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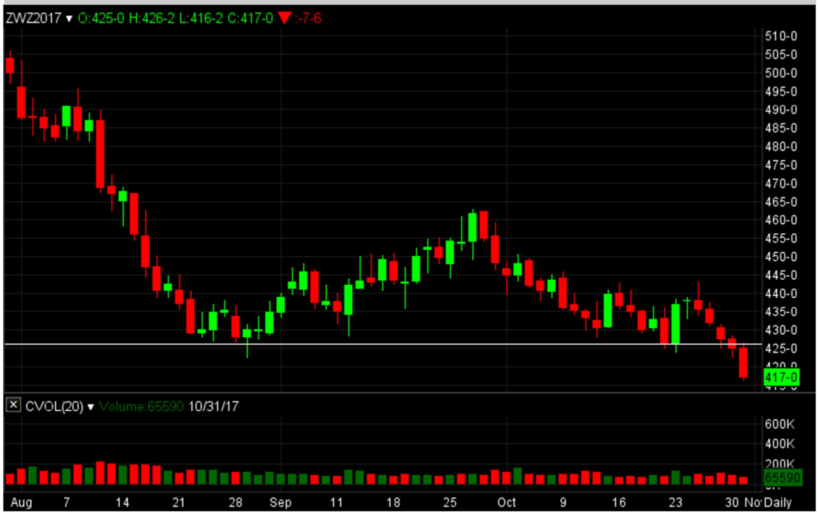
TECHNICALS & TRENDS

October 2017 Edition

Wheat is starting to continue its trend lower with today prices taking out important bottoms. As of yesterday's close, Chicago wheat is down 23 1/2 cents (5.24%), Kansas City December wheat is down 21 cents (4%) and Minneapolis December wheat down 5 1/4 cents (0.80%) on the month. The weekly winter wheat planting report showed 84% complete compared to 75% last week and 85% last year. As for conditions, winter wheat rated 52% good/excellent, last year at this time was 58% good/excellent and the 10 year average for this time is 54%. The large speculative fund traders continue to pressure prices increasing their net short position by 6,273 contracts to 83,965 contracts as of October 24th. Recent strength in the US dollar has made it difficult to re-energize the market, but it does seem overbought on the charts. The next USDA report is on November 9th that could impact the markets. Last year wheat markets didn't show signs of a rally until the end of December, so we could see prices weaken more.

Chicago Wheat December Futures



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Kansas Wheat December Futures

