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TECHNICALS & TRENDS

May 2018 Edition

All the grains seemed they were going to keep trending higher until this week's USDA crop progress report. Here is a summary on what happened....

Corn: Planting was marked at 92% complete compared to 81% last week and 90% last year. The 10 year average for this time of year is 90%. The USDA believes the corn crop is off to a strong start with 79% of the crop rated good/excellent compared to 65% last year and the 10 year average for this time of year is 70%. This was the highest initial crop rating since the 2007 area. I discuss below what happened back in 2007 on the futures and why I am still bullish longer term on corn.

Soybeans: Planting was marked at 77% complete compared to 56% last week and 65% last year. The 10 year average for this time of year is 62%. This is solid planting progress helping the futures to decline. A main factor to watch is how the U.S. plans to move forward with its list of targeted tariffs on Chinese imports, which the White House says will be finalized by June 15th.

Wheat: Spring wheat planting was marked at 91% complete compared to 79% last week and 55% last year. Emergence is slightly behind at 63% compared to the five year average of 68%. For winter wheat, 38% was rated good/excellent. The 10 year average for this time is 46%. Most expectations were for the condition to be unchanged, so a 2% increase in G/EX was a surprise leading the selloff

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To continue on with a more in-depth look on wheat, this month seemed like it was going to be the breakout farmers were looking for. Alas, this was not the case with the funds taking profit mainly from the crop conditions report, Last weeks Commitment of Traders report showed that the large speculators (funds) were the most bullish they have been in the last year on Chicago wheat and the last nine months on Kansas City wheat. Are we headed lower now? The weather outlook in the U.S. is still hot and dry, which makes me think there could be damage ahead for the crop. My view is there could be more selling in the coming days because the funds could just decide to keep taking profit. However, the bigger dry picture has still not changed so I have levels I'm watching to buy wheat here when the time is right. I'm keeping in mind this small percentage increase in G/EX ratings shows how volatile the markets can be when the funds want to exit. I've already recommended to my clients up around $6.50/bu on Minneapolis wheat futures to look at selling some new crop. Tomorrow there will be another Commitment of Traders report that will give some insight on the markets position, but it will only be data as of Tuesday, March 29th.

Chicago Wheat July Futures

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Kansas Wheat July Futures

Minneapolis Wheat July Futures

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In 2007, world food prices increased dramatically with corn going from $3.18 mid-July to $7. The initial causes included droughts in grain producing nations and rising oil prices. Also, funds money poured into the commodity markets before the eventual 2008 collapse in the "stock market." I don't think we have the exact same scenario brewing just some of the factors are similar right now. There is plenty of time left in the growing season to turn things around like we saw from the weekly conditions report. As mentioned above, 2007 had a very high initial crop rating too, but then corn futures ended up almost $4 higher by the end of the year. Even with this short term selling, the longer term trend still remains intact. Supply/demand factors are supportive going forward too. I'm going to be buying corn on weakness for livestock operations that need to hedge their feed or grain operations that want to buy back what they sold.

