Econ 337 Agricultural Marketing, Spring 2020
In Class Activity 3, February 6, 2020

<u>Technical Analysis and Pricing Decisions</u>

The purpose of this in class activity is for you to gain some experience performing technical analysis on bar charts and in using charts to make trading decisions. The objective is to identify technical patterns and signals as they occur over the trading horizon of a futures contract and then discuss the technical situation at the end of the presented price information. Attached to the end of this problem set are three charts: Feeder Cattle Weekly-Nearest Contract prices as of November 2, 2018 and the DEC 2018 Lean Hog contract as of November 2, 2018. Make any necessary drawings on the charts and label the formation with the letter associated with the question.

1. Using the Weekly-Nearest Feeder Cattle Contract prices answer the following.

    a. Draw and identify the (short-term) uptrend formed in late-2010.

    b. Draw and identify the resistance plane formed in early-2012. This plane is pressured but not broken in mid-2012. Redraw if necessary. What is the price level?

    c. The trend is broken. When and what is the signal?

    d. Draw and identify the support plane formed in mid-2012. What is the price level? Does it hold?

    e. Draw and identify the (long-term) uptrend that is formed in mid-2013.

    f. Draw and identify the short-term trend line that is formed in mid-2014 after resistance is broken. (It's too steep but...)

    g. Draw and identify the trend line that is formed in mid-2015.

    h. Can any trend lines be drawn in 2016? If yes, then draw and issue any caution.

i. Identify any support formed in 2011-13 that are in place at the end of 2016. What are the price levels?

j. What does the technical picture communicate about the likely direction of feeder cattle price movements? Do you have recommendations? (Correct answers use technical information.

2. Using the DEC18 (Z18) Lean Hog contract chart answer the following.

   a. Draw and identify support plane formed in November. What is the price levels?

   b. Draw and identify the resistance plane formed in January. What is the price level?

   c. Draw the trend formed in March.

   d. Support is broken when? What is the signal? Is this confirmed by the trend?

   e. Support is established in April. Draw it and what is the price level?

   f. The trend is pressured in April. Redraw it.

   g. Support is pressured through May and June. Redraw the new support established when the market heads back to the trend line.

   h. Support is broken in June and July. What is the signal? Does the trend confirm?

i. Support is established in July. What is the price level? Describe the market's reaction to this support plane.

j. Are there any bottoming patterns during the summer when the market rallies off support? What and when? Identify on the chart.

k. Draw and identify on the chart a clear consolidation pattern. When and what is it?

l. Draw and identify on the chart a clear gap. What is the market's reaction to your gap?

m. Make trading recommendations given the current technical picture. Assume I have no position now. (Do not worry that this contract is expiring soon as similar technical patterns are on deferred contracts.) What action would you recommend following what existing signals? Be complete. Use as much of the current technical picture as you can and use multiple signals if possible. If you want me to wait, you had better tell me for what, because you must commit. Finally, recommend an exit strategy: upon what signal would you look to exit and take a loss and upon what should I exit and take profits or know that I have a good initial position. Is there any other information that I should consider?

GFX18 - Feeder Cattle - Daily Nearest OHLC Chart

Op:153.650, Hi:153.675, Lo:152.250, Cl:152.500

Vol: 9,707   Open Interest: 49,304

© Barchart.com

4

HEZ18 - Lean Hogs - Daily OHLC Chart

Op:57.775, Hi:58.600, Lo:57.250, Cl:58.125

© Barchart.com

Vol: 41,396   Open Interest: 222,911

Nov 17   Dec   Jan 18   Feb   Mar   Apr   May   Jun   Jul   Aug   Sep   Oct   Nov

5