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Adam Pukalo
Commodity Futures Advisor

TECHNICALS & TRENDS

July 2017 Edition

This month the November canola futures contract reached a high of $532.50/ton on July 11th and a low of $486/ton on July 26th. Lately, there have been heat warnings across a lot of the southern growing regions of Saskatchewan and Alberta raising concerns over additional yield losses. There has already been a reported stressed canola crop this year and the heat may only add fuel to the fire. Back in April Statistics Canada first acreage estimates for canola was a range of 20.3 to 22.5 million acres. At the 22.5 million acres this would be a record canola crop. Just back in 2000 there were twice as many acres in wheat as canola. Canadian canola production has doubled in the past 10 years to more than 18 million tonnes in 2016 as global demand has soared. Given this demand, more acres of canola will keep being needed, which could help the price stay higher longer term. However, there are times where canola can still have a $60/ton range making it important for producers to protect at profitable levels. I've protected some new crop for clients in the $520/ton range depending on how much they have physically sold. I'm going to be watching for canola to stay above $500/ton and add more protection around the highs of $530/ton if the situation still warrants.

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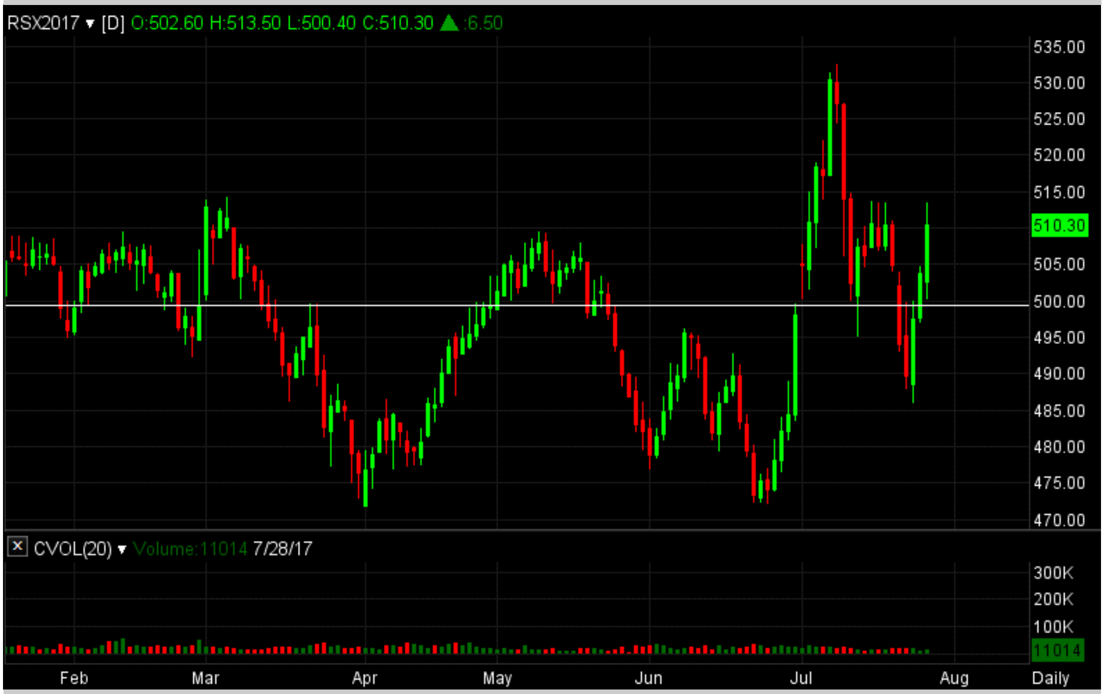
Canola November Futures



Many clients have been asking me where Minneapolis wheat prices are headed. This month we may have found a short term top. On July 5th, the high for Minneapolis wheat on the December contract was $8.43 per bushel and now we are closer to $7.50 per bushel. Does this mean we are headed lower? Not necessarily. Sometimes the best strategy is to be patient and wait for the opportunity. Back in 2011, there was similar type of trading. A large run up in the futures following a sell off and showing signs it could be at a top. However, the futures went sideways for a few months before continuing the trend higher. The situation was a bit different back then with global wheat supplies quite a bit less. We are sitting around 33% good to excellent for Minneapolis wheat, as reported by the weekly crop conditions report.

