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TECHNICALS & TRENDS

June 2017 Edition

Before I start this month's review and look ahead I want to give you a review of last week's StatsCan and USDA reports.....

StatsCan:

Soybeans and canola were the two grain farms seemed to be planting more this year. Soybean acreage was estimated at 7.282 million acres, up a significant 33.2% from last year. For the first time ever canola area exceeds all wheat area. Canola areas were estimated at 22.837 million aces, at the higher end of expectations. This is 12.1% more than last year. All wheat was estimated at 22.361 million acres, down 3.7% from last year. One area that farms might be interested is that spring wheat was estimated at 15.791 million acres, which is up 2.5% from last year.

USDA:

Out of all the grains soybeans came in the most bullish on both quarterly stocks and acreage beating estimates. Corn was considered slightly bearish. All wheat acres were less than expected and quarterly stocks was greater than expected.

USDA Quarterly Stocks and Acreage Report
June 30, 2017

USDA Quarterly Stocks

(in billion bushels)	USDA Jun 1, 2017	Average Estimate	INTL FCS Estimate*	Range of Estimates	USDA Jun 1, 2016	USDA Mar 1, 2017
Corn	5.225	5.123	5.203	4.690 - 5.360	4.711	8.616
Soybeans	0.963	0.983	0.972	0.870 - 1.119	0.872	1.735
Wheat	1.184	1.137	1.182	0.968 - 1.185	0.976	1.655

USDA Acreage

(in million acres)	USDA Jun 1, 2017	Average Estimate	INTL FCS Estimate*	Range of Estimates	USDA March 2017	USDA 2016 Final
Corn	90.886	89.903	90.610	89.000 - 91.005	89.996	94.004
Soybeans	89.513	89.750	89.850	88.466 - 90.500	89.482	83.433
All Wheat	45.657	46.070	45.760	45.700 - 47.400	46.059	50.154
Winter Wheat	32.839	32.830	32.730	32.505 - 33.752	32.747	36.137
Spring Wheat	10.899	11.206	11.080	10.990 - 11.589	11.308	11.605
Durum Wheat	1.919	2.002	1.950	1.900 - 2.219	2.004	2.412

*INTL FCStone estimate, submitted to Reuters by Arlan Suderman, Chief Economist.

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The most common questions I have been getting this month are regarding wheat, in particular Minneapolis wheat. Since May 1st, the September Minneapolis wheat futures contract has increased around $2.50 per bushel. Why might this be?! The initial rally could have been sparked by the drought condition in the northern U.S. Plains and has worsened in the past couple weeks. There are still more forecasts for hot and dry weather helping support the rally. Last Thursday the weekly U.S. Drought Monitor should 25% of North Dakota was classified as being in "extreme drought", up from 7.7% a week earlier. Another factor helping propel this rally higher is the massive amount of managed money, or fund money, pouring in. The Minneapolis wheat market is significantly smaller with only about 1/10 of the contracts traded compared to Chicago wheat. It is important to know that amount of contracts traded of Minneapolis vs Chicago because large fund money could control the market in their direction. We may be seeing that happening now. My "game plan" for clients is to wait on protecting prices at the current levels. I do not want to try and call a top here and rather to show one forming. This may mean giving up 10+ cents of potential gain, but I would rather there be some sign of topping then try to call one. Overall, this presents a very great opportunity for farms to protect at profitable levels using futures and/or options for new crop without the production risk of locking in at the elevator.

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Minneapolis Wheat September Futures

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Chicago Wheat September Futures

Kansas Wheat September Futures

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The Canadian Dollar has reached its highest level since February of this year. On the September futures, we reached a high Friday of $0.77340. It seems that the majority of this rally has been fueled by the Bank of Canada announcing this month that rates could be raised by the end of this year. Typically, central banks increase interest rates when the outlook of the economy is positive. If rates do get raised, we could see the loonie closer to or above $0.80. $0.77 is a ceiling that I have been watching for clients. I'm starting to develop strategies in case protection does need to be put in against the loonie increasing. The next Bank of Canada announcement is on July 12th, which could give more of an indication if/when a rate increase could happen.

