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TECHNICALS & TRENDS

June 2018 Edition

Here is a brief overview of the USDA Planted Acreage/June 1 Stocks & StatsCan Planted Acreage reports that were released today.....

Stats Can:

- Canola: Expected seeded acres in 2018 are 22.7 million, down 1.1% from 23 million. This number isn't a big surprise given the previous 7% drop reported.
- Wheat: Total wheat acres are expected to increase 10.4% with durum increasing the most at 18.8%, spring wheat 9.5% and a decline in winter wheat of 11.3%.
- Oats: Expected seeded acres in 2018 are 3.053 million, down 4.6% from last year.
- Soybeans: Expected seeded acres in 2018 are 6.32 million, down 13.2% from last year.

USDA:

- Corn & Soybean acres down 1%
- Wheat acres up 4%. From last USDA in March - Spring wheat up 4.50%, Winter wheat up 0.07%, and Durum wheat down 5.80%.
- Corn stocks down 1%, wheat down 7% and soybeans up 26%.

Given all the tariff news this month I want to start with a recap on it. "We're not starting a trade war, but we'll finish it." - President Donald Trump. These are some of the words Trump said on Wednesday when defending his tariffs policy. Some economists still say there is not a trade

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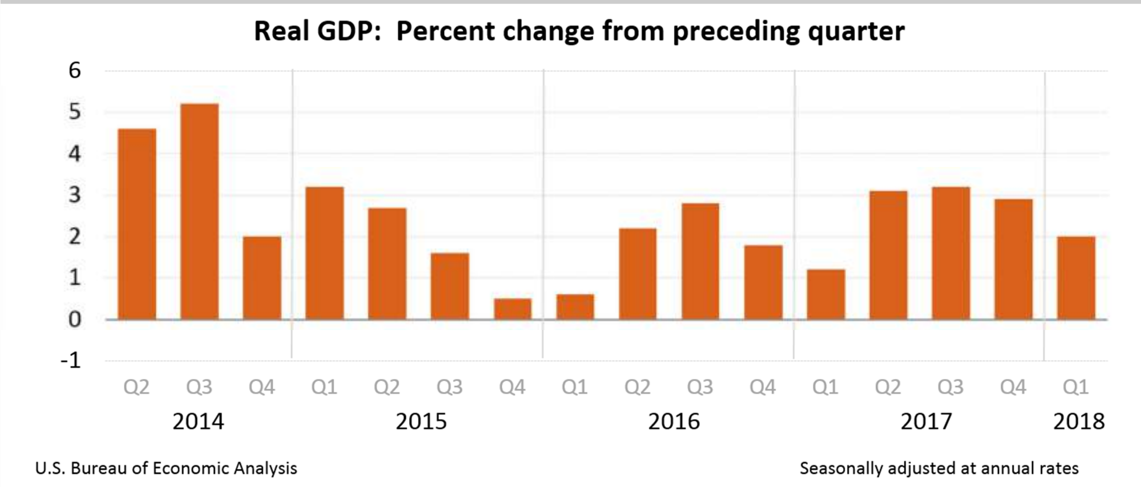
war happening right now. I think what they really mean to say is it could just be getting started. A trade war is the side effect of protectionism, which refers to government actions and policies that restrict or restrain international trade. From this definition, it sounds like we are in some type of trade war, but probably one that is still in its infancy. This all started when Trump announced steel tariffs. When looking back in history, President George W Bush in 2002 raised steel tariffs to protect against a surge in imports and created a 30.4 million drag on the U.S. GDP (Gross Domestic Product). To put that in perspective, in 2002 the U.S. GDP was 10.59 trillion so that 30.4 million drag isn't substational in the bigger picture. However, what the Bush tariffs did to was put roughly 200,000 Americans out of work. Trump repeatedly pledges to create jobs and reduce the U.S. trade deficit that shows they import hundreds of billions of dollars more than exports. The next U.S. GDP report on July 27th will help give an insight into how their economy is doing. There has already been a deceleration in real GDP growth in the first quarter with exports being one of the reasons. July 6th is set as the start date for the first $34 billion of the initial $50 billion in tariffs to kick in. Below I give my views on how these tariffs going forward may affect the grain/livestock/currency markets.



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This month the Canadian Dollar declined on the September futures from 78 cents to a low on Wednesday of 74.80 approximately. Similar to the grain markets, the tariff news can largely account for the decline. On Wednesday, the Bank of Canada Governor Stephen Poloz had a positive news conference for the loonie The chances of a rate increase at the July 11th announcement have increased to 65% from 55% before the speech, overnight index swap markets showed. Today the loonie is increasing again above 76 cent on what seems to be a positive Bank of Canada Business Outlook Survey. The April GDP data released today wasn't anything significant for the loonie. 75 cents on the September futures may be an area of short term support. A breakout above 77.60 could be a bullish sign. Oil has steadied near a three and a half year high, but the loonie will need help for other factors for the trend to turn positive, such as the US Dollar declining. I'm going to be watching for an opportunity to hedge Canadian Dollar exposure for my farm clients once indicators show there may be a change in trend.

