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TECHNICALS & TRENDS

November 2019 Edition

This month I have been getting a lot of questions about why Minneapolis wheat has been in a decline since mid-October. Since the high made on October 17th, Minneapolis wheat on the March futures has declined 57 cents/bu approximately. You may have heard that Minneapolis wheat is 'oversold' and is due for a bounce.

However, oversold conditions can last for a long time. Minneapolis wheat has been in oversold territory from the beginning of November and yet the futures have kept declining. I'm watching $5.00 on the March contract, which it almost reached this low on September 3, 2019. One reason for the decline has been the possibility that poor quality physical deliveries could take place on expired futures contracts.

The December contract is now expired and the nearby will be March. Typically, Minneapolis wheat has a premium over Chicago wheat. Chicago wheat has never traded this high relative to Minneapolis over the past 11 years. The average spread since January 2009 has been Minneapolis (hard red spring wheat - HRW) trading 91 cents/bu over the Chicago (soft red winter wheat - SRW) contract. A look at the fundamentals may provide some answers as production of SRW this year was a mere 239 million bushels, which is the lowest amount produced in the U.S. of that variety since at least 1984, leading to a SRW stocks-to-use ratio of 38.2% (the lowest in five years).

On the other hand, 2019 production of HRS was 522 million bushels, above the ten-year average of 509 million. That has resulted in the HRS stocks-to-use ratio coming in this year at 49.6%, the highest figure for that variety of wheat since the 1990/91 season.

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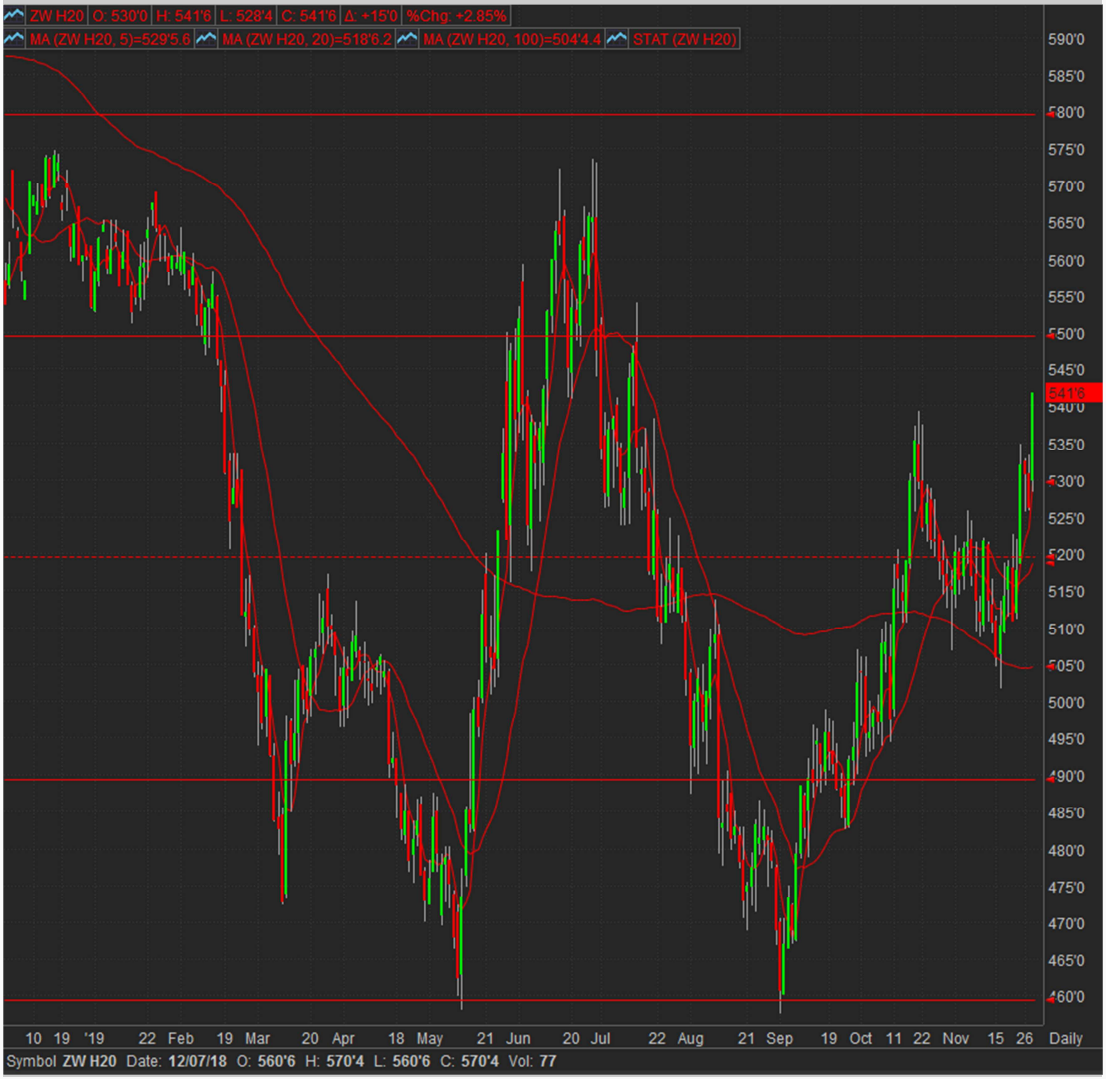
Chicago Wheat March Futures - 1 Year



