



Adam Pukalo
Commodity Futures Advisor

TECHNICALS & TRENDS

September 2018 Edition

I've been receiving a lot of questions on the Canadian Dollar this month given what is going on with NAFTA negotiations. Here are my thoughts on where I see it may be headed and the factors to watch.....

To try and make sense of where the loonie could go you first have to understand the driving forces. On a daily basis, the US Dollar, oil and economic data releases are what typically causes volatility. The Canadian Dollar has an inverse relationship with the US Dollar. This means when the US Dollar increases the Canadian Dollar decreases and vice versa. An example of this is when the US Federal Reserve increased interest rates this week the US Dollar increased and the Canadian Dollar decreased. Many Canadians are familiar with how oil and the loonie move positively together. Like any correlation, there may be some deviation. Last summer when the Bank of Canada increased interest rates, the Canadian Dollar went significantly higher, but oil went up gradually. We are starting to see the correlation between oil and the Canadian Dollar be closer together than before. Lastly, scheduled economic data has quite a bit of impact. Today there were GDP numbers released in Canada that beat expectations helping to push the loonie higher. Those are a few of the main daily factors. Major economic events, such as NAFTA negotiations, can often overshadow daily factors. This is when you might see volatility due to headlines that NAFTA is or isn't going well.

Where do I think the Canadian Dollar could be headed given all of this?

If/when a NAFTA deal is complete, the Canadian Dollar may increase because this will be seen as positive news for our trade (unless it is really unfavorable for us). I'm preparing strategies for clients to protect their Canadian Dollar risk into the New Year.



Adam Pukalo
Commodity Futures Advisor

Trump may be playing "hardball" until the mid-term elections in November so a deal may get completed after then. I'm watching 79 cents on the higher end and 75 cents on the low end. Regardless of where I think the Canadian Dollar may be headed, one factor may change and my strategies will adapt to help clients best control their currency risk.





Adam Pukalo

Commodity Futures Advisor

I mentioned last month how I was buying canola for clients around \$490/ton because I saw that as a bottom. In the last week, canola has increased close back to the \$500/ton level. I've started to take profit for clients of \$7-10/ton depending on their entry point. Since the beginning of the month to yesterday, soybeans have increased 5.10%, soybean meal 4% and soybean oil 5.80%. The soy complex increasing and possible harvest worries in Canada have helped build a bullish view. Why am I looking at taking profit then on my long canola positions?

Canola may still go higher, but I always keep in mind producers risk is from the price going down (unless you are replacing what you sold). I would rather take that \$10/ton profit on positions and add that to the bottom line of my clients canola. If the prices increases, great! That just means to me producers to sell their physical canola at a higher price. I will be looking for opportunities to protect from a decline in prices when a peak may be in sight.



204.982.0010

www.prairiecommodities.com



Adam Pukalo

Commodity Futures Advisor

Today the USDA Grain Stocks & Wheat Production report showed stockpiles and production increasing both more than estimates. On Sept 1st U.S. stockpiles of wheat were 2.379 million bushels and production at 1.884 million bushels. This is considered slightly bearish for wheat. For the most part these numbers were already priced in given this week's decline in the futures. When looking at the technicals Chicago and Kansas wheat are nearing support. Trends have changed negative, but if this \$5 area on the Chicago December futures holds there could be a bounce higher. Managed money fund traders have reduced their long positions, which show some caution is warranted for a rally.

Chicago Wheat December Futures



204.982.0010

www.prairiecommodities.com



Adam Pukalo
Commodity Futures Advisor

Kansas December July Futures



Minneapolis Wheat December Futures



204.982.0010

www.prairiecommodities.com



Adam Pukalo

Commodity Futures Advisor

The September 1st Quarterly Stocks report for soybeans was considered bearish. Stocks came in from the USDA at 438 million bushels versus the average estimate of 398 million bushels (378-430 million range) and compared to last year's 302 million bushels. Beginning stocks for the coming year came in well above expectations and outside of the range of estimates. Right now the fundamental situation for soybeans is considered bearish from

1. Larger than expected beginning stocks
2. Possible lower exports and
3. Potential for yields to increase from the USDA in October

This could all push US ending stocks to 950 million bushels more than doubling this seasons. When looking at the technicals \$8.20-\$9/bushel is a rough trading range on the November futures. There may be rallies if any positive news on the China/U.S. tariffs is made. However, no deals are in sight right now keeping soybean prices depressed. I've been discussing with my clients what their plan is for their soybeans after harvest, how much they have sold etc to develop a plan for their operations if prices continue to decline.



Adam Pukalo
Commodity Futures Advisor



This month the USDA Cattle on Feed report showed.....

- Cattle on feed supply for September 2018 was pegged at 105.9% of last year
- Placements during August 2018 came in at 107.4% of last year and
- Marketings were 100.2% of last year.

The report was slightly bearish with traders looking for August placements near 105.1% of last year. December and February cattle contracts could decline as a result medium term. Short term cash news is mixed and does not seem to correspond with the surging futures market. In



Adam Pukalo

Commodity Futures Advisor

Nebraska, cash cattle traded this week near steady at \$110. This leaves December at a \$8.57 premium to the cash market as compared with the 5-year average premium of \$4.57. Cash normally works higher from the 3rd quarter to the 4th quarter, which is the reason for the premium. However, this year the 4th quarter production is expected to increase a record amount from the third quarter suggesting that December should be trading at a discount to the cash. I've been starting to discuss with my clients that sell their cattle in January possible strategies for protection.

Feeder Cattle January Futures



204.982.0010

www.prairiecommodities.com



Adam Pukalo
Commodity Futures Advisor

Live Cattle December Futures





Adam Pukalo
Commodity Futures Advisor

PI Financial Corp. is a Member of the Canadian Investor Protection Fund. The risk of loss in trading commodity interests can be substantial. You should therefore carefully consider whether such trading is suitable for you in light of your financial condition. In considering whether to trade or the authorize someone else to trade for you, you should be aware of the following. If you purchase a commodity option you may sustain a total loss of the premium and of all transaction costs. If you purchase or sell a commodity futures contract or sell a commodity options you may sustain a total loss of the initial margin funds or security deposit and any additional fund that you deposit with your broker to establish or maintain your position. You may be called upon by your broker to deposit a substantial amount of additional margin funds, on short notice, in order to maintain your position. If you do not provide the requested funds within the prescribe time, your position may be liquidated at a loss, and you will be liable for any resulting deficit in your account. Under certain market conditions, you may find it difficult to impossible to liquidate a position. This is intended for distribution in those jurisdictions where PI Financial Corp. is registered as an advisor or a dealer in securities and/or futures and options. Any distribution or dissemination of this in any other jurisdiction is strictly prohibited. Past performance is necessarily indicative of future results.