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TECHNICALS & TRENDS

October 2019 Edition

I want to start off by talking about the Canadian Dollar. The range this month on the December futures has been a low of 74.965 cents to a high of 76.695 cents. It seemed that our loonie could keep increasing this month and continue to be one of the best performing currencies. However, yesterday there were some key interest rate policy decisions from the U.S. and Canada. The Bank of Canada (BOC) left the target for our overnight rate at 1.75%. This should be positive for the Canadian Dollar to continue higher. Central banks typically.....

- increase rates if they think the economy is performing well and can handle it
- lower rates if they need to spur growth in the economy and
- keep rates unchanged if they are unsure/want to keep the economy as is

The Canadian Dollar dropped after the news of keeping rates unchanged because the BOC offered a longer term view that wasn't as certain. Whereas, the U.S. decided to lower interest rates yesterday by 0.25% from 1.75% to 1.50%. This has been three rate cuts by the U.S. that Canada hasn't followed suit. What are the consequences if the Bank of Canada doesn't follow the Fed in cutting rates? If the Bank of Canada stays on the sidelines, the Canadian Dollar could keep strengthening. However, this would end up working against the bank's desire to see a sustained re-balancing in the economy.Typically, there is a 90% correlation between U.S. and Canadian monetary policy, so it might be more of a question of 'when' the BOC will cut rates and not 'if'. My viewpoint is that the BOC will eventually cut rates and this could lead the Canadian Dollar lower.

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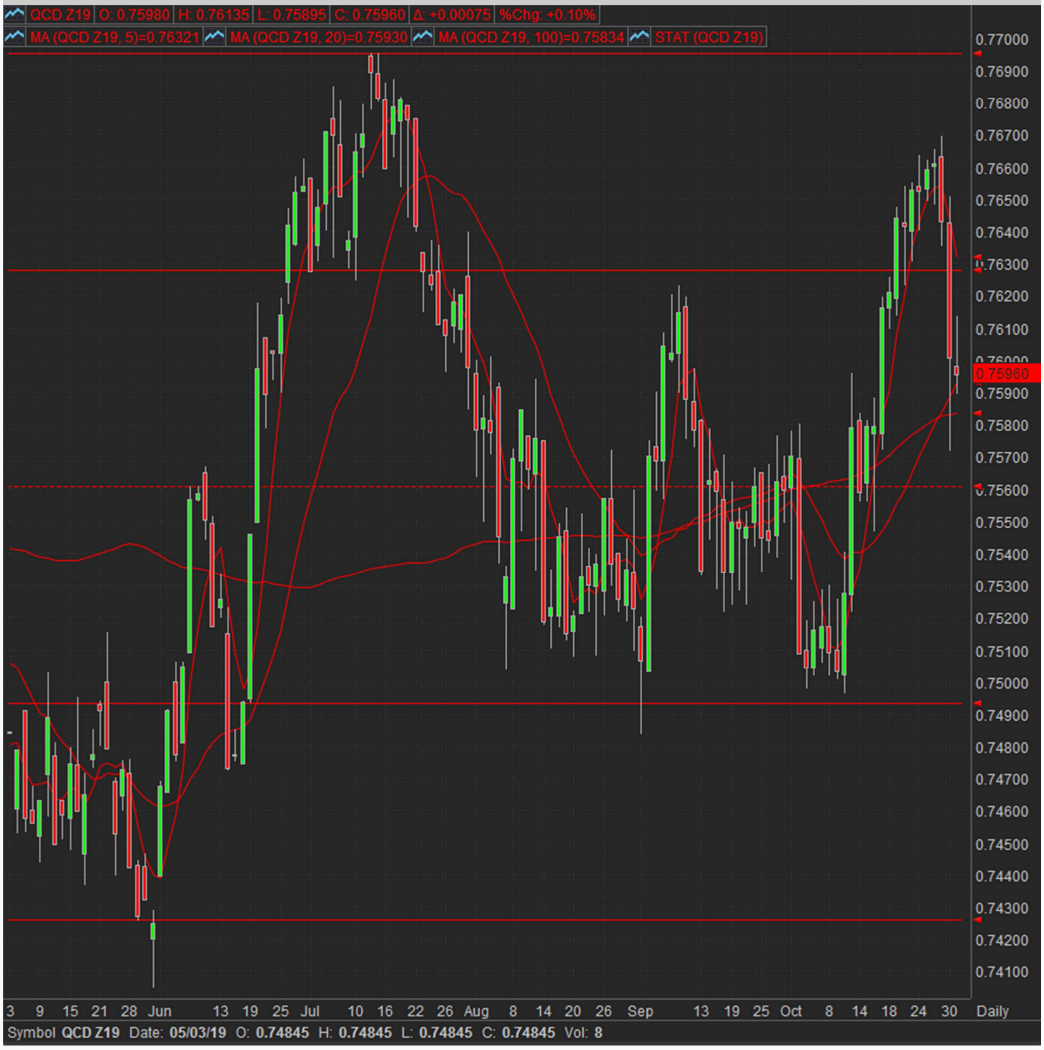
Canadian Dollar December Futures



