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TECHNICALS & TRENDS

October 2016 Edition

Highlighted: Wheat, Canola, Corn, Lean Hogs & CDN$

Below are the charts of the December Chicago, Kansas and Minneapolis wheat futures. Notice anything different? The main difference is we have seen Minneapolis wheat rally since the beginning of Sept. One factor helping support the rally into Oct is on Sept 30th the USDA cut its forecast for the 2016 spring wheat harvest based on concerns supplies will be tight this season, buoying prices for the top-quality grain and boosting its premium to lesser grades of wheat. Excluding durum, the USDA lowered their forecast to 534 million bushels from 571 million previously.We may see a higher demand for quality wheat because of lower US harvest concerns and quality issues elsewhere in the world, despite a plenty supply of wheat overall. There may be a bullish argument for Minneapolis wheat, but Kansas and Chicago are still trending lower.

Chicago December Wheat futures contract:

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Kansas Wheat December futures contract:

Minneapolis Wheat December futures contract:

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Canola has been somewhat in a sideways to upward trend for the last month. I'll reiterate what I said last month on how if the January canola futures close above $480/ton and stay there, I would consider that positive for the price and $500/ton could be in sight. However, $480/ton is a clear ceiling that it hasn't closed above since back in July. I have added option protection for clients to make sure they are at least 20% protected with options if they haven't sold much off the combine. The main reason is options can give you a floor price in your hedge account, while still leaving your cash side able to increase if canola futures go back to $500/ton or greater. The most common questions I get is how much do these options cost AND do I lose the premium I pay if canola goes higher? First off, the option cost (premium) depends on what level you want to protect your canola at and for how long. For example, today to protect out until January at the $475/ton level would cost around $15/ton. Now if canola futures go up, your cash side will increase and you still have your floor protection in. Instead of holding your protection in if the futures increase you can sell the protection to regain a portion of your premium and look at protecting higher up.

Canola January futures contract:

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In Sept, corn traded between $3.30-$3.40 a bushel until the last two trading days we have seen a 15 cent move higher. Inventories of corn on Sept. 1 were 1.738 billion bushels, the U.S. Department of Agriculture said in a report last Friday. The average estimate of analysts in a Bloomberg survey were 1.754 billion. Use of corn over the previous three months climbed 9.2 percent from a year earlier, the agency said. Soybean stockpiles also trailed forecasts as use rose 55 percent compared with the same period last year. U.S. corn and soybean exporters have seen increased demand after adverse weather hampered crops in South America. Low prices for the grain could be enticing livestock producers to increase use of the commodity in feed for animals. The $3.40 level is important for the December corn futures contract to close above and stay before I would be bullish on prices longer term.

Corn December futures contract:

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As for hogs, a major concern for the industry is whether there will be adequate slaughter capacity this fall. The Hogs and Pigs report last week said that the inventory of market hogs by weight group was: 180+ pounds up 4.1 per cent; 120-179# up 3.7 per cent, 50-119# up 1.9 per cent and under 50 pounds up 1.7 per cent. The average of pre-release trade predictions was for the breeding herd to be up 0.6 per cent and the market hog inventory to be up 1.1 per cent. There were 607 million pounds of pork in cold storage at the end of August. That is 1.4 per cent more than the month before, but 7.1 per cent less than a year ago. Trends on the futures have been drifting lower and lower with no bottom in sight. I've had protection on since July for my hog operations and have been adding accordingly.

Lean Hogs December futures contract:

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For the last six months the Canadian Dollar December futures have been in a sideways trend. The low in September was \$0.75325 on the 27th. Next day we saw over a 1 cent increase on news that OPEC is going to limit the production of oil by nearly a million barrels per day to 32.5 million bpd. We could see this as putting a floor on oil and see it move higher. In turn, an increase in oil could pull up the Canadian Dollar, but given the current sideways trend I wouldn't be too worried about seeing \$0.80 or higher anytime soon.

Canadian Dollar December futures contract:

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