

---

# MARKET WATCH

**David Derwin – Portfolio Manager & Investment Advisor  
PI Financial Corp.**

Connect at [www.Commodity-Options.ca](http://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.

---

## **Low Quality Canola Abounds - December 3, 2018**

Last week we looked at how rail transport issues could put downward pressure on canola price. This week, we'll look at some positive factors for canola futures.

While the delayed harvest hasn't had any supportive impact on canola prices to date, the quality of canola after harvest has been a lot less than previous years.

According to analysis by John DePape at FARMCo., only 80% of the canola harvested across the prairies made #1 Canada grade. So, "although the harvested crop size is quite large, a large proportion is low quality."

Provincial Canola Grade Breakdown (Source: FARMCo.)

	#1	#2	#3	Sample	Total
<b>MB</b>	96.6%	1.1%	1.4%	0.9%	3,129.2
<b>SK</b>	91.2%	5.0%	2.8%	1.0%	11,284.3
<b>AB</b>	57.8%	13.9%	20.2%	8.2%	6,504.2
<b>ALL</b>	79.8%	7.5%	9.0%	3.7%	20,917.7

He goes on to say that, "based on Stats Can's production estimate, we only produced about 17 mmt of #1 Canola. Assuming the 2.7 mmt of carry-in was #1, that suggests that we have less than 20 mmt of #1 canola available for the market. Compare that to the export and crush demand forecast of 21 mmt and we see that at over 1 mmt of off-grades will need to be bought and blended." However, it can be a challenge finding buyers for off-grades or blending.

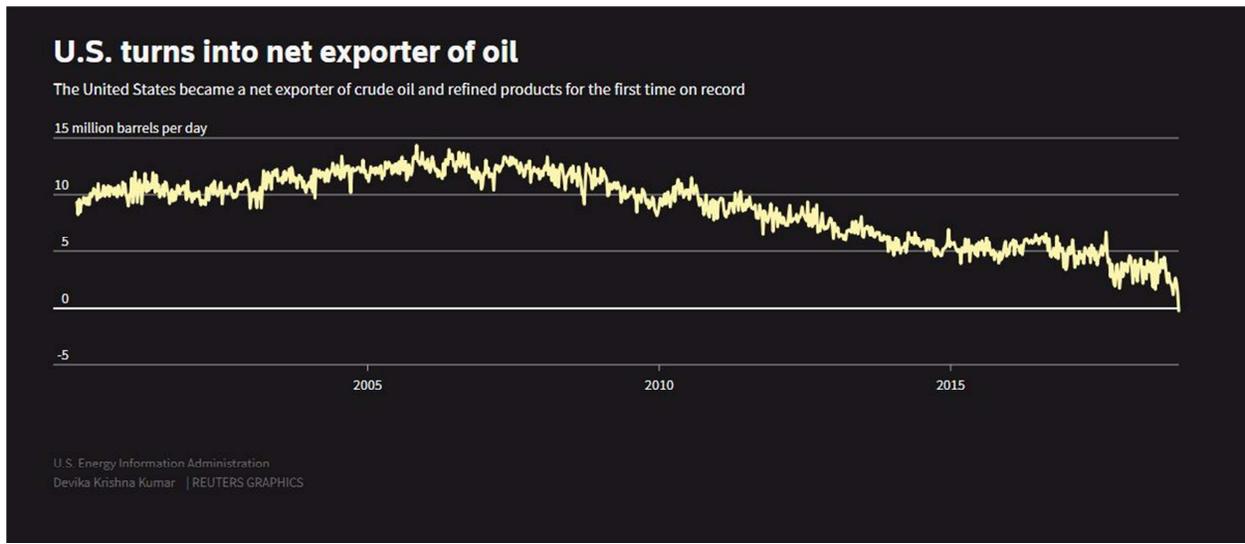
Bottom line, times like these can create opportunities in both outright prices as well as in the relative prices between different futures contract months. To learn more about a hedging program that allows you to capture spreads and storage opportunities, connect with me at 844-982-0011 or [commodity-options.ca](http://commodity-options.ca).

