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TECHNICALS & TRENDS

May 2019 Edition

I mentioned in last months report how the question for all the grains is if there is enough threatening weather in the US to spark some short covering. The answer emerged this month......yes! From the lows on May 13th, grains have increased on the July contracts using yesterday's close approximately.....

Corn - 93 cents/bu, 27%

Chicago Wheat - 95.6 cents/bu, 23%

Kansas City Wheat - 96 cents/bu, 25%

Minneapolis Wheat - 51 cents/bu, 10%

Soybeans - 96.2 cents/bu, 12%

All producers should keep in mind right now "the trend is your friend, until it ends". This increase in grains is a result of wet conditions in the US causing the slowest planting on record for corn and one of the slowest planting on record for soybeans during this time. The quality of the US winter wheat crop is now in question too. Corn futures were setting up for a rally last month with funds showing a record short position. Funds are now covering their positions causing the market to increase. There were a record number of corn futures and options contracts bought the week ending May 21st. I believe this rally is going to give producers a massive opportunity to price their corn. However, Canadian prices have not increased like the futures. I've found that local cash prices in Canada have only increased 20% of what the futures have in the US. This still leaves an opportunity to prices corn (when the time is right), but the basis will need to be watched. Remember, top traders don't try to time the market

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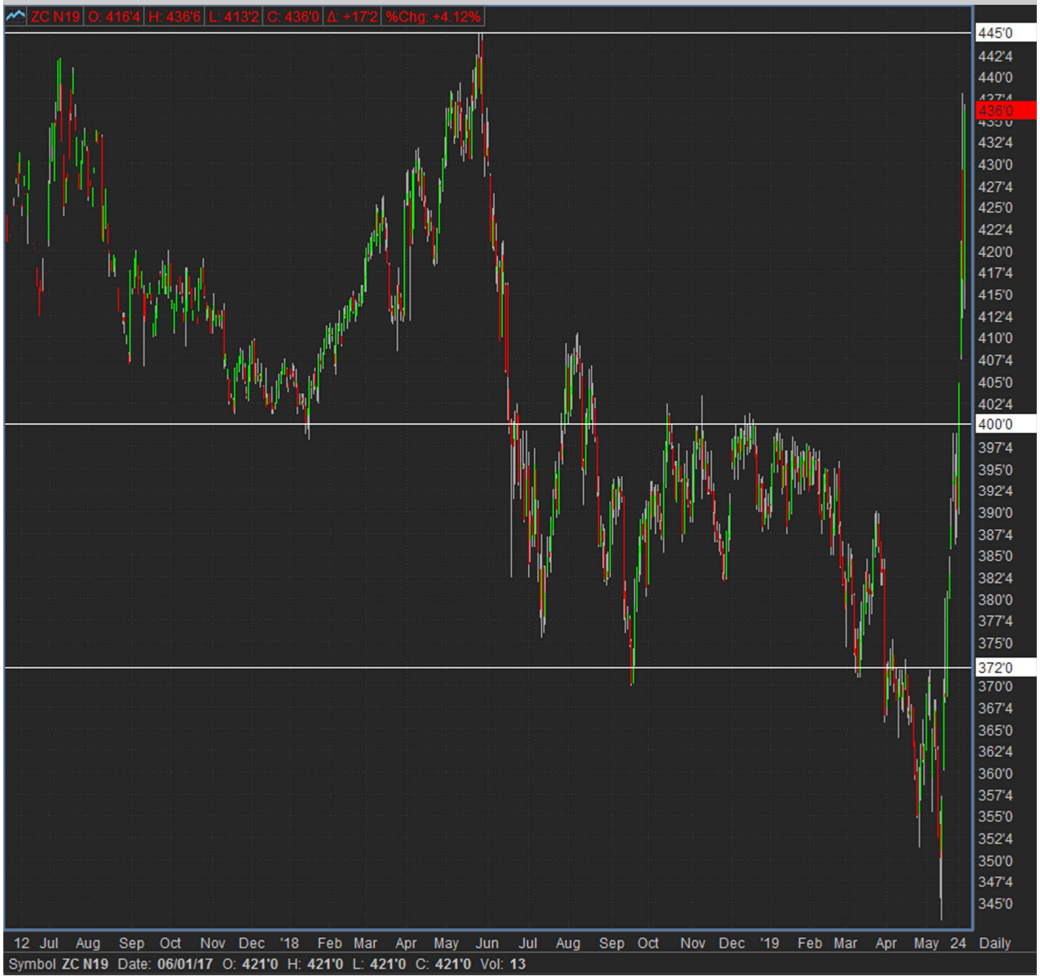
rather look for signs of a top. I'm going to be waiting patiently to hedge new crop corn for clients once more is known how 2019's US planting has gone.