Minneapolis Wheat December Futures

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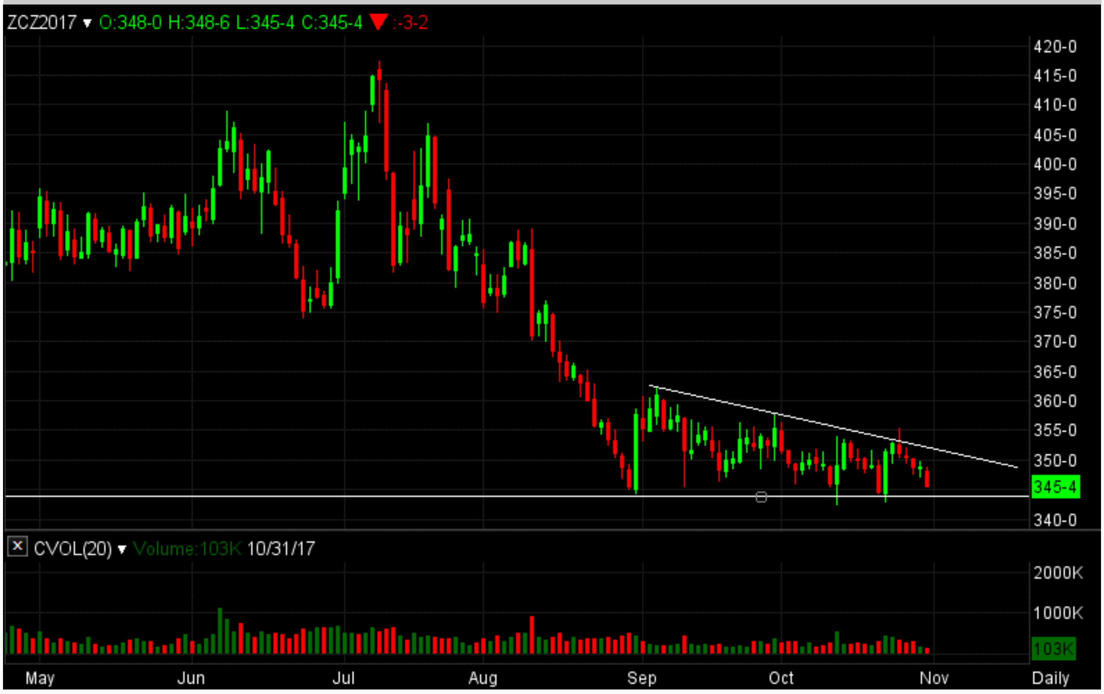
December corn is down 6 1/2 cents (1.83%) on the month so far. This year seems like last where producers are waiting for a weather scare in South America to get the specs to cover their shorts. However, traders are now net short 174,394 contracts after increasing their positions by 31,193 contracts in the last four weeks. We would need to see strong evidence and a move above $3.60/bu approx for any type of major short covering to possibly occur. In sideways markets like this, it is beneficial to sell calls and collect premium while you wait for if/when higher prices occur. You can currently sell a $3.60/bu January call that has an expiration of Dec 22, 2017 (two month call) and collect 7 cents. Typically, it is beneficial to sell calls in period of low volatility like we are experiencing right now.

Corn December Futures



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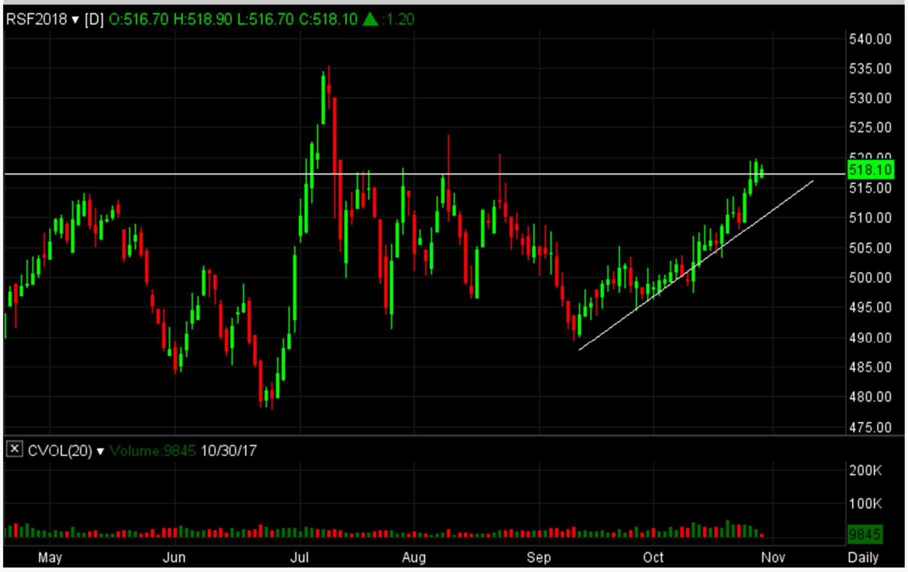
In the last two months, canola has moved up $28/tonne on the January futures from $490/tonne to $518/tonne. The two main factors I see causing this increase is the declining Canadian Dollar and increasing soybean oil. One of these factors may start to not work in favor of canola prices to keep rising. I've been watching this $520/tonne area and the only time in the last six month it has been above that is back in July. This may be an opportunity for producers if they haven't sold much off the combine to capture higher prices if basis levels are favorable. However, I have been hearing that basis levels have been widening so cash prices haven't been reflective of what the futures increase has seen. Because this is the case, I've been discussing with clients possibly buying puts up at these levels. Come spring we may see higher canola prices if the 2 million acres needed to satisfy demand isn't there. Given the weather we have had this year it is definitely possible we might be more around the 1.8-1.9 million acre range. It depends on your operation if you want to look at holding the grain with put options as protection until you sell, or possibly selling now and looking to replace your grain with options if the time comes.

