Nov '80
Oct '87
Jul '90
Mar '00
Oct '07
Performance (%)
0%
-20%
-40%
-60%
Avg.
SOURCE: Goldman Sachs, CNBC research
CNBC

Canola

This month canola futures didn't end the month only lower $3.4/t on the May contract unlike many of the other grains.

There was a $13/t rally from the beginning of Feb to mid-month, but then the rally dwindled with the overall markets.

Lack of developments on Chinese purchases of U.S. soybeans and now rail traffic being disrupted have all added to the negative tone.

There could be more downside to canola, but the lows may be in for now.

It will be important to watch how production is expected to decline for next year

However, I wouldn’t get excited there is going to be an extended rally the way markets are right now.

Do you have basis contracts that you may have to roll soon?

Some clients have been asking what the costs would be to not roll their basis contracts and instead buy their canola back with me.

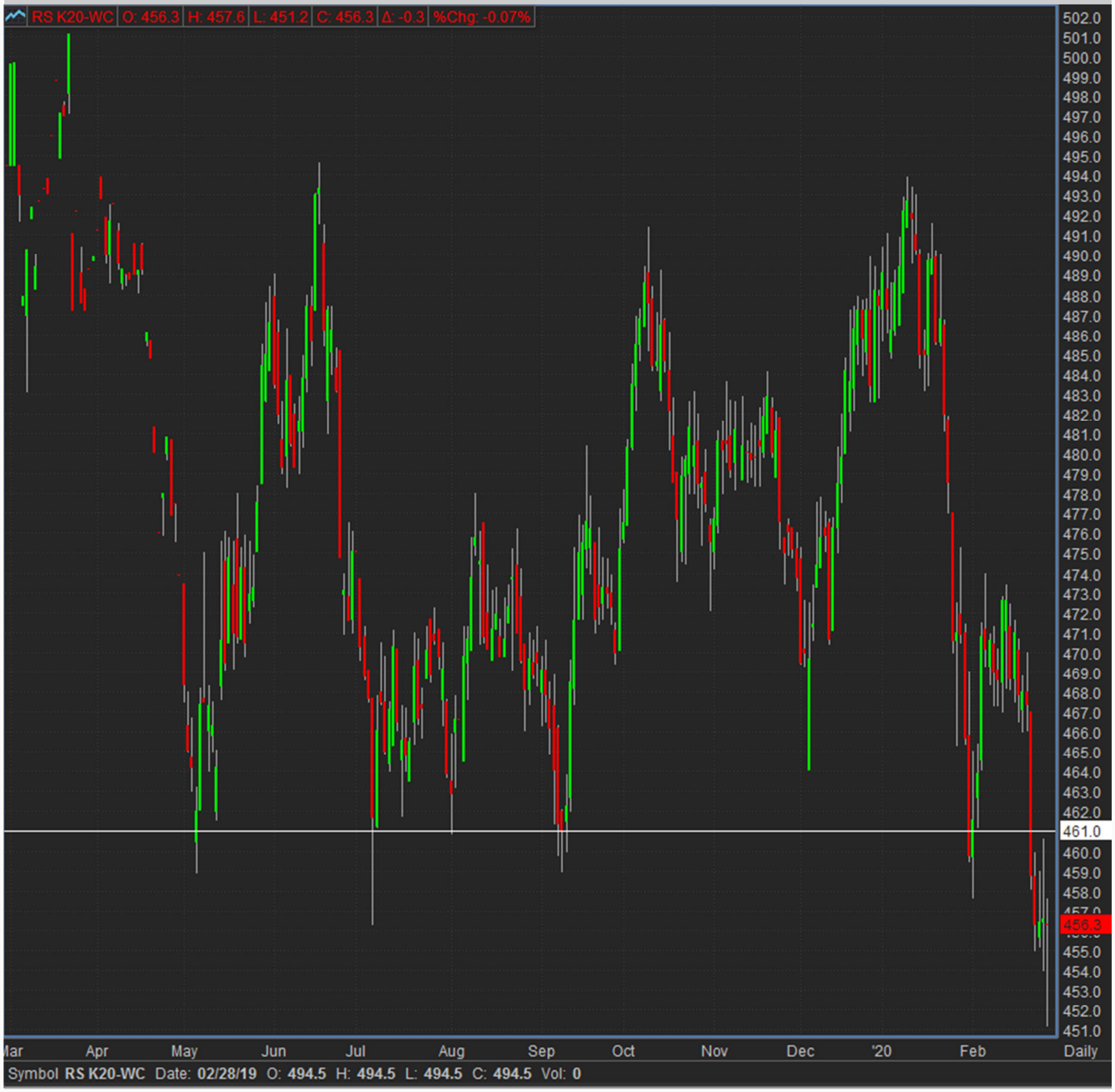
An important support level at $460/t that has been held for some time has been broken and the latest Commitment of Traders (COT) report show funds remain heavily on the short side.

