Adam Pukalo

Commodity Futures Advisor

TECHNICALS & TRENDS

July 2018 Edition

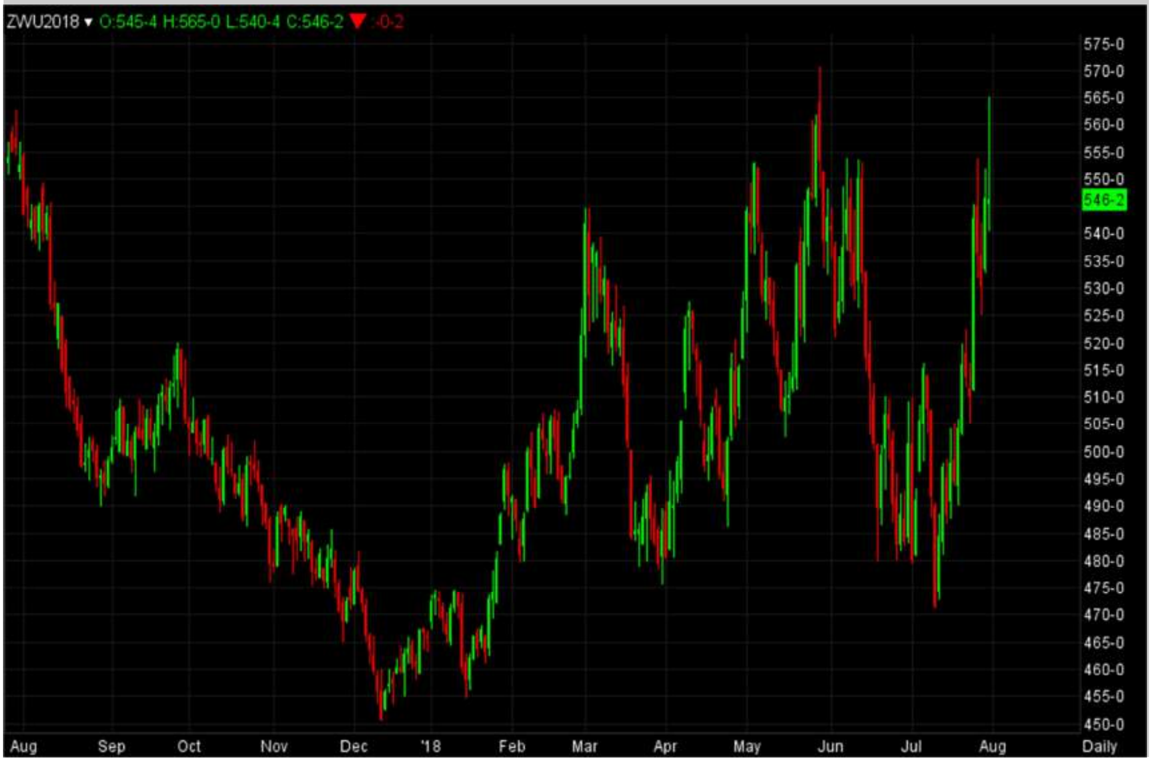
Before this month's report, I want to mention about how today is the first day canola is trading in New York. After 131 years the Winnipeg Commodity Exchange has been closed. The owner of the exchange, Intercontinental Exchange Inc. (ICE), moved the contract to their U.S. operations. It will be interesting to see how the canola futures contract changes in the future. For example, it is still currently traded in Canadian Dollars and the contract size is 20 tonnes. I could see these two things changing in the futures because...