## The United States an OPEC member? – December 10, 2018

The United States an OPEC member? Not likely but the US continues to make history in the global oil market.

A recent Reuters article called "In major shift, U.S. now exports more oil than it ships in", the United States last week exported more crude oil and fuel than it imported, the first time that has ever happened, according to U.S. Energy Department. And it looks this trend will continue.

### US Net Oil Imports/Exports



In the past, the US was a big oil importer primarily because of a four-decade ban on crude exports that was reversed in 2015 by President Obama.

The article also says that US "petroleum exports until recently were dominated by products like gasoline and diesel, but that has changed since the U.S. shale revolution that has sped up drilling and extraction of oil."

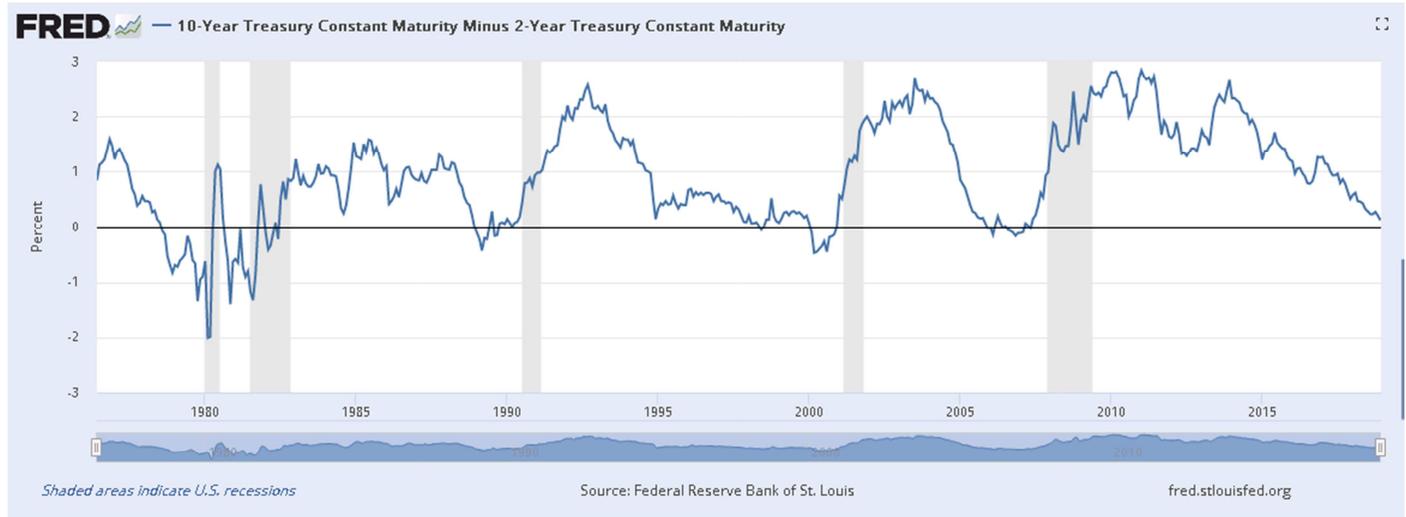
Bottom line, if the US doesn't need our oil, where will it go? This situation will not help the existing gap between Canada oil and US as well as global prices. This is not good for the Canadian energy industry nor a supporting factor for the C\$. For commodity analysis, market insights & hedging strategies, connect with me at 844-982-0011 or [commodity-options.ca](http://commodity-options.ca).

## Rising interest rates, stocks & the economy - December 17, 2018

While interest rates, the stock market and the economy are all related, they don't always over together.

Recently we've been hearing in the news about rising borrowing costs and how some short-term interest rates are higher than longer-term rates. When short rates are higher than longer rates, also called a yield curve inversion, many believe that an economic recession is around the corner and that the stock market is in trouble.

