MARKET WATCH

David Derwin – Portfolio Manager & Investment Advisor
PI Financial Corp.
Connect at www.Commodity-Options.ca or 1-844-982-0011

Below are excerpts from my weekly Market Watch radio spots.
Market Watch is broadcast on over two dozen radio stations across Western Canada.

How will we be farming in 20 years – July 9, 2018

A recent article in Grainews called “How will we be farming in 20 years?” by Lisa Guenther highlighted two agronomic issues that will affect future farming decisions.

Disease issues like clubroot could encourage other profitable crops to take over canola acres in the next couple of decades. Herbicide resistance will also change how weeds are managed going forward. Revenue management and marketing will change over the next 20 years as well.

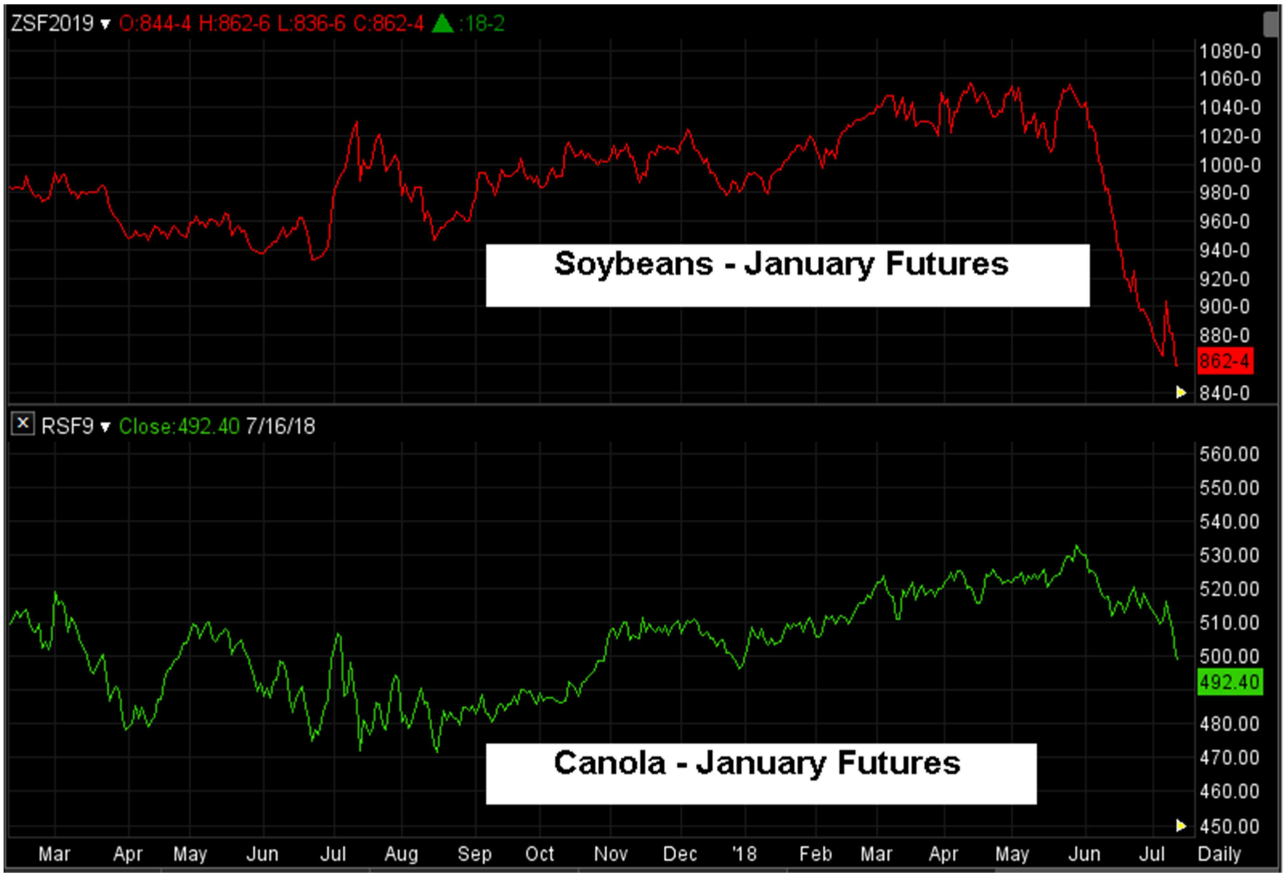
Other industries, like oil & gas and mining, have been using options & futures style tools for decades. Many companies hedge 1, 2 and even 3 years or more into the future, often because their bankers and creditors want reassurance that there will be enough cash flow stability and downside risk mitigation to make them a good credit.

A properly established options & futures hedging account can help many aspects of a farm business as well. Just like the deferred delivery or basis contracts you may already be using.

Bottom line, in 20 years, a lot more farmers will be using options & futures as part of their everyday operation. To find out about all your revenue management options, connect with me at 844-982-0011 or commodity-options.ca.

Defying Gravity – July 16, 2018

So far, canola futures have been defying gravity, holding up well around C$500/tonne despite soybeans dropping US$2/bushel from US$10.50 to US$8.50. The price ratio between the two is now in the top 10% of the historical range meaning canola is relatively expensive compared to soybeans. Furthermore, canola volatility has been very low, only 12% compared to more than double the 26% level for soybeans. This doesn’t mean that canola has to follow soybeans lower, but the potential is certainly there.



