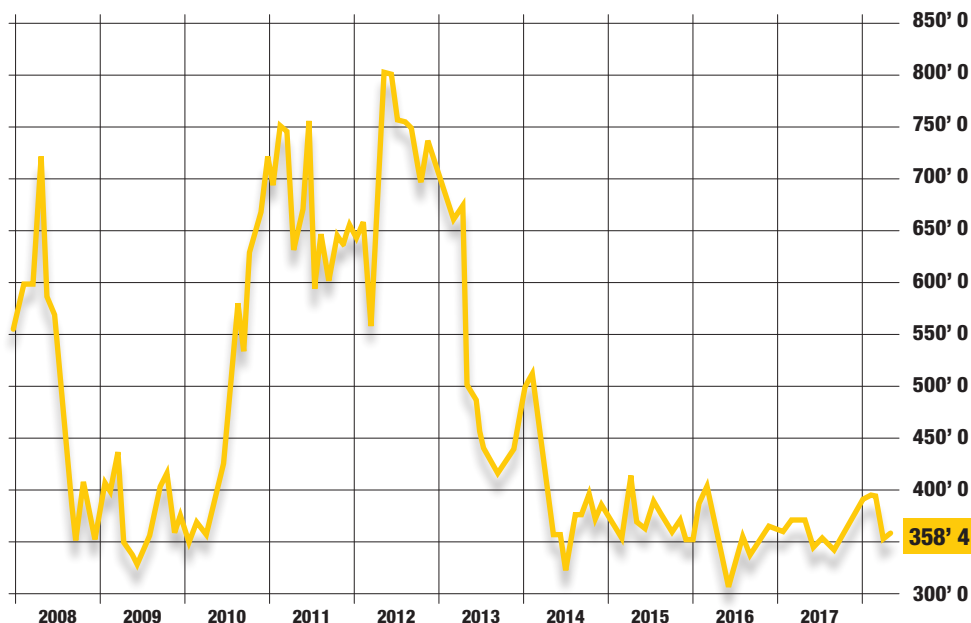


By Al Kluis

CBOT Corn Monthly



This is the monthly corn chart going back to the major lows in December 2008. This shows the December 2008 low at \$2.90. From that low, prices rallied to all-time highs in September of 2012 at \$8.44 per bushel. Then price went down to the major low at \$3.01 in August 2016. Prices have been trending higher, making a series of higher highs and higher lows since then. The low in July 2018 at \$3.30 looks like the long-term low in the corn market.

ARE THE LONG-TERM GRAIN CYCLES TURNING HIGHER?

SEPTEMBER IS THE SIX-YEAR ANNIVERSARY OF THE MAJOR HIGH.

It sure feels a lot different in September 2018 than it did six years ago. In September 2012, corn traded at \$8.40 per bushel and soybeans hit the all-time high at \$17.94 per bushel. Since then, corn appears to have put in a major low in August 2016 at \$3.01. The July 2018 low in soybeans at \$8.10 also appears to be a major low.

Grain prices go up and down based on supply, demand, and global ending stocks. This year, the threat of tariffs and increased trade tensions with China, Mexico, and Canada have created downward pressure on the

U.S. grain and livestock markets.

Taking a long-term outlook, here are two areas where change has occurred since 2012.

Supply. Here's the bad news. Yield potential continues to improve. Most areas of the world have had good weather the last three years. This has resulted in large (and in some cases, record) global crops in the main crop areas throughout the world.

Corn supply: The total global production of corn has increased from 21.3 billion bushels in 2012 to over 41.5 billion bushels in 2018. Yields

are improving around the world. In the U.S., the trendline yield for corn in 2012 was 158 bushels per acre. It is now estimated at 174 bushels per acre. Farmers around the world can produce a lot more corn than just six years ago.