1. It may not make sense to have a CDN$ listed contract in the U.S. and

2. The contract size is small so ICE may want to increase it.

Onto some timely trade news, just when you think the trade war is getting worse a positive development happens. At 8:24am Central today, six minutes before the grain markets open, Bloomberg released an article titled 'U.S, China Said to Seek to Restart Talks to Defuse Trade War'. As early as Wednesday, the U.S. could impose another $16 billion of duties on Chinese imports. China has already said they will respond with the same amount of tariffs. I discuss my thoughts below on how I think this could affect the soybean market going forward. Bottom line, there will be a time to buy soybeans, but farms need to be cautious on their trading strategy. This is the time of year where weather often dictates how volatile markets are. A good example is what we are experiencing in wheat right now. Further crop production declines in the EU, Australia and Russia along with disappointing spring wheat yields from the Wheat Quality Tour in the Dakota's is helping fuel this rally. Also, there has been 3 year highs for European wheat to help keep the trend up in North American futures. Both Chicago and Kansas City wheat are a bit overbought, but pullbacks may be met with buying interest. This rally could give producers that have September basis contracts an opportunity to price their wheat. I'm going to be watching for certain levels to add new crop protection for clients on this rally When using options it is often better to using Chicago or Kansas wheat because Minneapolis is hard to buy/sell at the price you want. Clients that are comfortable with futures I will use the Minneapolis contract.

Chicago Wheat September Futures



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Kansas City Wheat September Futures

Minneapolis Wheat September Futures

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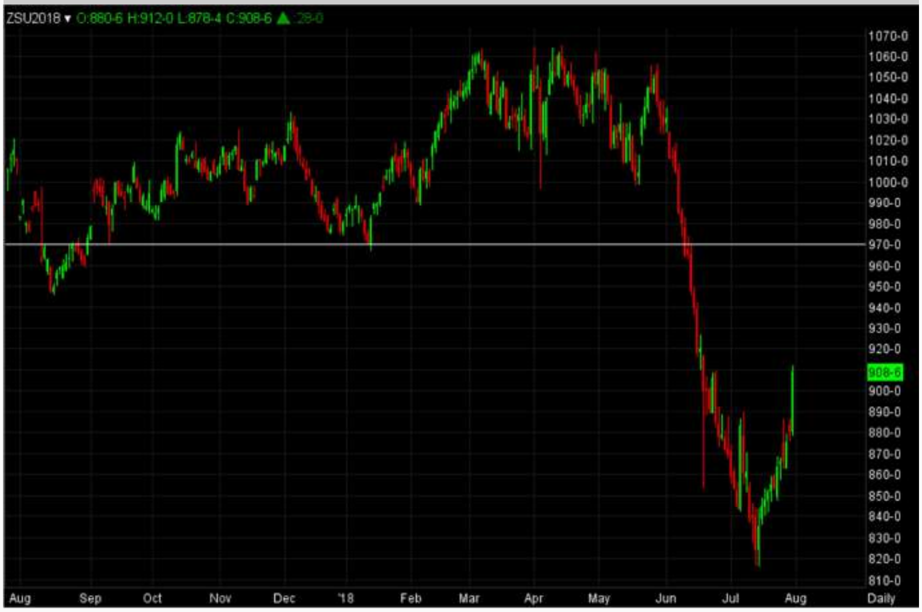
Yesterday's crop conditions report for soybeans showed as of July 29th the good/excellent rating was unchanged at 70%.This is still up from 11% last year and 9% over the 10 year average. There has been nearly ideal weather in July for the U.S., but the forecast may give traders a reason to cover some short positions. Funds are short 61,000 contracts, which is a decent amount that if covered could help an increase. However, if there are some timely rains a 50+ bushel yield could be easily achieved. Even with a large carryout, the question is how much soybeans could decline given how low they are. The wild card will still be how positive trade news could affect the soybean market. Today the September soybean futures have increased 70 cents from the lows and are still another 70 cents away from a key resistance area of $9.70/bushel. It might not take much positive news to continue this uptrend and aggressive traders may want to buy call options to reduce risk.

