

YOUR PROFIT

By Al Kluis

CBOT Corn Daily



This is the daily corn continuation chart. You can see how flat prices were in late December 2017 when prices eventually bottomed out. In January, both prices and volatility started to increase. By late March, it was off to the races. Then, increased trade tensions started to weigh on the corn market.

GRAIN PRICES GET INTERESTING

HERE ARE 3 FACTORS TO WATCH AND 3 ACTIONS TO TAKE THIS MONTH.

After the harvest of 2017, the corn and soybean markets went into a quiet base-building phase. I noticed that cash basis levels started to improve, and the bull spreads started to work. For several weeks in December 2017, the nearby corn futures had a trading range of only 6¢ to 8¢ for the entire week. For soybeans, the trading range was down to just 15¢ to 18¢ per week. Prices initially turned higher because of strong global demand for corn and soybeans. Then, by late January and through the month of March, grain traders around the world focused on dry conditions in Argentina and the rapid decline in corn and soybean production potential in Argentina.

Then it got interesting.

The combination of strong demand and production problems in Argentina rallied grain prices and volatility exploded. A lot of days now, we have an 8¢ trading range in corn by 9:30 a.m. It is not uncommon for soybeans to have a daily trading range of 20¢ or more.

I have developed a lot of rules in my 40 years of grain trading. One is to never sell a quiet market. The other is when daily price volatility gets extreme, get ready for a high. Extreme volatility happens more often at major highs than at major lows.

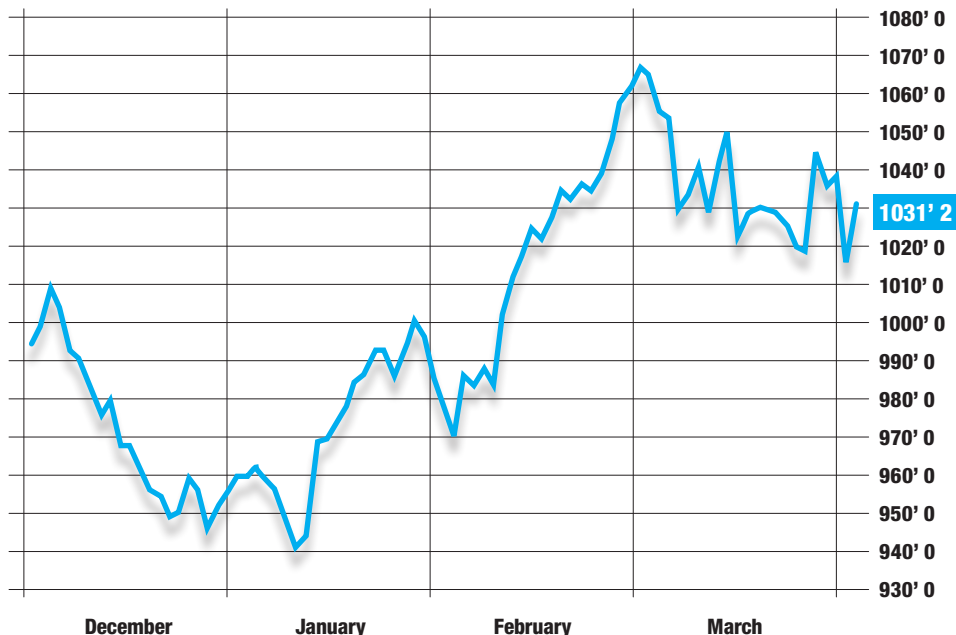
3 MARKET FACTORS TO WATCH

1 Weather and crop development in North America. The last two growing seasons have produced huge crops across the Corn Belt. One of the key ingredients in getting a large crop is having the crop planted early and in good soil conditions. The current forecasts are for a cold, wet spring to give way to a cold, dry spring. If the weather forecasters are right, then look for a slower-than-normal corn-planting pace.

This has two major potential impacts on corn production this year: U.S. farmers will plant less corn, and yield potential will fall. To get a trend line or better yield, U.S. farmers need to have 50% of the crop planted by May 10. Make sure you monitor the USDA Crop Progress Report on Monday May 14 to see how much of the nation's corn crop is planted by May 10, 2018.

2 U.S. and global equity markets. Increasing trade tensions between the U.S. and China have created a lot of volatility in both the grain and global stock markets in April. The day China announced that it may put a 25% tariff on soybeans, the U.S. stock market fell 3%, while the U.S. soybean market fell by 5%. By the end of the day, both had posted a significant recovery. If trade tensions escalate and China does place a 25% tariff, then it will be devastating to grain prices and farmer profits. ▶

CBOT Soybean Daily



This is the daily soybean continuation chart. You can see the low in mid-January 2018. From that low, prices turned higher in orderly trade. After an early February break, prices rallied to the high in early March before the China tariff threat bombed the soybean market. Now, traders' attention is on U.S. weather and planting progress.

3 The flow of money into (or out of) the commodity markets. Each week, I watch the trend of crude oil in the futures markets around the world. Every Friday, I watch the Commodity Futures Trading Commission's Weekly Commitments of Traders Report.

The commodity funds have swung around from holding huge short positions last fall to now holding huge long positions in the corn and soybean markets.

If the fund position gets to over 400,000 long contracts in corn and over 220,000 long contracts in soybeans, then it sets up a violent down move if and when the trend turns lower.

For this reason, keep in mind that it's better to sell two weeks too early than sell two days too late.

3 ACTIONS TO TAKE

Here are three actions you should consider taking this month.

1. Increase cash corn and soybean sales to at least 80%. As I am writing this, most of my subscribers are at 80% sold on cash soybeans and 50% sold on corn. May is a great month to get more sales made.

2. Get the last of your bushels hauled in. Some of your best basis opportunities develop when you are busy planting. Make cash sales and use basis contracts to get the rest moved to the grain elevator. Once you know exactly how many bushels, it's easy to get all of your bushels sold with one phone call. Waiting to sell that last 10% in late August has been a big mistake the last several years.

3. Get new-crop protection in place on at least 50% to 80% of your 2018 crop corn

and soybeans. I always recommend a combination of hedges and puts. If you have bought RP crop insurance, then you have a license to sell – so sell!


FINAL THOUGHTS

I like trading demand-driven markets. I also enjoy trading weather markets, even if they are volatile and challenging. Weather markets are rational.

However, I do not like trading markets dominated by political decisions. They tend to be irrational. It's hard to know what decisions the politicians will make.

I am an optimist, however, and think the U.S. and China will work out an agreement that benefits both.

I am also a realist. That is why I am getting new-crop price protection by using a combination of hedges and puts. With normal weather,

grain prices are likely to be lower by this fall. With the addition of trade problems with China, prices could be sharply lower by this fall. 

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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