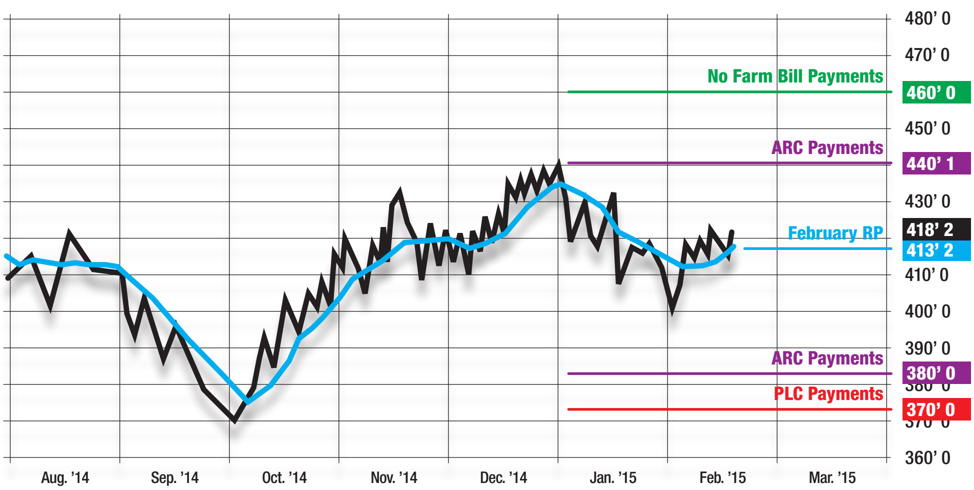
By Al Kluis

December 2015 CBOT Corn



This chart marks several important price levels that corn farmers should be aware of.
Green line: At this futures price, prices are so high, you would not get any ARC or PLC farm program payments.
Purple lines: This is where you would likely get some ARC-CO payments. The closer you get to $4.40, the smaller the payment. The closer you get to $3.80, the larger the payment. This is a very preliminary number. Your payment per acre will vary a lot from county to county, depending on your yield in 2015.
Blue line: This is the RP crop insurance payment level.
Red line: If the marketing year average stays below this price for the entire marketing year, then you would get a PLC payment.

THREE-STEP RISK-MANAGEMENT PLAN FOR 2015

BUILD THE NEW FARM PROGRAM INTO YOUR PLAN.

If you are a regular reader of this column, you're familiar with my three-step plan. This year, with the new farm program, those three steps become even more important than ever.

For the last six years, I have written about managing risk using a three-step risk-management plan. During that time, this plan has worked well in the bull and bear markets. The basic parts of my three-step plan are as follows:

1. Buy the appropriate crop revenue insurance policy for your farm. I am not a crop insurance agent, I do not work for an agency, and I do not give crop insurance advice. I do strongly advise you to work with a qualified crop insurance professional who specializes in crop insurance.

2. Get your insured bushels (your "A" bushels) hedged ahead. Depending on the price and profit level, you should get 50% to 80% of your "A" bushels hedged on any spring or summer rally.

3. Get your uninsured bushels (your "B" bushels) protected with puts. If you are at an acceptable profit level, then consider using a combination of hedges and puts to get 100% of your new-crop corn and soybeans protected.

This strategy worked great in 2014. Many farmers were able to collect money on their RP crop insurance policies. The corn and soybean market plunged lower, so farmers had large gains on the short futures and on the puts that they had purchased. For many of the farms I work with, the gains on the futures and puts are what kept them profitable in 2014.

So the question is, how will this three-step plan work in 2015? It can again work to your benefit in 2015.

One reason is that we are much more likely to get a weather scare rally in 2015 than last year.

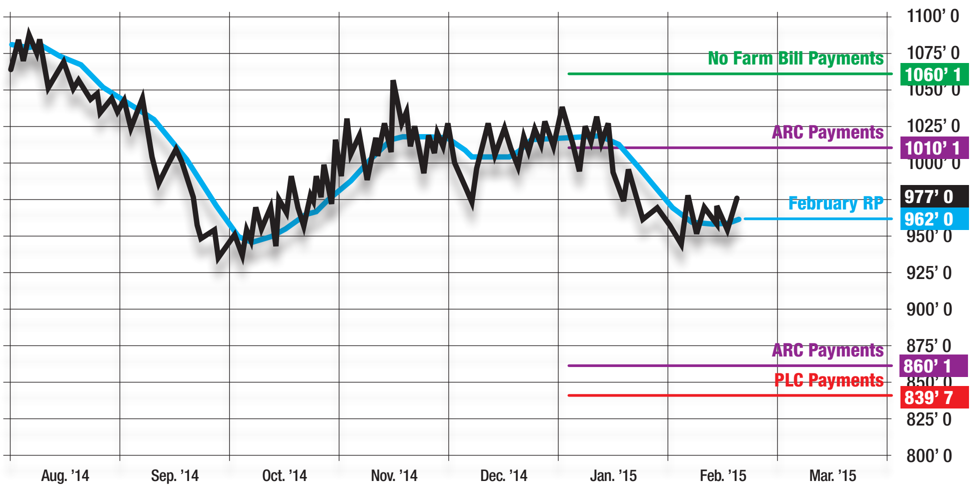
For corn, I use any weather scare rally to get hedges in place and to buy puts. I do not see corn prices going as low in the fall of 2015 as they did last year, so your hedge gains will be smaller. I am not confident that the corn puts will make money in 2015, but I still will recommend them and see them as an important part of your total risk-management plan.