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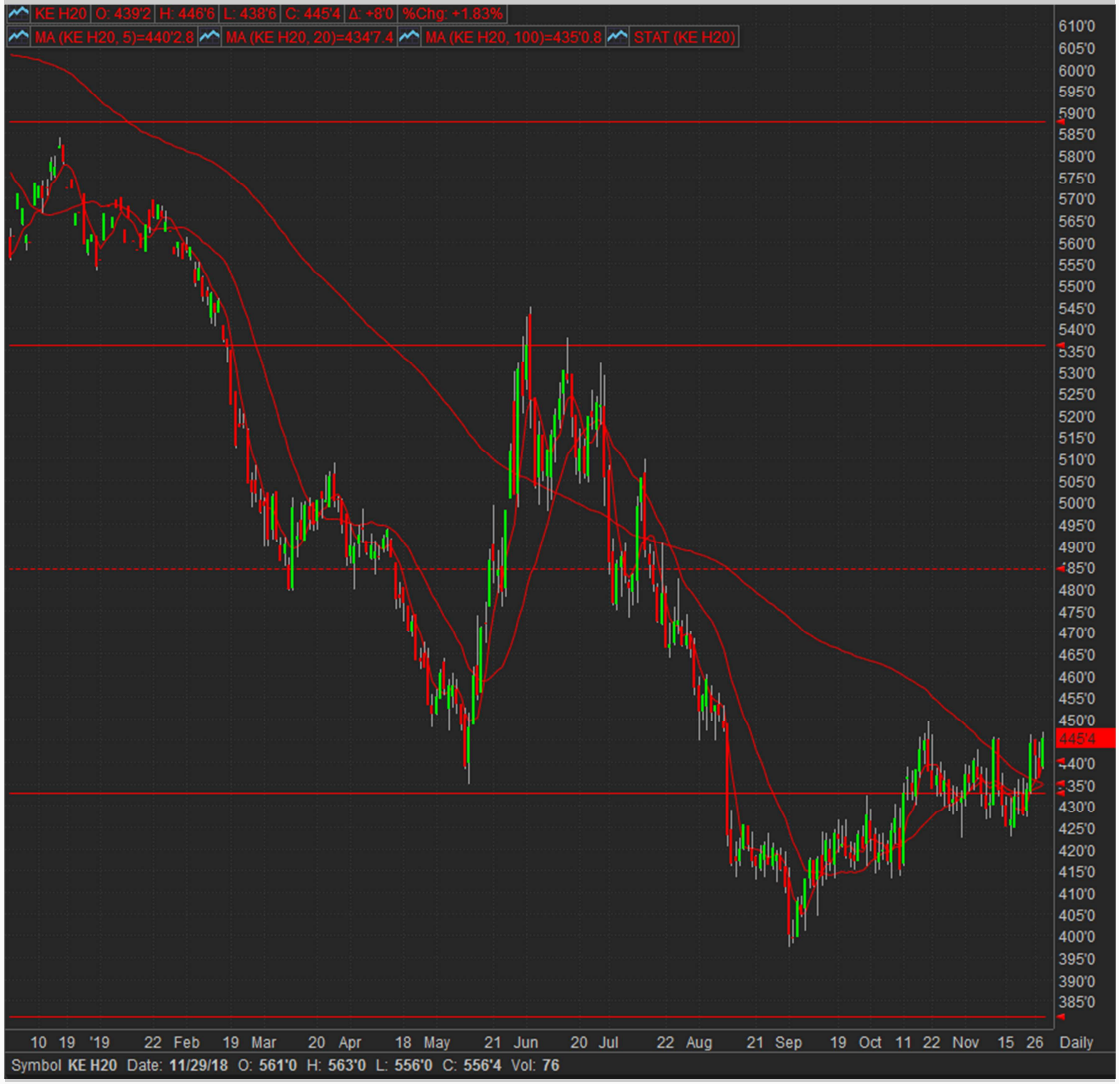
Kansas Wheat March Futures - 1 Year