Soybean September Futures



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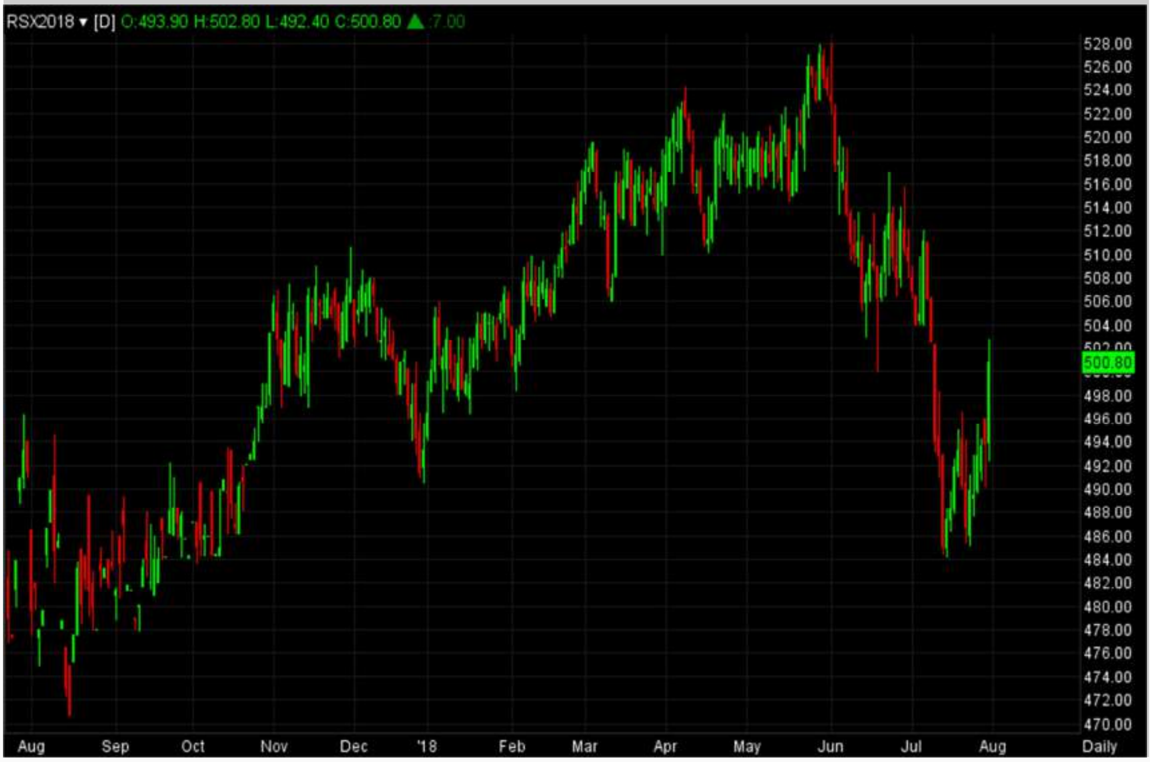
From July 9th-13th, canola on the November futures declined $26.50/tonne. I saw this as an opportunity for clients and recommended buying futures for those that it was suitable for. Now I am watching canola to hold around this $500/tonne level. I'm not sure if canola is going to keep moving higher, which is why I have taken profit of around $10/tonne for clients. If the soy markets continue the uptrend, canola could definitely follow. I'd consider buying canola again for clients if it looks like the rally could significantly continue. I'll most likely just look at hedging clients new crop if we do see between that $510 to $520/tonne range.

Canola November Futures



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On July 11th, the Bank of Canada raised interest rates to 1.50% (up 0.25%). This has been the fourth rate increase since last summer. Three of the biggest Canadian banks have moved their prime lending rate up in response. The central bank tends to cut its rate when it wants to stimulate the economy and raise it when it wants to keep a lid on inflation. In theory, rate increases come as a result of a strong economy, which would be a positive factor for the Canadian Dollar.The trade tensions have probably limited the loonie from increasing more even though is is up 1 cent since the rate increase. I don't think any time soon we are going to see the loonie go significantly higher. There may be a move to 78 cents, but an increase to 80 cents I think would need a lot more positive news. No positive news has come from NAFTA for Canada - only for Mexico. The U.S. & Mexico are proceeding on NAFTA talks (with some reports saying a deal is near completion) without Canada leaving a question mark for us.

