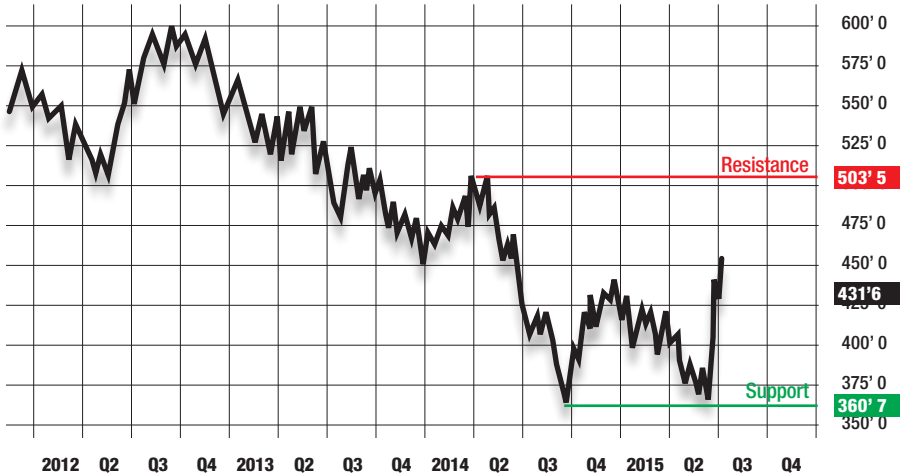


# YOUR PROFIT

By Al Kluis

## December 2015 CBOT Corn



## FROM BEAR TO BULL? GRAIN FUNDAMENTALS AND PRICES MAKE A DRAMATIC TURN.

A customer from Missouri who was very frustrated called in the middle of June. He asked, “What percentage chance do I have for getting the resting order to hedge 10% if the December 2015 corn at \$4.38 is to be filled? We cannot get in the field, and the corn market keeps going down every day. I have read on the Internet that new-crop corn could drop to below \$3 by this fall.”

I told him the big 2015 corn and soybean crop was not in the bin yet and to be patient. I knew that hedging ahead below his cost of production and selling below the crop insurance guarantee were huge potential mistakes. I told him if he was nervous, to buy some short-dated corn puts.

The June 10, 2015, USDA World Ag Supply and Demand Estimates report projected a national corn yield of 166.8 bushels per acre and corn ending stocks at 1.77 billion bushels. Many private forecasts called for corn ending stocks to jump to over 2 billion bushels.

The soybean numbers were even more bearish, with a yield forecast of 46 bushels per acre and ending stocks of 475 million

bushels. The Internet was filled with bean bears projecting soybean futures could drop below \$8 per bushel at harvest. Commodity funds were short over 200,000 contracts in the grain market and would likely keep selling if

prices went lower. The news is always bearish at the bottom, and one week later, the grain markets put in a major low.

### Here are four chart signals that the corn and soybean markets had put in a major low and that prices were going to turn higher.

- 1 The December corn weekly chart shows a double bottom with prices making new lows the week of June 15 and then rallying back close to unchanged from the previous Friday close. That signaled what I thought was the end of the bear market in corn.
- 2 The confirmation that corn prices had bottomed developed the next week, when December corn futures closed above the previous eight-week highs.
- 3 In the middle of June, the November soybean market went to new lows, but the relative strength index held a higher low. This was bullish divergence and signaled that soybean prices were done going down.
- 4 The November soybean chart did it all in one week. Prices went to new life-of-contract lows early in the week when November soybeans dropped to \$8.96 per bushel. By that Friday, futures closed above the previous three-week highs.

