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TECHNICALS & TRENDS

October 2018 Edition

This month it is worth noting how volatile the stock markets have been because of the ripple effect throughout commodities. From October 1st - 30th all major North American indices declined.

- Dow Jones Industrial Average down 8.10%.
- S&P 500 down 8.30%
- Nasdaq down 11.50%
- TSX down 18%

Even with these declines we didn't experience a true correction or crash. A market **correction** is defined as when markets fall 10% from its most recent peak. A market **crash** is when a correction occurs, but then the market falls significantly more often another 10% for a total decline of 20% or more. Market crashes indicate a massive loss of confidence in the economy like we saw in the subprime mortgage crisis from December 2007 to June 2009. We haven't seen this last month grain prices follow lower with the broad markets. This doesn't mean that grain prices are out of the woods if a broad stock market decline continues. As seen by the Goldman Sachs S&P GSCI Commodity Index, commodity prices declined almost 66% from 2008-2009.

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Goldman Sachs S&P GSI Commodity Index

The two areas I've been keeping my eyes on for my farm clients with this stock market volatility is energy (specifically oil) and currencies. There have been a couple factors that have driven the Canadian Dollar lower the last month with the stock markets. First, is the rising US Dollar Index. The December US Dollar Index futures contract has broken out to new all-time highs. When the US Dollar increases this puts pressure for the Canadian Dollar to decrease. Also, a strong US Dollar has helped put downward pressure on grain prices in general. The Bank of Canada increased interest rates on Oct 24th and many thought this would buoy the Canadian Dollar. It did for a day, then continued its slide lower. December 5, 2018 and January 9, 2019 are the next interest rate announcements. Expectation is that rates will keep increasing come the new year.

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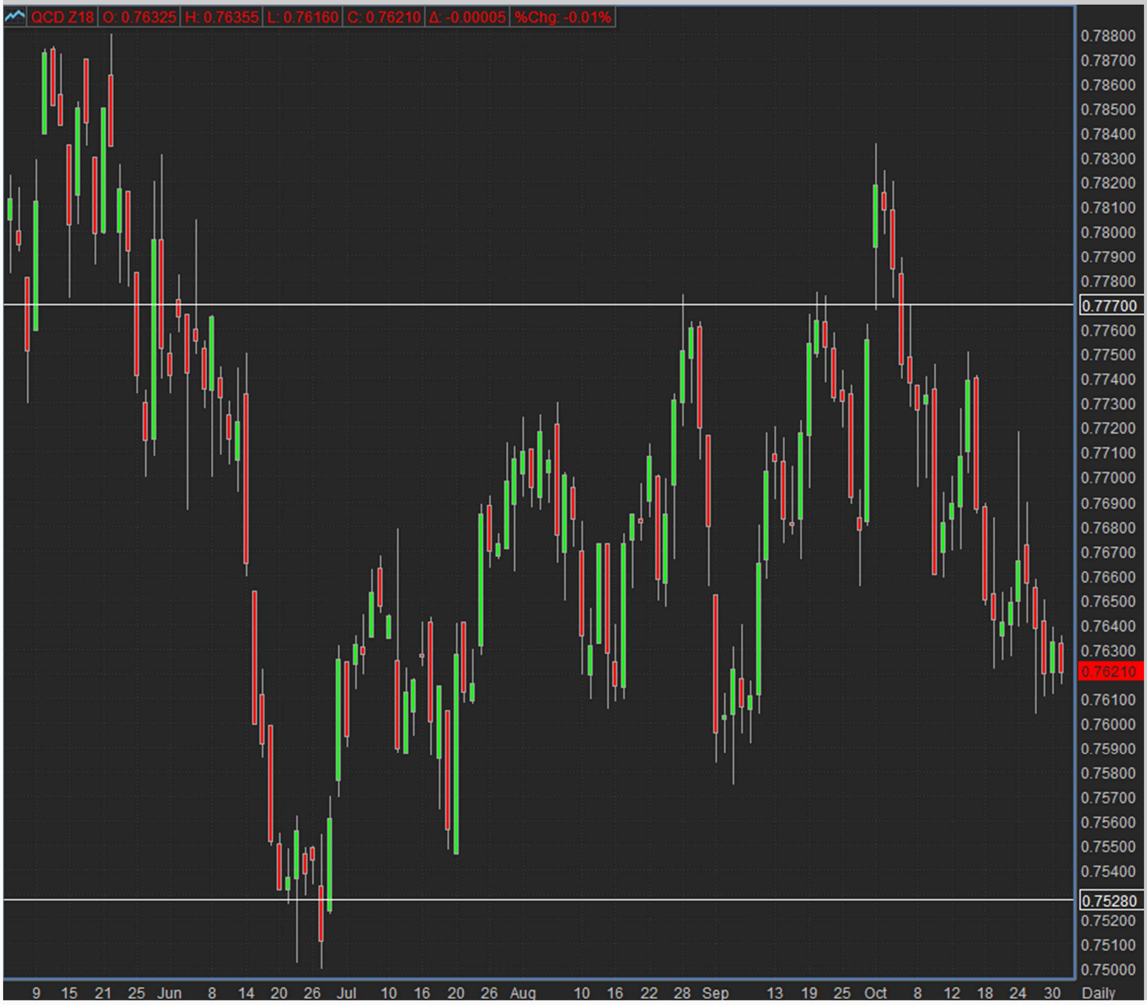
Canadian Dollar December Futures



