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# TECHNICALS & TRENDS

*January 2019 Edition*

This has been an interesting month when it comes to government reports because of the "waiting game" from the U.S. shutdown. The USDA has confirmed that the February report will include December 1st stocks and the winter wheat seeding reports. The CFTC announced they will release the Commitment of Traders data on February 1st, which will entail December 28th data. They will then release reports on Tuesday's and Friday's until they are caught up. This would put Friday, February 22nd as the first COT report that would be in effect real time. This is of course unless we have another government shutdown February 15th. On the wheat front, over the last month wheat has been in a sideways trend. That may change on the winter wheat front as extremely cold temperatures move into parts of the Midwest. There are concerns over winterkill in areas with not enough snow. With winter wheat acreage estimates coming in near 31.5 million acres, the lowest in 110 years, some weather premium could be put back into prices. Still, many financial energy and grain markets are trading one fundamental...U.S. and China trade relations. China has offered to buy $1 trillion dollars of U.S. good over six years to eliminate the $353 billion dollar deficit. This could include $30 billion dollars of U.S. agriculture goods, which could include wheat. Given the slower than expected U.S. wheat export demand to date, China buying would be positive to prices. Without China buying wheat futures may keep trading sideways. For certain clients, I've been implementing a selling call option strategy to take advantage of this sideways market. Selling options allow you to take advantage of time decay in the markets.

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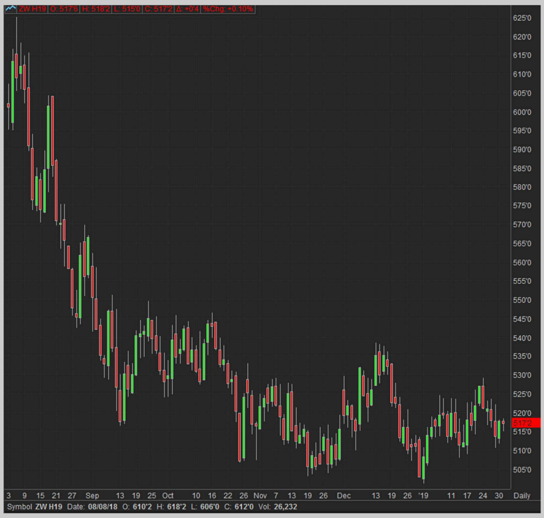
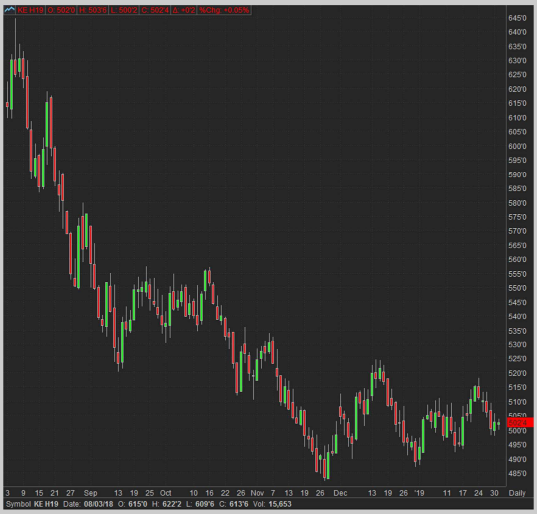
### Chicago Wheat March Futures