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Canola broke out of the sideways the range seen since July, but couldn't continue or hold the higher trend. A rally in the soy complex and palm oil supported the earlier rally. It seems that the sharp increase in the Canadian Dollar and some optimism of improved weather allowing producers to take their canola off have squashed prices back down. This is the time of year when I discuss with clients to look at selling on rallies like we have seen. Instead of selling physical canola if farms are worried about not being able to commit to their contracts I consider futures/options strategies. More positive news may be coming for Canada to resume exporting to China. On October 28th, Canadian and Chinese officials met at the World Trade Organization (WTO) in Geneva.

“We hope that the opening of our seed exports can follow from the positive dialogue that happened today. We will be waiting and working with the government to understand what information has been provided by China so that we can recommend the best path forward on behalf of the canola industry,” Brian Innes, the Canola Council of Canada’s vice-president of communications told Glacier FarmMedia about the meeting.

Other interesting news is Bloomberg reported that Canadian canola exports in September to the United Arab Emirates had surged more than 500% compared to the same period last year. It is possible our canola is being processed in the UAE before canola oil being shipped to China.

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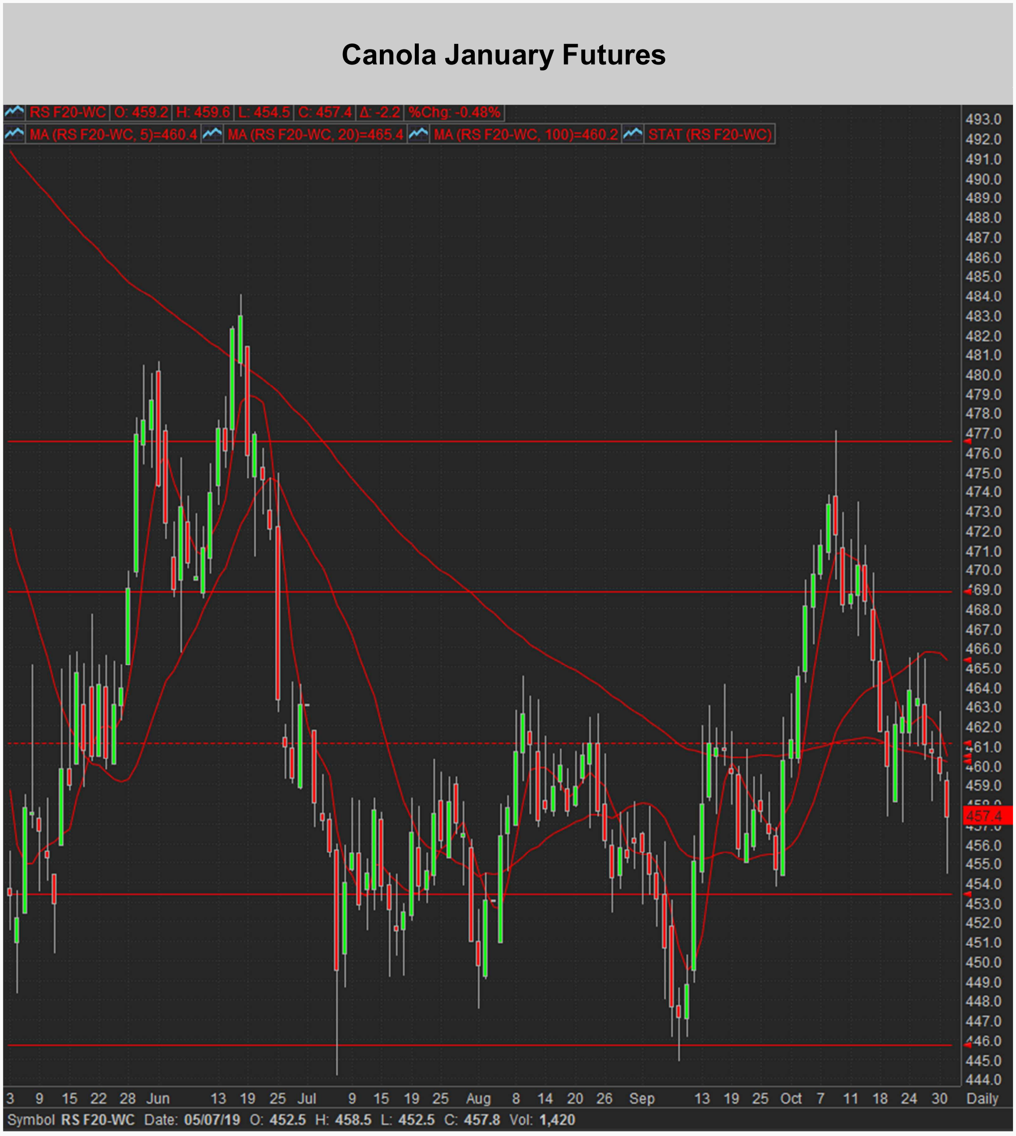