Corn May Futures

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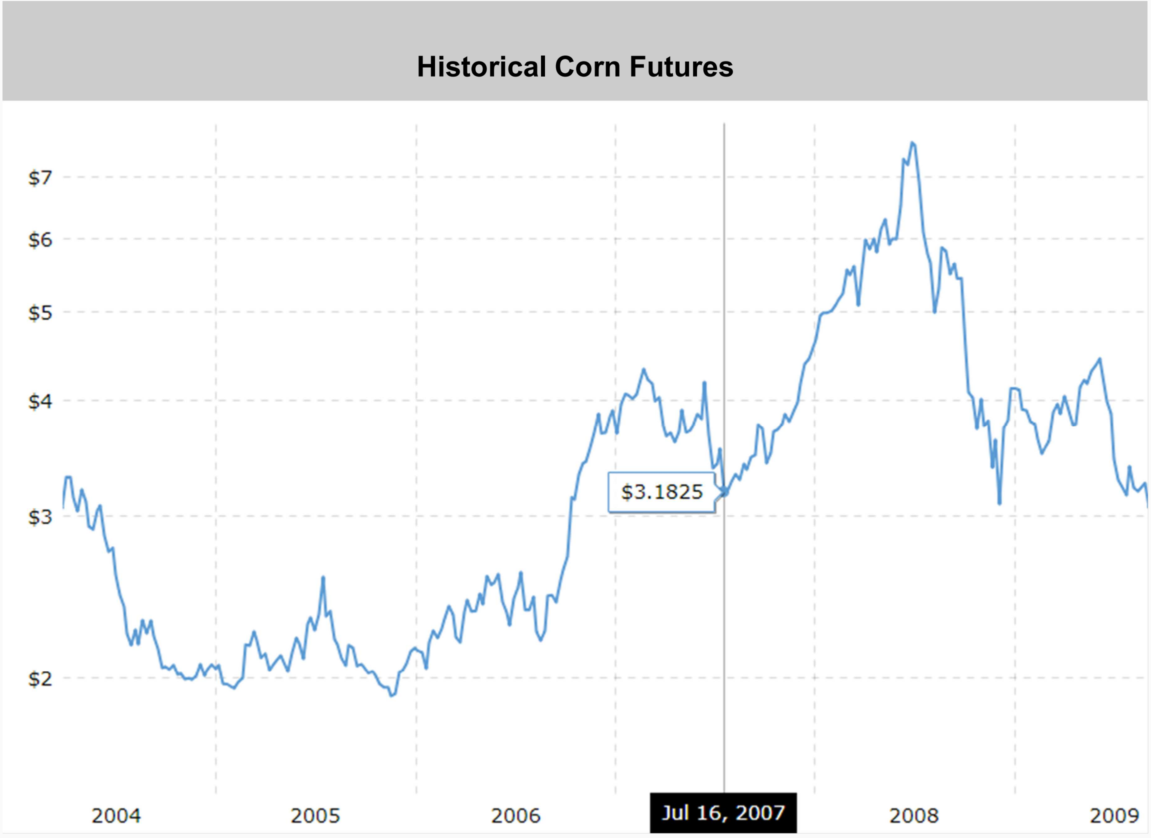

Canola has been in a sideways range since March. I've been recommending to clients that they should look at pricing some new crop up at these levels. Also, I have been adding in protection around $525/tonne on the November futures. The Canadian Dollar has been moving lower to help support canola at these levels. On the soy complex in the last couple months, soy oil has continued lower, meal has been sideways, and soybeans lower to sideways Rains have been coming across a lot of the Prairies that may help canola off to a good start. There is still a lot of time left in the growing season, but at these profitable levels it isn't bad to have some sold.

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Canola July Futures

Yesterday, the Bank of Canada did not increase interest rates, as most analysts expected. They mentioned how a July rate increase is very possible. This bit of positive news sent the loonie higher over 1 cent on the day. Now you might be thinking…this isn't good for our commodities because our loonie is heading higher. These markets are very volatile and one day something looks positive, then news comes out to change what you thought. Just today the White House announced tariffs on Canadian steel and aluminum. This now places further strain on getting a NAFTA deal in place. Our loonie is back down to just over 77 cents here mid-morning on the June futures. Currently, I think the negatives outweigh the positives right now, which is why traders need to be careful on their positions. I'll be watching for the loonie to hold around 76.50 before confirming where the trend may be headed. Oil is one factor I am watching closely too. OPEC, in particular Saudi Arabia and Russia, have announcement they may increase production. Our loonie is already facing other negative factors and oil declining