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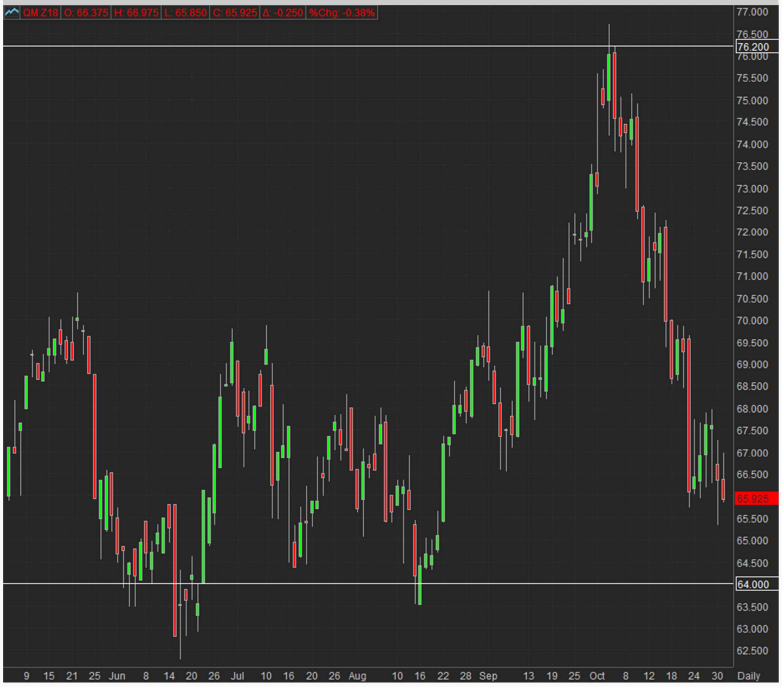
Second factor that has helped keep the Canadian Dollar lower is oil prices. Since the high on October 3rd, the December oil futures have dropped from $76.70 to $65.35 at the low on October 30th. That is a 15% drop in a month. Russia has decided that there is no reason for them to freeze or cut its oil production levels. More oil in general means more supply and that puts pressure on prices. It will be important to watch the second period of sanctions the U.S has put on Iranian oil that will take effect Nov 4th. This may limit Iran's oil exports and force them to stop producing oil and may help lift prices. I've been preparing strategies for clients if there is possibility oil could increase. Oil and diesel prices follow each other closely at an approx. 91% correlation.

Oil December Futures



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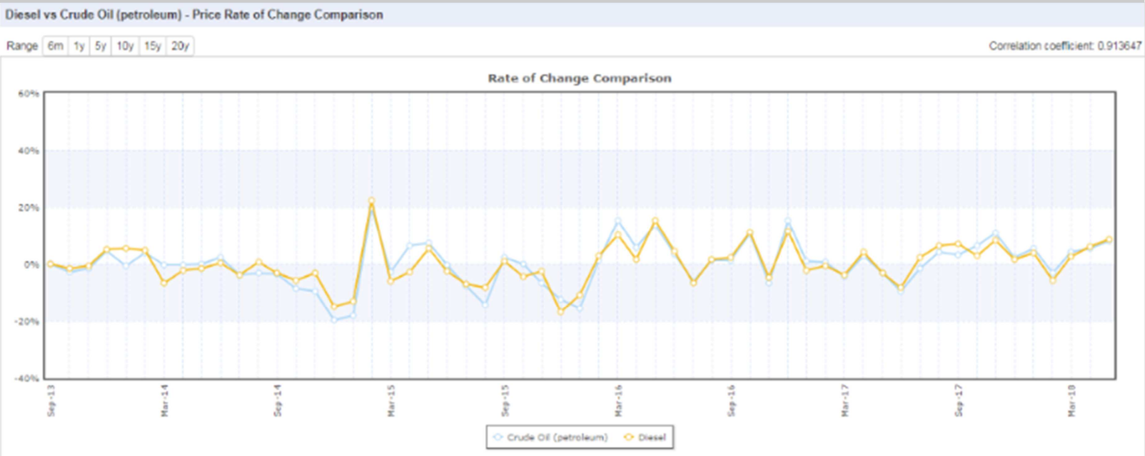
Diesel vs Crude Oil