Canadian Dollar June Futures

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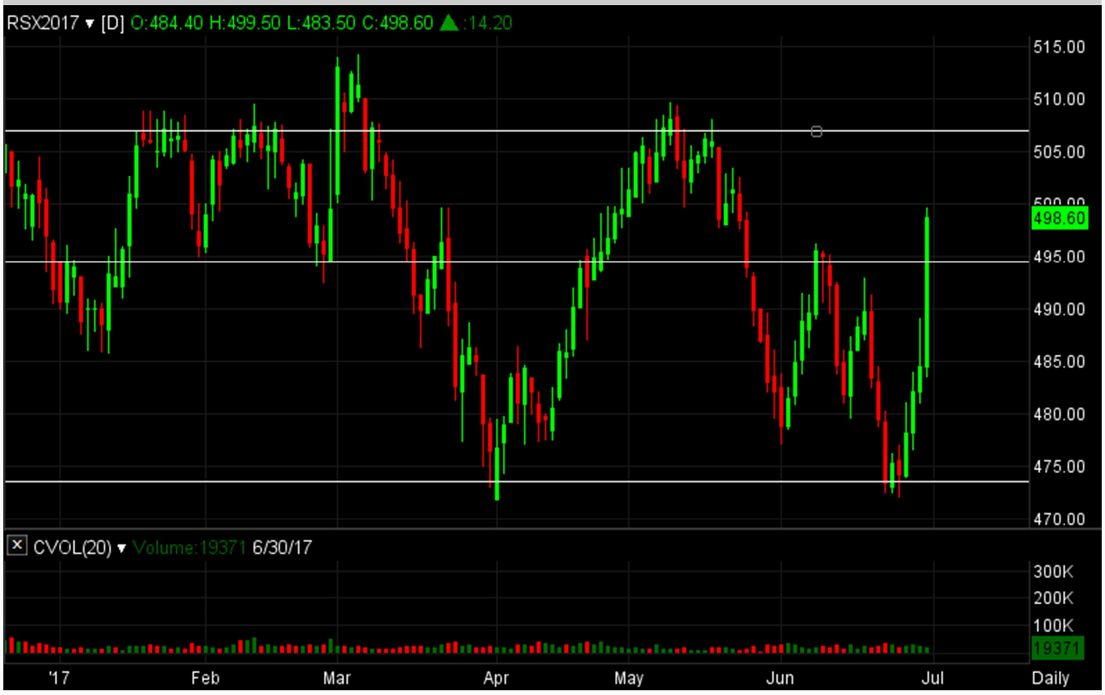
Recently, canola has been increasing from strength in the soybean complex. This last month canola trended lower before having a $20/ton approx. rally in the last six trading days. $495/ton on the November futures is a level that looked like canola couldn't get above for the last month, but just Friday it blew past that. Next stop may be in the $500-$505.ton range. Between this range I'm going to consider adding some new crop protection in for farms. I believe that the Canadian Dollar is a factor to watch closely given the rate increase that may happen. For every 1 cent move in the Canadian Dollar, canola usually moves around $7/ton.

Canola November Futures



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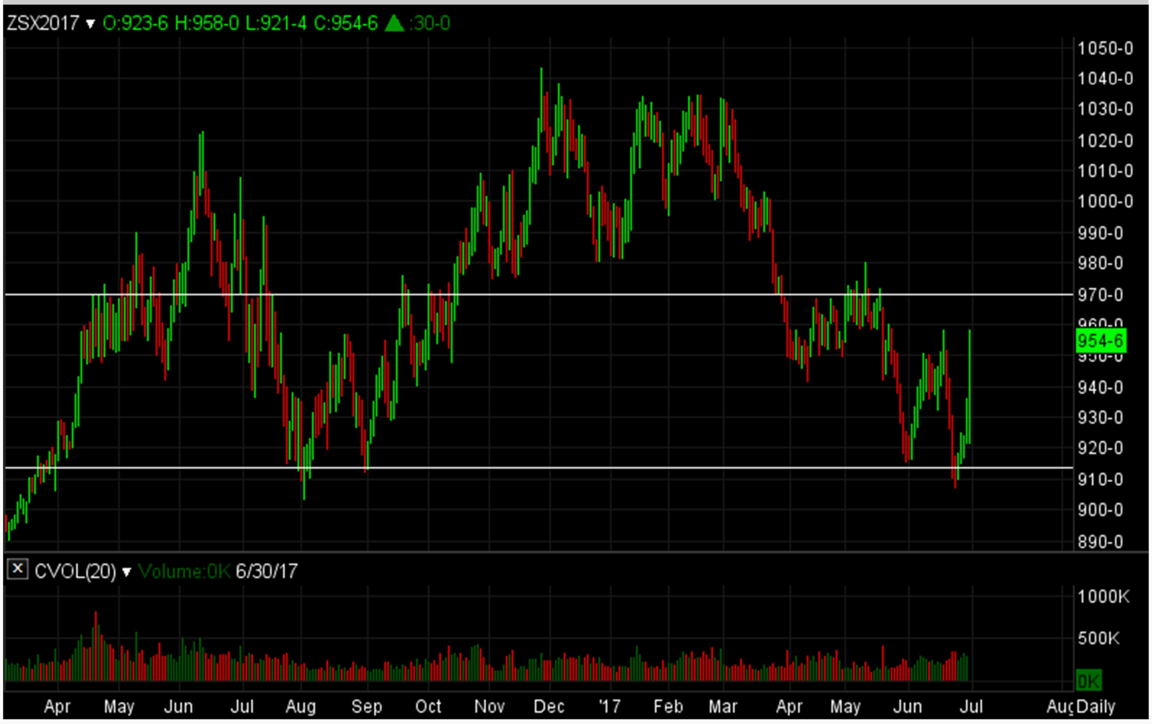
As mentioned above, soybeans were the grain that came out with more bullish expectations than the average estimates. Are we heading back to $11 bushel? I don't believe so. With wheat still trending higher, soybeans could get back to the $10 range. I'm going to treat any significant rallies as selling opportunities for farms. There is still a massive crop in South America and weather conditions are still favorable.

Soybean November Futures



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The last month cattle futures have experienced a sideways to lower trend. Third quarter beef production is expected to increase 5.4% from last year to reach a nine-year high. In order to confirm a peak, the beef market will need to begin to push lower as high packer profit margins are holding cash prices and futures remain at a stiff discount to the cash market. Beef prices normally push lower in June and with August cattle already at a much wider than normal discount to the cash market, we could see lower prices. Bearish news continues for cattle futures and is helping to hold the market lower. Fund traders have been selling their positions, possibly taking profit. Brazil has suspended exports to five US packing plants due to concerns for food-safety. This is a slightly positive factor which could slow imports further. Longer-term, the US export market to China will expand as US producers adhere to stricter traceability rules. This is a big deal as China has emerged as the world's largest beef importer outside of the US. The market seems to be looking for a short-term low, but with cash cattle down $8-9 in one week and beef prices driving lower it is hard to find buyers as production looks to increase by a record amount going into the 3rd quarter.

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Feeder Cattle May Futures

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