### Kansas City Wheat March Futures

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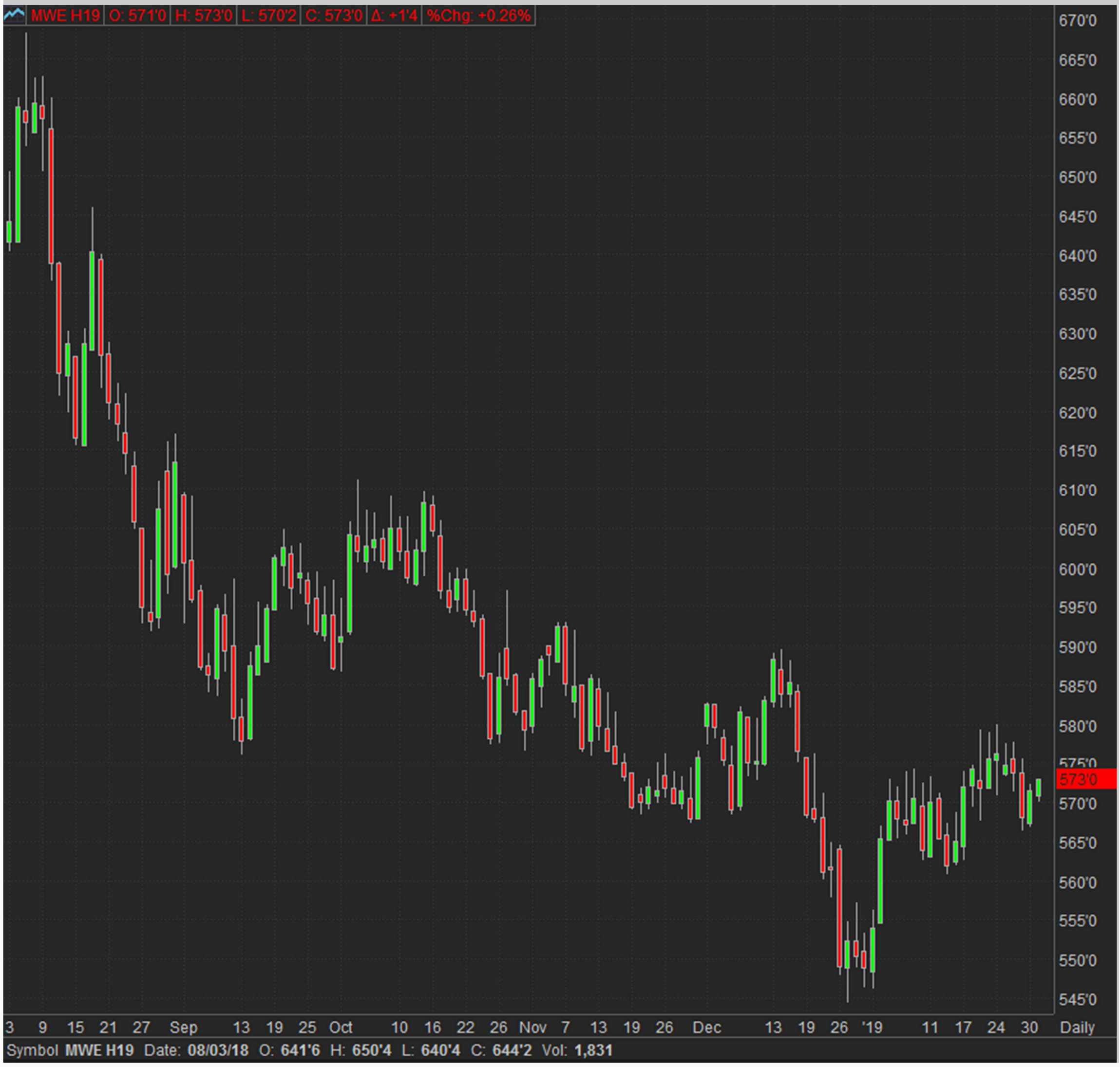
Minneapolis Wheat March Futures

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The Canadian Dollar increased almost three cents on the March futures in the month of January.

A couple factors have added to this increase.....

1. Oil has still been increasing. WTI on the March contracts has increased $4/bbl, or 16% approximately since the beginning of the month. Recent OPEC cuts are starting to impact trade. The U.S. Energy Information Administrations (EIA) weekly report showed that U.S. imports from Saudi Arabia fell by more than hald from the previous week to 442.000 barrels per day. This is the second lowest level in weekly data going back to 2010 (according to ANZ Bank).

2. The U.S. Dollar is starting to look weaker. The U.S. is known as the reserve currency of the world. However, with the political uncertainty central banks have been shifting away from U.S. Treasuries and buying gold. Both China and Russia have officially said they are doing this for what it's worth. A weaker U.S. Dollar usually supports our Canadian Dollar.

