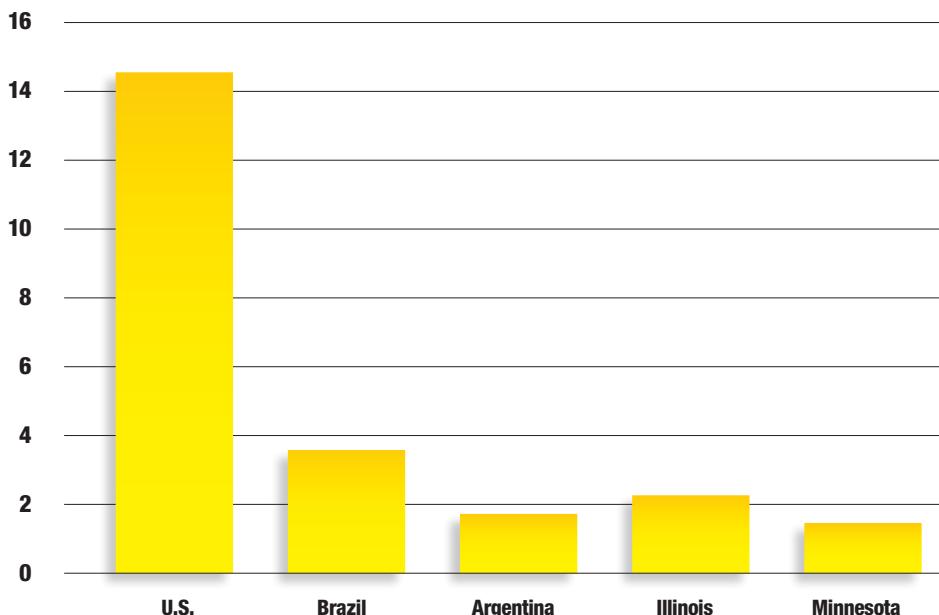


By Al Kluis

2017 Global Corn Production (in billions of bushels)



This chart shows how dominant the U.S. is in global corn production. The U.S. produces almost four times more corn than Brazil, and Illinois produces more corn than Argentina.

U.S. AND SOUTH AMERICAN CROP PRODUCTION ANALYSIS

MARCH IS THE KEY MONTH TO WATCH.

I have enjoyed travelling to South America over the last 10 years to tour farms. These visits give me a perspective on the size and number of the facilities. I also study the weather patterns in South America and try to project the total crop size each year. That is not easy, because crops there are spread out over a huge geographic area – much larger than in the U.S.

The cropping area in South America goes from north to south. In the U.S., it goes from east to west, basically

South America is now the largest producer and exporter of soybeans in the world.

Indiana to Nebraska. In South America, crops are stretched out over a distance that would roughly equal the distance from Winnipeg, Manitoba, to Miami, Florida. This makes it much harder to get a handle on South American crops than it does to forecast U.S. crops.

Another factor that makes it difficult to draw

comparisons is total crop size. Some of the production reports are in millions of metric tons, while the U.S. reports are in bushels. It took me a while to get used to, but in the last five years, I have started to think in metric tons as well as bushels. This helps me grasp the huge scale of South American production. I am most familiar with the USDA Crop Production Reports, and I use those to try and put these huge numbers into perspective. I always compare global production numbers with the total U.S. crop, the crop in Illinois, and the crop in my home state of Minnesota.

3 LONG-TERM TRENDS

After studying the various reports, here are three long-term trends I see.

1. The U.S. has become only a minor supplier of wheat into the global marketplace. Russia

has become the largest wheat exporter in the world, and U.S. farmers are shifting more acres over to corn and soybeans each year. As a result, the U.S. wheat crop is now down to just 7.6% of the global wheat crop.

2. The U.S. dominates global corn production. The U.S. produces almost four times more corn than Brazil and more than double the combined production of Brazil and Argentina.