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On the December futures contract this month:

- Chicago wheat - 11 cent INCREASE (was 37.6 cents on the Oct 21st high)
- Kansas City wheat - 8.6 cent INCREASE (was 27.2 cents on the Oct 21st high)
- Minneapolis - 9 cent DECREASE (was a 25 cent increase on the Oct 17th high)

The USDA reported on October 10th that world and U.S. ending wheat stocks were more than expected. Higher stock numbers gave more fuel for the bears during this seasonally weak period for wheat prices.

A positive piece of news came today from the weekly export sales showing U.S. wheat in the week to Oct 24th at 493,700 tonnes, which is was the higher end of trade expectations 200,000 to 500,000 tonnes.

Minneapolis wheat had a greater and faster rally in September. Now Minneapolis futures are declining more than Chicago and Kansas City. I'm seeing positive technical signs for wheat out in the winter months and will be discussing strategies to buy wheat.

I've been already buying for clients that have to sell for bin space or cash flow.

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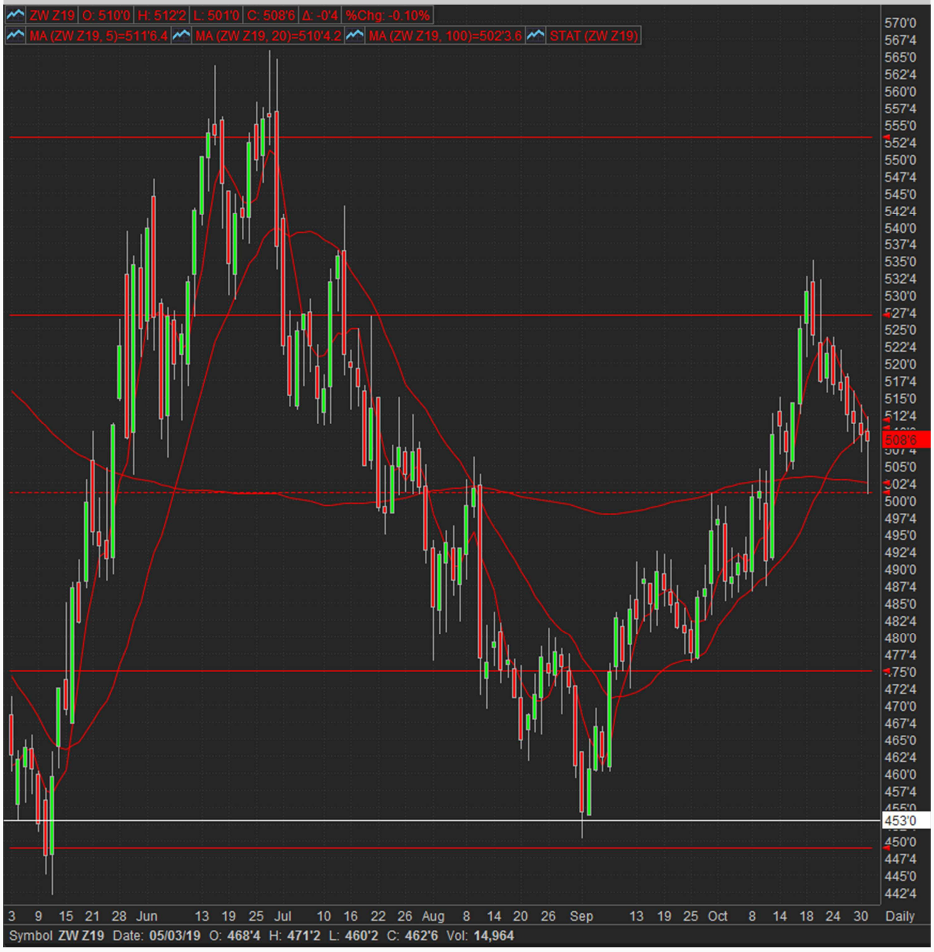
Chicago Wheat December Futures