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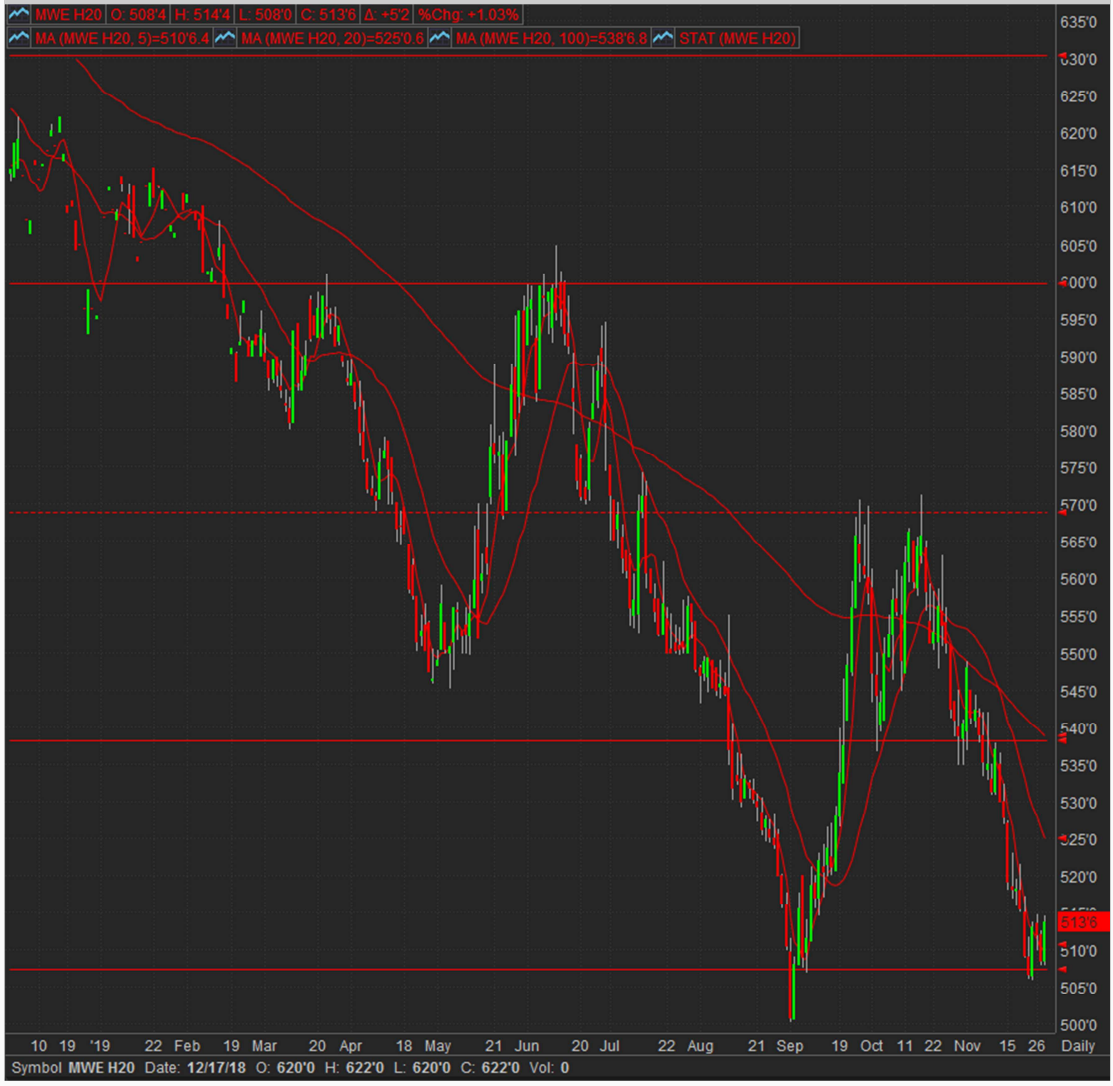
Minneapolis Wheat March Futures - 1 Year



