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TECHNICALS & TRENDS

June 2019 Edition

This was a big week in terms of fundamental data with a StatsCan report on June 26th and the USDA today.

Here are the numbers....

USDA Report:

USDA Quarterly Stocks

(in billion bushels)	USDA Jun 1, 2019	Average Estimate	Range of Estimates
Corn	5.202	5.349	5.174 - 5.897
Soybeans	1.790	1.861	1.700 - 1.962
Wheat	1.072	1.100	1.077 - 1.160

USDA Acreage

(in million acres)	USDA June 2019	Average Estimate	Range of Estimates
Corn	91.700	86.662	82.0 - 89.8
Soybeans	80.000	84.355	81.0 - 86.5
All Wheat	45.600	45.654	44.5 - 46.1

Source: USDA

StatsCan Report:

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Seeded area (acres)		
Type of crop	**2018**	**2019**
Barley	6,493,200	7,402,110
Canary seed	212,100	188,200
Canola (rapeseed)	22,813,200	20,951,700
Chick peas [5]	442,900	383,700
Corn for grain	3,626,500	3,693,700
Lentils	3,768,100	3,779,510
Mustard seed	503,800	398,640
Oats	3,052,600	3,605,700
Soybeans	6,320,100	5,714,300
Sunflower seed	70,700	55,910
Wheat, all including winter wheat remaining	24,734,500	24,595,050
Wheat, durum	6,185,400	4,893,600
Wheat, spring	17,310,900	18,772,260
Wheat, winter remaining	1,238,200	929,200
Wheat, winter seeded in fall	1,395,800	1,346,000

Source: Statistics Canada

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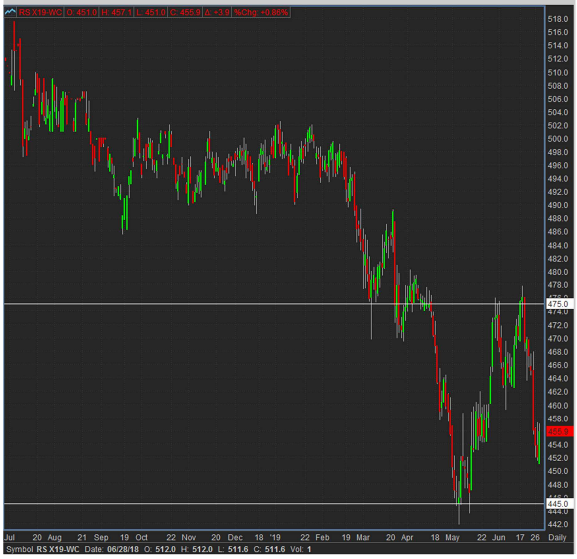
I'm going to start with discussing canola as many traders were watching what StatsCan was going to report. The estimate came in at 20.95 million acres, which was in line with expectations. Last year canola acres were 22.8 million so they are down by about 8%. Even with this decline it is still the fourth largest canola crop on record. The decline seems to be mostly a reaction to the recent political dispute between China and Canada regarding Huawei's CFO earlier this year. I don't believe these trade wars are going away any time soon with China now blocking Canadian meat shipments. Speaking with clients across the Prairies their canola crop has definitely improved given the rains recently received. With an improving crop and still a large carryout expected canola prices may have limited upside. Also, the Canadian Dollar has spiked up almost 2.5 cents in the last month putting downward pressure on canola prices. On the November canola futures I'm watching $445/ton on the downside and $475/ton on the upside.

Canola November Futures



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The Canadian Dollar is up over 2.5 cents on the September futures since the beginning of June. I didn't think the Canadian Dollar could spike this high, but it has recently got extra help. The loonie is on track to gain 3.1% in June, while it has gained more than 4% since the start of the year, the best performance among G10 currencies. This month the US Federal Reserve announced they are going to keep rates unchanged and signaled a potential cut in the future. This has caused the US Dollar to decline and added upward pressure to the loonie. In addition, Statistics Canada showed that average weekly earnings of non-farm payroll employees rose by 2.9% in April, the fastest pace since August last year, and that non-farm payroll employees rose by 17,000 for the same month from March. Another reason for the Canadian Dollar increasing is oil rallying over $7 per barrel this month. It helps that the overall stock market is increasing too. The S&P 500 is looking to go back to all-time highs. I think this spike higher gives people the opportunity to convert funds at a good level.