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Kansas Wheat December Futures

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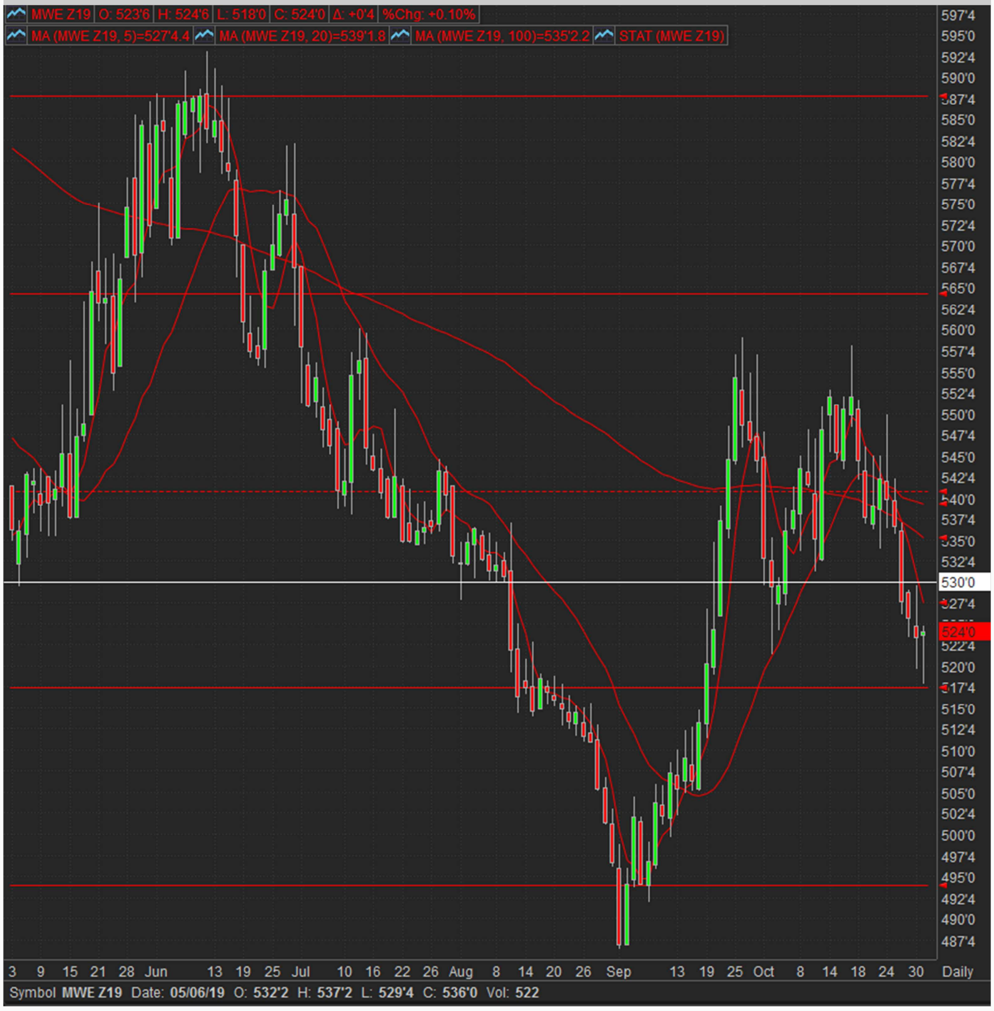
Minneapolis Wheat December Futures