In this sort of all or nothing, black or white type of environment, options are the ideal hedging tool compared to just locking in price with futures or a deferred delivery contracts. If the trade wars subside and soybeans snap back up, you get the potential upside if canola follows. But if it doesn't, canola can't defy gravity forever, so at least you have the downside protection in place.

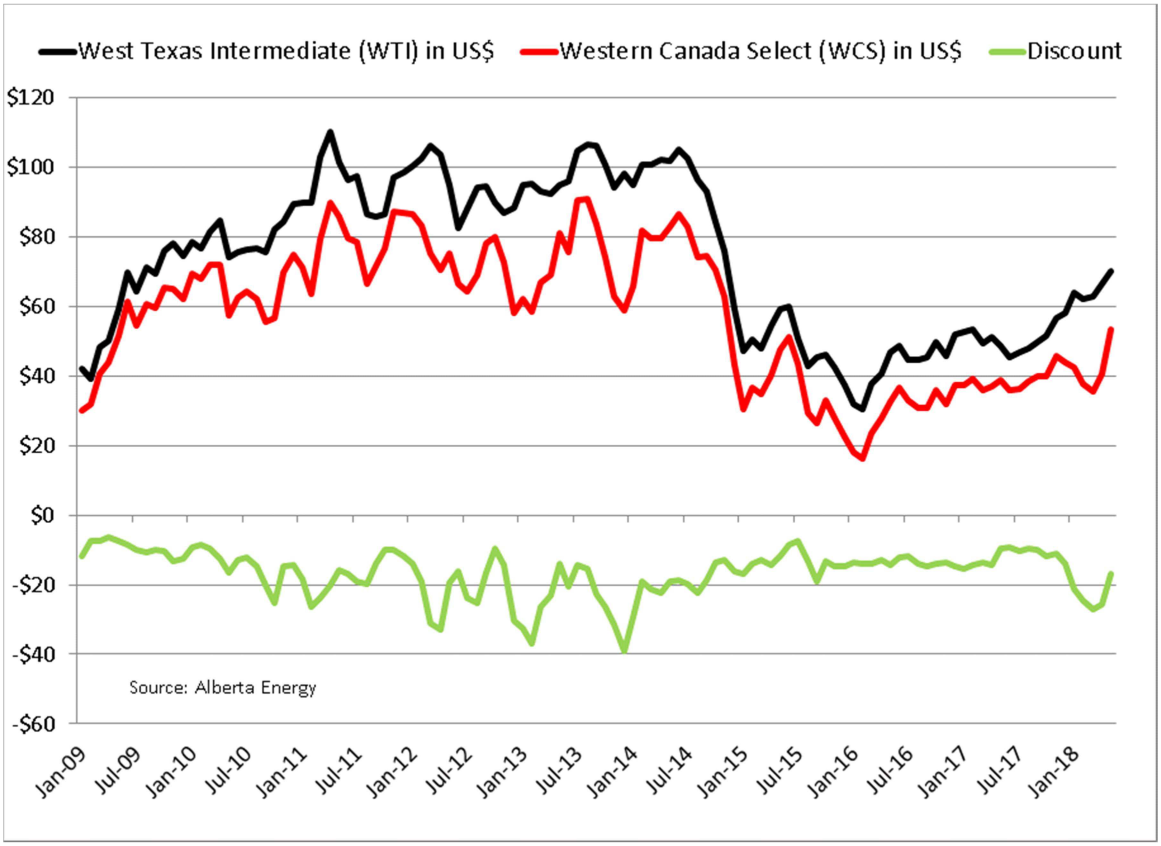
Bottom line, in this situation of trade uncertainty, canola options give you the downside protection you need with upside potential you want. To find out more about hedging with options, connect with me at 844-982-0011 or commodity-options.ca for a complimentary options hedging guide.

Canadian Oil vs. Global Oil – July 23, 2018

Oil has a big impact on farming operations and perhaps the biggest is on the C$/US$ exchange rate. However, it's not just the headline WTI oil futures price we need to focus on but the Canadian benchmark price in particular and how that relates to world prices.

With the US becoming the 2nd largest oil producer behind Russia, American pipeline capacity is struggling to keep up causing US traders to export more oil.

This means that even high and rising global oil benchmark prices may not have the same supporting effect on the C$ as it has in the past since Canadian oil is now near a US$20/barrel discount to US prices compared to just US$10/barrel a year ago.



Bottom line, this domino effect puts Canadian oil prices in the back seat and the C$ potentially in the trunk. Combined with US interest rates rising at a faster pace than Canadian rates, the C$ has stayed in the 75 cent to 80 cent range for the past three years, averaging 76.50 cents. To access my complimentary monthly market commentary and commodity analysis, connect with me at 844-982-0011 or commodity-options.ca.

Part 1 Levelling the Marketing Playing Field – July 30, 2018

As per a recent article by John Morriss in The Manitoba Co-operator, "under the Western Grain Stabilization Administration (WGSA) that ran from 1976 to 1989, there was public information on the overall prices farmers actually received. Today we don't have that. That's in contrast to the US where the USDA published a monthly list of actual prices received by farmers for grains and livestock."

"The real basis is the difference between local prices and the export price at port, which only exporters know, but they're not telling. It would be reasonable to require them to report prices in such a way as to provide a realistic average. That would settle once and for all the question of whether elevator companies are paying fair prices, or making out like bandits."

Bottom line, you might be waiting a long time to get full price transparency in the physical market, but you can use option & futures pricing tools so you don't have to be so beholden to the elevator companies.