Canadian Dollar September Futures

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Managed money traders have reduced their positions to a small long in Chicago and a small short in Kansas City over the last few weeks most likely waiting for today's USDA report. Acres and stocks came in not too far from expectations. The fireworks today for wheat came from the corn market moving 19 cents lower on day (discussed more why below). The International Grains Council raised their global wheat production estimate to 769 million tonnes after increasing the EU's production to 151.2 million tonnes from 149.8 million previously. Net weekly U.S. export sales for wheat came in on the high end of estimates at 612,000 tonnes. As of June 20, cumulative wheat sales stand at 28.4% of the USDA forecast for the 2019/2020 (current) marketing year versus a 5 year average of 29.8%. This month on the nearby futures Chicago Wheat increased 43 cents/bu, Kansas City Wheat declined 11 cents/bu, and Minneapolis Wheat increased 1 cent/bu approximately before today's report. I've recently been protecting wheat for clients on the Chicago futures given this rally. Since the low on May 13th, December (new crop) Chicago Wheat increased $1.12/bu before the USDA report today. With the USDA report out of the way a top could be in place. There are various option strategies I'm implementing that are anywhere between 15 cents/bu to zero cost depending on levels of protection and risk.

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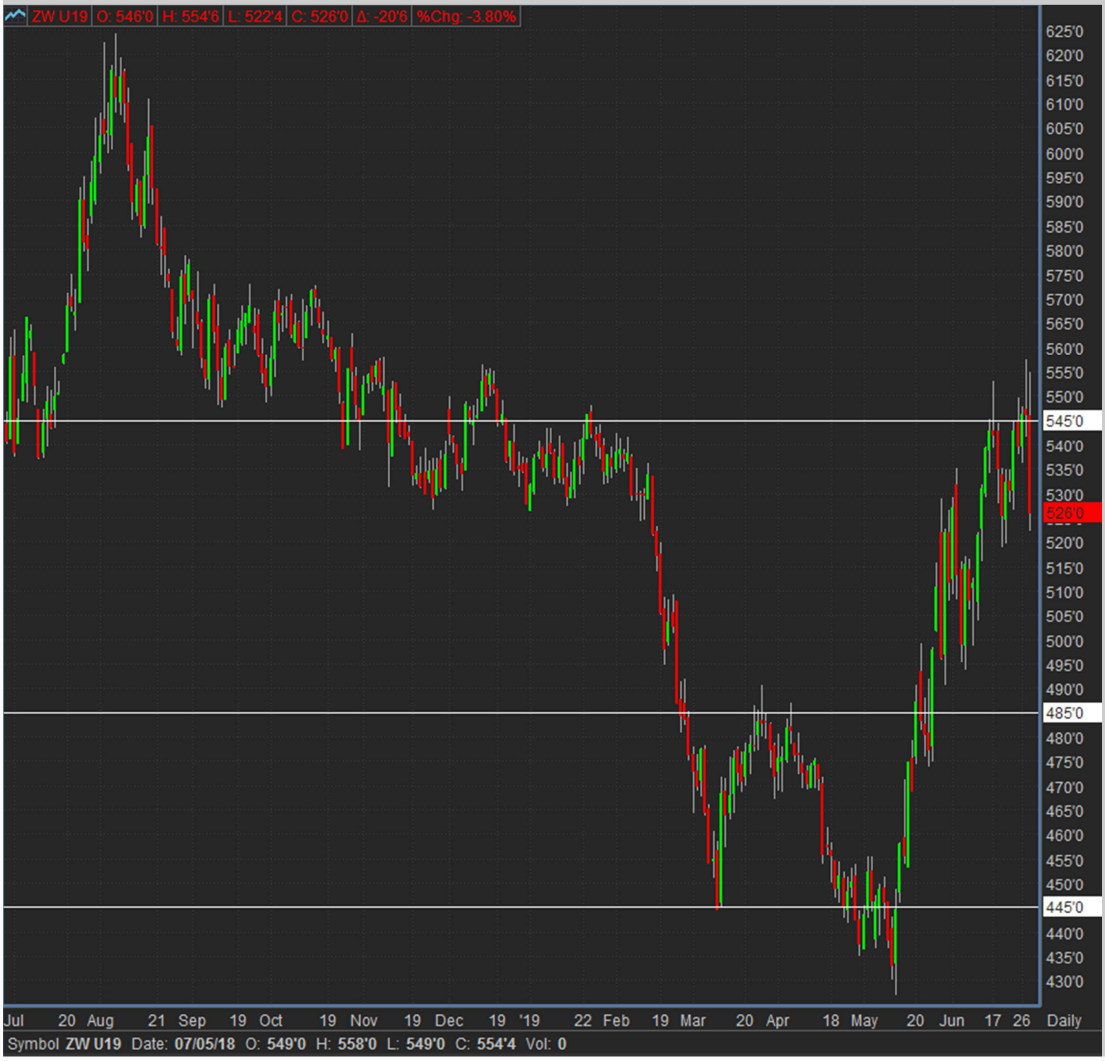
Chicago Wheat September Futures