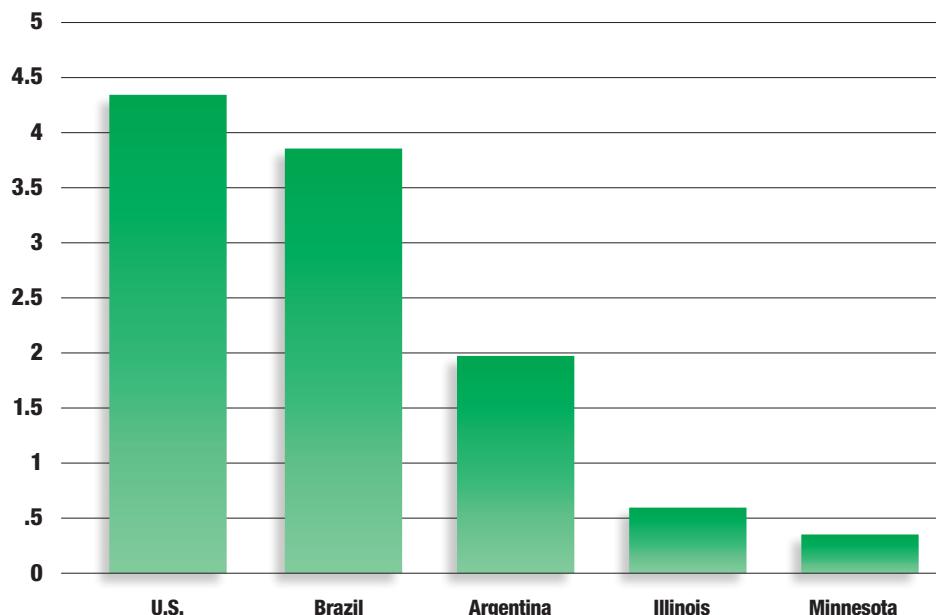
3. South America is now the largest producer and exporter of soybeans in the world.

Brazil is very close to producing as many soybeans as the U.S. When you combine the soybean crops in Brazil and Argentina, the total is over 1 billion bushels larger than the U.S. soybean crop.

WEATHER CONCERNS

Significant weather problems are developing in southeastern Brazil and Argentina. The month of January in South America is like July in the U.S. This is a crucial month for the corn crop in Brazil and Argentina, as that crop enters the critical pollination stage. February there is like our August and is the key month for soybean crop

2017 Global Soybean Production (in billions of bushels)



This chart shows how much competition the U.S. now has from South America. The combined production of Brazil and Argentina may exceed 6 billion bushels within the next two years.

development in Brazil and Argentina. Because of the huge amount of Safrinha (double-crop) corn in Brazil, you really need to watch the weather and the impact on corn yields in Brazil during the month of February, as well.

Right now, the trade consensus is for a total South American corn and soybean crop that is down about 3% from last year's record harvest. If the La Niña weather pattern continues, it can spell bad news for corn and soybean producers in southeastern Brazil and Argentina. The forecasts for the La Niña are all over the map. Several of the meteorologist that I know and respect say it is just too early to know for sure.

When I get conflicting weather forecasts and uncertainty about crop size, I always bring out my long-term charts.

LONG-TERM CHARTS TO THE RESCUE

When I get conflicting weather forecasts and uncertainty about crop sizes, I always bring out my long-term charts. Following are three things my charts are telling me.

1. Soybeans prices on my long-term monthly soybean continuation chart broke

above the long-term down trend line in September. Soybean prices have been trending higher since the major low in August 2017.

2. For the last several months, corn futures have been trapped in a \$3.35 to \$3.60 price channel. Now a weekly close above \$3.60 on the nearby corn contract will confirm a major low in the corn market.

3. March is a key change-of-trend month. That means one of two scenarios will develop:

- If crop conditions are ideal in South America and prices trend lower, then March can often be an important low.
- If crop development problems develop in South America and prices rally, then it can create a March high and be a good opportunity to make cash sales and place new-crop hedges.

FINAL THOUGHTS

Since no one can be certain what the grain markets will do over the next two months, I suggest you have two strategies ready to use, depending on what unfolds during that time frame.

1. If the corn and soybean markets chop lower into March, hold off on sales.

2. If the weather scare rally develops, use a disciplined marketing plan to make cash sales and get additional new-crop hedges in place. **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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