Is the trend changing for canola? For the foreseeable future I can see canola futures bouncing around with the overall trend right now being down. Looking at a 2 year chart and seeing that the $490/ton area is broken the next decline could be closer to $480/ton. It seems that harvest pressure is starting to mount with the improving weather conditions. What could happen is fund money increases their short positions and pulls the market lower. We may see canola futures decline until producers have sold enough grain for cash flow until the New Year. There could be a rally after that. The Canadian Dollar declining hasn't been a factor to help support canola prices. Soybeans, meal and oil still declining have been more of the drivers as of late. Most of my clients have a lot of canola sold and are going to hold the rest until prices recover. I've been discussing some replacement strategies for those that have to sell right now with prices dropping. I'll be waiting to make a buy recommendation once prices may have seemed to find a bottom.

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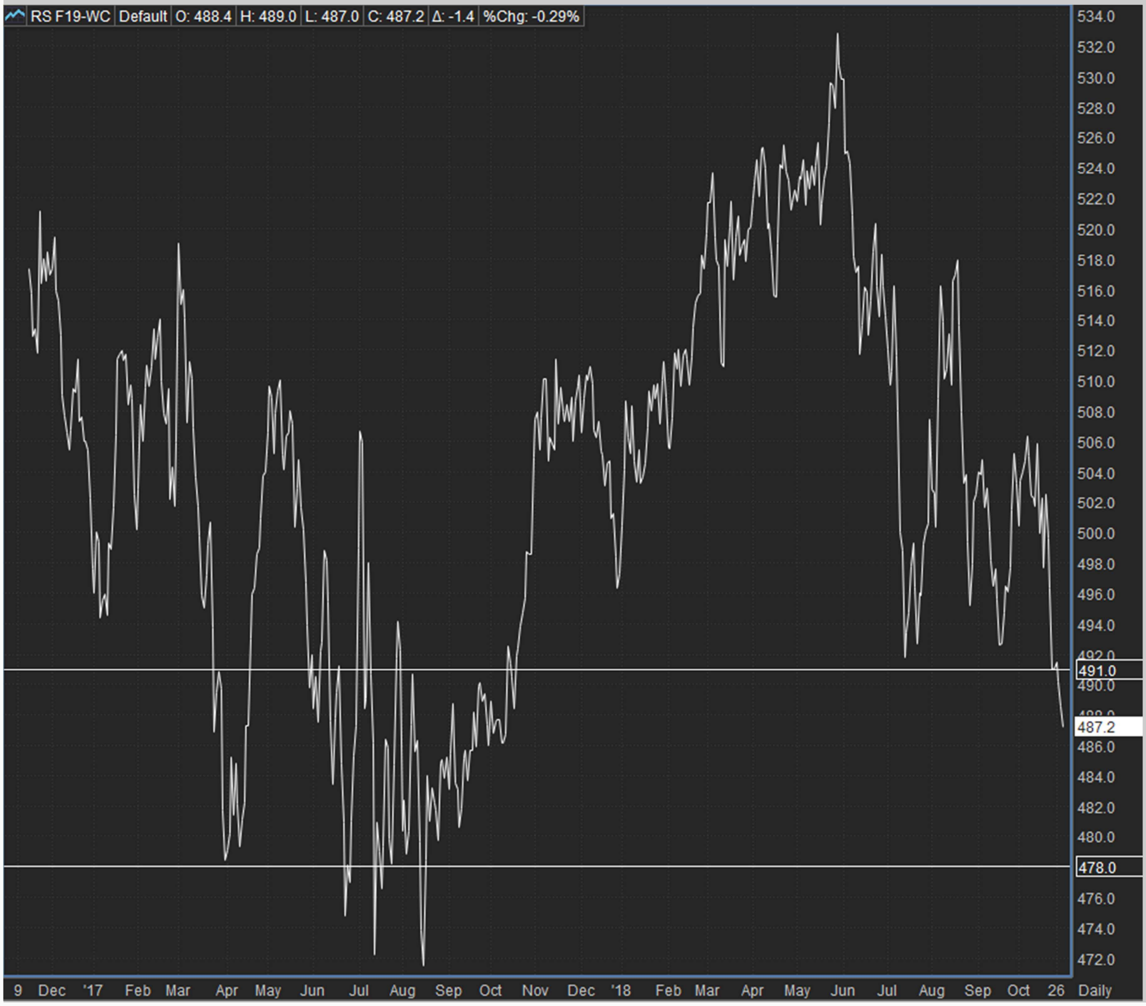
Canola January Futures