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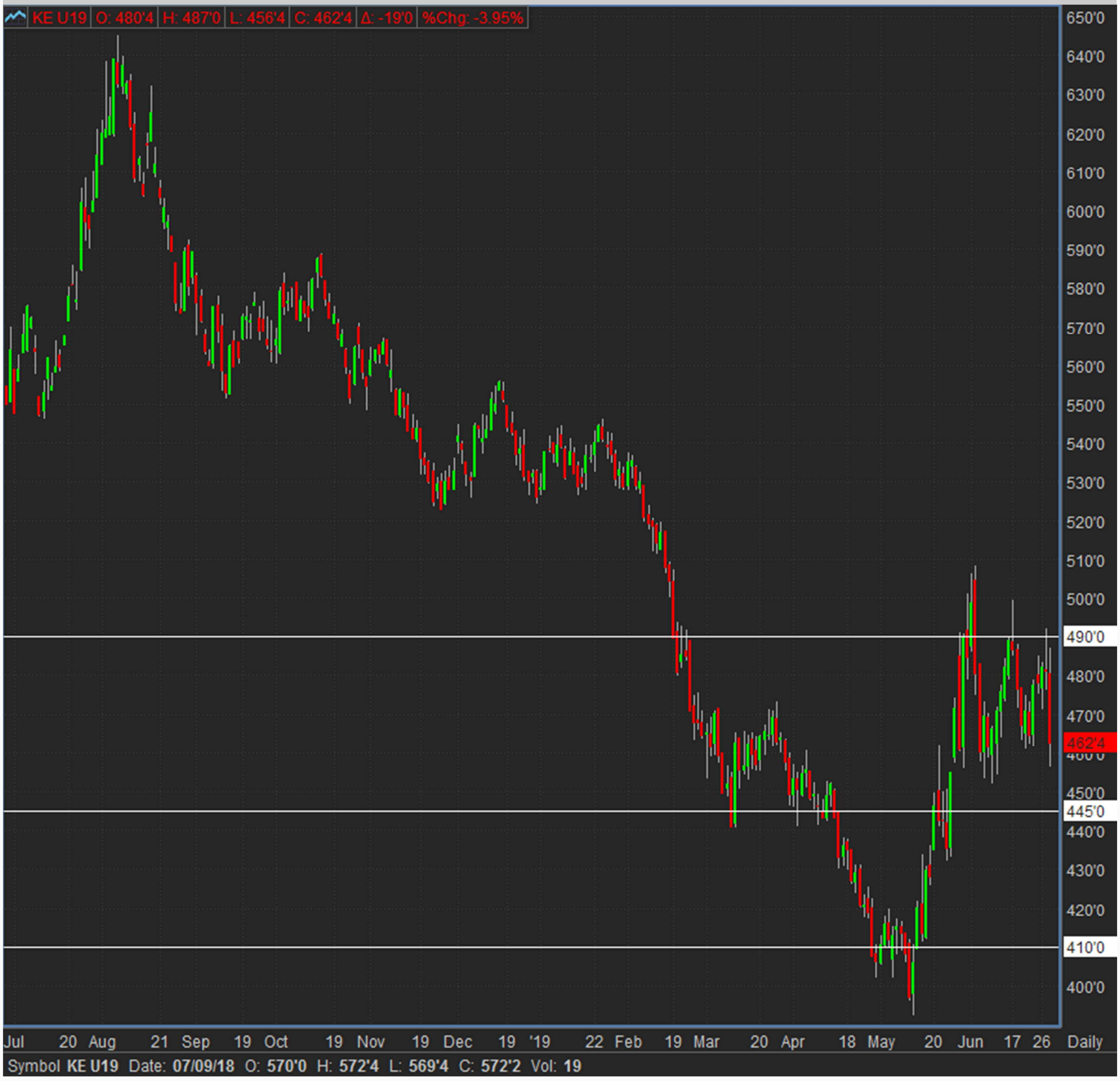
Kansas Wheat September Futures