I've said in previous reports that I could see the Canadian Dollar trading plus or minus a couple cents from the 75 level. I'm going to be taking advantage of moves when I see the Canadian Dollar overbought or oversold. For example, yesterday the Canadian Dollar was up almost a cent on the day from positive trade optimism. We are still not out of the woods yet on the tariffs and this short term over reactions may give opportunities for shorter term traders.

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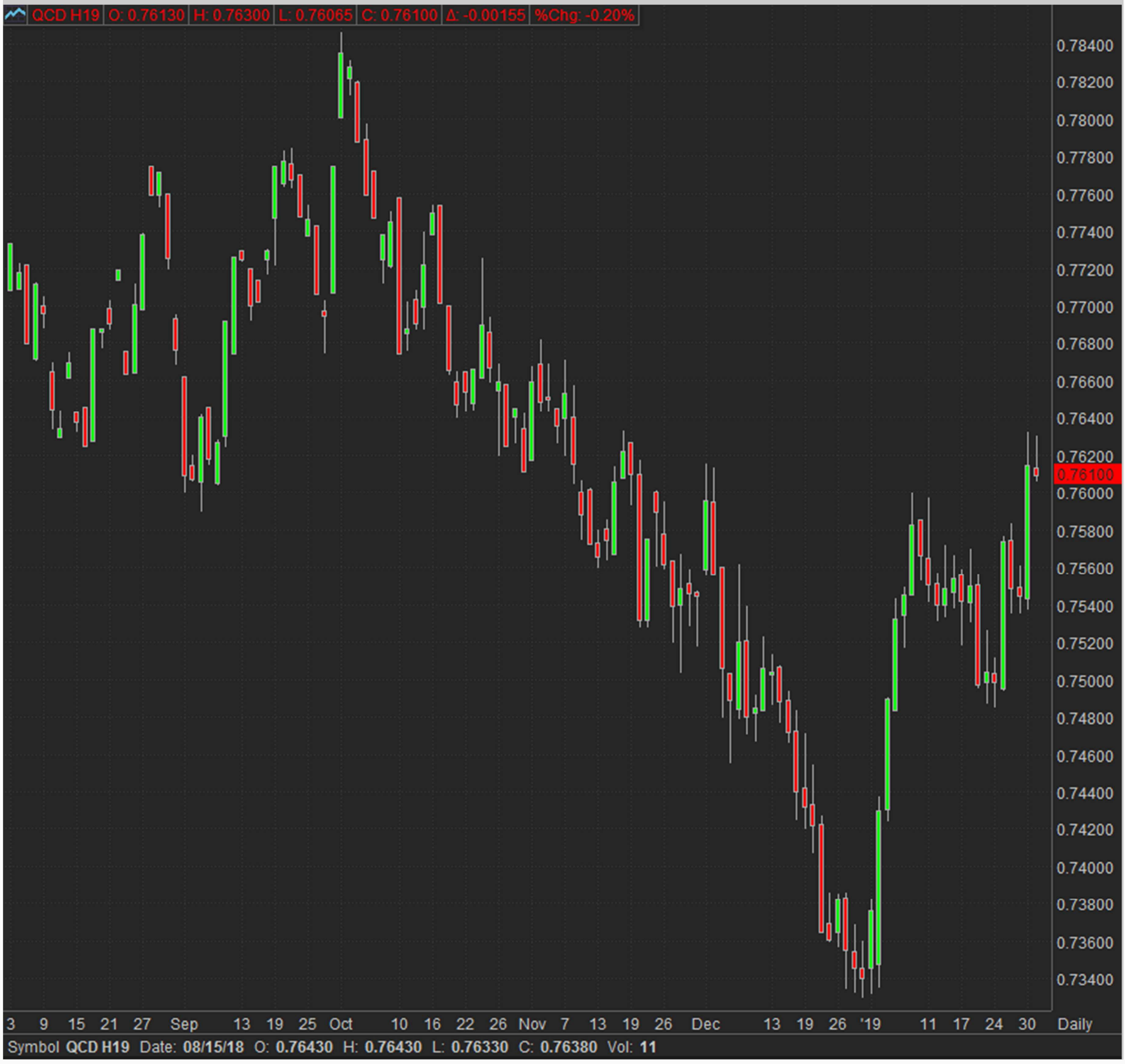
**Canadian Dollar March Futures**