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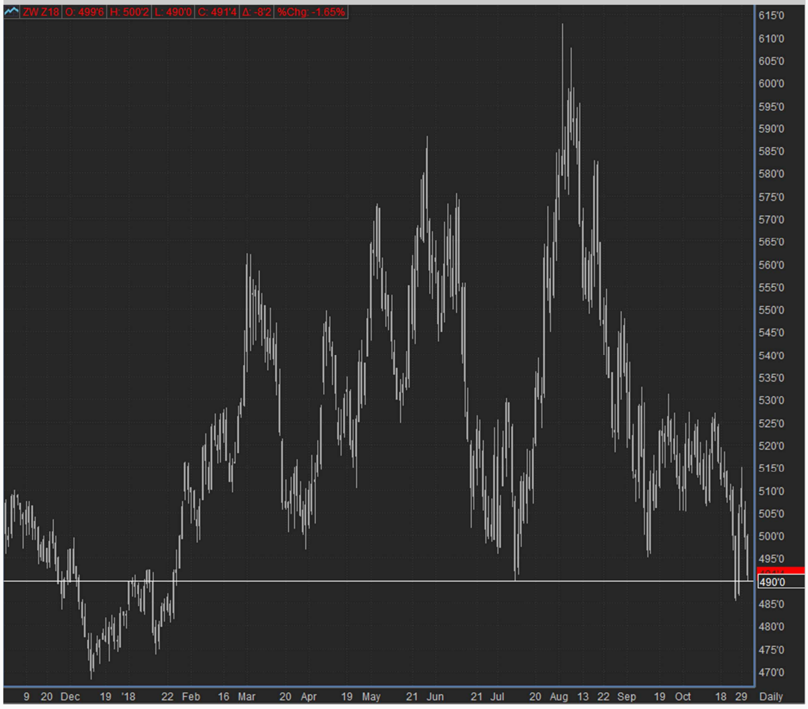
On the nearby wheat futures, from October 1-30th Chicago is down 13 cents, Kansas City 18.8 cents and Minneapolis 1 cent. Below I give you a one year chart of all three wheat contracts. Kansas City wheat is near the December 2018 lows. Chicago and Minneapolis wheat are about 20 cents away from those lows too. Fund and speculative selling remains active. One way to tell this is by looking at the open interest - or how active the contracts are traded. From looking at the open interest it could suggest that traders are building larger net short positions (betting the markets could keep going lower). In the last two years, wheat has made a bottom around the December time frame. I'm going to be watching for an area to buy, but I don't like to get in the way of a trend at this time.