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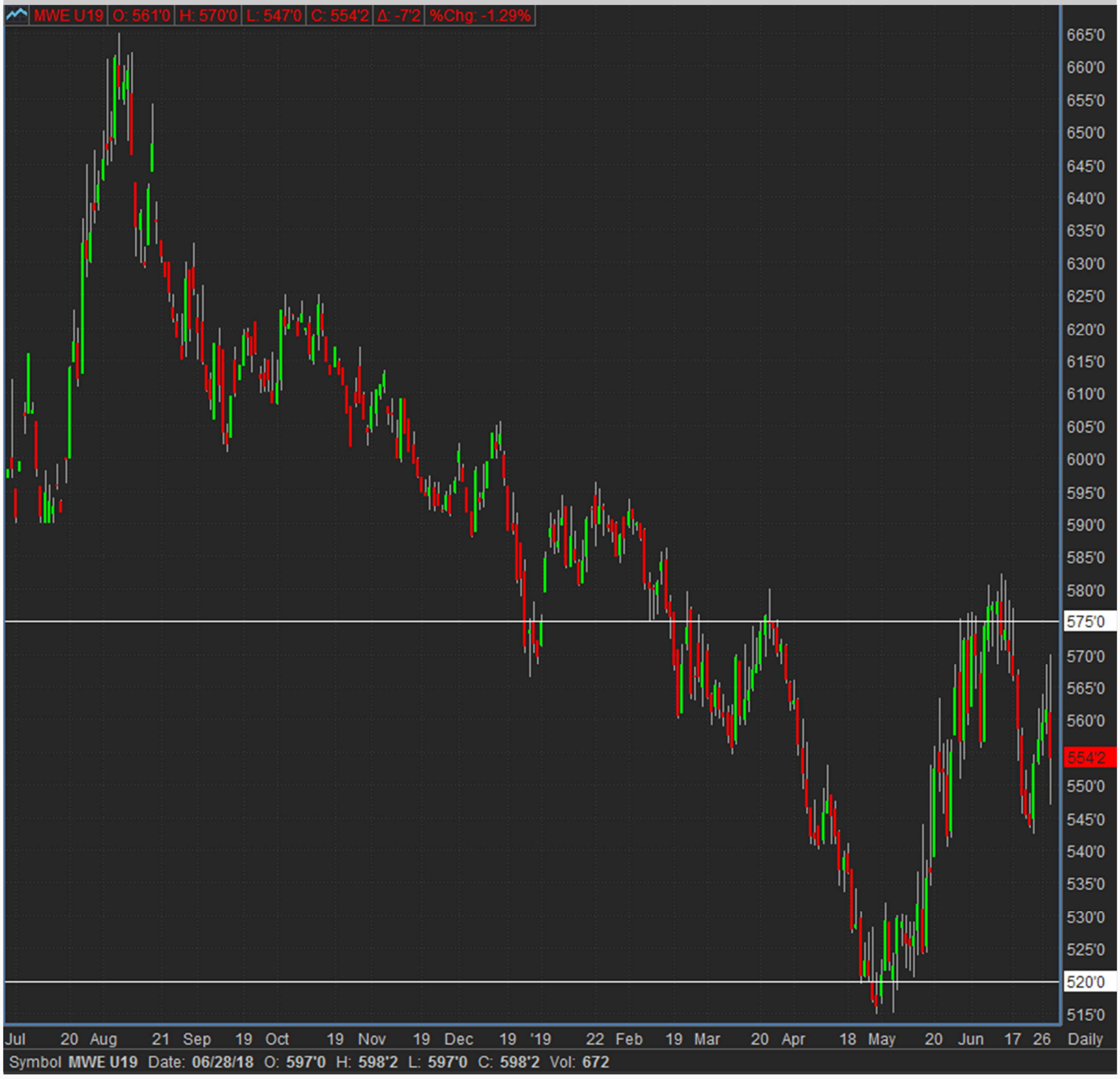
Minneapolis Wheat September Futures



