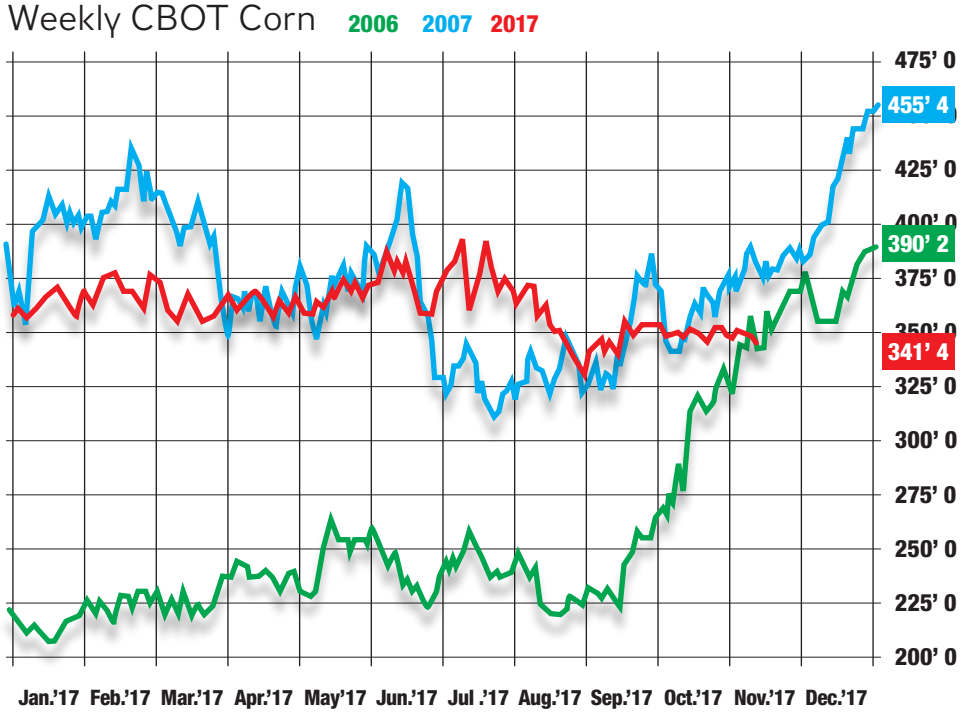
By Al Kluis



This chart shows the price of nearby corn futures in 2006, 2007, and 2017. You can see how similar the 2007 and 2017 charts are. At this time, nearby corn is a little less than corn prices were in 2006. The flat 6¢ weekly trading ranges recently are typical of a market as it bottoms. You have to go back to 2005 to find a time when you could not sell a bushel of corn and buy 1 gallon of gasoline. I doubt that corn will stay this cheap.

LONG-TERM PRICE CYCLES TURN HIGHER

WILL 2018 TURN OUT LIKE 2008?

One advantage of working in the grain business for over 40 years is the ability to identify patterns that develop at major highs and lows. I look at more than the weekly and monthly charts. I also look at farmer attitudes and the attitude that exists in the grain industry. I can see some correlation between 2017 and 2006. However, the strongest correlation of the charts is between 2017 and 2007. Recently, many farmers have told me it is impossible to get a weather scare with the new seed technology. Anytime several farmers tell me that a rally is impossible, it's a good signal that a rally is on the way. When the grain trade and farmers get this bearish, it is just a matter of time until some weather event creates an explosive rally.

If you look at the 2007 charts and go back and look at what the news was at that time (and the farmer attitude), the correlation with 2007 is even stronger.

I went back and looked at the global and U.S. fundamentals in 2007 and compared them with the current global and U.S. fundamentals. I worked on these numbers for several days; it's difficult even for me to comprehend 1,009 million metric tons of supply! From my analysis, I became even more aware of how much global demand has increased. My conclusion is that we are just one weather problem away from some major changes in price.

Take a look at the global supply-and-demand numbers for corn and soybeans to see what's changed in the last 10 years. Then, look at the U.S. corn and bean supply-and-demand numbers.

Global Corn Supply and Demand Report

	2007	2017
Global supply	1,904	3,211
Global use	1,787	2,572
End stocks	257	638
Stocks-to-use ratio	14%	24%

(In millions of metric tons)

U.S. Corn Supply and Demand Report

	2007	2017
U.S. production	13.168	14.578
U.S. use	12.690	14.435
End stocks	1.797	2.340
Stocks-to-use ratio	14%	16%
U.S. avg. farm price	$3.65	$3.20

(In billions of bushels)

Global Soybean Supply and Demand Report

	2007	2017
Global supply	461	684
Global use	340	488
End stocks	54.5	107
Stocks-to-use ratio	16%	21%

(In millions of metric tons)

