

## Market Highlights

Grain prices rallied, crude and the Canadian dollar swooned and natural gas is essentially sideways.

### Grains and Soybean Oil

Grains and oilseeds, with the exception of soybean oil, rallied over the past month. Several factors contributed to this reversal: poor US harvest weather, poor Brazilian planting weather and stronger than expected exports of soybeans and corn, especially to China. These fundamental factors started a rally that was extended by trend-following speculative funds.

**Corn:** USDA's November report reduced the production forecast marginally, when the market expected the opposite. However, it barely flinched and was unable to break through technical resistance. The projected stocks/use ratio is at 14.7% compared to 9.1 and 7.4 the past two years. Harvest caught up to historical levels, ethanol production dropped off with much lower margins and South America is almost caught up on planting, but may have less in the second crop. USDA forecasts \$3.45 and December is trading at \$3.77. Look for a setback.

**Soy oil:** Soybean futures had the largest rally, caused by soymeal being in short supply. But soy oil is competing with a large palm oil crop. After dropping from \$.45 in March to under \$.32 in September, December oil flat lined and is testing support again at the current \$.324. This could be a good place to buy forward, but we may have one more leg down.

**Wheat:** Chicago December wheat rallied from \$4.70 to \$5.50 in sympathy with the other grains and lately by concerns about winter weather on the winter wheat crop. Late grain harvest in the US likely reduced winter wheat plantings. But export demand has been weakest for wheat and USDA projects a 30% stocks/use ratio. Wheat may test contract lows again, barring major production problems somewhere in the world.

**Sugar:** The rally on the March fizzled at \$.17, fell back to test support at \$.156 and is moving down to test it again. Brazilian production is high and boosted by a weak currency that provides good processing margins. Technical support is strong at \$.156. This may be an excellent place for buyers to do some forward pricing.

**Natural gas:** Natural gas prices broke down out of their sideways channel in November with the December contract bottoming at 3.7 cents, well below the 3.9 support plane before rallying to test resistance at 4.2 cents. Cold weather increased demand, but production is up 4% from last year. This is a market looking for direction: A break above 4.2 or another break toward 3.7 should signal locking in prices for the long cold winter.

**Crude Oil:** Brent Crude's precipitous slide has now broken through \$80. The Saudis are taking dead aim at the US fracking industry by increasing production and dropping prices. They are also sideswiping Russia, whose Ruble has lost about 30% of its value in the slide and magnified by Western trade sanctions. The January chart shows a little sign of levelling. With support at

\$76.76, this bears watching if buyers have the opportunity to lock in forward prices.

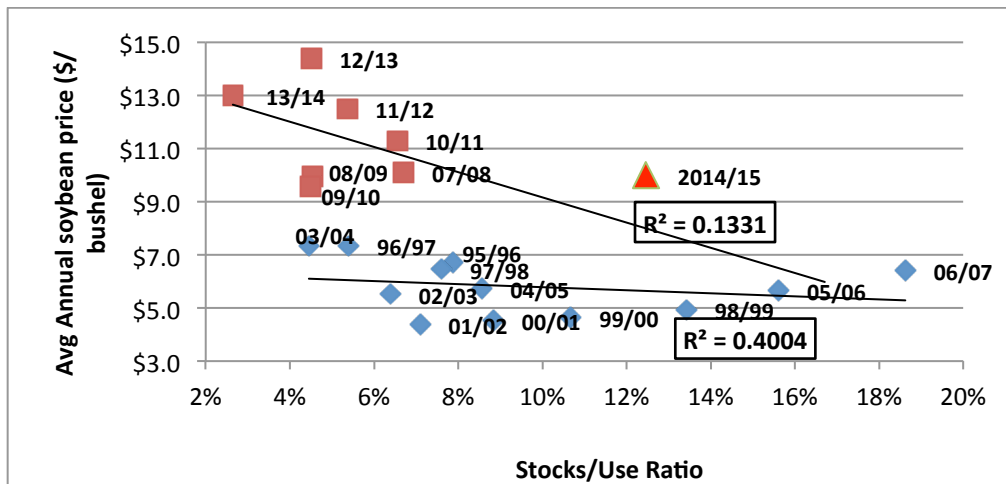
**Canadian dollar:** The loon is also being sideswiped by oil prices. December dropped below support at \$.884, but then rallied back to it on unexpectedly good employment news. This is a significant chart point: the only two long term support points below it are around \$.85 and then the \$.70's. Canadian Fed Chair Poloz continues "talking down" the loon declaring no possibility of interest rate increases for some time.

We continue to suggest that those who risk a lower Canadian dollar buy Puts. If you did, watch closely around the \$.885 area: if it is supported here, it's a good place to take profits, but if not, stay covered.

### Commentary – Is USDA Over-Optimistic About Prices?

We said above that the grain complex has some interesting downside risk. We think it's significant. The chart below contains US stocks/use ratios and annual average soybean prices since 1995/96. It's clear that there is an inverse relationship between them. It's also clear that the relationship changed after 2006/07: prices are now higher at any given stocks/use ratio. The same is also true for corn and soybeans.

The change is likely due to a declining US dollar in the latter period and the increased demand by Asian countries.



What's concerning is the USDA forecast for 2014/15: it's a stocks/use ratio of 12,5% and a price of \$10 (admittedly with a large range). It sticks out on the chart. The trend line estimated would suggest prices closer to \$8.00.

The shortage of soy meal was nearly critical before harvest, exacerbated by strong exports and delayed harvest in October resulting in a dramatic price rise. But it can also fall dramatically. As usual there are both bullish and bearish factors in the market, but we don't believe that the

price and stocks/use combination that you see here will happen. A major slide in soys can affect the whole grain complex.

*Market Trends is prepared by Dr. Larry Martin, [larry@agrifoodtraining.com](mailto:larry@agrifoodtraining.com) or 519 841 1698, who offers a course on managing risk with futures and options, Canadian Food and Agri-business Management Excellence (CFAME), a management training course for food industry personnel.*