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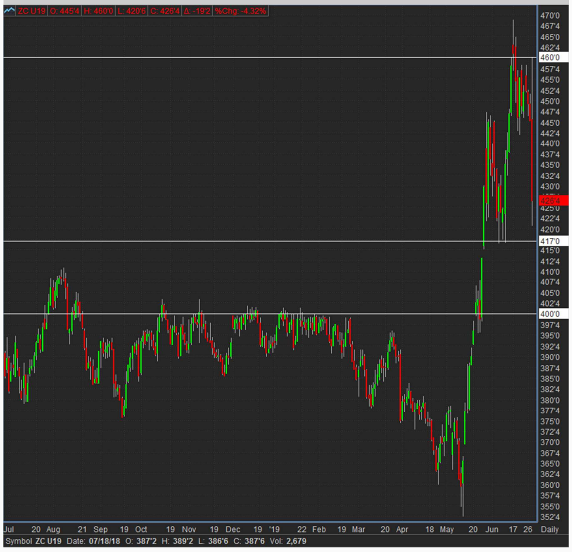
The interesting market to watch lately has been corn. Before today's USDA report, corn increased 93 cents/bu on the September futures. How low the acres are expected to be in the U.S. from all the rain has been the driving force. But wait.....the USDA report today they expect corn acres to be 91.7 million acres compared to the average estimate of 86.662 million acres. That's about 5 million more acres than expected! Today the futures were limit down 25 cents/bu finishing off the day down 19 cents/bu. on this news. Wait a minute....could the USDA not have the most accurate information?! They have already confirmed re-interviews in the 14 states (map below). Also, the 91.7 million acres of corns reflects planted OR intentions to plant. This does not guarantee all these acres were planted. I'm still bullish on corn, however, I mentioned in my last report it is prudent for farms to take advantage of these rallies. Corn will probably continue to be volatile over the summer and will react to more reports on the weather as they come out.

