

YOUR PROFIT

By Al Kluis



International Perceived Price of Corn



This is the monthly chart of the international perceived price of corn. I build this chart by multiplying the nearby CBOT corn futures price by the U.S. dollar index. This chart represents what global corn importers are paying for U.S. corn. The recent hard drop in corn futures (combined with the lower U.S. dollar) is taking corn prices down to major support at \$3 per bushel. Short term, ahead of harvest, it is difficult to get bullish on corn. However, long term, I think we will see U.S. and international prices move higher.

GRAIN DROPS TO BARGAIN-BASEMENT PRICES

EXPECT GLOBAL DEMAND TO SOAR.

I study and analyze crop prices in many different ways. For over 40 years, I have kept hand-drawn charts of corn, soybeans, wheat, and crude oil. This allows me to see trends – and trend reversals – and to watch the long-term grain price cycles. I also like to look at ratios.

For example, how many bushels of corn can you buy with 1 ounce of gold? The answer today is 358 bushels. What about other grains?

Right now, 1 ounce of gold will buy 137 bushels of soybeans and 295 bushels of wheat.

I also watch how many bushels of corn it takes to buy a gallon of gasoline. Currently, you can get a gallon of gas for about $\frac{3}{4}$ bushel of corn.

These ratios help me see when some commodity is at a historical high – or low – value. Right now, these ratios

tell me that grain is really cheap.

STOCK MARKET EFFECTS

The most extreme ratio I see now is when comparing the U.S. stock market with the price of corn.

For example, let's look at 100 shares of a Dow Jones Exchange Traded Fund (an ETF). With the Dow at 22,000, those 100 shares will buy a record 6,285 bushels of corn. Ten years ago, you would only have gotten 3,350 bushels.

This tells me that either the stock market is too high or corn is too cheap. A year from now, that ratio will have changed.

FOREIGN CURRENCY EFFECTS

I also like to look at grain prices in other currencies. For example, I have a lot of customers in Canada who are growing soybeans. In

western Minnesota, cash soybeans are down to \$8.40 per bushel, but across the border, Canadian farmers are getting \$11.60 per bushel (in Canadian dollars).

U.S. DOLLAR EFFECTS

It is important to look at what global buyers are paying for U.S. corn, soybeans, and wheat when they import grain from the U.S.

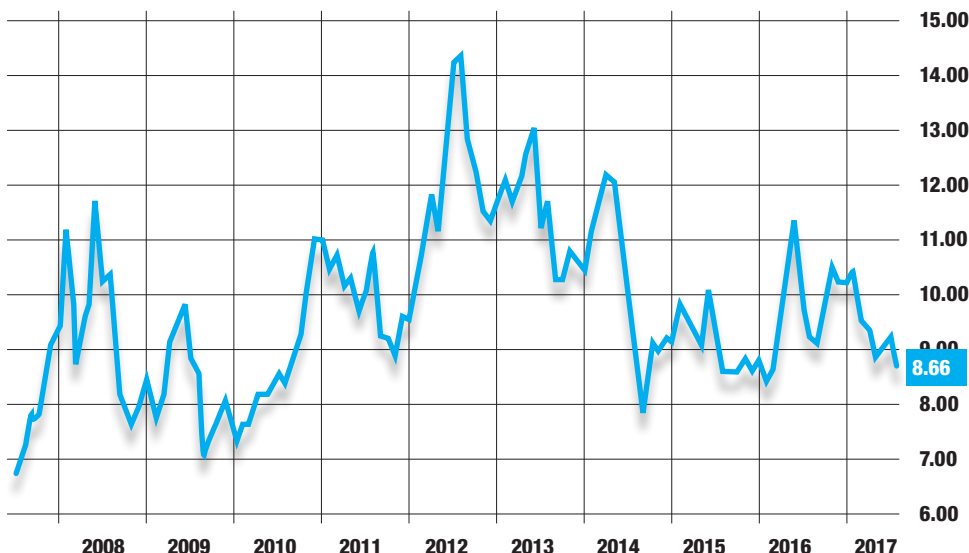
Over 50% of the U.S. soybeans are exported, so the value of the U.S. dollar has a huge impact on our soybean exports.

The U.S. dollar index peaked at 103.8 in early January 2017. Since then, the dollar has been trending lower. It is down about 9% in the last eight months. The dollar has initial support at 92 with major support down at 90.

For global soybean buyers, this drop has created

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International Perceived Price of Soybeans



This is the monthly chart of the international perceived price of soybeans. I build this chart by multiplying the nearby CBOT soybean futures price by the U.S. dollar index. This chart represents what global soybean importers are paying for U.S. soybeans. The combination of lower soybean futures and the lower U.S. dollar is taking soybean prices down to the lowest level since the fall of 2016 low. You can see over the last few years, the small amount of time that international prices stay below \$8.60 per bushel on this chart. I am not bullish on soybeans at this time of year, but I do think the downside into this fall is very limited. In other words, prices will not fall much more, since international demand will increase as prices fall.

bargain-basement prices.

In January when the U.S. dollar index was at 103 and nearby soybean futures were at \$10.50, global buyers were effectively paying \$10.80 (in other words, $\$10.50 \times 103\%$) for U.S. soybeans. When the \$2 freight bill was added, they were paying \$12.80 per bushel delivered price.

That has changed. By late August, soybean futures were down to \$9.20 per bushel, and the dollar had dropped to 93. Buyers were now paying \$8.55 per bushel ($\$9.20 \times 93\%$). Adding on the \$2 freight bill, they were paying \$10.55 per bushel – a historic bargain price.

U.S. corn is also a bargain. U.S. farmers are projected to export 1.85 billion bushels of corn in the next marketing year. In January (when corn was at \$3.75 per bushel and the dollar was at 103), international buyers were paying \$3.86 for corn. By August, corn futures were down to \$3.50 per bushel. Since the dollar was at 93, the international cost was down to \$3.25 per bushel. The current international prices of corn and soybeans are at some of the lowest

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export prices in the last 10 years.

That's one reason I'm optimistic on export usage and prices by the second and third quarters of 2018.

3 SIGNALS TO WATCH

If corn, soybean, and wheat prices are at some historically low price levels, then what will signal that prices have bottomed out and the trend has changed?

Here are three signals to watch.

1 Can nearby corn futures hold chart support at \$3.31?

If that level holds during the month of September, then odds are good corn prices will put in a pre-harvest low like last year.

2 Can nearby soybean futures hold critical support at \$9.04 (the June 2017 low)?

If that is taken out, then the projected low is at \$8.50 to \$8.80 in early October.

3 When will be the first week that corn and

soybean prices close above the two previous weeks' high? That will signal on my long-term charts that prices have put in a major low. **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.



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