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Adam Pukalo
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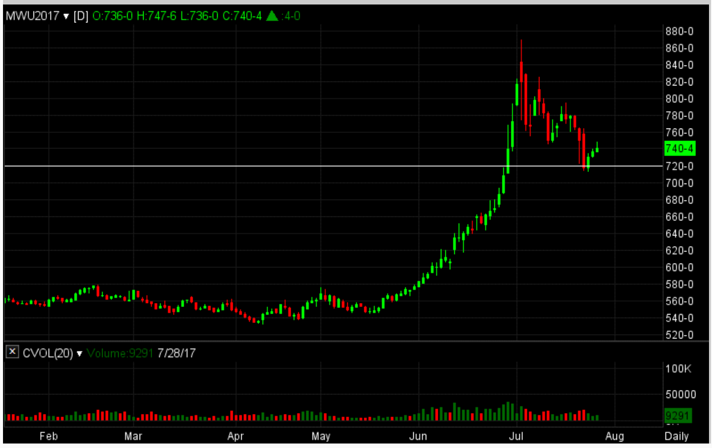
This could help support prices going for forward. The main factors right now are...

1. Weather - It may be too late for a significant change in weather to improve the crop.

2. Fund buying - If funds start selling their large positions, we could be headed lower. Inversely, if they start buying again because of a weak projected crop size/yield outlook prices could go higher.

Some clients do have protection in place if the futures move lower on Minneapolis using the futures and have been trading to take advantage of the volatility Others have taken a more "buy and hold" hedging approach knowing they could have margin calls given the volatility. I've been reviewing using options on Chicago or Kansas City wheat to at least have some protection on given the rally we have seen.

Minneapolis Wheat September Futures



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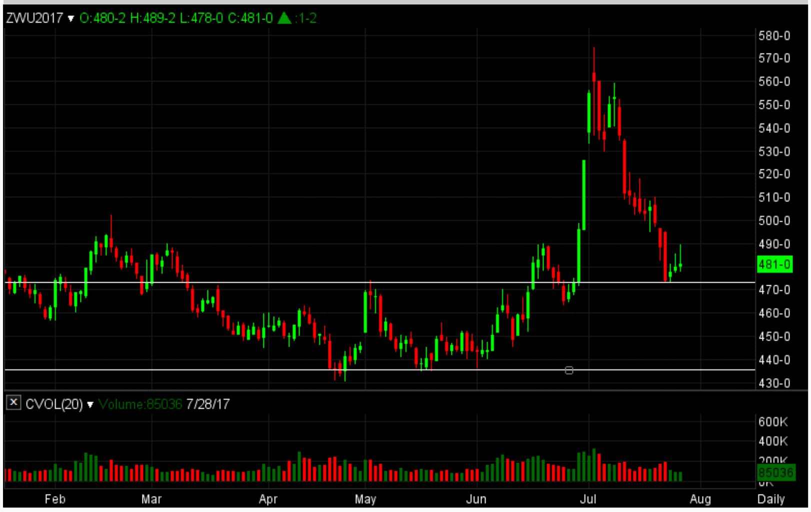
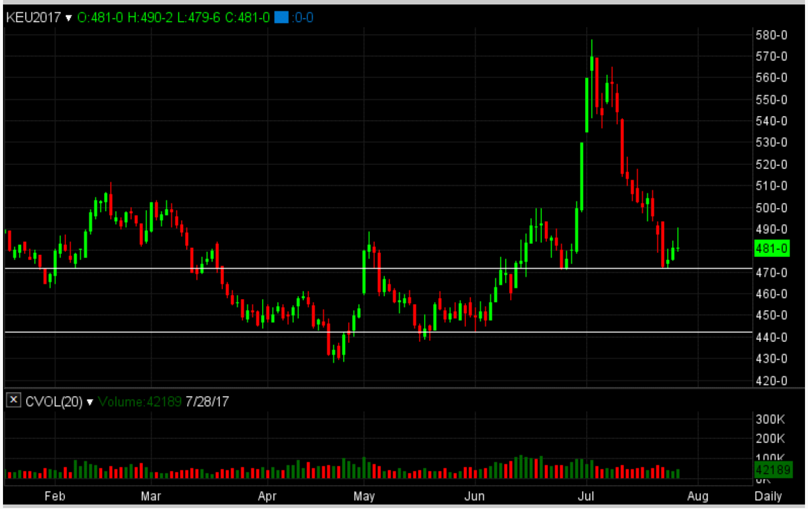
Chicago Wheat September Futures