For soybeans, plan to use a spring or summer weather scare rally to get hedges in place and puts bought. If U.S. farmers plant 83 to 85 million acres of soybeans, then you could have very low soybean prices by next fall. This suggests a possible repeat of 2014, where you had large gains on your soybean hedges and the puts you held into the soybean harvest.

This year, it gets a little more complicated because you need to factor in the new Farm Bill. You should factor the new Farm Bill payments – or, I should say, potential payments – into your risk-management plan. I would like to emphasize that making the right Farm Bill decision is a complex decision. What you should do will change a lot based on your farm size, your base acres, your yield history, and where you farm in the U.S. Nonetheless, I am confident that my analysis and recommendations in this article will work for over 80% of the readers who grow corn and soybeans.

I recommend that you go with ARC-CO for the five-year farm program. I estimate payments of $50 to

November 2015 CBOT Soybeans



This chart marks several important price levels soybean farmers should be aware of.
Green line: At this futures price, prices are so high, you would not get any ARC or PLC farm program payments.
Purple lines: This is where you would likely get some ARC-CO payments. The closer you get to $10.10, the smaller the payment. The closer you get to $8.60, the larger the payment. This is a very preliminary number. Your payment per acre will vary a lot from county to county depending on your yield in 2015.
Blue line: This is the RP crop insurance payment level.
Red line: This is where you would get a PLC payment if the marketing year average stayed below that price level for the entire marketing year.

$70 per acre for the 2014 and 2015 corn crops and $20 to $40 per acre for the 2014 and 2015 soybean crops. If you have low corn and soybean prices in the fall of 2015, then the combination of hedge gains, crop insurance payments, and ARC-CO payments can add up to enough revenue to keep your farm profitable.

I don't like making a profit plan that relies on farm program payments. I would rather get you profits by a combination of smart marketing and good yields. So, I looked at my charts and measured how high prices would have to go so that you would not get any ARC-CO or PLC payments. (Again, this is ultimately a complex calculation depending on your base acres, where you farm, and what your county yield is in 2015.)

For corn, my initial estimate is, if December 2015 corn rallies above $4.60 and if the corn futures market stays above $4.60 in 2016, then you will not get any ARC or PLC payments.

For soybeans, my initial estimate is, if November 2015 soybean futures and the other soybean contract months in 2016 need to go above $10.60 and stay above $10.60, then you will not get any ARC or PLC payments. *Note that this is not a forecast; it is simply a what-if scenario for 2015.*

I think we'll get at least one weather scare and that prices may rally up to those price targets for a brief period of time. (If you get that opportunity, then you better use it!) If you are able to get those corn and soybean hedges in place and prices turn lower into the fall of 2015, then you would have gains on your hedges, a possible RP crop insurance claim, and possible ARC payments. If this scenario plays out, then you can keep your farm profitable even when prices fall below your cost of production.

6 CRITICAL DAYS TO WATCH

There are six critical days in 2015 when you should be keeping a close eye on the markets. Circle these dates.

1. March 31, 2015. This is when the USDA releases its big quarterly Grain Stocks and annual Prospective Plantings reports. It's also when the weather market usually kicks into high gear and is the start of my usually seasonal selling time period.

2. April 10, 2015. This is when the corn market put in the first high in 2014. It turned out to be a major double top in the 2014 corn market. This will be a critical week to watch for a possible high.

3. May 8, 2015. This is when the corn market put in the second high in what turned out to be an important double top in the corn market in 2014. This will be a critical week to watch in 2015 for a possible high. This is the week that U.S .corn farmers need to have 50% of the crop planted to project a trendline yield.

4. June 30, 2015. This is when the USDA releases its big annual Acreage and quarterly Grain Stocks reports. This has been a major change-of-trend week in six of the last seven years in the corn and soybean markets.

5. July 10, 2015. This is when the USDA Crop Production and supply/demand reports come out. For crop watchers, this is the key pollination time period for the corn crop.

6. September 30, 2015. This is when the USDA quarterly Grain Stocks report comes out, and it is also a key change-of-trend week in the corn and soybean markets. This was the week of the major low for corn and soybeans in 2014.

NOTE: Trading of futures and options has substantial financial risk of loss and is not for all investors.

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Al Kluis has been trading grain futures since 1974. Sign up for a free trial to his daily morning email and weekly "Al Kluis Report" by going to alkluis.com.

Join Kluis and his team for his free Second Tuesday webinar on Tuesday, April 14, at 8 p.m. CST. Register at alkluis.com.

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