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The January canola futures look range bound between $455-$467/ton. Canadian National Railway employees returning to work takes that negative news away from canola now. Initially, there were some concern that the 2018-2019 carryout being very large, but has been mitigated by a portion of the canola crop staying in the field over winter. This might be something to watch is just how much the 2019-2020 carryout is going to be because of this year's harvest.

The latest StatsCan data shows Canadian oilseed processors set a new monthly record in October of 882,301 tonnes with the previous single month record was made in October 2017

The latest Commitment of Traders report shows managed money is short (betting the market will go down) 50,987 contracts, a decrease of about 2,500 contracts from the previous week.

Covering short positions is a good sign and that will be a trend to watch especially if soybean oil and palm oil remain strong.

Soybeans have been the weak element of the oilseed group for canola (discussed more below).

Overall, it is good to see canola holding and I'm watching for there to been spikes in the winter/spring time frame.

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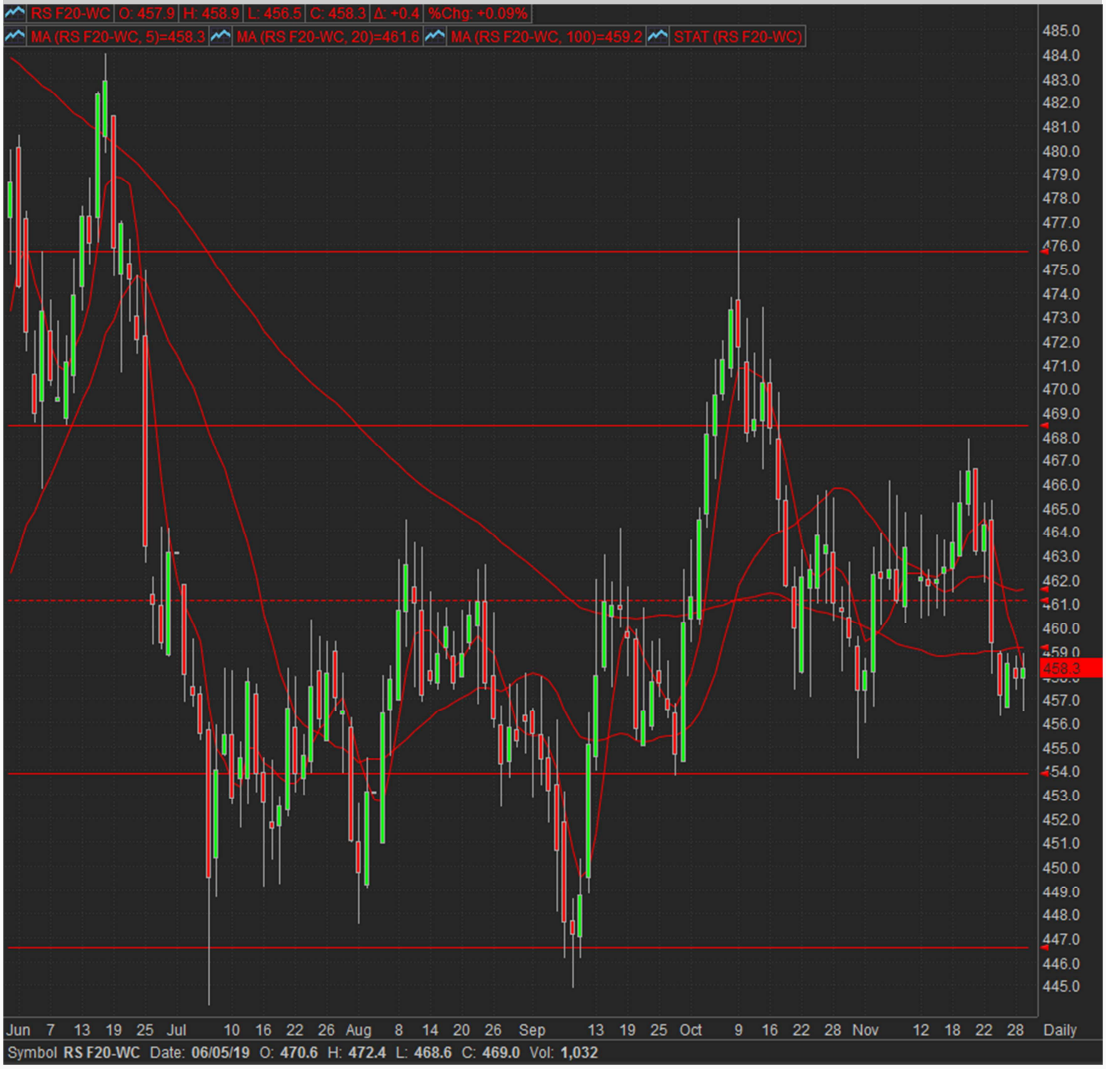
Canola January Futures - 3 Month



