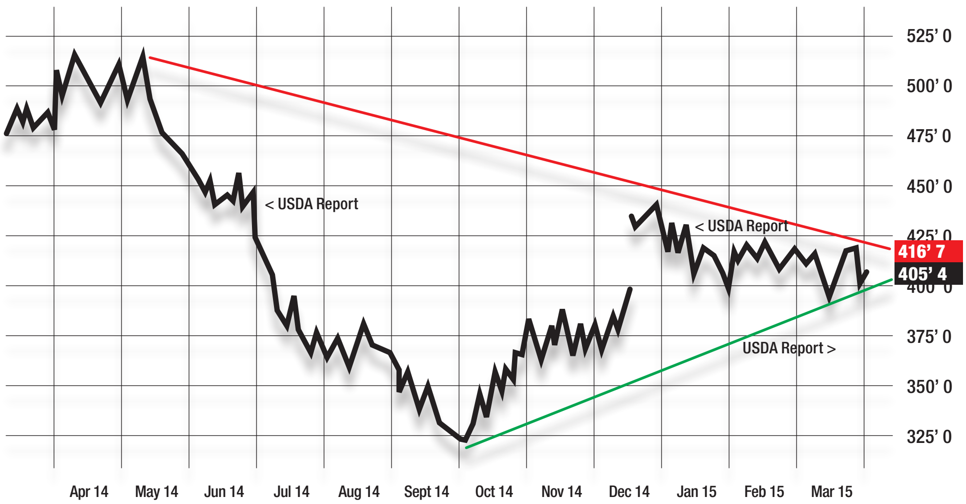
YOUR PROFIT

By Al Kluis

December Corn Continuation



This is the perpetual December corn chart. It shows the price of December 2014 corn until the day the futures contract expired, then it begins charting the December 2015 corn price. This December corn continuation chart shows the long downtrend in corn and the chart support below the market. A close above the downtrend line (the red line) will be a signal that corn has put in a major low.

PLANTING TIME IS SELLING TIME

SET PRICE AND TIME TARGETS ON YOUR OLD AND NEW CROP.

This winter, I spoke at a conference in Brookings, South Dakota. After I wrapped up, a farmer walked up to the front, where I was packing up my computer.

"I wanted to say 'thank you' in person," he said.

"You're welcome," I replied. "But why?"

He reminded me of some marketing classes I taught in Webster, South Dakota, in 1976 and 1977. "You taught me how to hedge ahead," he said, "and how to sell cash and new crop ahead when I was planting corn." He told me he made it through the 1980s because of what I taught him. "That is why I wanted to just say thanks," he said. "Some of my neighbors who didn't know how to hedge didn't make it."

Those kind words made the long drive back to Minneapolis a lot easier. The small classes I taught 39 years ago did make a difference. Many farmers learned some valuable marketing tools, and for some of them, it made a huge difference.

These days, I enjoy teaching a lot of students in my winter marketing school, the Lafayette Trading Academy, and also in my newest online school, the self-paced Smart Marketer Academy. The technology has changed, but many of the charting and hedging concepts are still the same.

I do not see the current downturn in grain prices and profits being nearly as bad as the farm crisis that developed in the mid-1980s. Yes, margins are tight this year for many grain farmers. However, the long-term cycles I work with in the grain markets suggest that by next year, prices will be trending higher. Even if the long-term trend is for higher prices, you will still need to stay disciplined and get your cash corn and soybeans sold.

I also advise you to get some new crop hedges put on before the lows that are due in the fall of 2015.

CREATE A PLAN

To create a plan, use both price and time targets to get the cash crop sold and new crop hedges in place.

I recommend making incremental sales and getting to 70% to 80% sold. The last few sales will be a series of 5% to 10% sales as you get your bins empty. If you have less than that sold, then you will need to do larger percentages to get your bins empty.

I am often asked how I choose the price targets for making sales. I use a combination of charting methods and tools that I have developed over the last decade.

OLD CROP PRICE TARGETS

To get price targets for old crop corn, use the July 2015 corn futures. The basis will be much different across the nation, so you need to use futures targets rather than a suggested local cash price. These are the three targets I recommend for July 2015 corn: $4.18, $4.38, and $4.78.