I ask myself a question if canola prices are going into a new range of prices.

Will this year farms be saying their targets weren't hit because "I was looking for $10"?

Not too long ago it was "I was looking for $11" and before that I remember "I was looking for $12".

Canola May Futures - 1 Year



Wheat

Chicago wheat futures seem the most fragile since the funds are in a long net position, which could lead to profit-taking, or to a market trend reversal.

For suitable clients, I've used an options strategy where you sell calls and buy puts to protect from the price going lower.

The calls sold helped pay for the puts that were bought and in the current market environment the strategy has worked out well.

Global demand for wheat has remained relatively strong during the cornoavirus outbreak, which was evidenced by Ethopia tendering for 200,000 tonnes of milling wheat.

Minneapolis wheat has quite an interesting chart.

It seems like a triple bottom formation could be forming.

A triple bottom is generally seen as three roughly equal lows bouncing off support followed by the price action breaching resistance.

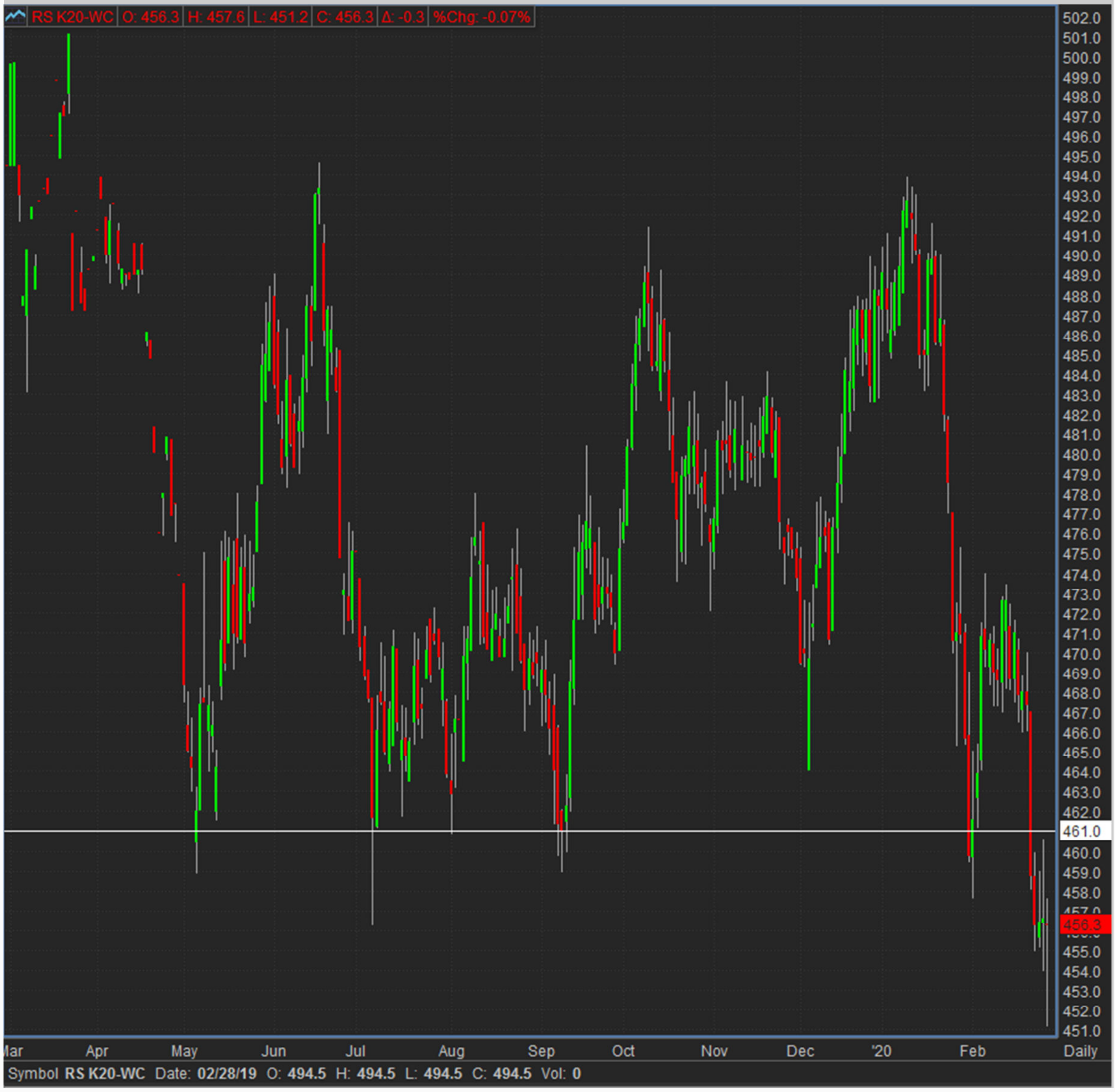
The support Minneapolis wheat on the May futures has held is $5.16/bu approx.