Kansas Wheat September Futures



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Further weakness in beef prices and the outlook for a continued downtrend in cash should keep cattle futures at a stiff discount to the cash market In addition, the market faces a burdensome supply flow over the near-term and fund traders still hold a huge net long position, which could lead to further long liquidation selling being a threat. Both live and feeder cattle futures increased mid-month, but are now almost back to where they were July 1st. If you look at a chart of live or feeder cattle, we have been in a sideways range since May. Buying put options for floor protection in this sideways environment may not be beneficial unless you are able to be closer to the higher end of the range. The reason buying a put option may not be beneficial is the value of the option could decrease in a sideways trending market because the time value is decreasing as your expiration date nears. In a sideways trending market you may want to.....

1. Have no protection on and wait for a confirmation of a trend up or down.

2. If you want to have protection on, consider some type of spread to help offset the cost.

3. If you want to profit in a sideways trending market, you may have to trade the range, which could be difficult and more speculative in nature.

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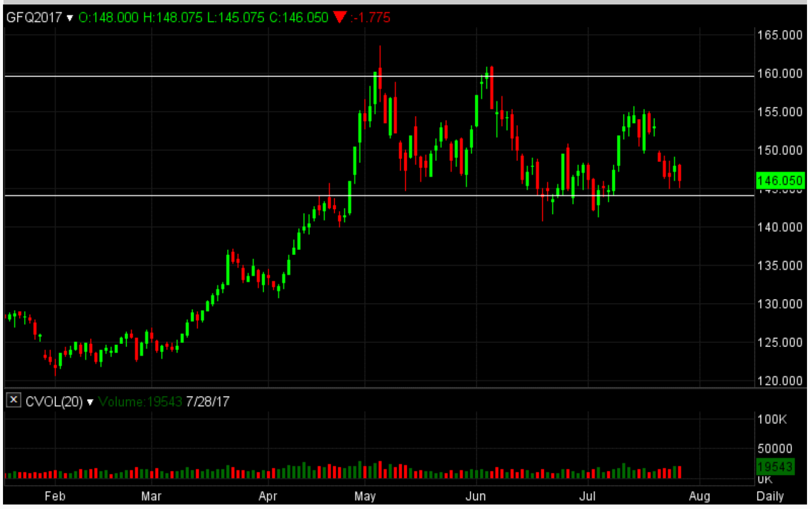
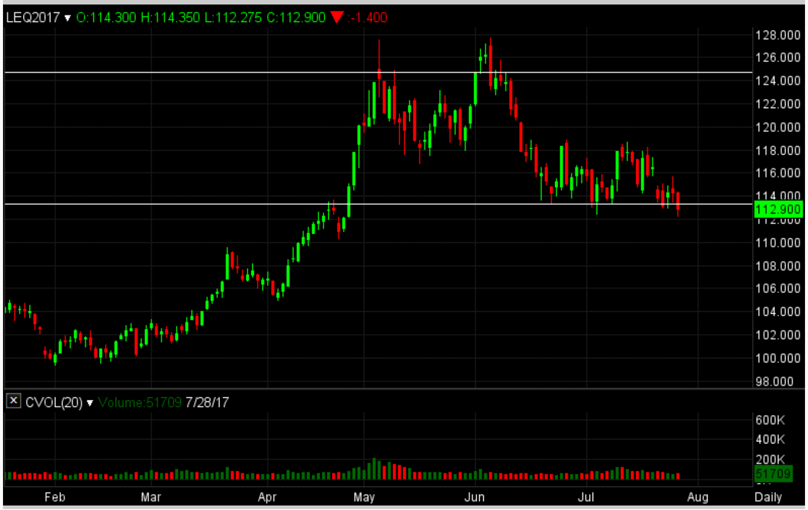
Feeder Cattle August Futures



