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TECHNICALS & TRENDS

September 2016 Edition

Highlighted: Canola, Soybeans, Wheat & CDN$

You may have read that Prime Minister Justin Trudeau has announced that existing rules with China on canola exports have been extended beyond the Sept 1st deadline. The January canola futures spiked up $14 on the announcement to a high of $474.80/ton and now we are currently $7 higher at $467.80/ton. Last month I posed the question "Is a rebound going to happen now or will the trend continue lower?". 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. For operations that may not have sold much off the combine, it may be a good idea to add some protection in around $480/ton to protect from potentially lower prices. I still have new crop protection on for my clients around the $480/ton range and may add a second round if that level comes. On the downside, I'm keeping a close eye on $450/ton to hold. Active traders could see a break below $450/ton as weakness from a technical standpoint and drive the futures lower.

Canola January futures contract:

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The USDA Crop Progress Report this month provided the bears with more ammunition, pegging an improved soybean good/excellent rating. When I saw a spike up in August to the $10 range I added more protection on for my farm clients. Today, the preliminary report from the CBOT showed daily futures volume up 31% at 156,857 contracts with moderately active fund selling helping take 3,876 off open interest as big speculators continue to liquidate bullish bets. Options volume more than doubled to 80,893, 59% of them puts as traders continue to add positions. Given the move below $9.50 on the January futures today (chart below), I'm going to recommend to operations add more hedge protection on. However, strong demand may be enough to offset a huge crop. If you made good sales at profitable levels, you may be able to wait and see how weather play out here and in South America.

Soybean January futures contract:

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StatsCan reported this month the total production of wheat is expected to reach 30.5 million tonnes in 2016, up 10.5% compared with last year. This could mark the second time in 25 years that wheat production will exceed 30 million tonnes, the other being the bumper crop of 2013. Wheat futures have kept breaking important levels and continue lower. When adjusted for inflation, these historic low averages compare to prices of the 1930s. My stance on wheat is that we could see a short term rally. The funds have clearly been short and driving the price lower, but when they start taking profit we could see spikes higher. I'm prepared to buy call options to replace any wheat that farms may have sold.

Chicago December Wheat futures contract:

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Kansas Wheat December futures contract:

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The Canadian dollar has been trading in a $0.04 range since April and has weakened to a two-week low against its US counterpart. Increased expectations of a U.S. interest rate hike as soon as September, and decreasing oil prices have both contributed to the decline. The odds of a Federal Reserve rate increase in September have climbed to 30 percent, up from 18 percent before senior Fed officials spoke last week, according to CME Group's FedWatch tool. $0.76 is the support (floor) level I've been watching and it has almost been reached. If the $0.76 level is held, this may be an opportunity for operations to buy call options and protect from an increase in the Canadian dollar.

Canadian Dollar December futures contract:

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