Chicago Wheat December Futures



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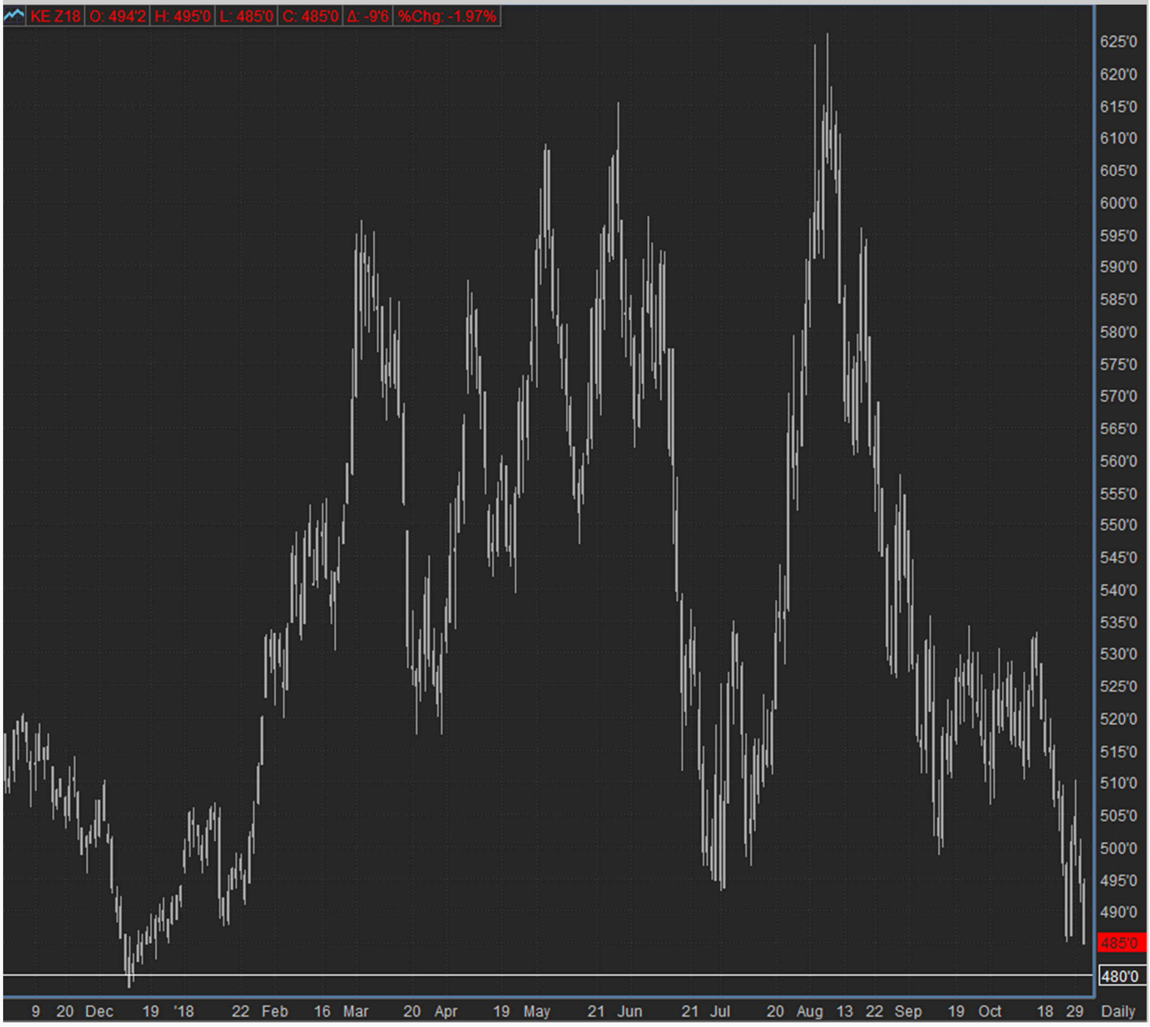
Kansas Wheat December Futures