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Corn has been reacting quite a bit around the optimism of a trade deal. Overall, corn futures in October went sideways only up 3 cents/bu for the month. October 11th President Trump announced the U.S. and China reached a “substantial phase one deal”. There were supposed to be more tariffs being applied to China on October 15th.Trump said the deal would take three to five weeks to write and could possibly be signed by the middle of November. Now Chilie has canceled their Asia-Pacific Economic Cooperation (APEC) forum from November 15-17th where Trump planned on signing the agreement. There has not been any news regarding a new place to sign the agreement except it could be delayed to December now.

Corn and soybeans took negatively to this news. Under the agreed-upon deal China will purchase $40 to $50 billion of U.S. agricultural products. It seems like the market is skeptical that there is really a deal and may want something signed before turning bullish.

How many articles did you read about corn futures going to $8/bu back in the summer? While many thought corn futures could keep going to the moon I mentioned to clients this is a selling opportunity. I didn't know where the top was going to be, but in any grain market if you see a significant increase it is prudent to sell. The next major report traders are eyeing is from the USDA on November 8th.

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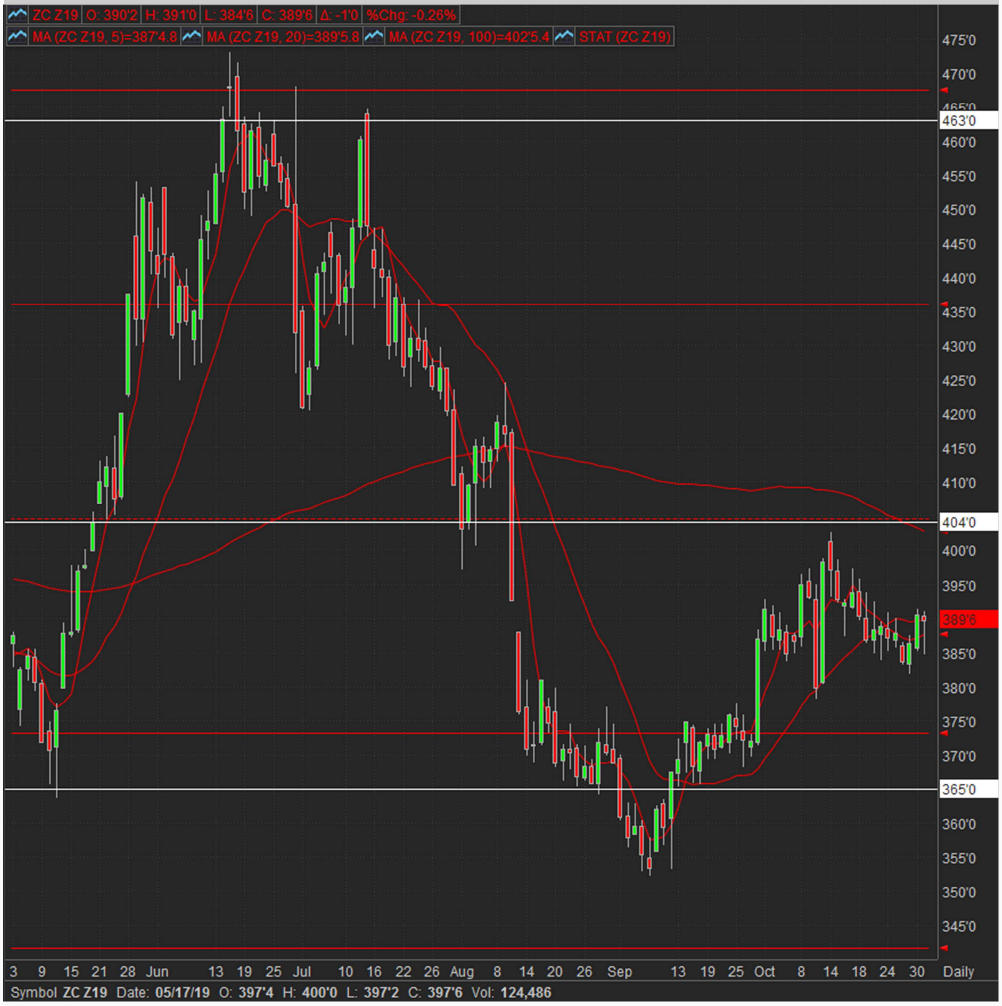
Corn December Futures