Canola January Futures



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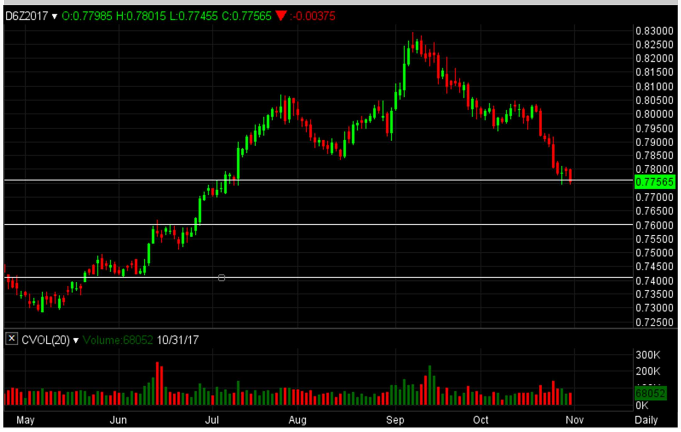
This month the Bank of Canada decided to keep its benchmark interest rate at 1%. The bank's rate, officially known as the target for the overnight rate, has a large impact on the rates that retail banks offer consumers on savings and loans. There have already been two hikes this year – once in July and again last month. Now the Bank of Canada has a lot more of a cautious tone. Uncertainty in NAFTA, growing household debt and housing market concerns all contributed to rates not being raised again. Today Statistics Canada data indicated that the Canadian economy unexpectedly shrank by 0.1%. Analysts in a Reuters poll had predicted a 0.1% increase. The lower than expected GDP number today confirmed that the Bank of Canada will have to be cautious about further rate hikes. As a result of the news today, we are seeing the December Canadian Dollar futures down almost half a cent to 77. 5 cent. If negative economic data keep arising unexpectedly, this could help keep pressuring our loonie lower. One factor that could help stabilize the loonie is that oil prices have been steadily increasing. Since the beginning of the month, oil has increased about 9% on the December WTI futures, while the comparable Canadian Dollar futures has declined 2%. I'm going to be watching for the Canadian Dollar to create a floor or trade sideways around 77.5 cents. This next bottom end if the 77.5 cent floor is broken is around 77, then 76.

Canadian Dollar December Futures



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This month cattle futures broke out higher from their sideways range on both the live and feeder futures. I've read reports that U.S. beef packers have been buying aggressively to satisfy expanding seasonal consumer demand ahead of the holidays and to take advantage of big packer margins that were linked to rising whole beef prices. Cattle futures are trading at a premium to the cash market on expectations that packer demand will remain robust. It is often hard for operations to see losses on their hedges in this rising market, but a true hedge is.... "An investment to reduce the risk of adverse price movement in an asset." Nobody knows where prices are going and many analysts believed cattle futures were going lower. Now there are times where if a trend is continuing higher it may be beneficial to get out of the way. I've remained sidelined for some time now and have just been recently adding in a bit of protection. Rather than just buying straight puts for protection, I've been discussing with clients that want protection using bear put spreads. This is where you buy a put and sell a put lower down. This strategy differs from just buying a put option in that you create a "range" of protection between the put you buy and sell. The advantage of implementing a bear put spread is it a lower cost than just buying the straight put. It is a tactful strategy in markets that keep rising because you can have protection and it doesn't cost you as much.

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Feeder Cattle January Futures

Live Cattle December Futures

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