Corn July Futures



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The top three slowest planting years by May 26th for soybeans are:

1. 1983 - 25%
2. 1990 - 25%
3. 1995 - 27%

This year came in at 29%, well behind the five-year average of 66%. With reduced demand from China and ample supplies in South America, it's hard to see much more upside in the soy complex unless the US weather turns detrimental in July/August. Technicals are still bullish for soybeans, but the weather outlook appears to be shifting to a drier trend after the first week in June leaving plenty of time for producers to plant soybeans. I'm recommending to producers to look at selling their remaining old crop beans. On the November futures, I will start to look at adding in hedges around $9.20/bu.

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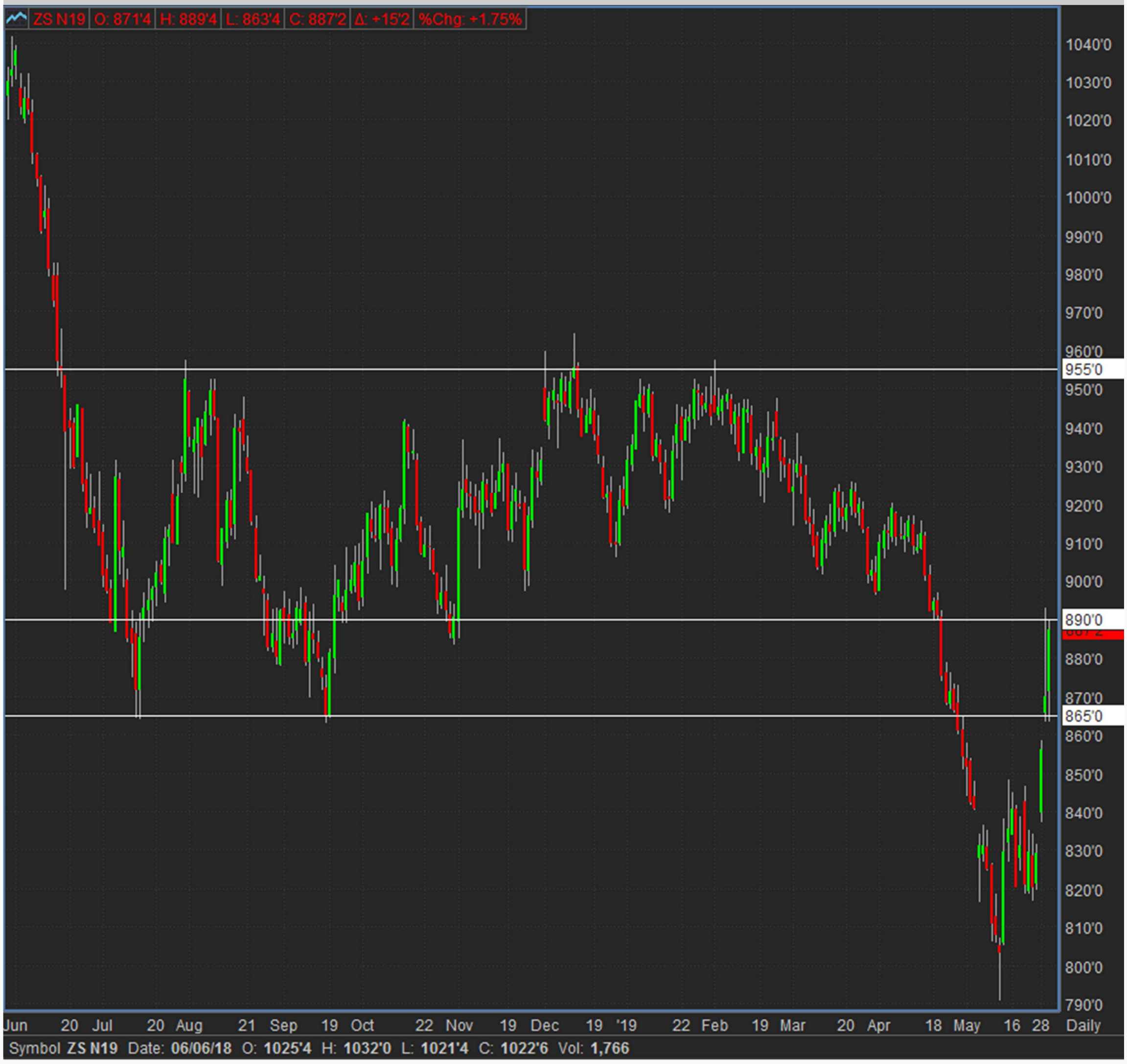
Soybean July Futures