## U.S. Corn Fundamentals

### Average Trade Projections June 12, 2015

2015-2016 Crop	Average
Planted Acres	92.0
Harvested Acres	83.6
<b>Yield</b>	<b>166</b>
Carry In*	1,851
Production*	13,870
Available*	15,721
Total Use*	13,760
<b>Carryout*</b>	<b>1,961</b>

\* In Millions of Bushels

## U.S. Corn Fundamentals

### Kluis Projections July 2015

2015-2016 Crop	Average
Planted Acres	88.6
Harvested Acres	80.6
<b>Yield</b>	<b>163</b>
Carry In*	1,876
Production*	13,142
Available*	14,829
Total Use*	13,760
<b>Carryout*</b>	<b>1,069</b>

\* In Millions of Bushels

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**WHAT'S NEW THIS MONTH?**

U.S. farm production is up 1.5% from a year ago, but the price of farm products is down 1.5% from a year ago. The price of farm products is down 1.5% from a year ago. The price of farm products is down 1.5% from a year ago.

**CROP PROFIT INDEX YEARLY CHART**

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## November 2015 CBOT Soybeans



The chart showed a dramatic key reversal higher, and prices never looked back.

### A LOOK AT FUNDAMENTALS

Conditions have certainly changed. I believe corn and soybean harvested acres will drop 1 to 2 million acres in future reports, and the yield will move lower.

I am now projecting a corn yield of 163 bushels per acre and ending stocks to drop to just over 1 billion bushels. This creates a stocks-to-use ratio of 7.7%, or a 28-day supply of corn. Ten years ago, this would have taken corn futures up to over \$6, but with the huge corn crops in Brazil and Argentina, that is not realistic anymore.

For soybeans, I am projecting a yield of 43.5 bushels per acre. This would take ending stocks down to 130 million bushels for a stocks-to-use ratio of 3.5%. That could be explosive for price and take soybeans up to \$13 per bushel. I don't believe that's realistic with all the global competition in the soybean market. Keep in mind the huge South American soybean crop that will be sold as prices rally. This rally will likely increase soybean acres by 2% to 3% in South America in 2016.

This huge change in fundamentals is good for price, but I have learned that supply scare-driven bull markets do not last long. When prices turn lower, it can get ugly real fast. At the time of this writing, funds had swung to being long 300,000 contracts. That is a 2.5 billion-bushel swing from the huge short position they were carrying in mid-June, and that guarantees a lot of volatility.

### 4 WAYS TO HANDLE THIS BULL MARKET

**1** Base your selling decisions on your farm profitability and do not worry about what you are reading on the Internet. The same people who wrote about \$8 soybeans in June are now writing about \$21 soybeans; they are likely to be wrong again.

**2** Be a scale-up seller and don't look back.

**3** Use all the marketing tools you have available, including a combination of cash contracts, hedges, and puts.

**4** Look at pricing some crops ahead – all the way out into 2016 and 2017 – on this rally if those prices get up to an acceptable profit level.

My farmer caller from Missouri phoned back in late July and told me he lost money on the puts. However, because he could only get 35% of his corn acres planted and none of his soybeans in, he was sure glad he had not made any delivery commitments.

"I did not mind losing money on the puts. They let me sleep at night," he told me, then he asked, "Now, how about buying some calls?"

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

## U.S. Soybean Fundamentals

### Average Trade Projections June 12, 2015

2015-2016 Crop	Average
Planted Acres	85.0
Harvested Acres	83.8
<b>Yield</b>	<b>44.5</b>
Carry In*	350
Production*	3,370
Available*	4,080
Total Use*	3,727
<b>Carryout*</b>	<b>353</b>

\* In Millions of Bushels

## U.S. Soybean Fundamentals

### Kluis Projections July 2015

2015-2016 Crop	Average
Planted Acres	83.6
Harvested Acres	82.5
<b>Yield</b>	<b>43.55</b>
Carry In*	235
Production*	3,589
Available*	3,824
Total Use*	3,694
<b>Carryout*</b>	<b>130</b>

\* In Millions of Bushels

### 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](http://alkluis.com).

Join Kluis and his team for his free Second Tuesday webinar on Tuesday, September 8, at 8 p.m. CST. Register at [alkluis.com](http://alkluis.com).  
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