What risks are looming on the horizon for your farm?

Interest rate hikes, fuel costs, market swings, and even the stock market are all things to watch this year

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To know where you are going, it helps to know where you've been.

So, if the trend is indeed your friend, then it is reasonable to expect some of the trends of last year to lay the foundation for 2018. This is not necessarily a forecast or outlook, but rather an analysis of current market conditions and what they could mean for your costs and revenues as well as your assets and liabilities.

Market movements will affect so many parts of your farm financials that it's good to take a broad view of global market trends starting with interest rates, often a determinant of so many other markets.

Interest rates are an inherent part of most modern farm businesses. Whether you are planning an upcoming expansion or renewing an existing loan, the direction of interest rates will be important since they are at such low levels.

HISTORICAL TRENDS

	6-month	12-month
Canola	sideways	sideways
Soybeans	sideways	sideways
Corn	down	down
Hard Red Spring Wheat	down	up
Winter Wheat	down	down
Cattle	sideways	up
Hogs	up	up
Canadian Dollar	sideways	up
Interest Rates	up	up
Crude Oil	up	up
Stock Market	up	up

Last year, the U.S. federal fund rates rose a full one per cent from 0.5 per cent to 1.5 per cent, while the Bank of Canada rate increased from 0.5 per cent to one per cent. Ten-year government bond rates, which affect medium- and longer-term borrowing, have increased 1.25 per cent from their lows in 2016, from one per cent to 2.25 per cent in Canada and from 1.25 per cent to 2.5 per cent in the U.S. And, the existing trend is still pointing toward higher rates in North America.

The U.S. is expected to raise rates at least a couple of times this year, based on current market conditions, so we should see Canadian rates increase as well. In fact, historically, Canadian government bond rates tend to move in the same direction as U.S. Treasury bonds about 80 per cent of the time.

Additional borrowing costs can turn into a significant incremental expense whereby even a one-half per cent to one per cent rate increase can impact your bottom line. A one per cent increase on a million dollars of borrowing over five years would mean an extra $50,000 in expenses for the farm. Fortunately, just as you can use market-based tools like options and futures to hedge your grain, livestock and currency risk, there are exchange traded tools to protect against rising interest rates as well.

In the foreign exchange market, the Canadian dollar rose about four cents from 74 U.S. cents to about 78 cents with the overall U.S. dollar index down 8.5 per cent. Longer term, the loonie has been in a sideways pattern for the past two years. So, watch for sustained trading activity above 80 cents or below 75 U.S. cents as a signal of a change in direction.

Any changes to NAFTA or a divergence in interest rate policy between the Bank of Canada and the U.S. Federal Reserve are the two mostly likely sources of currency and interest rate volatility in the upcoming year. Don't forget that while a weaker loonie would be helpful on the revenue side, many inputs are imported from the U.S. or priced in U.S. dollars, so that a weaker Canadian dollar makes them more expensive. Be opportunistic and think about managing both the expense and revenue side of the currency equation.

Fuel costs are another component of all farm operations. In 2017, crude oil futures were up 12 per cent, increasing from US$52/barrel to around US$58, while natural gas was down 25 per cent. Expect these conditions to continue with crude oil prices staying strong but natural gas weak.

Feeder and full-weight cattle futures trended higher on average by over 20 per cent and Canadian cash prices have been quite good. Hog futures had a very choppy 2017, ending the year up only about five per cent. For next year, it's harder to see a definitive price pattern emerging for hog futures since they have been trading in a 10- to 15-cent range for the past couple of years. Cattle futures, on the other hand, have entered into more of a sideways pattern and some downside risk may develop.

For grains, it was mostly a down year in 2017. Corn was down 10 per cent, hard red winter wheat was down almost 15 per cent, but hard red spring was up about 10 per cent. Currently, wheat and corn futures are still drifting lower as we begin 2018 but oilseeds have been in a price channel for the past few years. Canola was unchanged at $500/tonne in 2017 and soybeans were down only five per cent.

In fact, all the largest oilseed markets including soybean, rapeseed, palm and sunflower have a similar price pattern. All these global oilseed markets have been going sideways over the past couple of years. Expect more sideways canola price action until a definitive change in oilseed trends occur. In particular, pay attention to any price breakout above C$525 or below C$475/tonne on canola and above US$10.50 or below US$9.50/bu. for soybeans; where soybeans and soybean oil futures go, canola tends to follow.

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Finally, with many TFSAs, RRSPs or retirement assets invested in stocks, we can't forget about the equity markets. The Canadian TSX index was up 8.5 per cent, European markets were up around 10 per cent, and the U.S. S&P 500 increased by about 20 per cent. However, many of the larger emerging markets like China and India were up even stronger, 36 per cent and 39 per cent, respectively. Even though some markets are pricey and getting expensive, many countries and industry sectors are well priced and relatively less expensive. Given most of the global stock market trends are quite strong, be cautiously optimistic but keep an eye out for any topping pattern.

Remember, the trend is your friend... until it ends.

See the accompanying table for a quick summary of these historical market trends over the past six and 12 months to help make sense of all this. It doesn't mean these trends will continue but rather an analysis of where we've been and an indication of where we could potentially be going.

Bottom line, we often need to look back at where we've been to figure out where we're going. Chart trends and patterns are an effective and straightforward measure to take the pulse of a market. Some markets are in a sideways pattern while some show a divergence between six-month and 12-month trends. Watch for changes in direction and be prepared by including options and futures hedging strategies in your marketing tool box to manage risk and benefit from opportunities in the year ahead.

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