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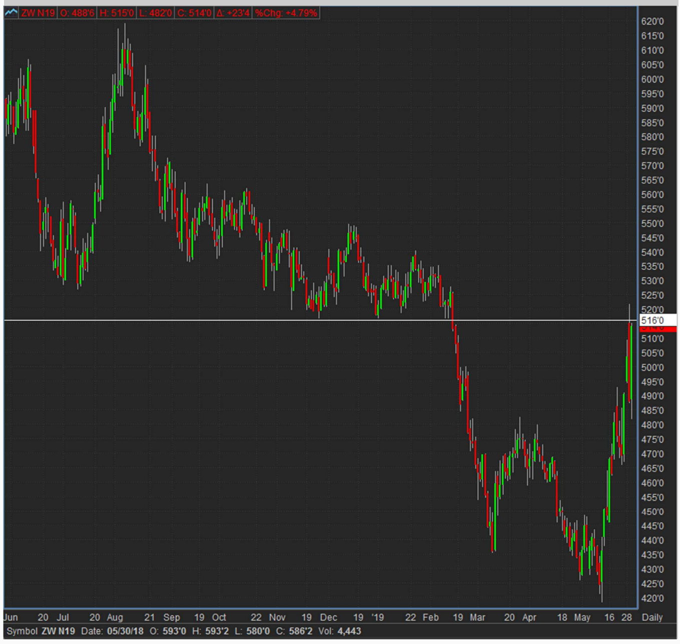
It seems that the negative news from the USDA's May 10th report doesn't mean much right now. The 2019-2020 world ending stocks came in at 293 million tonnes with world production up 18 million tonnes. Traders are watching how the winter wheat crop quality may be affected by the weather. Protein levels could be hurt if the current forecasts are correct. In the US, the crop is 66% headed in key winter wheat producing states verses the five-year average of 76%. I'm content with waiting for opportunities to hedge clients new crop wheat. I'll be developing option strategies in coming weeks to reduce risk rather than selling the futures. If you are getting nervous on this rally, consider how a buying a put and selling a put lower down could give you protection. This is a cost reducing strategy I implement for clients that don't want to buy the puts outright.

Chicago Wheat July Futures



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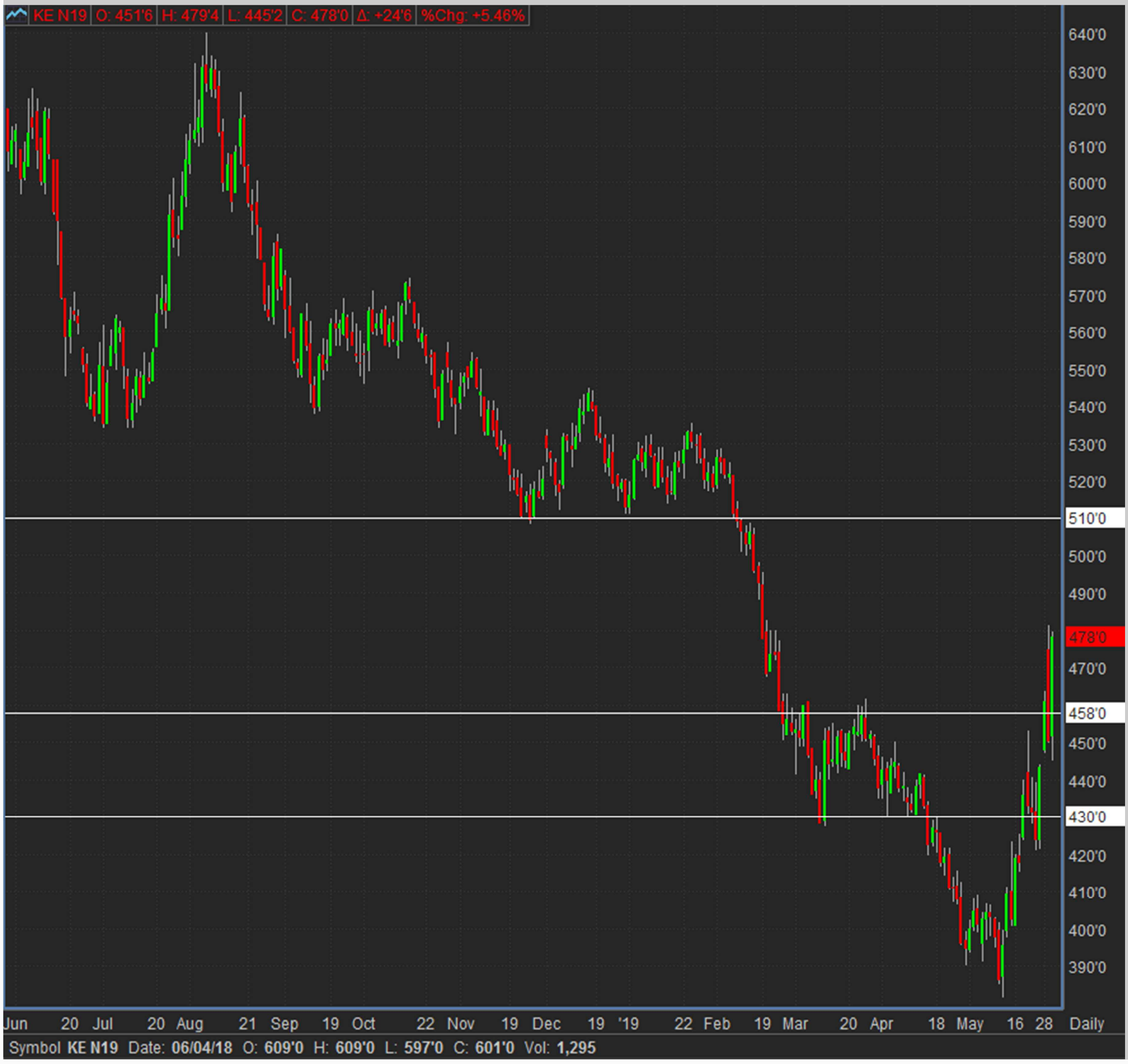
Kansas Wheat July Futures