Canadian Dollar September Futures

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Trends in cattle futures are starting to roll over (decline) on the charts. I've been vocal with my livestock clients about how putting in protection using options or selling their cattle depending on their operation may be something to consider. Fourth quarter beef production is expected to be up 4.3% from last year. Production normally declines by 150 to 300 million pounds from the 3rd to 4th quarters, but this year it is expected to increase by an estimated 115 million pounds. The decline is the reason for the normal advance in cash cattle prices so the increase this year is a season to suspect a contra-seasonal decline in cash values. Also, tariff news hasn't just been affecting grains prices. I read that Tyson Foods cut its full-year profit forecast, citing the uncertainty in trade policies and increased tariffs that have hurt domestic and export prices of meat. This just shows that all companies in the meat industry are showing concern for what is going on. Overall, there are still very profitable levels that producers may want to consider protecting with insurance or options.

Feeder Cattle August Futures

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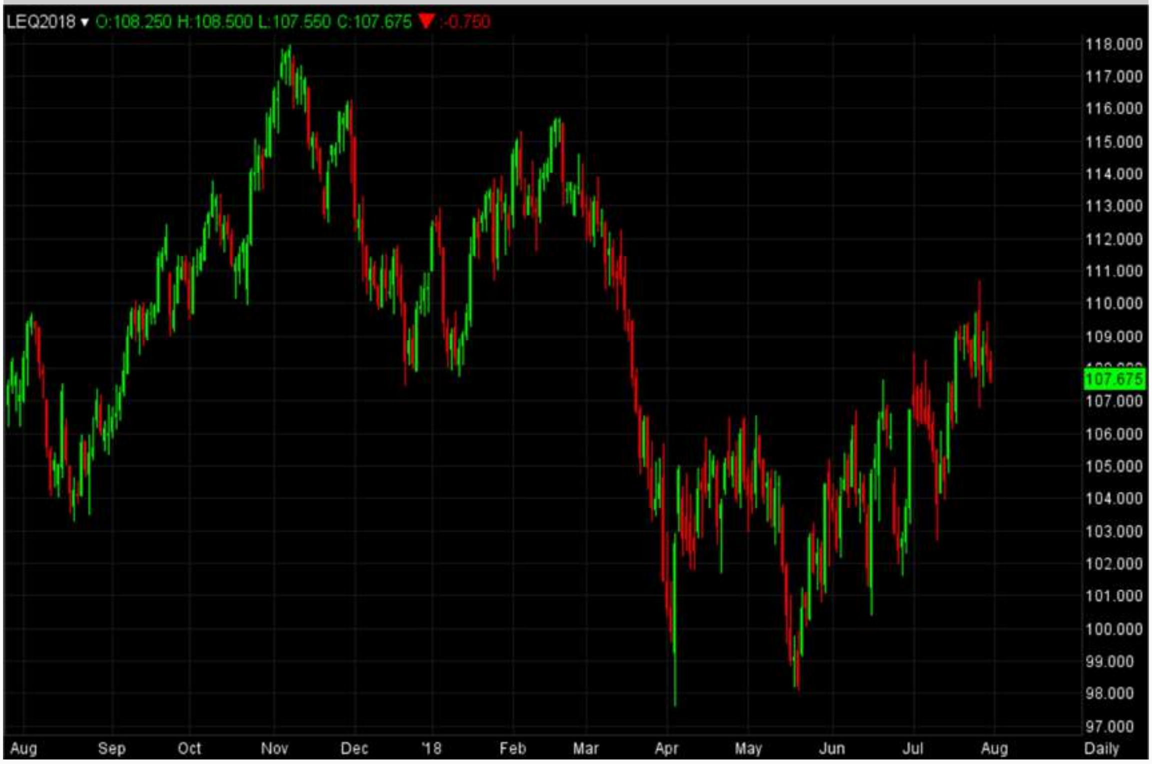
Live Cattle August Futures



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