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Soybeans declined 57 cents/bu approximately since the beginning of the month.

The futures have kept closing on the lows suggesting funds are more aggressive sellers and could be building a net short position.

It seems that the soybean market is not as patient as the stock markets for a solution to the trade conflict.

I'm watching for $8.70/bu on the January futures to hold, an important level held since the summer.

Traders are watching the weather in Brazil closely and it is another bearish force right now.

There are more scattered rains across much of the growing areas in the next week.

Rains in the past few days hit near 60% of Argentina.

However, a warm/dry trend is still a concern and this could speak some stressful conditions ahead

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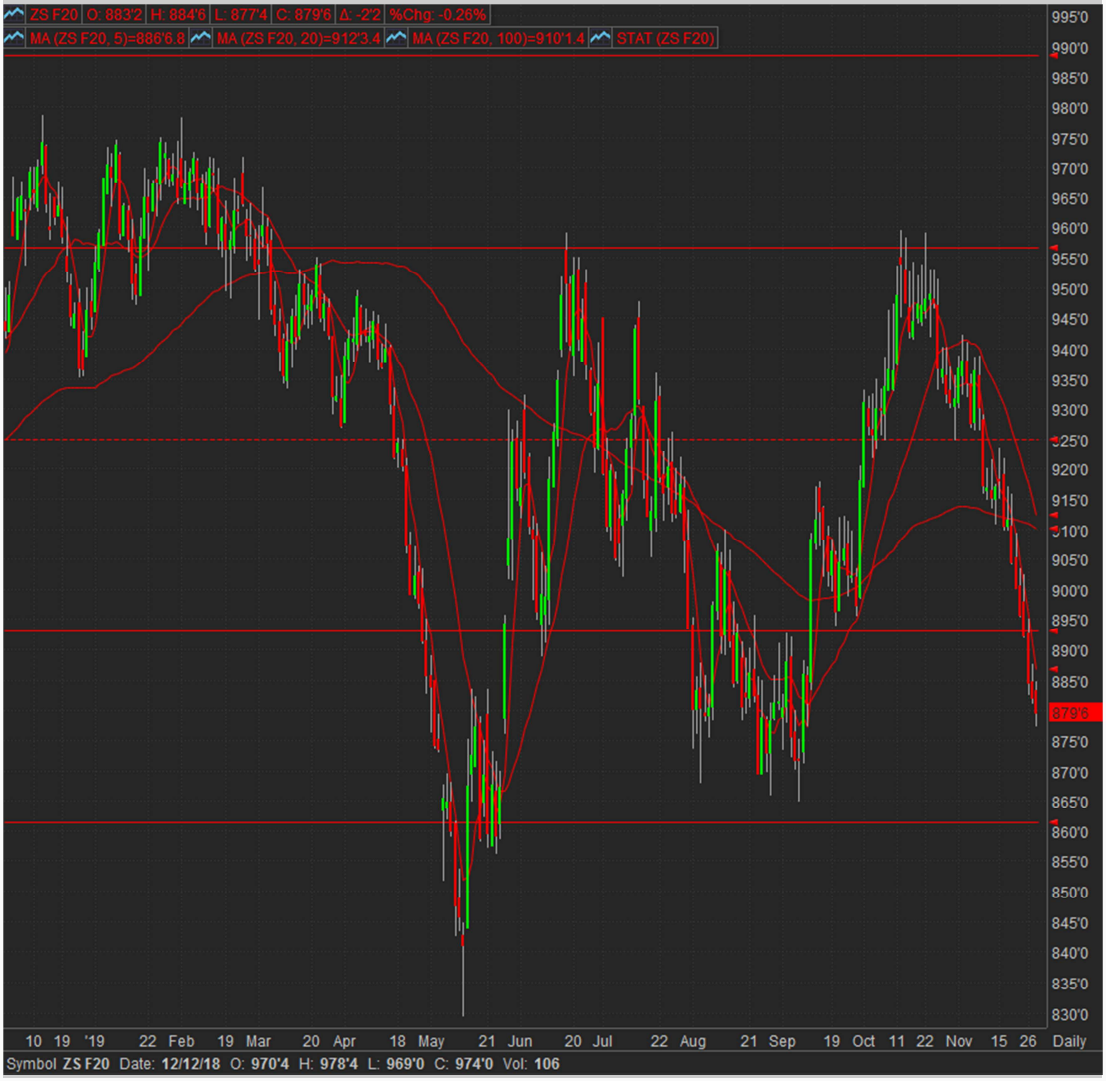
Soybean January Futures - 1 Year



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The Canadian Dollar has been the best performing G10 currency in 2019. However, investors seem to be shying away from the loonie recently because the Bank of Canada may cut rates on December 4th. Economic data has said to be a factor in the BOC determining if they will lower rates. StatsCan reported inflation held steady in October as the consumer price index rose 1.9% compared to a year ago, which was in line with expectations.

Since Oct 29th, the Canadian Dollar on the December futures has declined 1.2 cents approximately. The futures are nearing an important support, or a floor, of 75 cents held since the summer. If the 75 cents level is broken, 74 cents could be possible.

Major financial institution predictions of where the loonie could go in 2020 are starting to surface. Most are saying 2020 won't be a good year for our currency.

This could be due to....

1) The slowdown in the U.S. manufacturing sector is lagging the move globally and

2) There are subtle signals that concerns in the manufacturing sector could extend into other important sectors of the U.S. economy including the consumer and service sectors.

Historically, growth in Canada has been highly correlated to optimism in the U.S. manufacturing sector.

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Canadian Dollar December Futures - 1 Year

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Feeder cattle futures peaked on November 12th at $147.40/cwt and have declined $4/cwt since then. Live cattle futures are still making news high trading around $121.775/cwt.

I mentioned last month that cattle futures may not be done climbing and it seems that is the case.Now cattle futures hold a huge premium to the cash market so it may be difficult to rationalize a move significantly higher.

One thing I watch is the open interest of futures contracts.

Open interest is the total number of outstanding derivatives (futures & options) contracts.

The total open interest does not count and total every buy and sell contract.

Instead, open interest provides a more accurate picture of the options trading activity, and whether money flows into the futures and options market are increasing or decreasing.