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Canola is virtually unchanged in the last month. On January 15th, the March futures dipped down to a low of $475/tonne, but then increased to a high of $488.7/tonne. A main reason for this increase was soybean oil increasing 7.5% in that exact time frame. Take a look at the chart below on January 15th that shows the correlation between soybean oil (red line) and canola (white line). I still believe there could be higher prices come spring time giving producers an opportunity to sell any old crop. I've been reviewing with clients strategies for new crop hedge protection. My target is closer to $505/tonne on the November futures before I will start looking at protection. A factor for canola I'm watching closely for is on the fundamental side of soybeans that could change where I add canola hedge protection in at. Chinese imports of soybeans for the month of December were 5.72 million tonnes, down 40% from last year and the lowest for the month since December 2011. It seems even though China has been buying U.S. soybeans because there is ample world supply it isn't supporting the futures to go higher. However, it wouldn't surprise me that if there is positive news on the tariff front to see the soy complex spike up and bring canola with it

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### Canola March Futures



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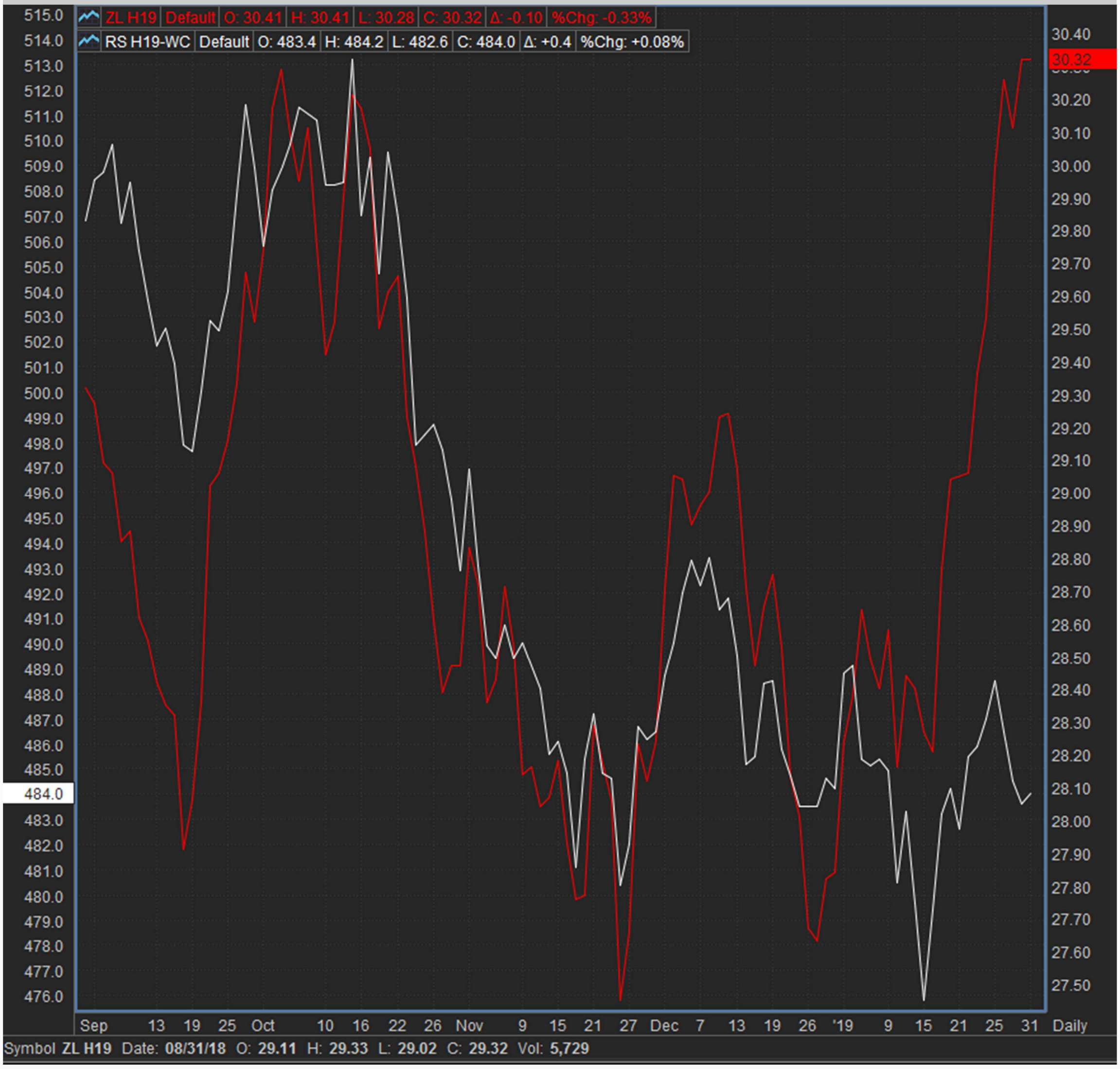
### Soybean Oil vs. Canola March Futures