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On the nearby futures contracts since September 9th, feeder cattle have increased 16% and live cattle 21%. A strong tone for consumer demand and the possibility of beef exports to China in the future has helped to support the market.

Solid gains in beef prices has helped to hold packer margins deep in the black, which has added to the positive tone. Right now it seems that there is more positive news that could keep prices going higher. Eventually, the premium of futures to the cash market may be a limiting force.

Also, the premium may encourage producers to feed cattle out to a higher weight. The last two years the futures increased into early Spring so the top might not be here yet. What could happen is a short term correction, then a continuation of the uptrend. A combination of higher average weights and talk of a surge in placements for the month of October are factors which could cool off the recent buying.

I've been talking with clients when they plan to sell their cattle.

It is always prudent to look at adding in protection with this type of market rally.

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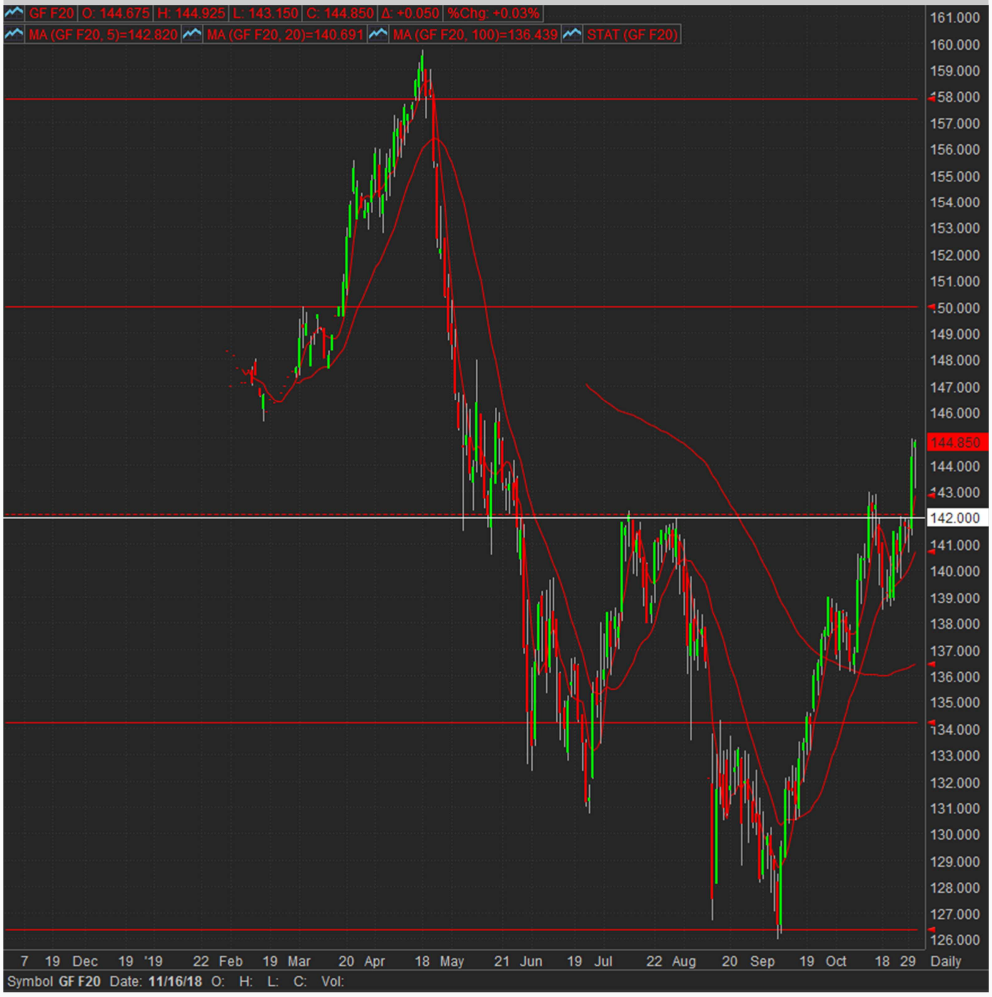
Feeder Cattle January Futures