Interestingly enough, looking at US data going back to the 1950s, a recession often does follow a yield inversion but only, on average, 12.5 months later. And sometimes, no recession occurs at all.



Furthermore, based on analysis by Lowry's Research Corporation, US stocks continued up another 19% from the first sign of an interest rate inversion to the end of a bull market.

Bottom line, while rising interest rates aren't something to be ignored, the impact isn't necessarily what we hear in the news. It can be a good time, though, to pay attention and rebalance your portfolio. You can shift your investments towards more consistent cash flowing assets that pay 6, 7 or 8% without having to rely on a rising stock market to generate your return. To find out more about this style of cash flow driven investment program, connect with me at 844-982-0011 or [commodity-options.ca](http://commodity-options.ca).

## **Currency Considerations: the Canadian Dollar in 2019 - December 24, 2018**

The Canadian Agri-Food Trade Alliance says Canada exports half of their cattle produced, about 70 per cent of its soybeans, pork production & wheat, as well as around 90 per cent of its canola & pulses. However, 100% of grain and livestock sales are affected by the C\$/US\$ exchange rate.

Last year the Canadian dollar traded as high as 82 cents US near the beginning of the year, then trended its way downward falling to a low of 73.5 cents by yearend.

This year, with oil still very volatile and both Canadian & US interest rate policies constantly evolving, we should continue to see a lot of movement in the C\$. For 2019, perhaps we see a low of 71 or 72 cents. This would present a good level to hedge your currency risk to protect your revenues and basis in case the loonie reverses and moves back up.

Bottom line, with a new year upon us, be prepared to capture market opportunities and reduce risk using Canadian dollar futures & options. To find out about currency risk management programs designed specifically for farm businesses, connect with me at 844-982-0011 or [commodity-options.ca](http://commodity-options.ca).

## **Out with the old, in with the new - December 31, 2018**

On this last day of the year, I'll review the major markets that will impact both the financial and real economy in 2019.

Central bank rates rose in North America with the US federal fund rates increasing from 1.5% to 2.5%, while the Bank of Canada rate increased from 1% to 1.75%. Unfortunately I would expect North American interest rates to be sideways at best.

In 2018, oil dropped from its high in October of US\$77/barrel to under US\$50. Oil is a tough one to forecast so you can't rule out a move in either direction. The important factor is if oil turns around and moves up just as quickly as it dropped. That would certainly support the Canadian dollar.

Finally in the stock market, we could see a continuation of the sideways equity markets we had throughout 2018. Keep an eye out for any long-term price topping pattern.

Bottom line, the key oil, interest rate and equity markets were certainly moving around a lot at the end of 2018 and will be important to track in 2019 as well. To stay up to date on all the markets that affect your farm and family finances, connect with me at 844-982-0011 or [commodity-options.ca](http://commodity-options.ca).

*Options and Commodity trading has inherent risks where significant loss of capital may occur. Investors should consult with their investment advisor to determine if options and commodity trading is suitable for their portfolio and risk tolerance profile. This document has been prepared by David Derwin, Portfolio Manager & Investment Advisor for PI Financial Corp, for information purposes only. This is not an official publication of PI Financial Corp. and the author is not a PI Financial Corp. analyst. The views expressed herein are those of the author alone, not necessarily those of PI Financial Corp. The information contained herein has been obtained from sources believed to be reliable, but the accuracy or completeness of the information is not guaranteed, nor in providing it does PI Financial Corp. assume any responsibility or liability. This document is not to be construed as an offer to sell or a solicitation of an offer to buy any securities and is intended for distribution only to those jurisdictions where PI Financial Corp. is registered as an advisor or a dealer in securities. The inventories of PI Financial Corp, its affiliated companies and the holdings of their respective directors and officers and companies with which they are associated may from time to time include the securities mentioned herein. PI Financial Corp. is a member of the Canadian Investor Protection Fund & the Investment Industry Regulatory Organization of Canada.*