For a triple bottom to take place, the resistance of $5.75/bu approx would have to be broken.

This could take some time and there definitely needs to be some more positive news in many areas.

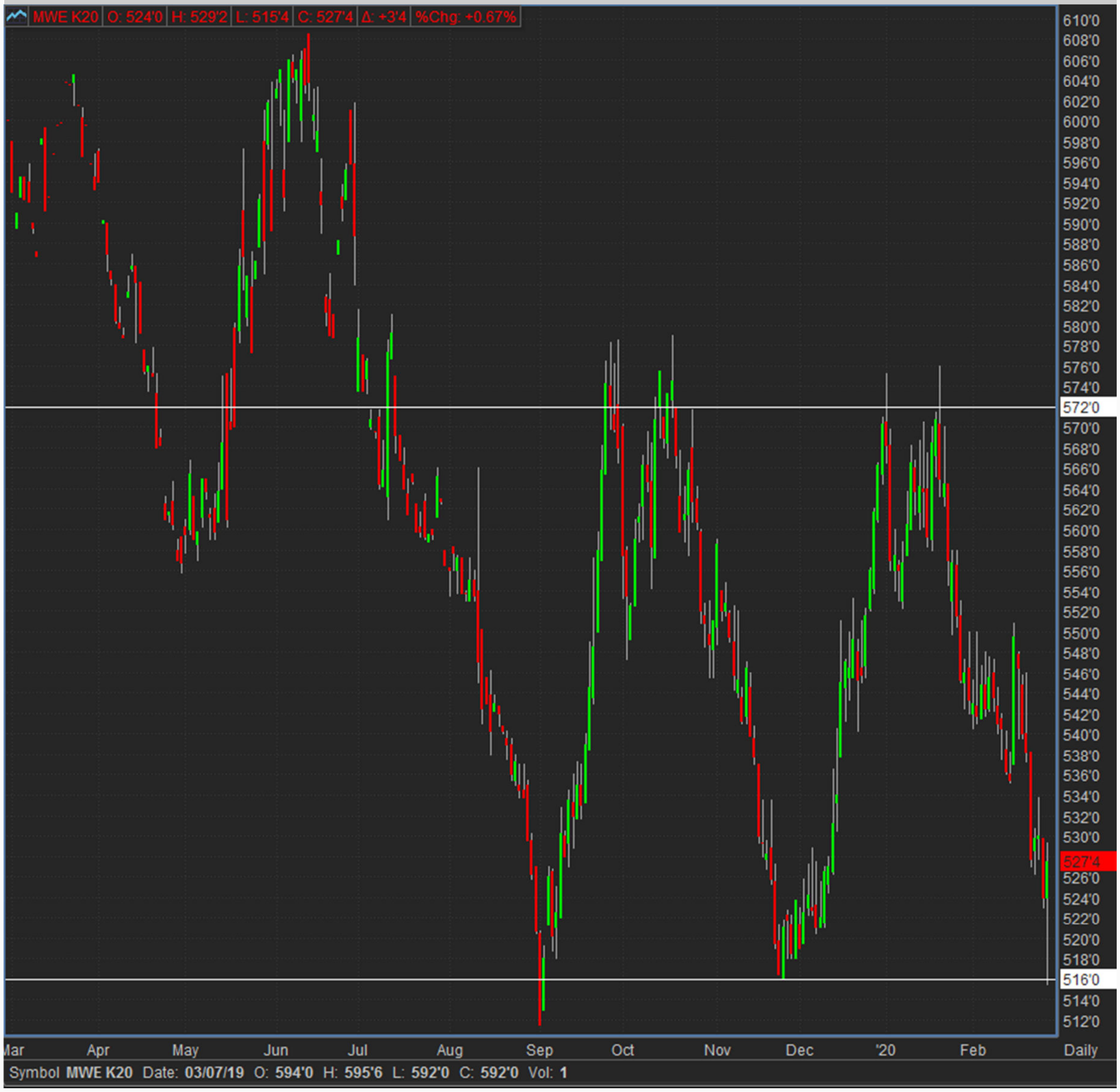
However, around this $5.20/bu area could be a good entry point.