Corn September Futures



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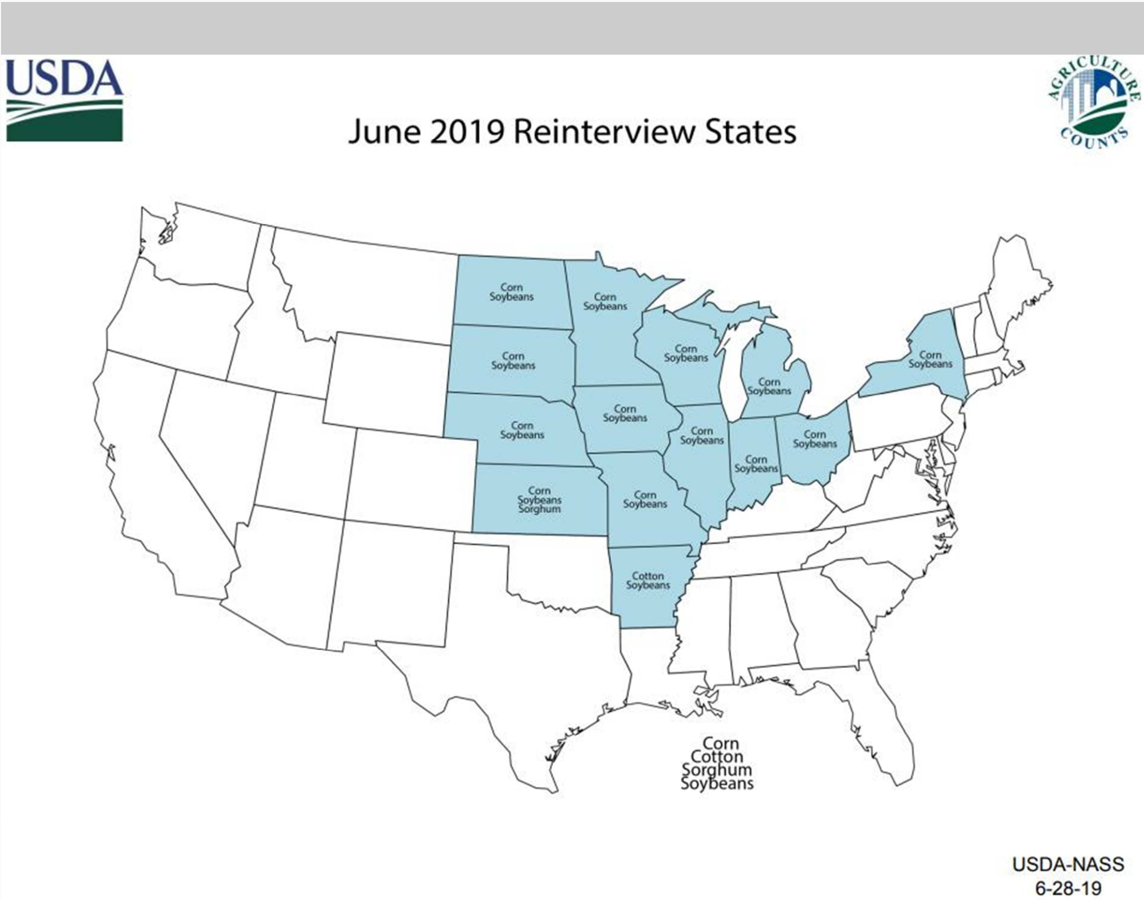

I don't think anybody expected China to not allow Canadian beef! In the first four months of 2019, Canada exported 7.66 million kilograms of beef to China (according to Statistics Canada). China is Canada's fifth-largest customer for beef, behind the U.S., Japan, Hong Kong and Mexico, accounting for roughly six per cent of all meat exports. Why does China not want our meat? According to Chinese officials, Chinese customs authorities discovered residue of the additive ractopamine in a batch of pork products exported from Canada to

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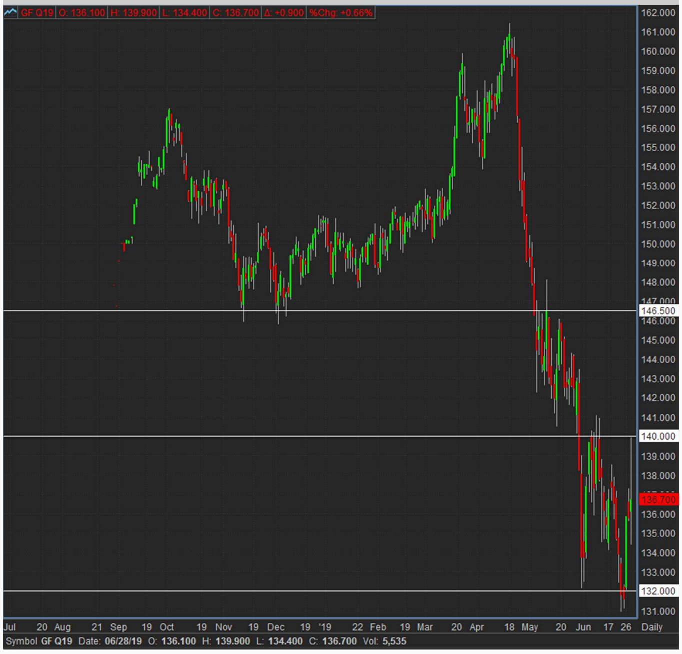
China, which has banned the substance. When Chinese authorities advised Canada of the finding on June 14, it raised a red flag for the Canadian Food Inspection Agency (CFIA), which asked to review the export certificate. Upon examination, CFIA inspectors confirmed the certificate was inauthentic. Canada's Agriculture Minister Marie-Claude Bibeau told CBC News that the suspect pork shipments and certificates are unlikely Canadian, but were being misrepresented as such. The futures market in the U.S. for cattle has already been in a downward trend. Corn futures spiking and weather are both a couple factors.This meat ban I could see effecting local cash prices in Canada, but not so much on the U.S. futures. There might be opportunities for farms to help use the futures to their advantage if prices in Canada become depressed.