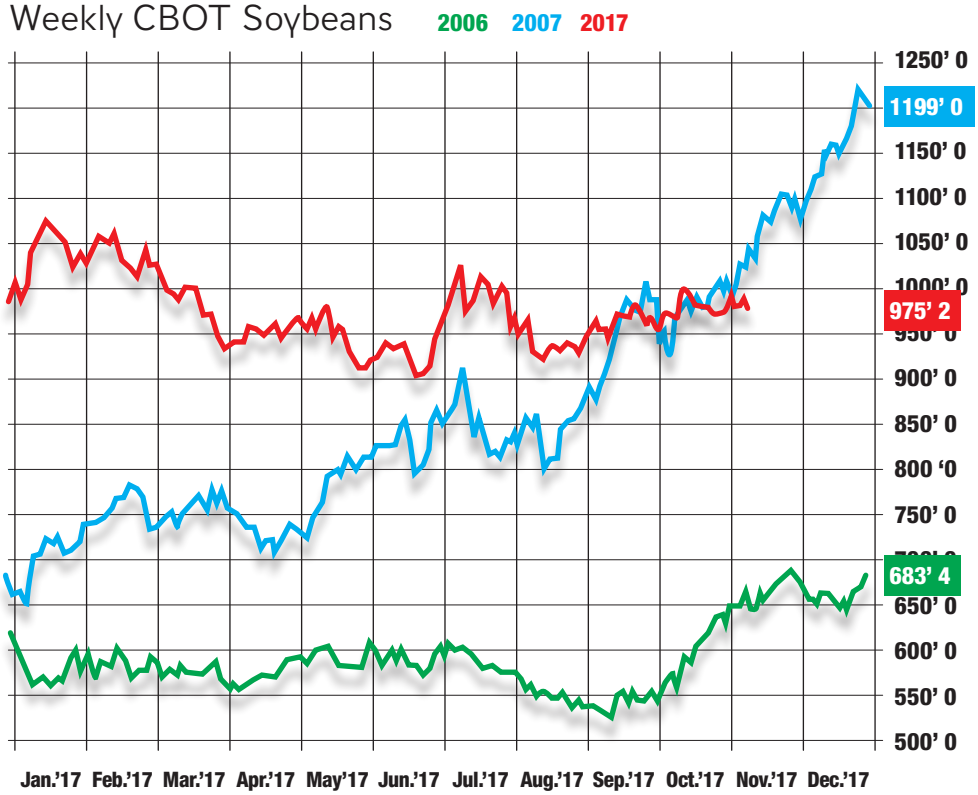
U.S. Soybean Supply and Demand Report

	2007	2017
U.S. production	2.594	4.425
U.S. use	2.988	4.326
End stocks	.185	.430
Stocks-to-use ratio	6%	9%
U.S. avg. farm price	$9.75	$9.20

(In billions of bushels)

When I review the global numbers from 10 years ago, I see a 43% increase in production and a 43% increase in usage for both corn and soybeans. The global weather has been favorable, so production is keeping up with surging demand – but just barely.

When I review the U.S. numbers and look at the changes from 2007 to 2017, what jumps out at me is the 70% increase in soybean production and usage. It's a good thing we have had record soybean yields the last few years. When I look at the U.S. projected end- ▸



This chart shows the price of nearby soybean futures in 2006, 2007, and 2017. You can see how similar the three charts are. At this time, nearby soybean futures are a little below where prices were in 2007. The very narrow 12¢ weekly trading ranges the last several weeks are typical of a market as it bottoms. I am not sure what fundamental will create the next rally; however, a monthly close above $10.03 on the nearby chart will be the start of a major rally.

ing stocks at 430 million bushels, I think the USDA is again underestimating demand. I think that when the final ending stocks number is printed next year, the ending stocks will be closer to 380 million bushels.

I view these fundamentals as long-term positive.

Following are three signals that will indicate a major change of trend.

Signal #1. If the carrying charge narrows. Watch the carrying charge in both the corn and soybean markets. At this time, the carry from December 2017 corn to July 2018 corn is 30¢ per bushel. If that spread starts to narrow to 24¢ or 26¢, then that will show good demand. For soybeans, the January 2018 to July 2018 spread is at 27¢. Again, if that narrows to 24¢ or less, then it signals strong demand.

Signal #2. If cash basis levels improve.

Signal #3. If the charts break out above major resistance. At this time, that would be a monthly close on nearby corn above $3.58 and nearby soybeans above $10.03.

FINAL THOUGHTS

At a recent seminar, a farmer asked, "How can you be bullish and project higher prices? We have projections for corn ending stocks of over 2.3 billion bushels and soybean ending stocks of 420 million bushels. Isn't that a lot of ending stocks?"

Yes, those are some large numbers. However, they are not as big as demand. Look at the stocks-to-use ratio.

What does it all mean? If the U.S. corn yield drops by 2 bushels per acre in 2018 (to 173 bushels per acre), then corn will rally at least 40¢ per bushel. A national yield of 170 will put a $1 per bushel on the corn market.

For soybeans, a 1-bushel reduction in yield will take futures up $1 per bushel, and a 2-bushel-per-acre drop will put $2 on soybean prices. Look at the long-term chart and see what happened in 2008. 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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