Chicago Wheat May Futures - 1 Year



Kansas City Wheat May Futures - 1 Year

Minneapolis Wheat May Futures - 1 Year



Corn

Corn futures were in a sideways trend for some time and have now broken to the downside.

There is still no technical sign of a low for corn, but given the oversold nature commercial buying could come in because of the current price.

The driving factors have been....

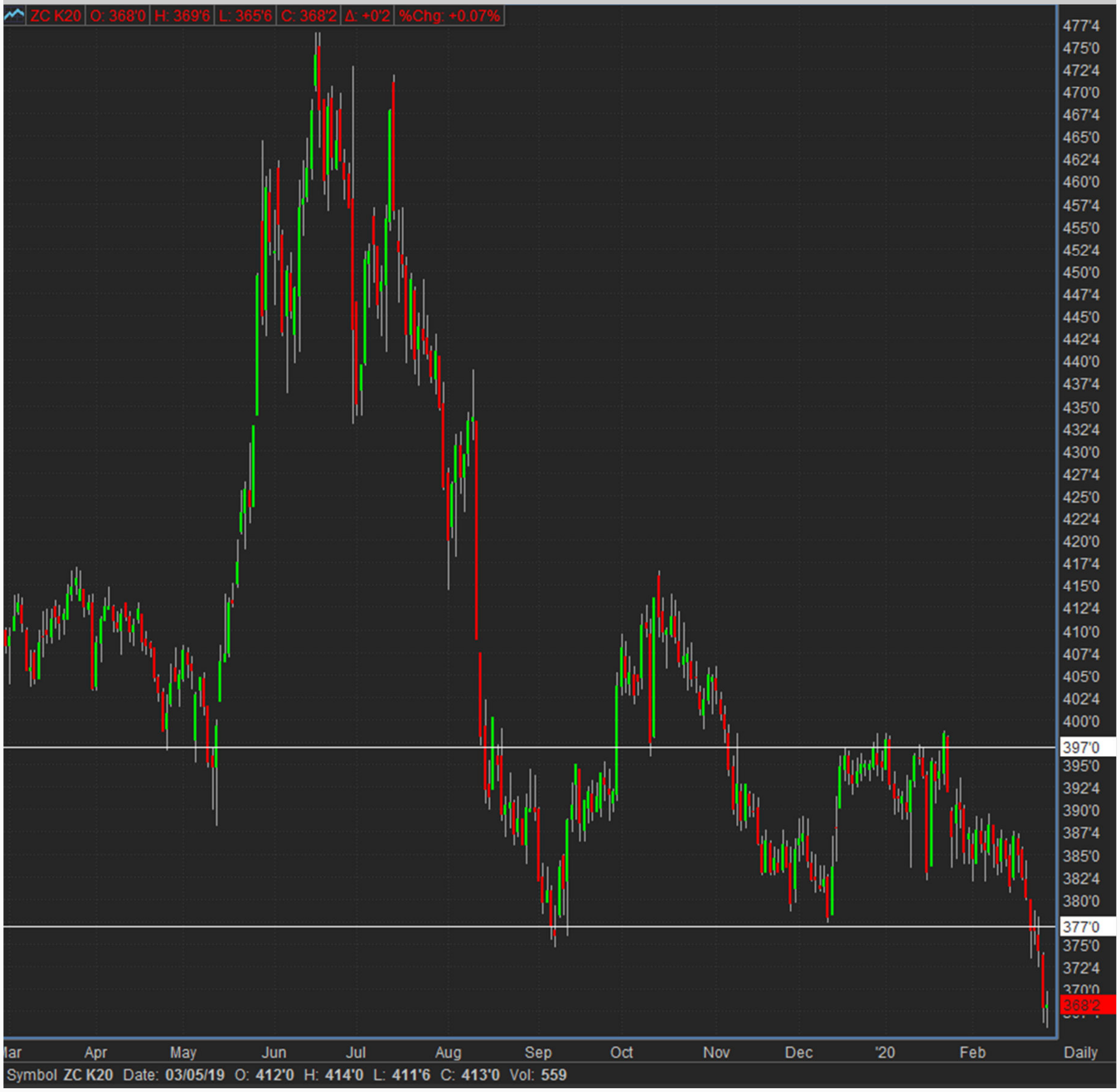
1. Fears of expanding U.S. planted acres
2. A record low for the Brazilian currency
3. Expectations for weaker demand from the energy sector and
4. Big crops coming from South America are all factors contributing to the corn price decline.