Feeder Cattle August Futures



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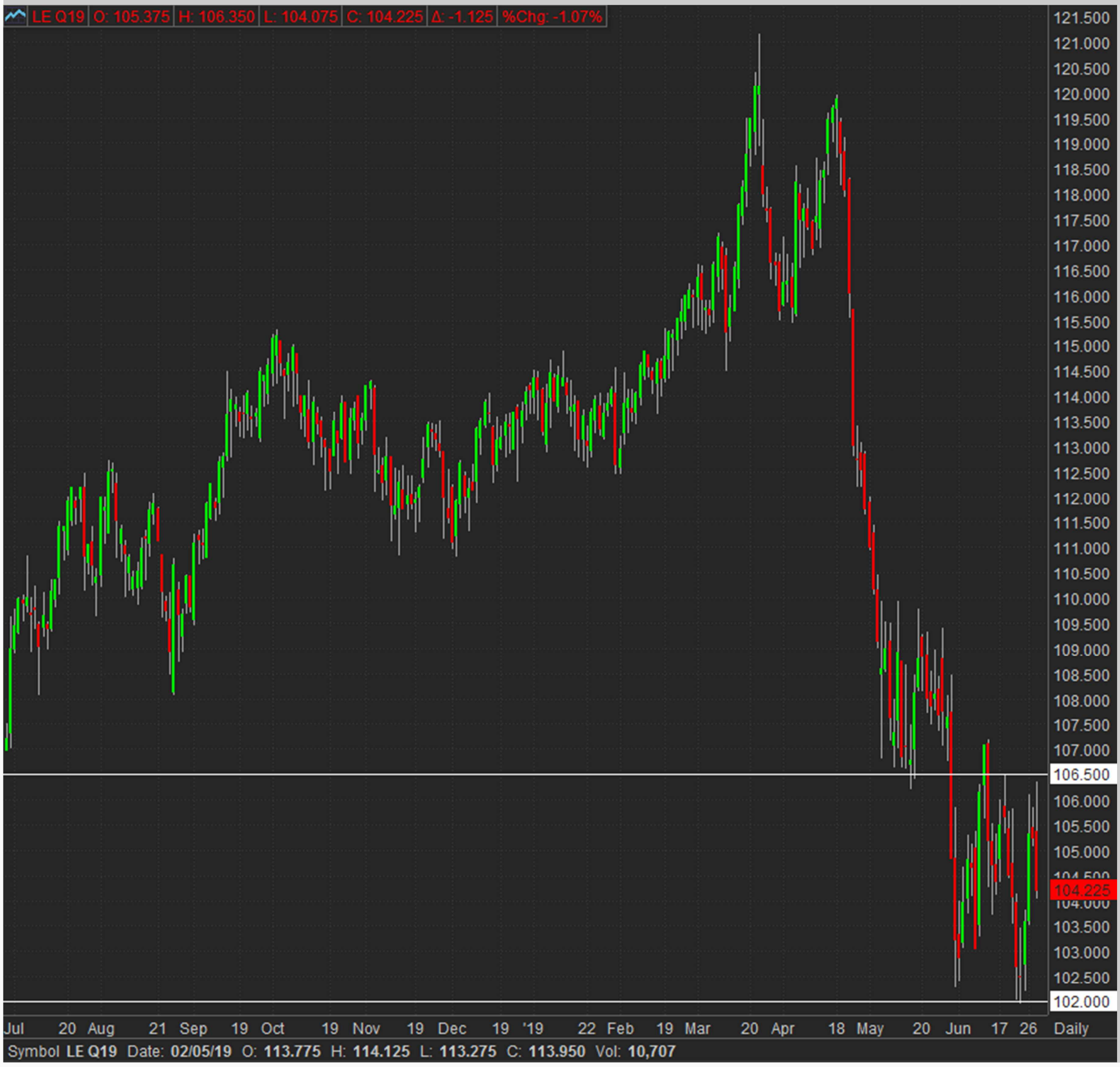
Live Cattle August Futures



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