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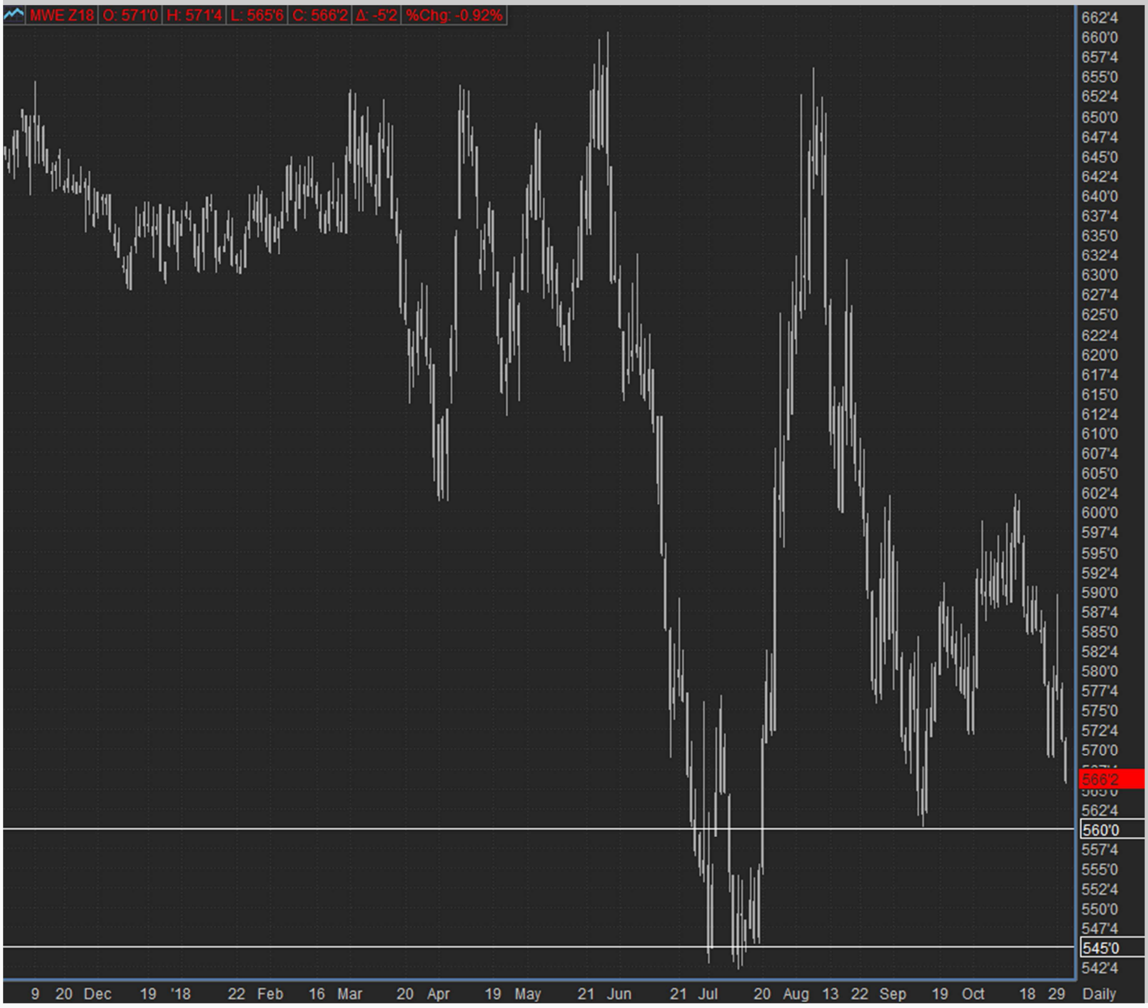
Minneapolis Wheat December Futures



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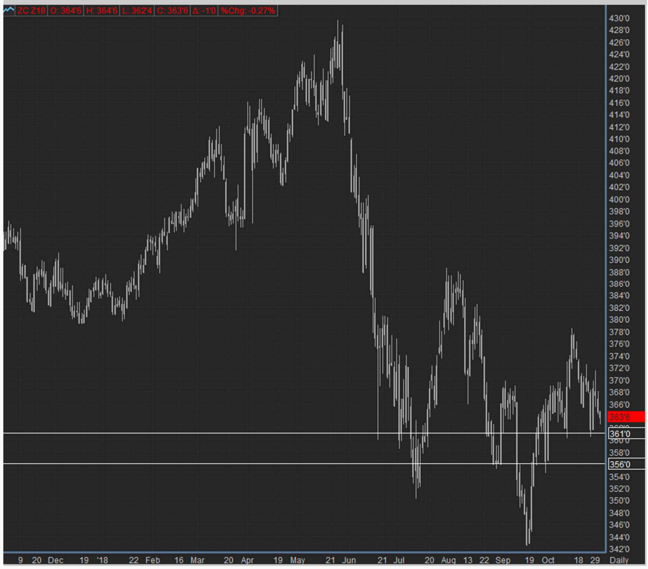
The corn market has had some negative news lately. Hefty beginning stocks, a record crop and some slower export news has added some downward pressure. Weak soybean and wheat markets continue to pull the corn market down, which might continue considering the soybean price outlook could still be negative. The USDA on Monday said 63% of the U.S. corn harvest was completed, up from 49% in the previous week and the same as the five year average. Now that harvest is nearing completion in the US and the November 4th USDA Crop Production report is coming soon some speculative bottom picking could happen. I've read some analysts have predicted a corn yield under 180.0 bushels per acre, calling out he USDA's ear weights and population estimates. I'm watching for December corn to hold $3.60/bu. with the next support being around $3.55/bu. The fundamentals still favor over-supply, crop condition and harvest progress all are running consistent with the big crop that the USDA has predicted.