Farm Futures have predicted U.S. corn planted acreage this year will come in at 96.6 million, which would be a 7.7% increase over last year's total.

The trend on the corn market is down and that can't be argued.

Lower cost option strategies may want to be considered for producers wanting to protect new crop prices.

Corn May Futures - 1 Year



Canadian Dollar

The Canadian Dollar reached its lowest level since June 2019 this week amid a stronger U.S. Dollar and collapsing oil prices.

U.S. benchmark oil prices were down 16% last week, the largest weekly decline in 11 years.

Ongoing rail strikes are adding to the negative impact to our economy and currency.

Statistics Canada reported on Friday they expect the country's growth to slow to 1.6% in 2020 revised lower from 2-3%.

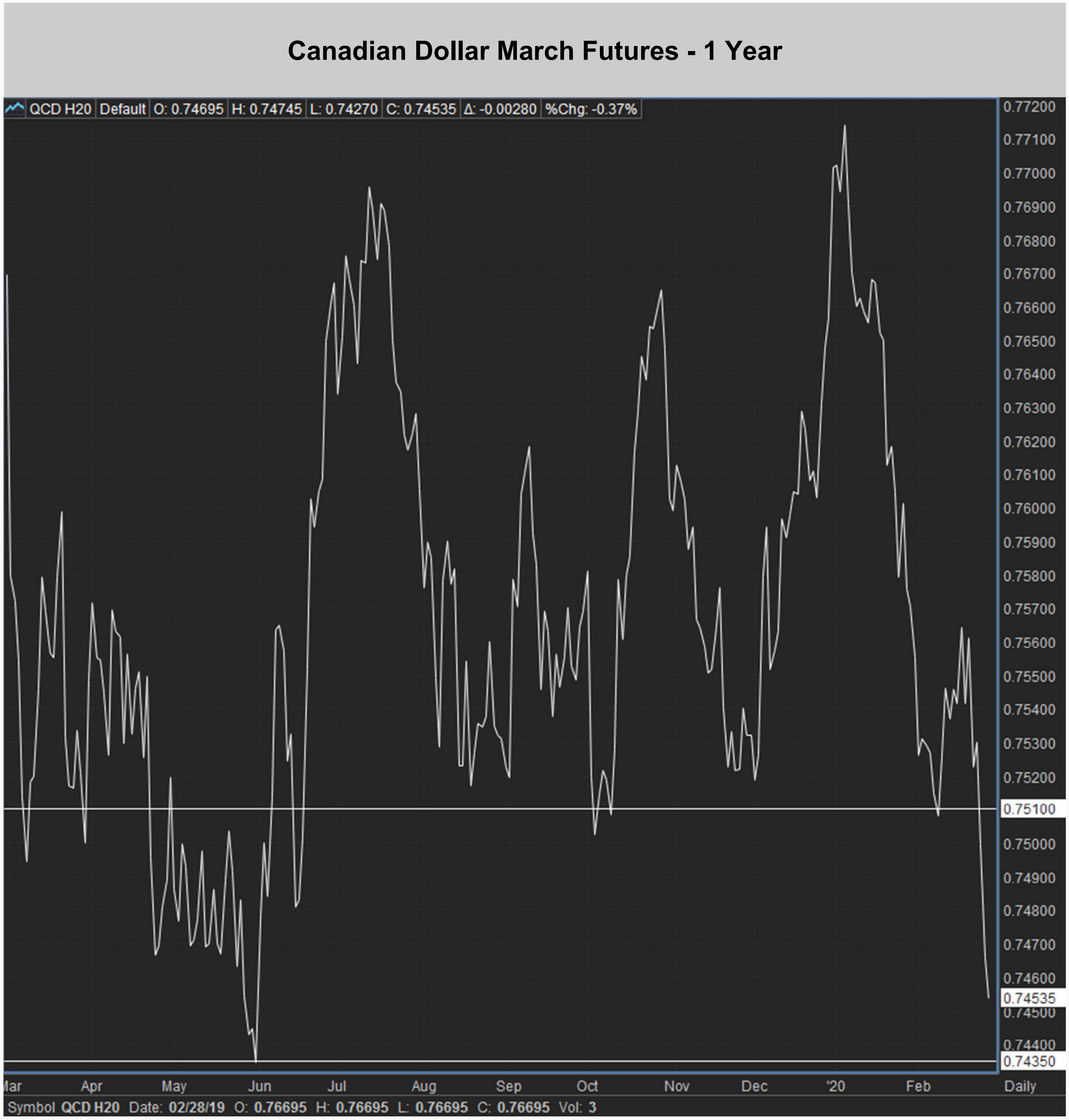
March 4th the Bank of Canada is expected to keep rates unchanged, but four out of five major Banks expect a rate cut at least once by the end of the year.

A surprise would definitely be if the BOC cuts rates next week, which would send the Canadian Dollar lower.

This decline in the Canadian Dollar will eventually give producers a hedging opportunity to protect their grain prices.

At this point I don't want to put in protection strategies until it looks like the futures stabilize because there could be more downside.

Next stop after 74 cents could be closer 70 cents on the charts.



Canadian Dollar March Futures - 1 Year
QCD H20 Default O: 0.74695 H: 0.74745 L: 0.74270 C: 0.74535 Δ: -0.00280 %Chg: -0.37%
0.77200
0.77100
0.77000
0.76900
0.76800
0.76700
0.76600
0.76500
0.76400
0.76300
0.76200
0.76100
0.76000
0.75900
0.75800
0.75700
0.75600
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0.75400
0.75300
0.75200
0.75100
0.75000
0.74900
0.74800
0.74700
0.74600
0.74535
0.74500
0.74400
0.74350
Mar Apr May Jun Jul Aug Sep Oct Nov Dec '20 Feb
Daily
Symbol QCD H20 Date: 02/28/19 O: 0.76695 H: 0.76695 L: 0.76695 C: 0.76695 Vol: 3

Cattle

April live cattle futures were down six days in a down, or 9.5%, for this short period.

There is uncertainty over consumer spending and consumer demand for any commodity that is non-essential in China.