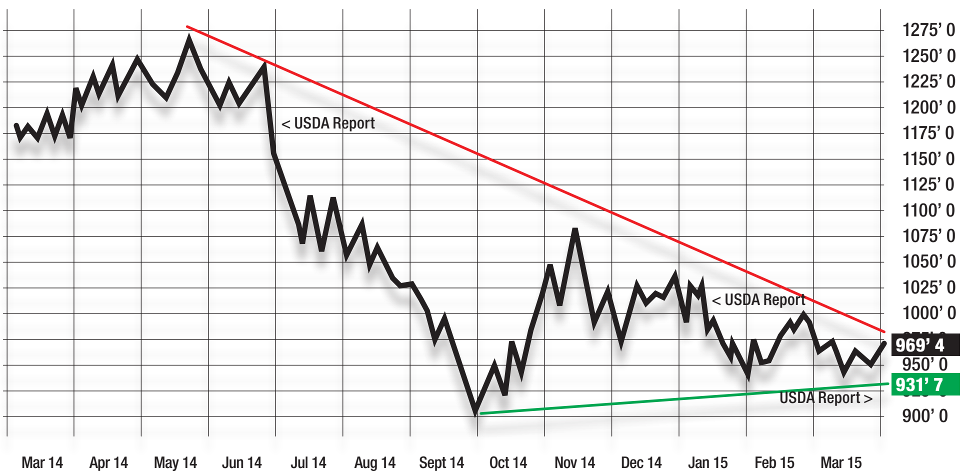
To get the price targets for old crop soybeans, use the July 2015 soybean futures. These are the three targets I recommend for July soybeans: $10.10, $10.28, and $10.43.

When you read this article, if the futures are above these price targets, then go make the sales. Otherwise, call the offers in. I have had a lot of grain sold during the night trade when customers had resting offers in above the market.

OLD CROP TIME TARGETS

What if the price targets are not hit? The

November Soybean Continuation



This is the perpetual November soybean chart. It shows the price of November 2014 soybeans until the day the futures contract expired, then it begins charting the November 2015 soybeans.

This November soybean continuation chart shows the long downtrend in soybeans and the chart support below the market. A close above the downtrend line (the red line) will be a signal that soybeans have put in a major low.

answer is to use time targets.

I work a lot with seasonal odds, plus I watch short- and long-term cycles, as well as the anniversary dates of when prices have put in major highs or lows during the last several years. I use those important dates to set get-it-done dates for my time targets.

For corn, these are the three weeks in 2015 I will consider making sales, regardless of prices: the weeks of May 8, May 22, and June 19. Also, I think holding corn past July 4, 2015, will be a mistake – just like it was in 2014.

Hopefully, your sales targets were hit and your price plan works. If not, make sales during these three weeks. Use the time plan to wrap up sales.

For soybeans, the timing is a little different. The key weeks to make soybean sales are a little later than for corn. If the price targets are not hit, then make sales during the weeks of May 22, June 12, and June 26.

By early July, plan to have all of your corn and soybeans sold.

NEW CROP PRICE TARGETS

The price targets for new crop December 2015 corn futures are retracement price levels, using the year-to-date contract high and low. The targets are $4.38, $4.64, $4.90, and $5.10. The top two price targets do not seem realistic at this time. However, the $4.38 target was hit back in January 2015 and will likely be tested again. I think the $4.64 target has a 50% chance of being hit. The top two prices – $4.90 and $5.10 – will require some real weather problems.

For new crop soybeans, the November 2015 soybean futures targets are $10.35, $10.75, $11.15, and $11.80. I have a hard time thinking that the $11.15 or $11.80 targets will be hit, but that is probably a weather question. The early grain trade talk is of record soybean acreage and a potential record crop. However, that crop is not in the bin yet.

For the time plan for new crop grain, use the same weeks as outlined previously.

THE DILEMMA

So, how do you hedge new crop bushels when they are below your cost of production?

You will need to manage the risk of even lower prices this fall. Even if you have crop insurance, you'll need to be proactive in managing new crop risk.

The solution is put options. If the new crop prices of corn and soybeans are below your cost of production, then you should still consider getting new crop price protection by buying put options on part of your new crop each of those critical weeks.

FINAL THOUGHTS

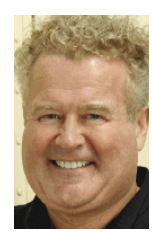
Many farmers and a lot of grain traders are getting bearish on prices for the fall of 2015. After two good crop years and two years of lower prices, it is easy to fall into that bear trap.

The long-term records I work with (for both yield and weather) never show two record crops in a row.

Everyone is worried about prices this year, but I think maybe you should be concerned with yields. SF

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

AL KLUIS
Commodity Trader



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, May 12, at 8 p.m. CST. Register at alkluis.com.

Kluis Commodities
901 - 12 Oaks Center Drive
Suite 907
Wayzata, MN 55391
888/345-2855
alkluis.com | al@alkluis.com