Canadian Dollar September Futures

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Canola futures have held profitable levels given what the soy complex has done (discussed below). The declining Canadian Dollar has been a major supporting factor. Last StatsCan report estimated a 7% drop in acres from last year and now it is only 1%. This may be due to a late switch by some growers to try and avoid wheat. Over the last month I've been adding in protection for new crop canola at these levels by going short the futures or buying put options depending on the clients risk and education level. Between $520 to $510/ton is where I am suggesting clients to protect anywhere between 10%-50% of their production. The amount I suggest for protection is based upon how much cash sales my operations have. Some areas were wet and other were dry in Canada to start off the growing season, but generally clients are telling me their crop is off to a good start. When looking at the seasonal's they generally point lower for the summer months.

Canola November Futures

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The soy market has been in a decline for the last month. Since June 1st on the nearby month soybeans are down 15%, soy oil down 7.50%, and soy meal down 12% approximately. Weather continues to be ideal with crop conditions expected to come near unchanged. Trade war tensions continue to cast a long shadow for the soybean market with the July 6th deadline nearing. Speculative funds are now net short in soybeans showing they aren't ready to buy given the situation. The increase in acres today didn't help the bull camp either. How much lower could soybeans go? Below is a chart of soybeans going back 20 years. Soybean futures are at lows that were reached in late 2015/early 2016 and 2008. You can see that there is still potential for a lot of downside if there is a full blown trade war. Often traders want to be the one to call the bottom. It gives them the satisfaction I guess of knowing they were the first ones in. I like to wait for a trend to be confirmed and a situation to change rather than to try and catch a possible falling knife. There will be a buying opportunity in the soy market, but traders will have to wait for the current situation to show positive signals.

Long Term Soybean Futures

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Soybean September Futures

Soybean Oil September Futures

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Soybean Meal September Futures

The wheat market has faced seasonal selling pressure from the ongoing U.S. winter wheat harvest and falling prices in Russia, the world's top exporter. There is still a lot of supply out there in the world with old crop stocks that there is no incentive for traders to step in and buy. Minneapolis wheat has declined 13% in the last month because of improving weather in the Northern U.S. Plain and Canadian crop belts. With the USDA report today being bearish for spring wheat there may be more selling pressure. A bumper crop could be coming in the next six weeks; however it is still too early to tell. For clients that want protection, I've been discussing with them an option strategy called a Collar. This is where you buy a put where the market is, then sell a call higher up to help pay for a put that you bought. . The cost for the strategy has cost around 15 cents ($750 for a 5,000/bu contract) for December protection depending on the strike prices.

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Chicago Wheat September Futures

Kansas Wheat September Futures

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Minneapolis Wheat September Futures

I'll be the first to admit that a couple months ago I was bullish on corn prices. A potential shift in demand and weather outlook was suggesting prices could go higher. What corn has done recently just shows you can't be "married" to your trading ideas. You need to have a plan in place in case levels are broken you exit and be unemotional about the loss. Funds are now short corn and it doesn't seem like their position is going to change for the near term. A bullish factor longer term that I'll be watching is corn stocks are projected to decline year-on-year by nearly 25% That is a large number that will tighten the corn balance sheet to the point where prices declines could be limited from here. For my livestock operation in particular, I will be discussing with them how higher corn prices may affect their operation and hedge from a possible increase if needed.

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Corn September Futures

Last month I mentioned a strategy I was going to implement if I saw cattle futures show signs of weakening. It was a spread strategy where I was going to buy a put and sell a put lower down (bear put strategy).The October futures reached a high of $150.45/cwt and I recommended when I saw them around $149/cwt to add protection in. My initial reaction was to possibly protect higher than $150/cwt, however, the futures looked like they were topping and it has seemed like they have currently. Also, there was a USDA Cattle on Feed report coming up that I didn't want to take a chance in case there were bearish numbers. The numbers were in fact bearish with placements and on-feed both above average expectations. May placements onto feedlots came in at 100.2% of last year with an average trade estimate of 95.6% Marketings in May were a bit above average at 105.4% vs 105.1% expected. The cost for the strategy I implemented for protection was $2,250USD for one 50,000 feeder cattle contract. I'll be watching for the futures on the October feeder contract to decline around to $140/cwt and will consider taking profit or adding more protection there

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depending on the trends.

Feeder Cattle August Futures

Live Cattle August Futures

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