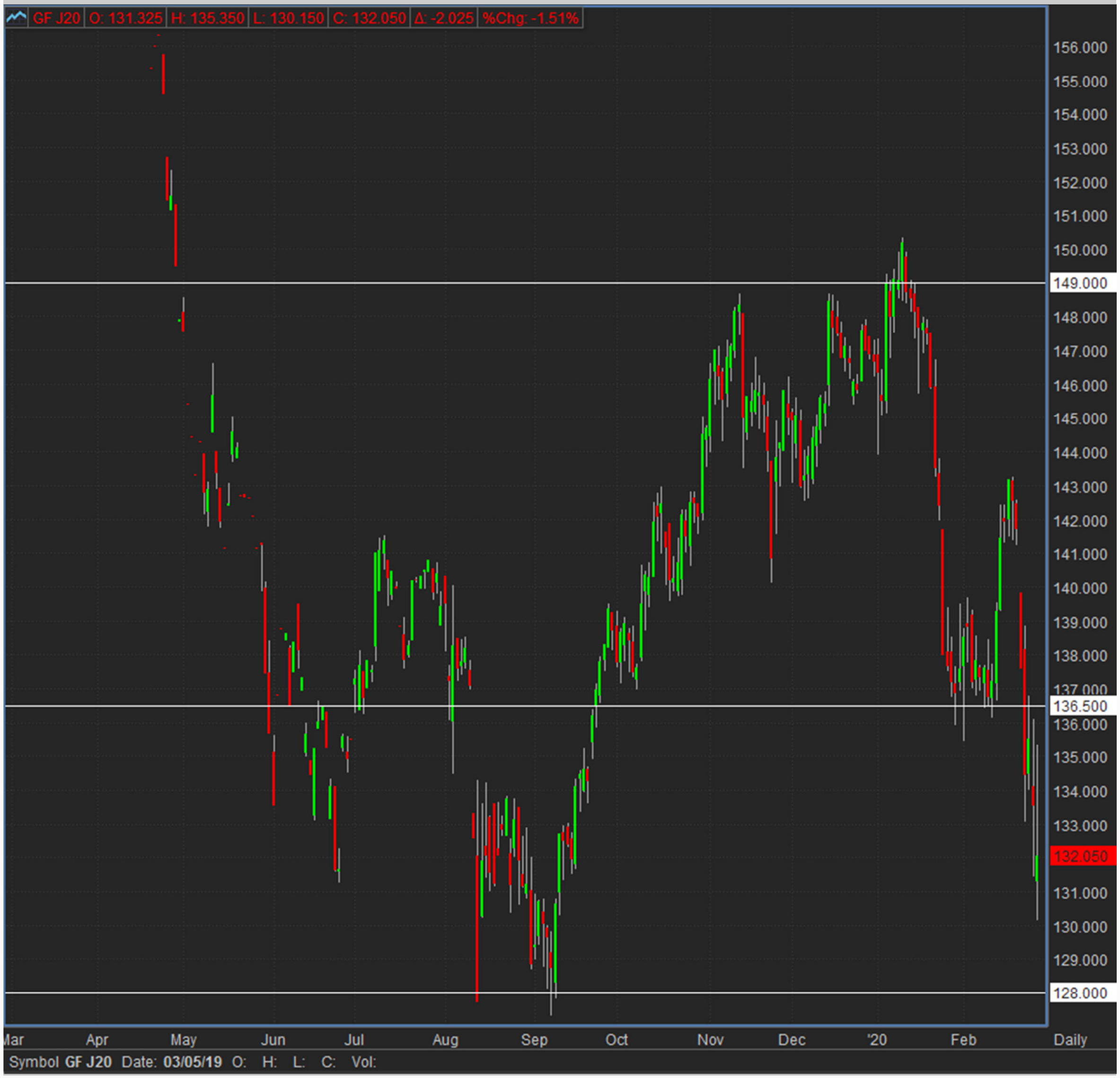
While pork and somewhat chicken could be considered essential in China, beef is considered discretionary spending and could grind to a halt.

Brazil is a huge exporter of beef to China and there is plenty of talk that the beef pipeline in China is clogged due to a lack of demand in January.

Traders are worried that Brazil's beef will back-up on the world market and create excess supply.

A sharp decrease in demand and excess supply could keep cattle markets lower for the foreseeable future

Feeder Cattle April Futures - 1 Year



Live Cattle April Futures - 1 Year