In the case of cattle, open interest has jumped recently showing traders remain active buyers.

However, there are some limiting factors such as declining beef prices, higher weights and placements up 10.8% from a year ago in October.

Cattle is starting to look more vulnerable to long liquidation.

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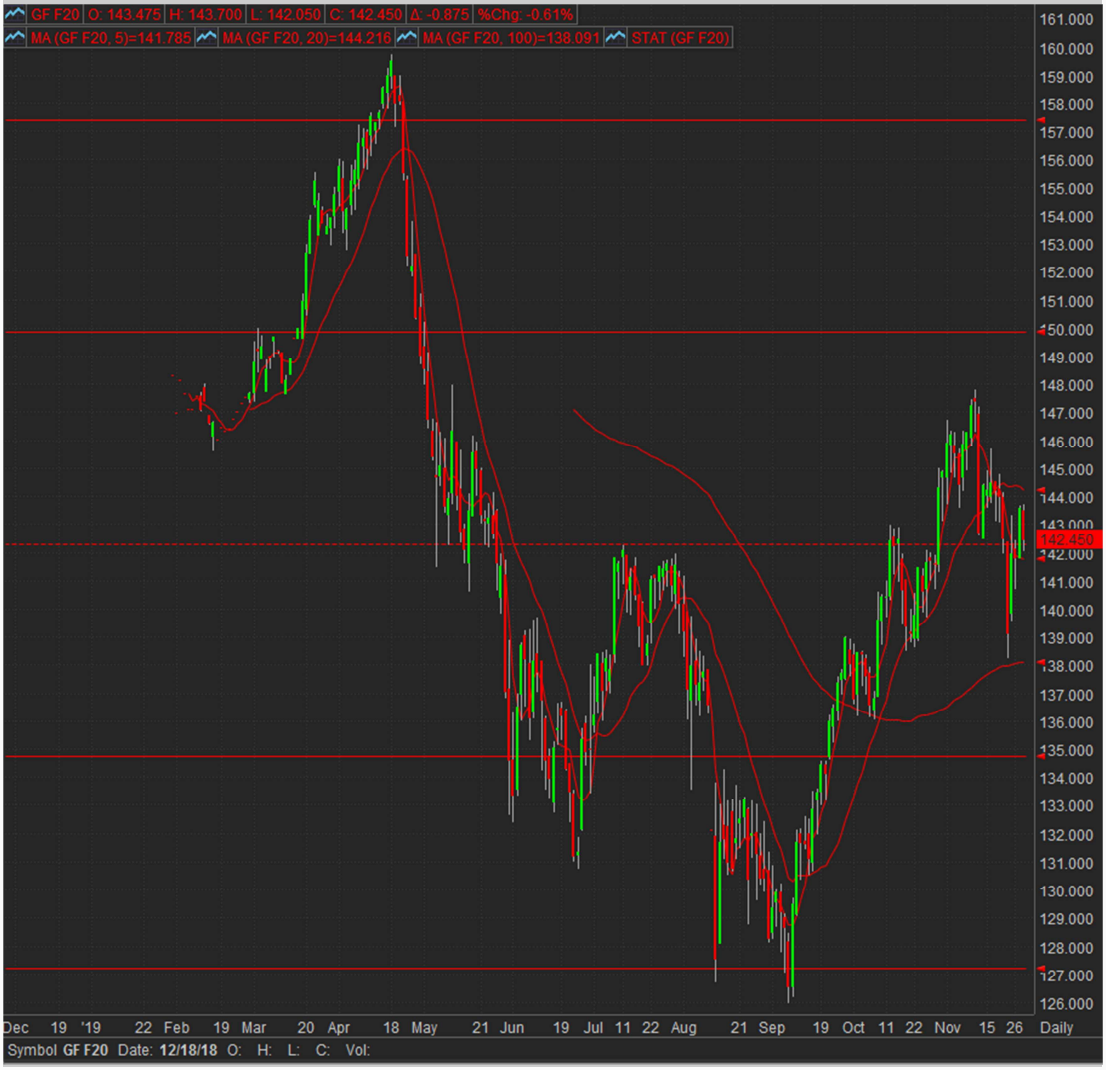
Feeder Cattle January Futures - 1 Year