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Corn futures may be well supported at these current levels from a fundamental view. There has been a strong export pace even with all of the Chinese tariffs, which if lifted would be a positive factor. For all of 2018, Chinese imports reached 3.52 million tonnes, up 24.7% from 2017 and the highest since 2015. If the tariffs are lifted, China is expected to buy near 2-5 million tonnes of US corn. I read that an advisory firm in Brazil lowered their corn production estimate to 92 million tonnes from 93 previously. Open interest is higher in corn futures leading me to believe there could be some buying interest. I've been discussing with client's trade ideas for corn to hedge their feed. You can either use options or futures depending on your risk level. I want to give you an actionable low cost options strategy if you are looking to hedge your feed risk or just to speculate. For suitable clients, consider an options strategy called a calendar spread. The purpose of the strategy is to profit from the passage of time and/or an increase in volatility. This strategy involves selling a near term call and then buying a further out call. In beginner's terms, I describe it as a way to have the upside in corn until May, but only pay a couple cents for the strategy. I often hear from people I speak with "I don't like using options because the premium just erodes over time." This calendar strategy actually gets time to work IN your favor because you are selling an option and buying one together.

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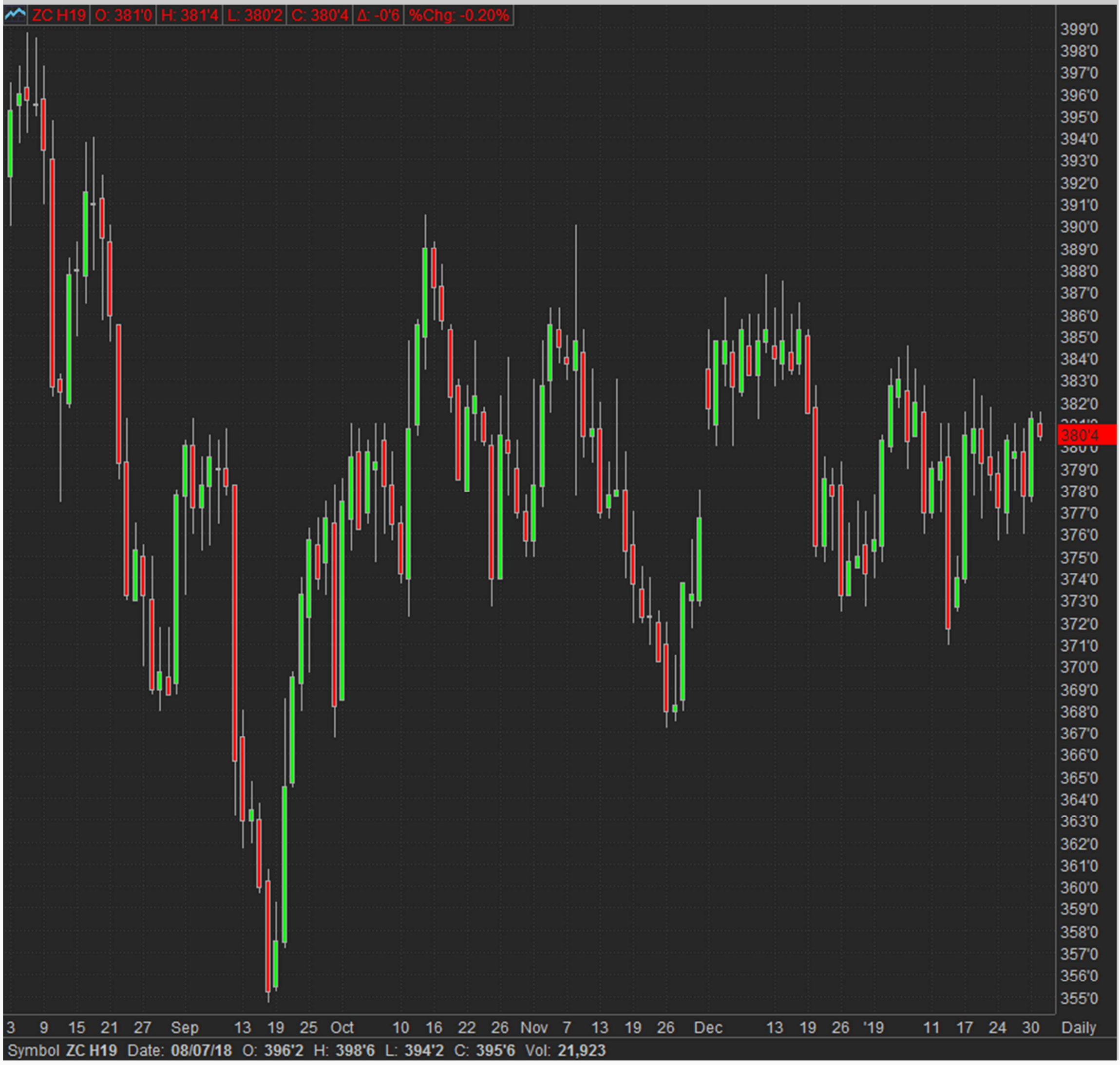
**Corn March Futures**

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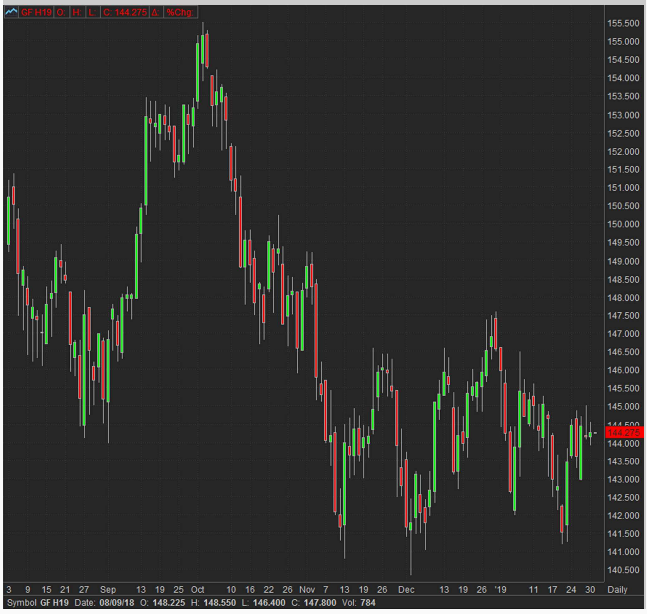
Cattle futures on the live contract remain in a solid uptrend. However, once the cold passes in the U.S. the upside may be somewhat limited. Record cold in the Midwest could seep into the plains and provide more short-term support as traders continue to see poor feedlot conditions and slow weight gains. There are enough cattle in northern and eastern plains to see stress with the cold weather blast. Actual production for January for the U.S has come in well below expectations, but this could swing back the other way. The Commitment of Traders Report may show a big net long position once the data is available. This means a lot of traders are betting the market is going up.If you need to hedge any of your live cattle (40,000 pound contract) it might be a time to consider that.