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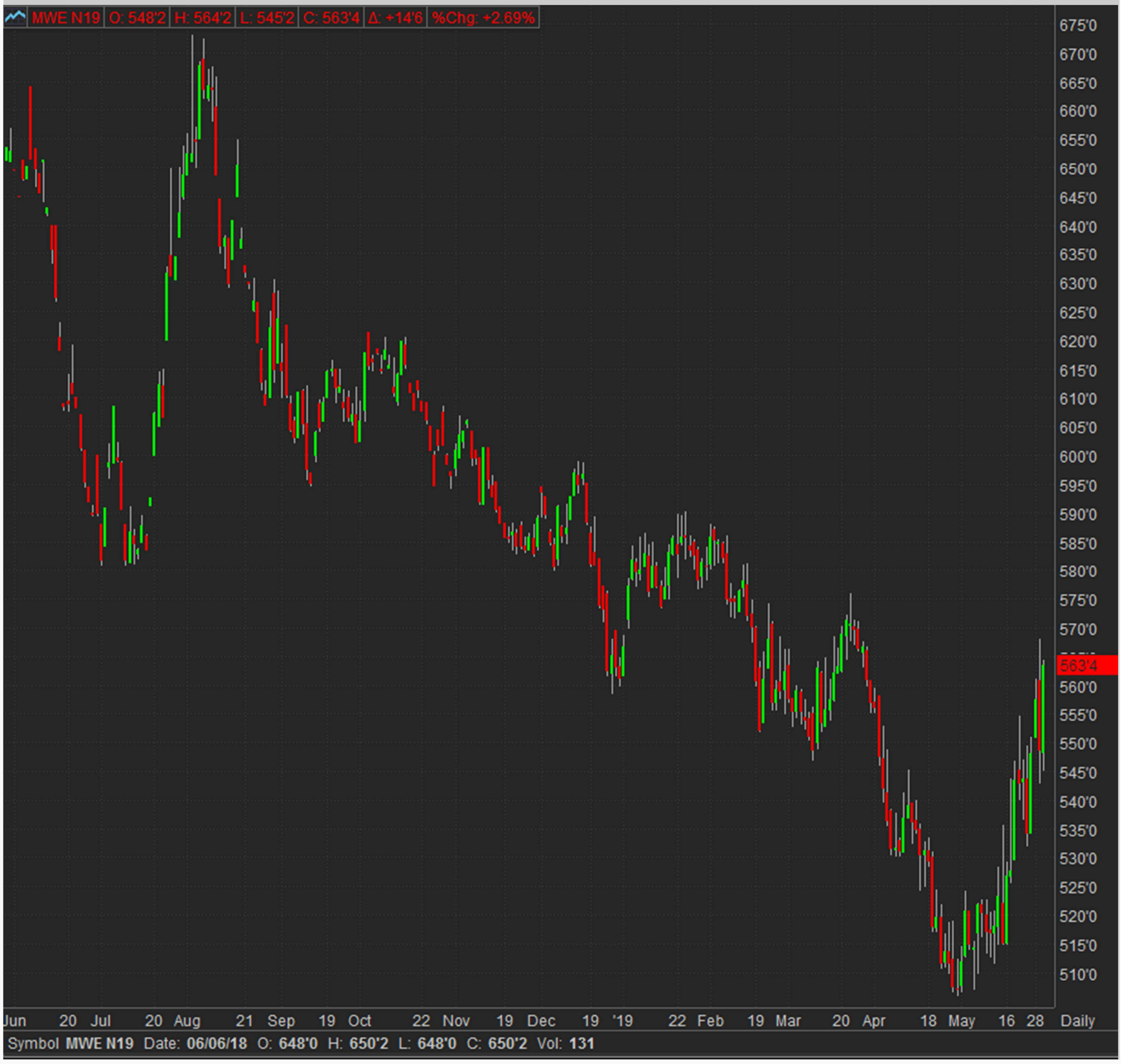
Minneapolis Wheat July Futures