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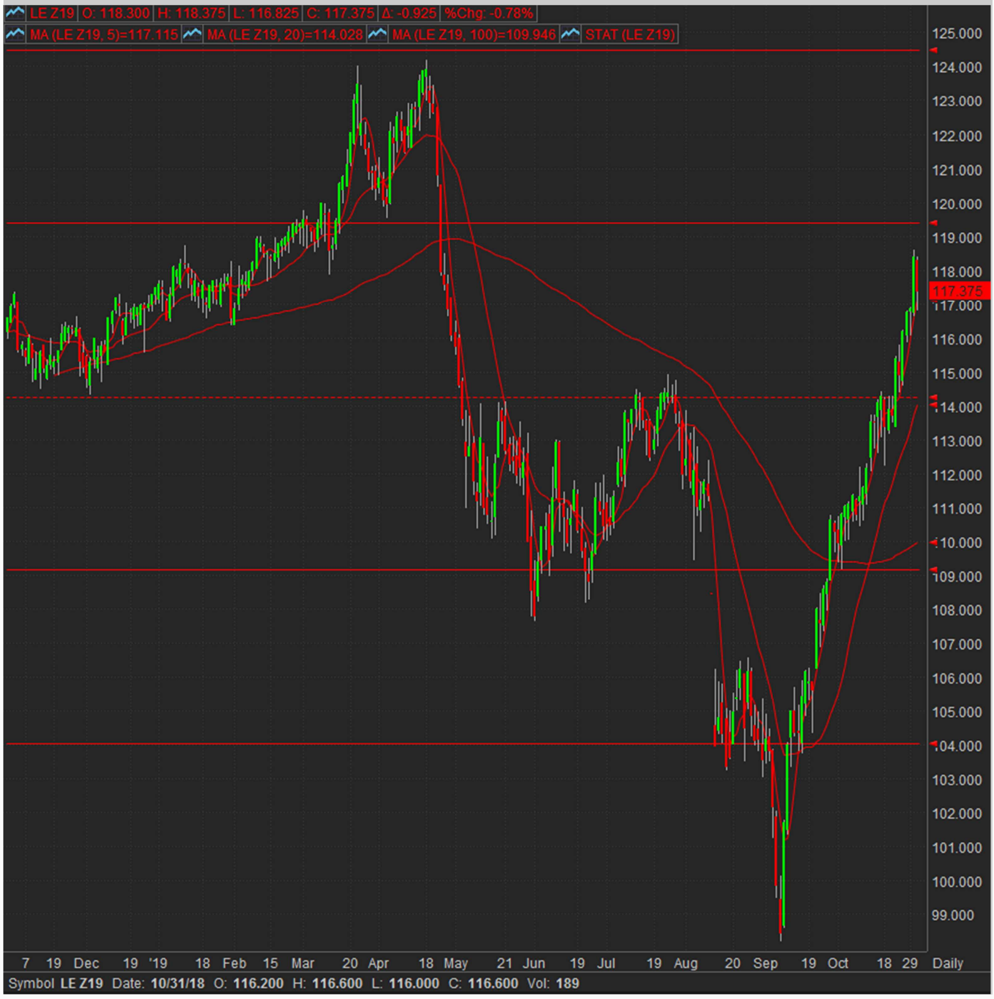
Live Cattle December Futures



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