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TECHNICALS & TRENDS

March 2018 Edition

Before I start this month's review and look ahead I want to give a brief overview of today's USDA Prospective Planting Report. Here is a look at the numbers....

USDA Perspective Plantings

USDA Prospective Plantings and Grain Stocks
March 29, 2018

USDA Quarterly Grain Stocks

(in billion bushels)	USDA March 1, 2018	Average Estimate	Range of Estimates	INTL FCStone Estimate*	USDA March 1, 2017	USDA Dec 1, 2017
Corn	8.888	8.703	8.550 - 8.881	8.612	8.622	12.516
Soybeans	2.107	2.030	1.810 - 2.110	2.087	1.739	3.157
Wheat	1.494	1.498	1.450 - 1.640	1.469	1.659	1.874

USDA Prospective Plantings

(in million acres)	USDA March 1, 2018	Average Estimate	Range of Estimates	INTL FCStone Estimate*	USDA Ag Forum	USDA 2017 Final
Corn	88.026	89.420	87.55 - 91.00	88.90	90.00	90.167
Soybeans	88.982	91.056	89.90 - 92.60	92.00	90.00	90.142
All Wheat	47.339	46.297	43.90 - 47.20	46.05	46.50	46.012
Winter Wheat	32.700	32.520	31.50 - 32.70	32.39	N/A	32.696
Spring Wheat	12.600	11.500	10.90 - 11.92	11.26	N/A	11.009
Durum Wheat	2.000	2.380	2.20 - 2.50	2.40	N/A	2.307

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

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Notable numbers are from soybeans, corn, and spring wheat. Corn came in with lower planting acres than the average estimate. This caused corn to spike after the report around 15 cents at the highs. There has been a bullish situation growing for corn, which may continue. Soybean planting acres were definitely a surprise coming in much lower than expected. After the report, beans spiked about 30 cents. Unlike corn, I think this number is more inaccurate. I discuss more on soybeans and corn in my commentary below. Spring wheat planting areas came in higher than expected causing a decline of around 10 cents. This may be because planting decisions for U.S. farmers happened a while back when they could be locking in $6.50/bushel.

On the canola front, the July futures hit a high of $534.80 on March 5th and immediately declined. Overall, canola has been in a sideways to lower trend. The strength in soybean meal (up 11% in the last couple months) has been enough to keep canola propped up. I look at canola and do not see much positive news for it to push back to the highs. Canola may just keep on in its sideways trend until negative factors win the tug-of-war.

Negative factors I'm following are:

1. Will the Canadian Dollar start to increase more?
2. Are the soybean planted areas in the U.S. going to be that big?
3. Is China going to follow through with tariffs on U.S. soybeans?
4. How much lower can soybean oil go?

I'm starting to review with clients new crop protection strategies if desired.

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Canola July Futures

Having depreciated more than 2% against the U.S. Dollar, the loonie is among the worst performing major currencies this year. It appeared the Canadian Dollar in March was going to continue its downward trend. Positive news revolving around NAFTA and the auto industry emerged helping the dollar spike over 1 cent.

You can read more on this news by clicking here

A neutral factor has been the U.S. Dollar trading in a sideways range for the last couple of months. If Trump wants to keep pushing the U.S. Dollar lower longer term to promote exports, this may be supportive for the Canadian Dollar. Also, oil has been staying above the $60/barrel mark. The loonie may be a potential buy if NAFTA concerns fade away.

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However, it will be important to watch data from the Bank of Canada because if the economy is slowing down the bears could keep pushing the loonie lower.

Canadian Dollar June Futures

I have been bullish on corn for some time now. Some of the main reasons are:

1. US planting acres are going to be lower this year.

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2. Argentina's 2017/2018 production is expected to be 36 million tonnes in March, down from 39 million estimated in February. This could even drop lower.

3. Brazil's 2017/2018 production is expected to be 94.5 million tonnes in March, down from 95 million estimated in February. This could even drop lower.

4. US export demand is increasing.

5. China's shift to 10% ethanol mix means their industrial corn usage could increase by 24 to 29 million tonnes per year by 2020.

Being unemotional about the markets, I still see at $4 corn on the July futures as a strong resistance (ceiling). Positive news and factors will have to continue for this to be broken.

Corn July Futures

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Prior to today's USDA report the fears that China will impose tariffs on US soybeans plus the outlook for a jump in planted area in the U.S. were the main bearish forces.The USDA reported 1.937 million acres less of soybeans compared to the average estimates caused beans to rally 30 cents. If this is true, soybean acres in the U.S. will exceed corn for the first time in 35 years. Corn acres is the U.S. would be 2% lower by about 2 million acres and soybean acres will be down 1%, about 1 million acres. Where did all the soybean acres go? This is where things may get interesting because the USDA isn't always accurate. A possibility is that they underestimated the soybean acres. On the tariffs, I don't think China will follow through with tariffs on U.S. soybeans. Stranger things have happened, but I think China may just slow down their buying of U.S. soybeans. Think of it as "strategic retaliation".

Soybean July Futures

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Strength on soybean meal and corn futures caused by the USDA report were the main factors for cattle declining today. The March 23rd Cattle on Feed report was considered bearish as placements came in at 107.3% of last year verses average expectations calling for 104.2%. However, prior to today managed money traders seem to have started to show they are taking profits on their long positions. The big discount of futures to the cash market and the oversold condition have seemed to support for a possible bounce higher. April live (fat) cattle futures are at about a $10 discount to the cash market prices from last week where normally it is near $3. With the big supply ahead, the outlook for cash still remains bearish, but with the extreme oversold condition and very wide basis the market could bounce short-term. I've been discussing with my operations different strategies to take advantage of a possible upswing or add in new crop protection. There is no "one size that fits all strategy". I like to tailor what I do for each operation because their situation, risk tolerance etc are all different.

Feeder Cattle May Futures

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