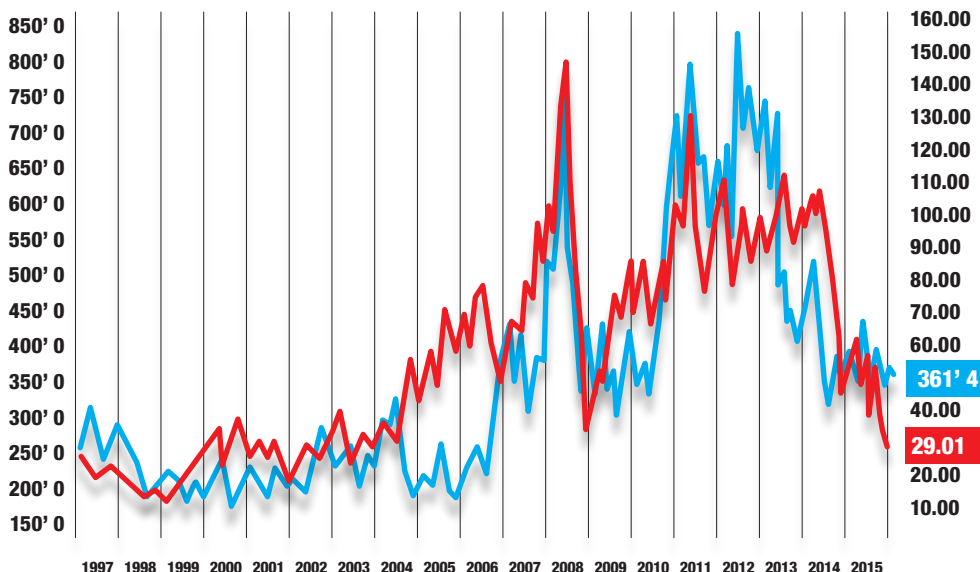


# YOUR PROFIT

By Al Kluis

## Monthly NYMEX Crude

## Monthly CBOT Corn



This chart shows the monthly prices of corn and crude oil since 1997. You can see how closely correlated these prices have been over the last 20 years. This chart also shows that prices are in a long-term uptrend and that crude oil and corn prices are volatile with major lows about every four to six years. The corn market appears to have put in a long-term low in September 2014 at \$3.18. Crude oil is due to put in a major low early in 2016.

## LOWER CRUDE OIL PRESSURES STOCK AND COMMODITY PRICES

WATCH FOR THREE POSSIBLE SCENARIOS.

Even after more than 40 years in the business, I am still confused by the impact of crude oil prices on the stock and commodity markets.

In the 1970s, I was just learning about the futures market when OPEC (Organization of

the Petroleum Exporting Countries) got tough for the first time and raised the price of crude oil.

In 1973, OPEC flexed its muscle and embargoed oil exports. Crude oil prices flew from \$10 per barrel to \$40 per barrel. This had an inflationary impact on the

U.S. and global economies.

The crude oil rally was very bearish for the global stock and bond markets. It had a bullish impact on grain prices that year. It was one of the reasons corn went from \$1 to \$4 per bushel, and soybeans went from \$4 to over \$13 per bushel.

The rally was very short-lived, however. Crude oil and the grain markets crashed by 1976. This unprecedented volatility made farming a lot more risky and complicated.

This was all around 40 years ago. I was a young and inexperienced trader, but at least the markets and the reaction to market events seemed rational to me.

It was an exciting time to begin trading commodities. The global economy was subject to some huge jolts when crude oil prices first went way up and then went down. The reaction to higher crude oil prices was usually quite negative for global stock and bond markets, and it was bullish for commodity prices.

A few years later when crude oil crashed, stocks and bonds rallied and the grain and commodity markets tumbled.

When Wall Street began trading commodities like another asset class in 2005, the volatility really ramped up. The market fundamentals had changed, so that meant I had to change the way I worked.

I developed a new set of rules that worked very well from 2005 till 2012.

Today, the patterns have changed again and some of the traditional – and logical – relationships between crude oil, the stock market, and grain prices have changed, too.

What makes the market so confusing?