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Canola on the July futures since the lows on May 6th has increased $31/ton. The situation for canola is there is a bit of short covering with the soy market and the fundamentals are a bit uncertain. There are still bearish headwinds with a large carryover from last year and ongoing Chinese concerns. However, the dryness concerns in parts of Saskatchewan and Alberta with more hot weather is providing some support. Rain will be needed in the next couples of weeks or yields might be affected. If the soy market stays strong and dryness concerns are here for good, canola could easily go another $10/ton higher. A lot of this increase though is only on speculation. Selling old crop canola and possibly looking at pricing some new crop if you don't have much may not be a bad idea on this rally. I've spoken to many farmers who got caught in the last move lower earlier in the month. I'm going to be evaluating hedging for clients new crop around $490/ton on the November futures. On the lower end, I want to see the November futures hold the $470/ton area.

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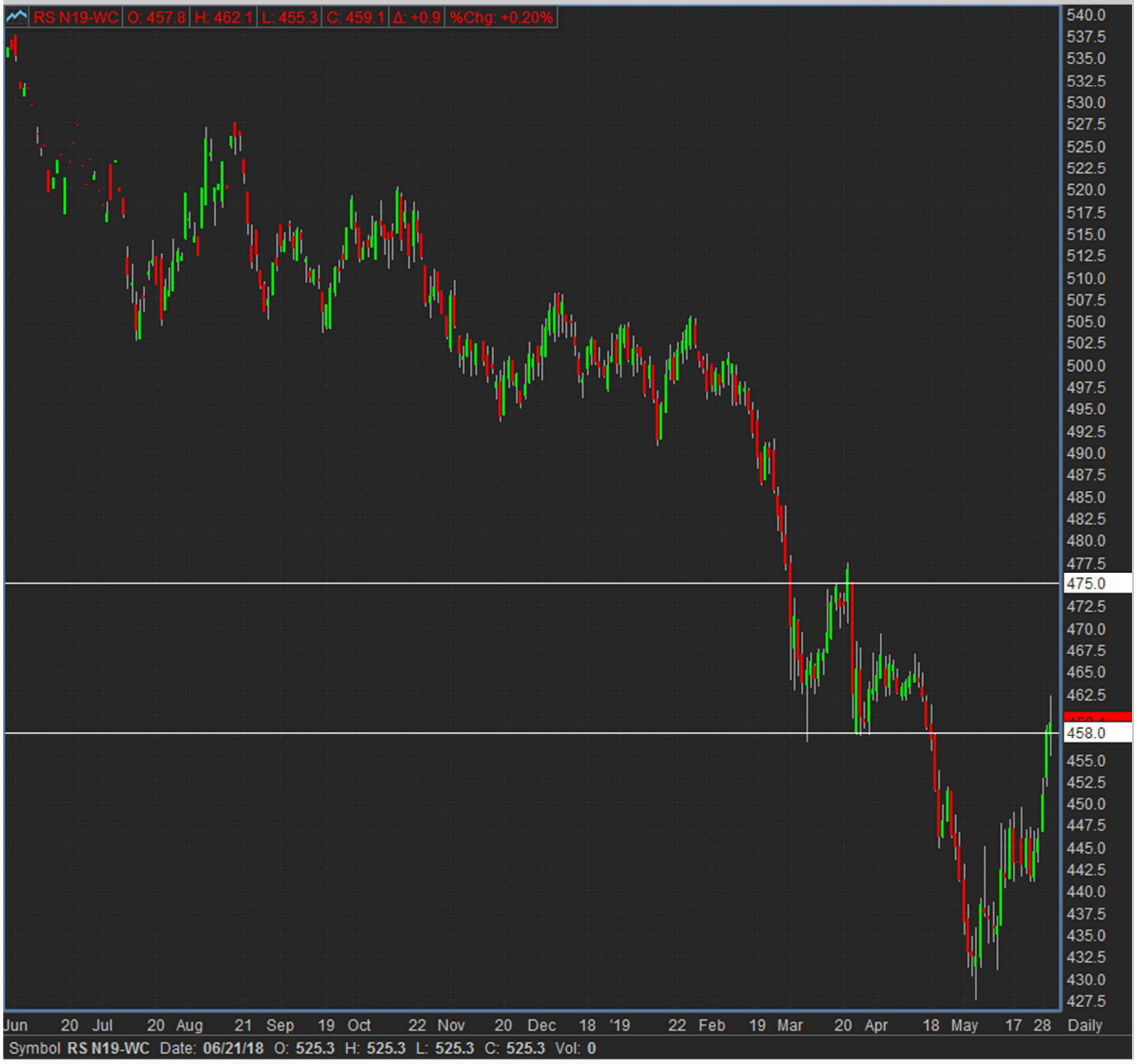
Canola July Futures



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Bank of Canada officials continue to characterize the country's economic performance as "solid". When I read this it made me think the BOC is very unsure of the future. One could argue that unemployment is near historic lows is positive.

