

COLUMN

Technical analysis can make up for scant information

MARKETS | Looking to effect, rather than cause, can help inform your marketing decisions

David Derwin
PI FINANCIAL



A lot of attention is given to the biggest crops like wheat, corn, soybeans and canola, usually driven by their associated futures market.

There is no shortage of price data, analyst commentary and market research for these commodities. However, there are also a lot of crops like barley, durum, pulses and other specialty commodities that don't have an associated futures market. As a result, there tends to be not as much information which makes it not as easy to find market information and perform price analysis for those crops. What to do about that?

Well, if a picture is indeed worth a thousand words, there is no better picture than a price chart. Charts and technical analysis are visual interpretations of market behaviour that encompass all news, research and analysis from all investors, traders and hedgers. It is an illustration of the cumulative decisions of the marketplace.

In what is considered to be the bible in the trading industry, *Technical Analysis of the Futures Markets*, author John Murphy defines technical analysis as "the study of market action, primarily through the use of price charts, for the purpose of forecasting futures price trends."

He points out that the three premises on which the technical approach is based are:

- 1) Market action discounts everything.
- 2) Prices move in trends.
- 3) History repeats itself.

While these may not hold every time, all the time, they are an important part of the philosophy and rationale behind technical analysis.

The book goes on to say that "while technical analysis concentrates on the study of market action, fundamental analysis focuses on the economic forces of supply and demand that cause prices to move higher, lower, or stay the same. The fundamentalist studies the causes of market movement, while the technician studies the effect. The technician, of course, believes that the effect is all that he or she wants or needs to know and that the reasons, or the causes, are unnecessary. The fundamentalist always has to know why."

Many of the best technical analysis indicators are just simple trends highlighting when prices are moving steadily in the same direction over time, either up or down. Another important measurement associated with trends is the consolidation pattern where there is a lot of sideways, very choppy price action. Whether it's signalling the beginning, continuation or end of a trend, markets often move sideways ahead of another important price trend move or change in direction. These are some of the most consistent chart price patterns.

Technical analysis doesn't just apply to futures markets. It can be used for stocks, currencies and even cash grain markets. In fact, in smaller markets with less information like durum, peas and lentils that don't have an associated futures contract, technical analysis may be a great source of market insights. Technical analysis

can certainly complement any news analysis and fundamental research for these markets.

Knowing this, let's look at charts of a few crops that are important components of farm rotation for many producers; durum, peas and lentils. Looking back at three years of historical price data should give us some good insights into what's been happening and if there are any developing market price signals.

In general, lentils prices had been in a downtrend during 2017 and 2018. The fact that prices started going sideways was the first indication that the downtrend was coming to an end. Since then, prices had been consolidating throughout all of 2019; another sign that price might improve. More recently, near the beginning of this year, prices have started to point higher; another indication of a potential change in trend. However, is this the beginning of a new uptrend higher? Hard to say for certain, but a breakout higher following a lengthy sideways trend is a high probability pattern. This is often an indication that prices have most likely found a bottom and could move higher.

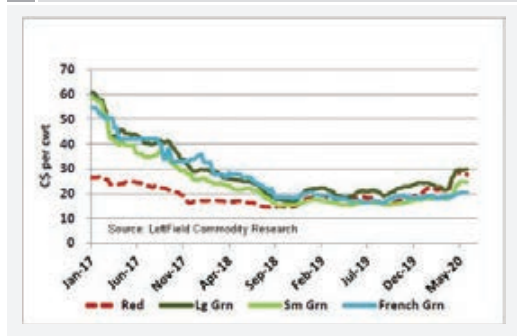
Durum and yellow peas show a similar pattern to lentils, just a little more choppy. Both were drifting lower throughout 2017 and most of 2018. They remained sideways until the late summer and early fall of 2019 when they began moving higher. Since then, both have been in a strong upward trend reaching levels last seen in 2017. If the trend is indeed your friend, then this chart suggests durum and yellow peas could remain well bid going forward.

Bottom line, there are likely many fundamental factors from international trade deals, worldwide production and global inventory issues affecting these markets but no one knows for sure exactly what the drivers will be going forward. This is where reviewing price charts comes in handy. Applying both the art and science of technical analysis, along with other market research tools, will help you make real-time marketing decisions.

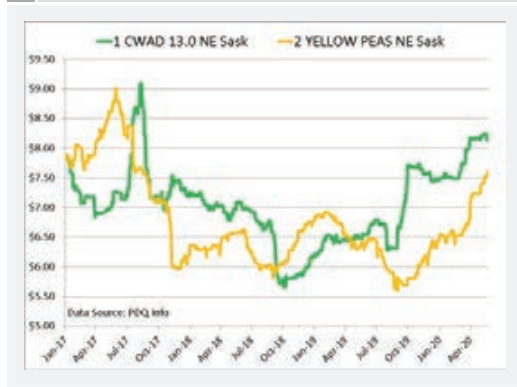
Keep your chart and technical analysis simple. Markets can only go up, down or sideways so look for medium- to longer-term trends, a breakout from an existing sideways range or a change in price direction. This doesn't mean you are going to be right every time, but with pricing strategies that take advantage of current market conditions, at least you can strive to be more right over time.

David Derwin is a commodity portfolio manager and futures/investment adviser with PI Financial Corp. (1-844-982-0011 / dderwin@pifinancial.com / www.commodity-options.ca), a member of the Canadian Investor Protection Fund. The risk of loss in trading commodity interests can be substantial. Past performance is not necessarily indicative of future results. You should therefore carefully consider whether such trading is suitable for you in light of your financial condition. This is intended for distribution in those jurisdictions where PI Financial Corp. is registered as an adviser or a dealer in securities and/or futures and options. Estimates and projections contained herein are our own and are based on assumptions which we believe to be reasonable. Information presented herein, while obtained from sources we believe to be reliable, is not guaranteed either as to accuracy or completeness, nor in providing it does PI Financial Corp. assume any responsibility or liability.

AVERAGE CANADIAN LENTIL BIDS



DURUM AND YELLOW PEAS



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David Derwin
Commodity Portfolio Manager

844-982-0011
dderwin@pifinancial.com

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