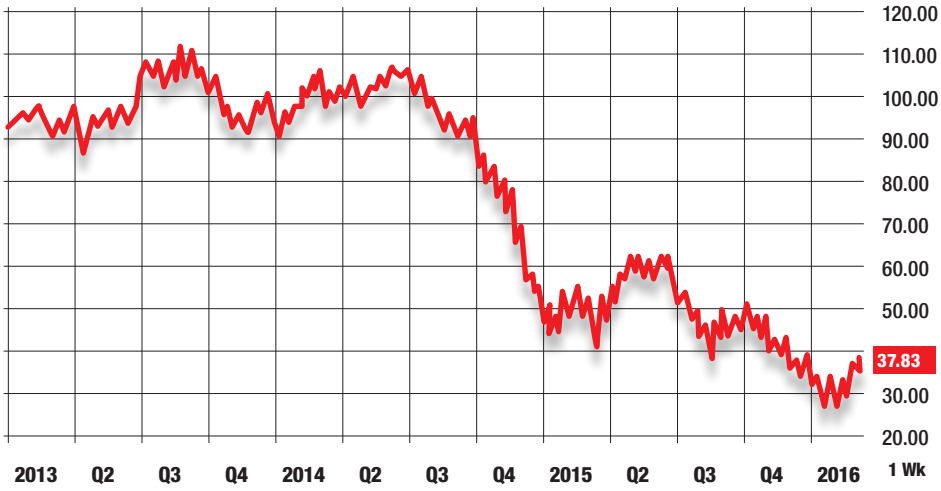
By Al Kluis

Weekly NYMEX Crude Oil



The weekly crude oil chart shows prices dropping from the high at $114 per barrel in May 2012 to the low and double bottom at $26 per barrel in January 2016. The recent $10-per-barrel (30%) rally suggests energy prices have put in a long-term low. A monthly close above $40 will confirm that low.

CRUDE OIL AND ENERGY PRICES TURN HIGHER

WATCH FOR FOUR SIGNALS THAT DETERMINE IF THE GRAIN MARKETS HAVE HIT BOTTOM.

Crude oil and gasoline are two of my favorite lead indicators for the grain markets. A lead indicator acts like a sneak preview to a different market. Indeed, crude oil prices tend to turn higher one to three months ahead of corn prices. They also often turn lower one to three months ahead of the corn market.

This relationship started in the early 1970s, when crude oil went from $10 per barrel to $40 per barrel. Corn followed right along, jumping from $1 per bushel to $4 per bushel. More recently, crude oil went from the high in May 2012 (at $114 per barrel) to the low in February 2016 (at $26 per barrel). Meanwhile, corn dropped from $7.40 per bushel to $3.60 per bushel.

As I write this in March 2016, crude oil is up 30% from its extreme lows, while corn is still unchanged from two months ago. If energy is a good lead indicator for corn prices, then corn prices should turn higher in the next few months.

In any case, the recent rally in crude oil and gasoline has been a positive signal for energy and the grain markets. We are now in the 30- to 90-day lag period between when energy prices turn higher and when the grain markets will turn higher. If the crude oil and gasoline markets can keep trending higher, it will be a positive signal for the corn market and the entire grain market complex.

Why do I forecast higher energy prices? It comes down to wells. The number of oil rigs actively pumping oil has dropped from over 1,500 in the third quarter of 2014 to less than 500 in the second quarter of 2016. This downward trend will likely continue until crude oil futures rally back to over $40 per barrel.

Meanwhile, U.S. gasoline demand is surging. The most recent Energy Information Agency reports show that U.S. gasoline consumption has jumped from 8.2 million barrels per day to over 9.2 barrels per day. Even though we're in a global energy market, the world price appears to be driven by U.S. production and consumption data. At some point, the rising gasoline demand will change the downward trend in oil wells.

4 SIGNALS TO WATCH

Here are the four chart signals I am watching to determine whether the grain markets have hit bottom (meaning there would be higher prices ahead).

1 If nearby crude oil closes over $40 per barrel. This would confirm a major low in the energy markets and the start of an uptrend.

2 If nearby gasoline futures close over $1.40 per gallon. Again, this would confirm a major low in the energy markets and the start of an uptrend.

3 If nearby corn futures close above $3.80. This turns the trend and all long-term moving averages higher.

Weekly NYMEX Gasoline

The weekly gasoline chart shows prices dropping from the high at $3.20 per gallon in May 2014 to the low at 90¢ per gallon in January 2016. The recent 50¢-per-gallon (55%) rally suggests energy and gasoline prices have put in a long-term low. A monthly close above $1.40 per gallon will cost you more at the pump but also will be positive for ethanol and corn prices.

4 If nearby soybean futures close above $9.00. This, too, turns the trend and all long-term moving averages higher.

DON'T MISS GOOD MARKETING OPPORTUNITIES

This has been a challenging winter for many of you. First, you watched as grain prices ground lower. Second, many of you had long meetings with your ag lender, putting together financing plans for 2016. Third, many of you had long and tense meetings with landowners, attempting to get more reasonable cash rents.

With warmer temperatures, you are finally getting back in the field. At the same time, crop prices – and market volatility – are starting to increase.

The next 90 days are usually when you have the best opportunities for cash sales and new-crop sales. Think back to last year, in summer 2015, when there was a three-week weather scare rally followed by a six-week price collapse. If you missed it, you really missed it.

This spring there may be some very good opportunities. Don't miss them. Keep in touch with your marketing.

Think of your crops like money. (Because they are!) Take time each day to stay on top of the grain markets, even when you are busy in the field.

In the next 30 to 50 days when the planters are rolling, you will often get some really good basis opportunities. If you get any planting delays and the futures rally, then you may get some good new-crop pricing opportunities. Do not miss your good marketing opportunities in 2016. If you stay on top of your marketing, 2016 can be a good year. SF

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.

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