Corn December Futures



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The USDA estimated cattle slaughter came in at 107,000 head last Friday and 51,000 head for last Saturday. This brought the total for last week to 633,000 head, up from 625,000 the previous week and up 1.3% from last year. Beef production is well above last year and 2016, however prices have kept increasing to help support prices. The supply is not as high as previously thought, but a hefty short-term outlook for all meat production could be a limiting force for the futures moving higher. Currently, the early 2019 futures contracts are at a stiff premium to cash. I have protection in place for my clients using option spreads to help reduce the cost and not waste premium if the market goes sideways to higher. Producers that are selling in the January time frame will want to watch closely that demand stays strong because if it starts to falter the futures could be heading lower. Seasonal peak for live (fat) cattle futures is middle of March and feeder cattle is middle of August. Remember, seasonals should be used as a guide and I see they are usually plus/minus a month. Feeder cattle futures peak seasonality in August was about $4 off from the highs back earlier this month so we will see if the live cattle can make it back up to the $119/cwt level in the New Year.

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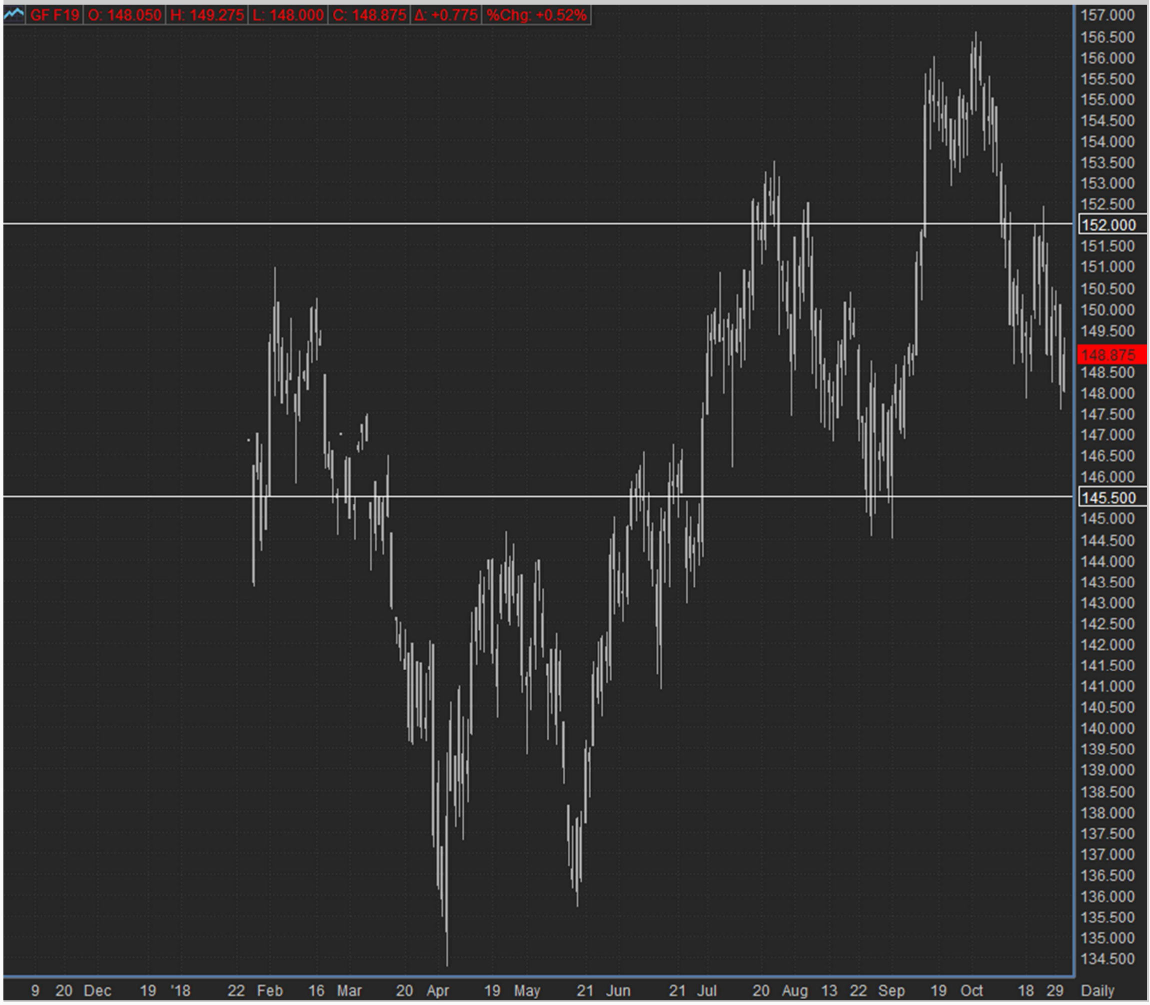
Feeder Cattle January Futures