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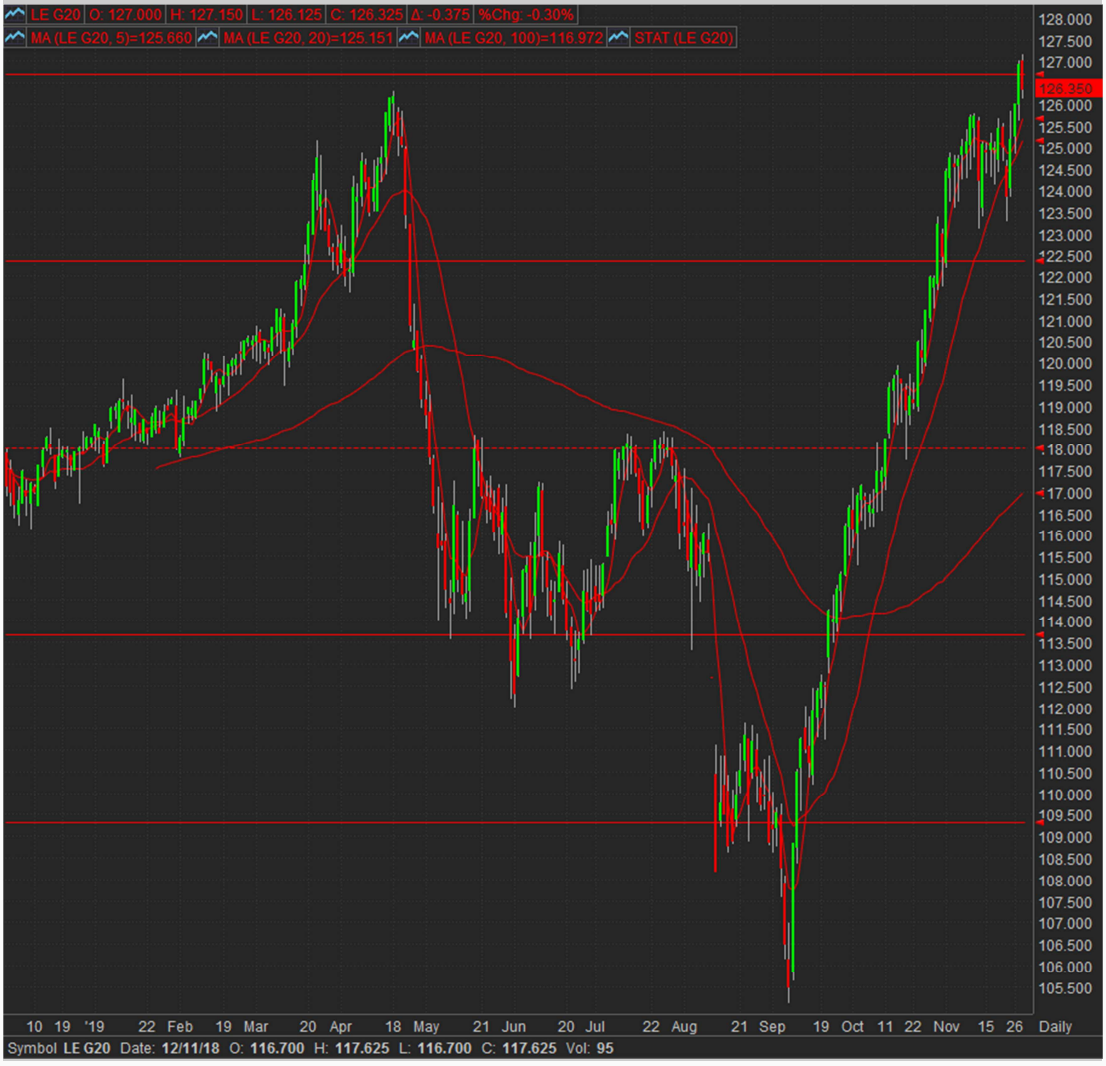
Live Cattle February Futures - 1 Year



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