**Feeder Cattle March Futures**

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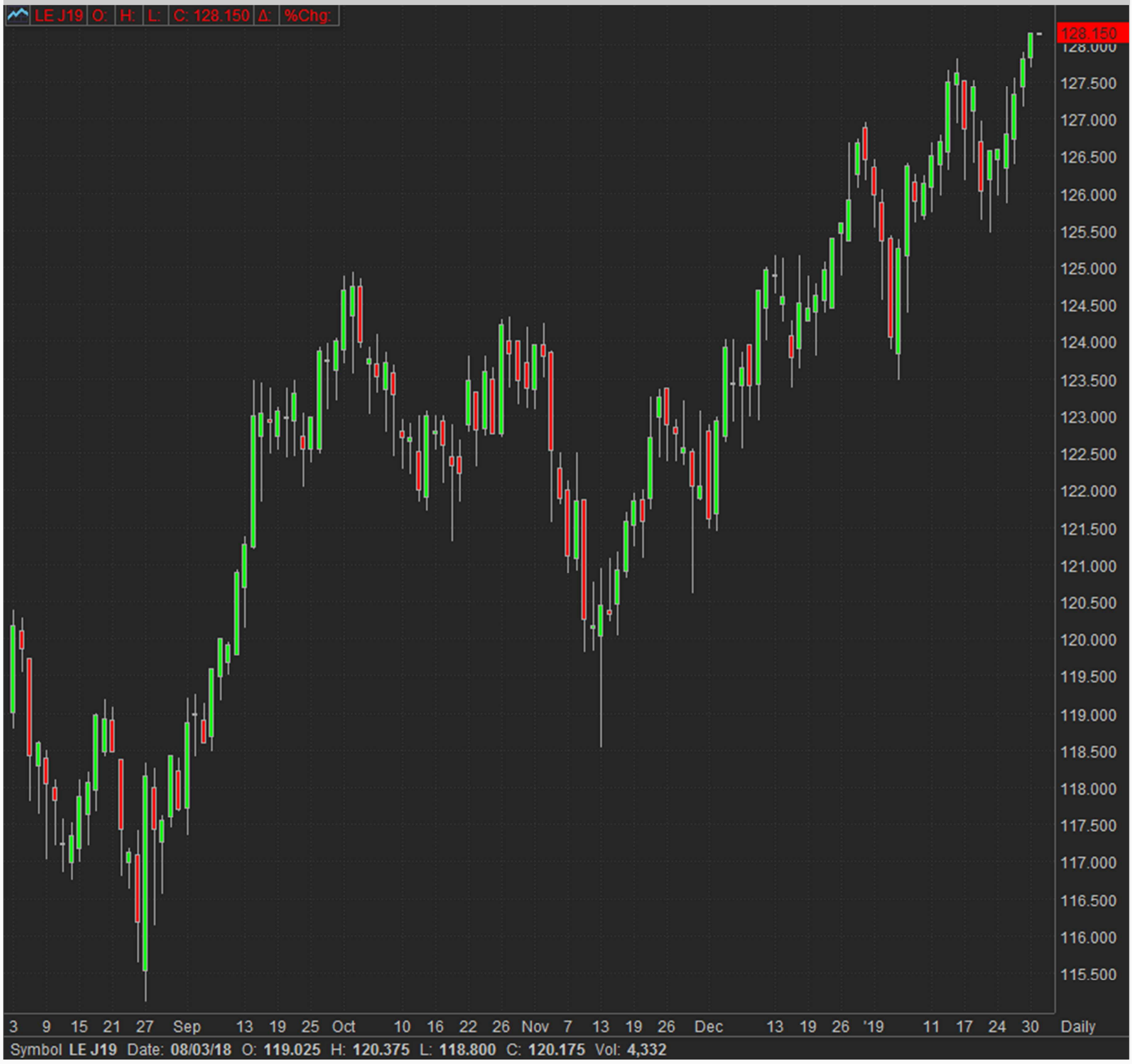
**Live Cattle March Futures**

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