However, there are definitely negative factors that outweigh any positives....

- Increasing household debit: Canadians have roughly $1.79 in credit market debt for every dollar of household disposable income.
- Delinquency rates (read more here): Equifax Canada reported that consumer delinquencies climbed higher in the fourth quarter of 2018 and the credit monitoring company warned that rising delinquency rates are likely to become the norm this year.
- Oil: WTI July futures have slid $10/bbl from the highs adding downward pressure.

This week the BOC held rates the same at 1.75% giving a more neutral outlook.There has been a tight trading range on the June Canadian Dollar futures for the last month between $74.20 and $74.80 I've been watching. Recently, we have gone below $74.20 leading me to believe last Decembers $73.60 could be in sight. A factor for the Canadian Dollar to watch generally is how the overall 'stock markets' are performing. US markets have been quite volatile and showing this over decade long bull market may be coming to an end. I don't think there is any need to for producers to hedge from the Canadian Dollar going higher. If you are looking at making any purchases in US dollars, I would be looking at protecting yourself from a further move lower.

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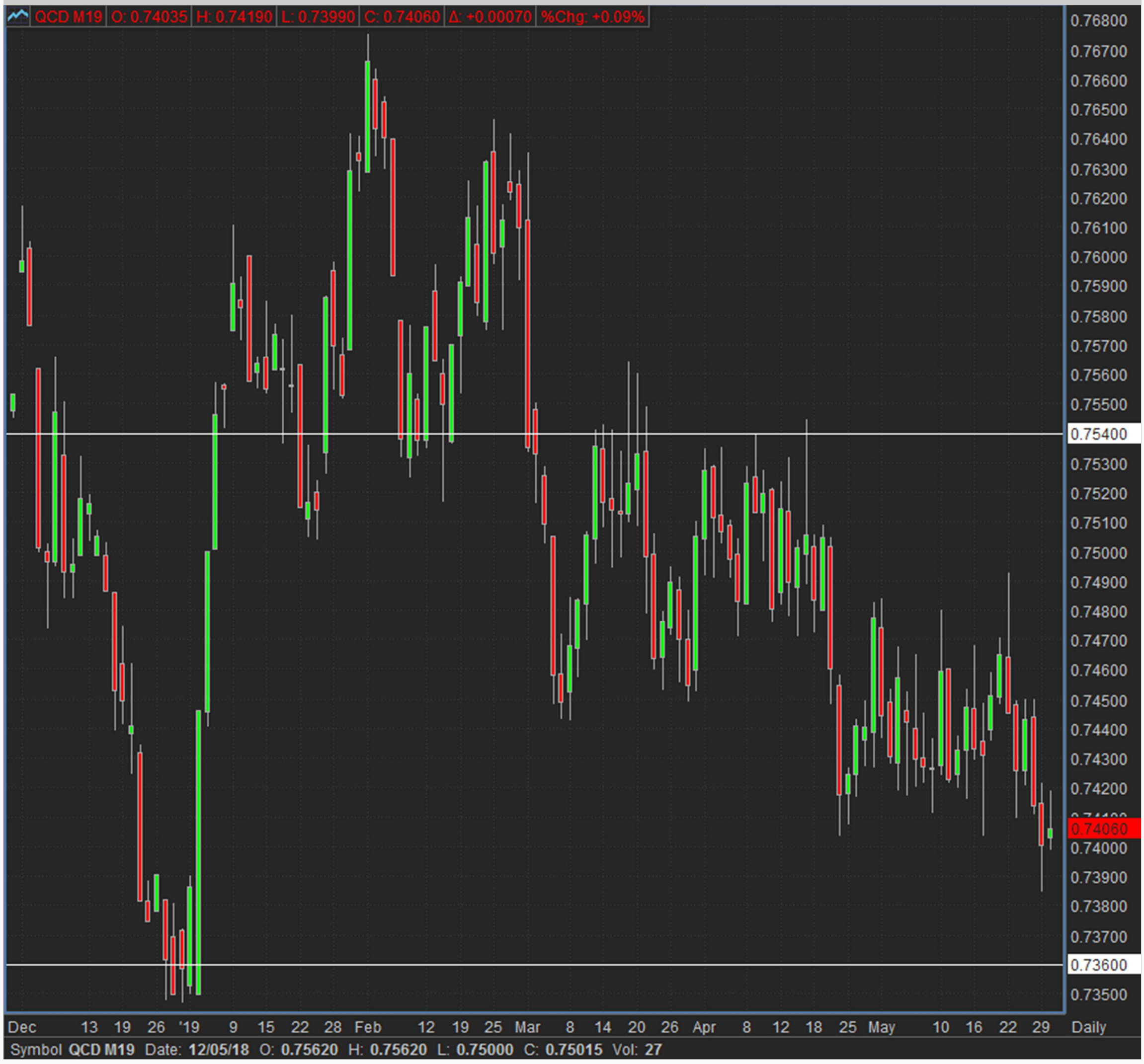
Canadian Dollar June Futures