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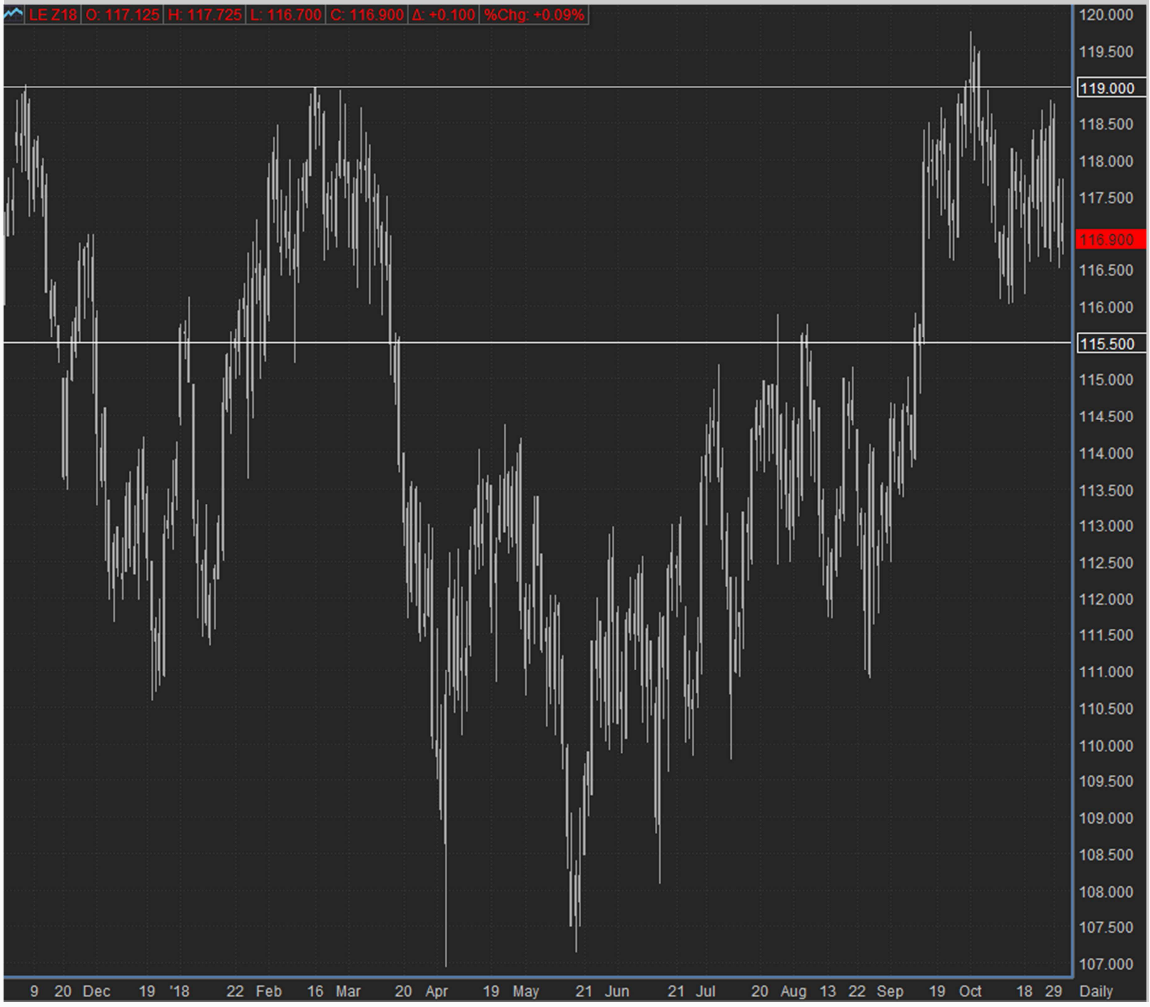
Live Cattle December Futures



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