Live Cattle August Futures



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Hooray, U.S. winter vacations cost less! July saw the Canadian Dollar gain a whopping 3.5 cents approx. The Bank of Canadian increased interest rates on July 12th from 0.50% to 0.75%.This may not be a significant amount initially, but the Bank of Canada mentioned if economic growth continues more rate hikes could happen. The next rate increase could come as early as January 2018. There was continued economic strength with last Friday's better than expected GDP (gross domestic product) numbers. Just a few months ago the Canadian Dollar was one of the worst performing currencies. Now we are back to a level not seen since May 2016. You may be excited for traveling costing less, but many farm operations may want to consider hedging their currency risk. I'm going to be watching to protect around the 80 cents mark out past the possible rate hike in January.

Canadian Dollar September Futures

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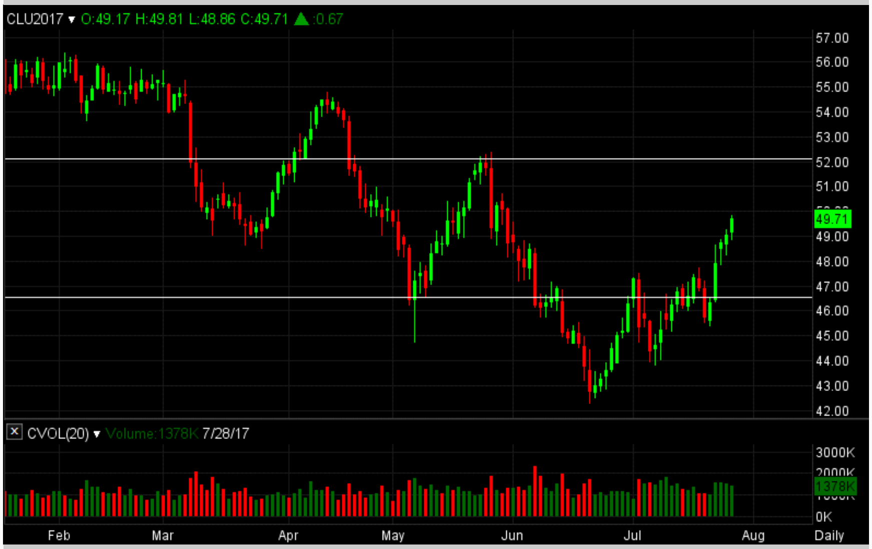
Commodity Futures Advisor

I wanted to touch on oil because it has almost increased $5 per barrel in July on the Sept WTI futures contract. Oil prices have rebounded over the past month possibly due to large inventory draws, falling U.S. rig count and strong demand data. Crude inventories fell 7.2 million barrels in the week ending July 21st, far exceeding the 2.6 million forecast. This was the fourth straight weekly decline showing hopes that the long over-supplied market could be balancing. Also, there has recently been geopolitical risk that could support oil prices going higher or stabilizing. Specifically, the sanctions the U.S. may impose on Iran, the unrest in North Korea and Russia and a two-day strike in Venezuela, one of the world's largest oil producers. This all sounds positive for oil prices to go higher, right? I'm taking the approach of being "cautiously optimistic". Oil may continue higher and I have levels in place to buy if they do. However, there has been many times where shorter term news, such as OPEC saying they are going to cut supplies, that has led to shorter term gains and no longer term ones.

Oil WTI September Futures



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