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May 30th is the deadline to purchase calf price insurance. However, I've come across operations that don't want to protect at these prices. As it is the time of year for potentially backgrounding calves, the focus should be on the March feeder cattle futures. Thus, someone with calves may be following the March price and trying to decide if and when to hedge. I like to talk with clients about 'selective hedging'. What I mean by this is consider protecting a good profit or adding positions in to avoid extreme risk. Since mid-April, nearby feeder cattle futures have declined 14% and live cattle futures have declined 11%. The futures are oversold technically and it should not take much in the way of positive news to spark a recovery bounce. Beef prices remain weak though and cash cattle remain in a steady downtrend. I wanted to discuss some of the main differences between buying a put option vs the insurance for your cattle. First, is with the insurance there is a claim window that is the last four weeks of the policy. With options you can sell at any time right up to the expiration. Let's say you have a gain a month after you buy your option for protection, you can sell it and collect the profit if you think prices aren't going lower. Or if prices are continuing to rise and you don't want your floor protection you can sell it back. Another difference is the deadline to purchase the insurance. What if you wait to buy protection because you think it isn't the right time? Using options you can protect whenever you want. Now I don't want to say there isn't a time and place for the insurance program because sometimes the premium can be cheaper than options. Educate yourself on the differences to make an informed decision for your operation.

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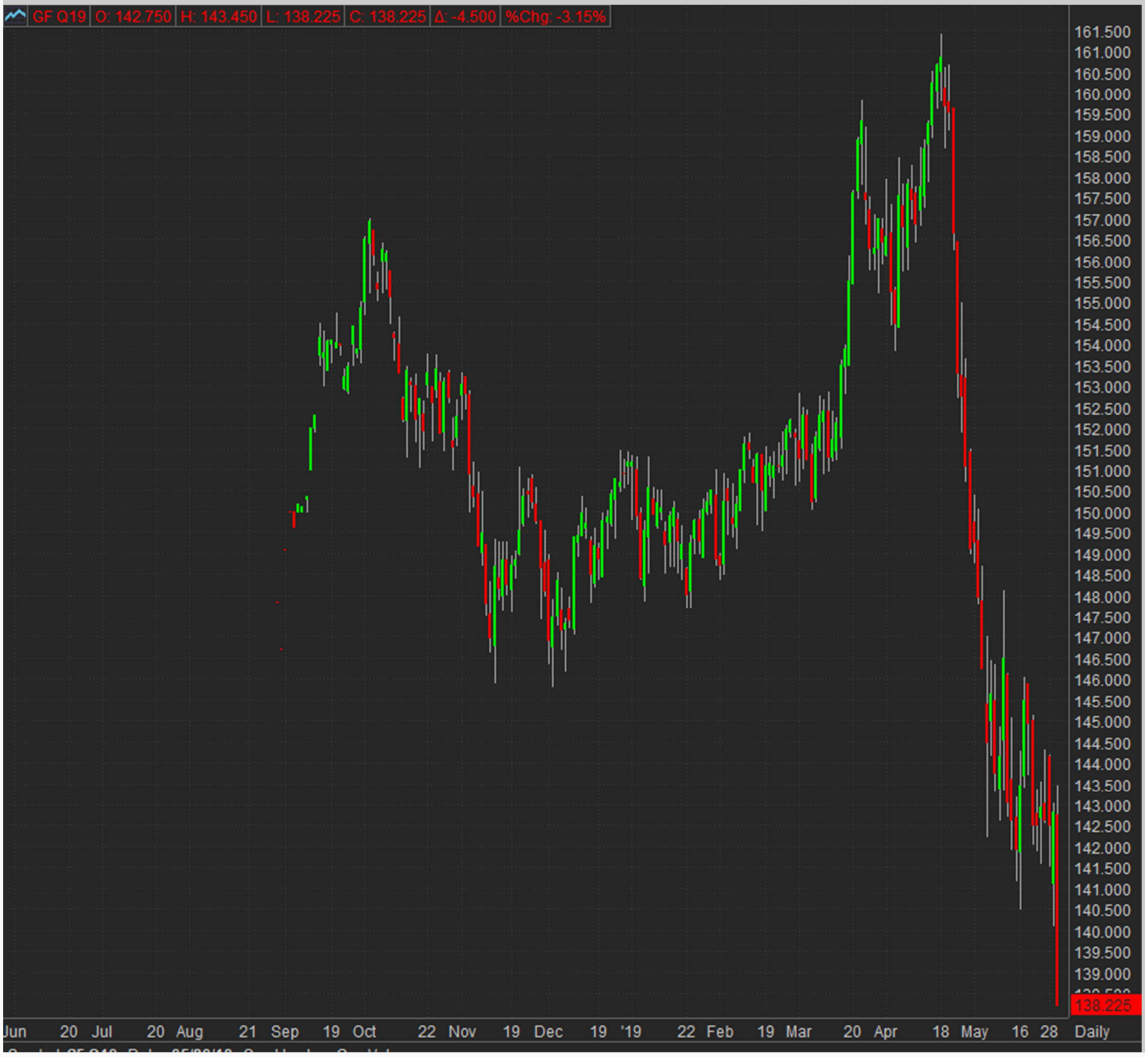
Feeder Cattle August Futures