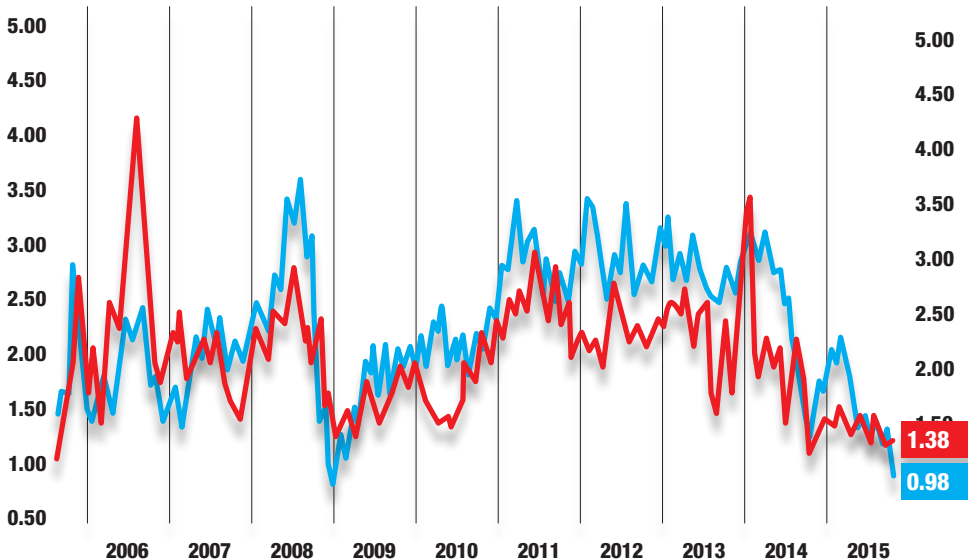
Here are a few surprises that have developed with the

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## Weekly NYMEX Gasoline

## Weekly NYMEX Ethanol



This chart shows the weekly prices of gasoline and ethanol since 2006, when ethanol first started trading on the futures market. You can see how closely correlated these prices are and how gasoline usually trades at a 20¢- to 30¢-per-gallon premium to ethanol. With the recent plunge in gasoline prices, ethanol is now trading at a 38¢ premium to the gasoline market. The energy markets put in major lows every eight to 10 years with major lows due between 2016 and 2018.

crash in crude oil prices.

- **Despite the hard drop in crude oil prices, global oil production has not slowed.**

In the last few months, crude oil production from the Bakken oil basin in the northern U.S. has slowed down by about 5%. With Iran now entering the global oil export market, crude oil production is at – or very close to – all-time highs.

- **Fertilizer and other petroleum-linked inputs have not dropped.**

- **Even though consumers are saving over \$1 per gallon on gasoline and home heating oil, meat demand has not increased.**

### 3 SCENARIOS TO WATCH

Looking ahead, here are three scenarios you should watch for in 2016 regarding the energy markets and the possible impact on grain prices.

#### 1. The most-likely scenario.

The crude oil market stabilizes at \$25 to \$35 per barrel, as high-cost producers slow down production enough to offset the increased production from Iran. This would create a U.S. grain market that moves slightly higher, with an initial price target at \$4 for July corn and \$9 for July soybeans.

**2. The bearish scenario.** The free-fall continues, and crude eventually trades below \$20 per barrel. This would lead to a huge number of additional bankruptcies in the oil industry and pull global stock and commodity prices lower. This could take corn futures below \$3 and soybeans below \$8, as global prices collapse.

#### 3. The bullish scenario.

Crude oil production rallies back to \$40 to \$50 by the second or third quarter of

2016. This would be bullish for the global stock and commodity markets and project corn prices back to \$4.50 per bushel and soybeans back to \$9.50 or \$10 per bushel, depending on the weather in the U.S. this summer.

No matter what scenario develops, be ready to use any spring or summer weather scare rally to complete your cash grain sales. Be sure to get some new-crop price protection in place.

### MARK YOUR CALENDAR

I invite you to join me for the **Successful Marketing Crop Report Webinar** on Thursday, March 31, 2016, at 3 p.m.

This event is usually exclusively available for *Successful Marketing* newsletter subscribers, but I'm opening this webinar to all *Successful Farming* magazine readers.

I will review the USDA's big annual Prospective Plantings report and the quarterly Grain Stocks report. I'll analyze the numbers and help you update your 2016 marketing plans.

To participate, go to [JoinWebinar.com](http://JoinWebinar.com). Enter Webinar ID#138369379 and follow the log-in directions. The password: planting (all lower case). [SIF](#)

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



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