Market Analysis

The previous section presented you with a number of interesting facts about price influencers. They will remain just that, interesting facts, unless you are able to take and apply them to your own situation. You are now moving from fact gathering, the first step in developing a marketing strategy, to application or market analysis.

In order to make marketing decisions you need to make some decisions about canola prices in the future. The price outlook for various grains and oilseeds is important when you make your planting decisions. Your expectations of future price levels will influence the timing of your sales. If you expect prices to go down you will want to price immediately. If you anticipate increased prices you will want to hold off selling until later, as long as the anticipated price increase will cover the carrying costs of holding your grain.

The task of market analysis is to predict price levels in the future. Price prediction involves three components: the direction (up or down) of the price move, the timing (when), and the magnitude (how much). No method has ever been developed which can be used to forecast grain prices with perfect certainty; some methods, however, are more reliable than others.

Market analysts use two general methods of price forecasting, fundamental analysis and technical analysis.

Fundamental Analysis

Fundamental analysis is the assessment of all the known supply and demand factors to determine the expected level of prices to prevail in the future.

For example, if the stocks/use ratio is at an historical high in a given commodity, future prices for that commodity wilt be depressed. You may well decide not to plant that particular crop.

However, if you have the crop in hand or in the ground, there are other fundamental indicators you can watch when determining when to market or price your crop. You know for example, September to November are harvest months for Canadian canola and U.S. beans. There will be abundant supplies, handling and transportation facilities will be strained. Historically prices are lower at harvest than later in the year. You may decide harvest time is an inopportune time to sell.

Or, for example, you are aware that the overall world supply of oilseeds is burdensome. You know that the U.S.D.A. releases U.S. planting intentions at the end of March. The report indicates planting will be significantly lower than the trade anticipated. The market rallies. Given overall supplies, you know that this is a temporary market move so you decide to take advantage and forward price or sell during the rally.

These are just a couple of examples of how, by keeping an eye on changing world conditions, you can determine the appropriate time to sell or price your canola to best advantage.

Technical Analysis

Technical analysis is a more complicated form of market analysis which takes a fair bit of commitment because it requires that you keep regular records of prices. Technical analysis is often referred to as charting . It is the study of price behavior in the past, in an attempt to forecast where prices will go in the future.

A set of charts provides you with a record of past prices and thus provides an historical perspective on the market. You can decide to chart any number of prices for commodities both in Canada and the United States. You might decide to chart a specific futures contract month, or the nearest futures month throughout the year. You may decide to chart the street price, comparing it to the nearby and more distant futures months so that you can get a feel for basis changes.

When charting futures contracts, the most common chart is the bar chart which records either the weekly or daily high, low and close. After you have charted several prices you will be able to identify price trends and volatility in the market. It is important to develop a sense of historical perspective as a means to understand why market moves occurred. Without such a perspective, charts can be misleading.

You may want to consider plotting the moving average for a price in order to assess trends. It is constructed by adding the new day's price and dropping the first price in the average. Any number of days may be used in calculating the average. Along with the moving average, the daily price is plotted on the chart. Because the moving average includes prices for previous days, it will lag behind the actual change in price. If the price line cuts across the moving average line, it is a signal that the price direction is changing. For example in an up trending market both the price and moving average are going up. If the market reverses direction the price will drop faster than the moving average. While not foolproof, moving averages may signal a top or bottom in a market which is in a definite up or down trend.

Charting volume and open interest also provides clues to market direction in the futures market. Volume is the amount of trading that took place in a given day and is measured in terms of contracts traded. Open interest is the number of contracts outstanding (i.e., not offset or delivered against) at the end of the day.

Some general guidelines with respect to volume and open interest are:

Uptrending (bull) market

- If volume and open interest are both up, and prices are up, the market is considered strong.
- If both volume and open interest are down, but prices are higher, the up trend is considered weak.

Down trending (bear) market

- If volume and open interest are up, but prices are down, the down trend is considered strong.
- If volume and open interest are down and prices are down, the down trend in the market is considered weak. In this circumstance a large amount of contract liquidation will have occurred, and the remaining contract holders are not selling in large volume in anticipation of a market turn-around.

When developing your analysis methods it is important to keep in mind that technical analysis is not a replacement for fundamental analysis but rather a supplement to it. When gathering information for either

method of analysis, check with professional who work in the field.

There is another factor that affects the market. Sometimes prices appear to move independently of what the fundamental or technical analysis indicates they should be doing. In these cases the market is being influenced by the behaviour of those who are participating in the market. If, for example, a mood of optimism sweeps buyers, prices will increase for no apparent reason. It is important that you are aware that there can be psychological factors that affect the market so that you don't become carried away with undue optimism or pessimism.

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