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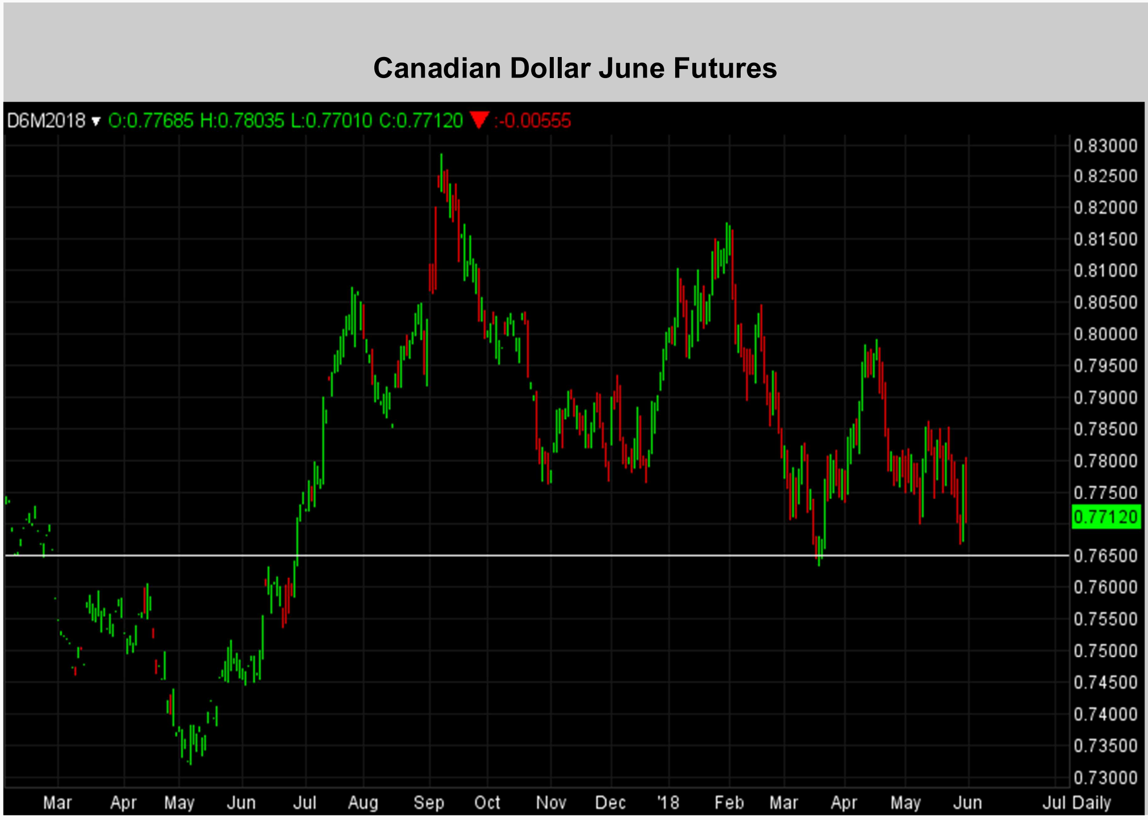
significantly could be the catalyst to push it below 76.50.



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Oil (Blue Line) CAD Nearby Futures Comparison

From May 1st to 17th the feeder and live cattle futures declined 7% and 6% respectively. I saw this decline as being oversold and mentioned to clients about waiting to add in protection using their insurance program or options/futures. The futures on both livestock contracts have since increased back to beginning of May levels on aggressive buying due to the huge discount of futures to cash. A turn up in beef prices with packer margins already very high suggests that a drop in cash may not happen leaving traders caught covering their positions that expected the futures could keep going lower. The higher beef prices gave traders some hope that a short-term demand will remain strong. I'm starting to revisit adding in protection for clients using the October feeder cattle contract. Currently, if you wanted to buy a put option for protection it would cost around $6/cwt for a $146 strike (keep in mind the premiums/strike prices are in USD). If you are unfamiliar with what buying a put option is, click here for more information. I'm not a fan of the time decay of options, especially when buying them as far out

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as October. What I am looking at doing is selling a $138 put to collect $3/cwt to cut the cost of the protection in half. In English, the example above would protect clients if the futures move from the current levels until $138 until October for $3/cwt. $3/cwt on the feeder cattle contract equates to $1,500 (50,000 pound contract x 0.03). I'm going to be patient with adding in this strategy, but will be making a recommendation if I see the futures looking weak.

Feeder Cattle August Futures

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Live Cattle August Futures

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