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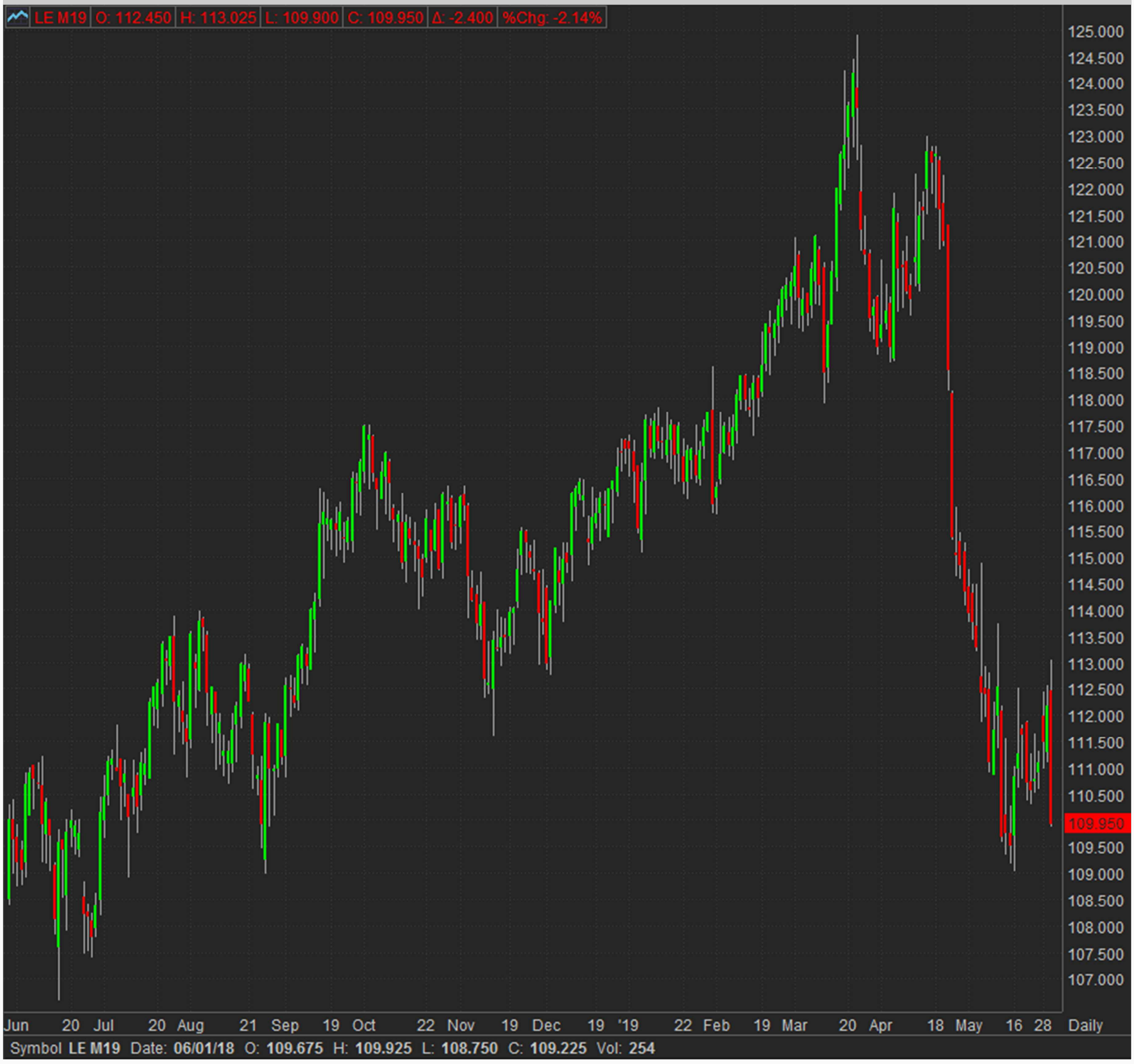
Live Cattle June Futures



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