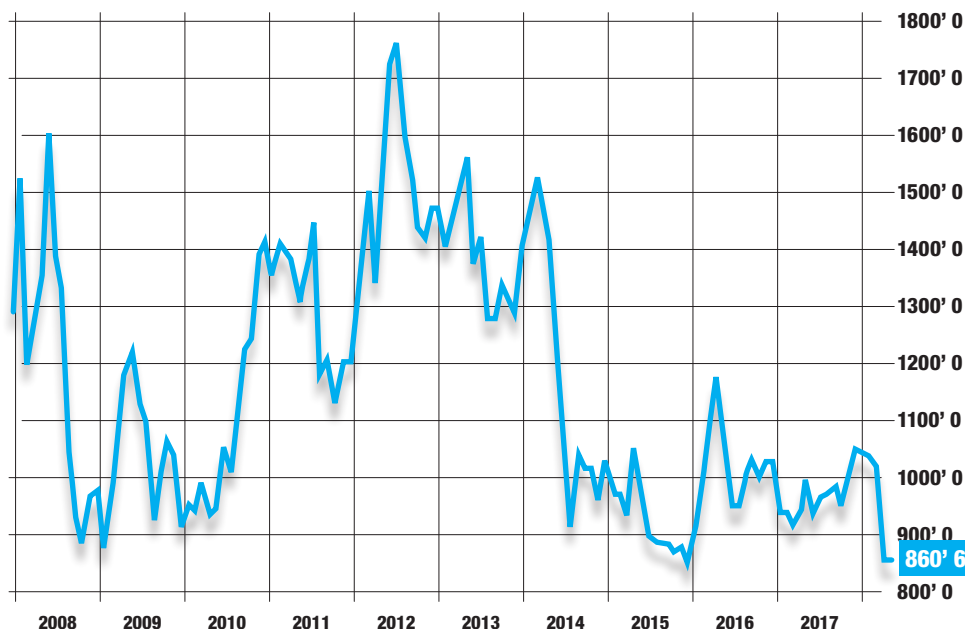
Soybean supply: The soybean numbers are eye-opening. Global soybean production has jumped from 7.2 billion bushels to just over 16 billion bushels in the last six years. Yields are improving, and the U.S. trendline yield has increased from 45 to 50 bushels per acre in six short years. This is amazing when you consider that the Soybean Belt has moved so far north and west during that same time.

Demand. Now for the good news. The global economy and the world population continue to grow. From 2012 to 2018, the most recent estimate is that the population has increased from just over 7 billion (in 2012) to 7.6 billion (in 2018). With a few exceptions, the standard of living for almost everyone in the world continues to improve. The global gross domestic product increased from \$74.5 trillion in 2012 to an estimated \$87.51 trillion in 2018. Even with the increased population, this increased average income nearly \$1,000 per person (from \$10,642 to \$11,514). This increase in both population and spending power creates the demand and the ability to pay for a lot more food – especially protein.

Global demand for corn has increased from 21.9 billion bushels in 2012 to an estimated 42.1 billion bushels in 2018. Soybean demand has increased from 7.2 billion to 14.5 billion bushels.

It's worth noting that even with good corn yields in most of the world in 2018, global ending stocks are still shrink-

CBOT Soybeans Monthly



This is the monthly soybean chart going back to the major lows in December 2008. You can see the major low in December 2008 during the financial crisis at \$7.76. From that low, grain prices rallied to the all-time high at \$17.94 in September 2012. Prices dropped to the initial low in November 2015 at \$8.44. Price rebounded to just over \$11 in early 2016 before dropping to the \$8.10 trade-war low in July 2018. The month-to-month higher close in July confirmed a major low in the soybean market.

ing. The dry weather and crop-production problems in Argentina rallied the corn market 65¢ per bushel and the soybean market to \$1.70 per bushel in five months.

4 ACTION STEPS

Here are four steps you can take to position yourself to take advantage of the higher trend for grain prices.

1. Be patient. I don't think the uptrend will kick into full gear until the spring or summer of 2019. When you look back at the long-term charts next year, you will see that grain prices bottomed in July 2018 (or not later than the third quarter of 2018).

This is important, because grain markets and all markets go through three phases. The usual pattern is for prices to trend lower and when the down trend is over, prices eventually move into a basing (sideways) trend.


During this boring time period, quite often demand increases. That's because the lower prices create additional demand. Then when some major weather problem develops, the market turns higher and you go into a sustained uptrend.

2. Set reasonable sales targets. Forget about \$8.40 corn and \$17 soybeans from 2012. If you can get \$4 to \$4.50 corn and \$10.50 to \$11 soybeans, you need to be locking in sales. Keep in mind that if the long-term lows are in, then odds are good that the harvest lows will take prices back below your cost of production.

3. Manage your input costs. When I look at energy prices, labor costs, and interest rates, I see the potential for increases in inflation rates. Some inflation will be a welcome change for farmers. However,

it will also make it more difficult to generate good margins unless you are proactive in managing all input costs for the 2019 crop.

4. Think revenue per acre. Factor in higher (but realistic) yields for your farm. By using a combination of hedges and puts, you can create a plan to get price protection on 80% to 100% of your total production when the markets rally to your price objectives. When you factor in higher yields, it is also easier to project a profit for your farm.

It's not just price per bushel that creates the bottom line for your farm; it's revenue per acre. 

NOTE: The risk of loss in trading futures and/or options is substantial, and each investor and/or trader must consider whether this is a suitable investment. Past performance – whether

actual or indicated by simulated historical tests of strategies – is not indicative of future results. Trading advice reflects good-faith judgement at a specific time and is subject to change without notice. There is no guarantee that the advice given will result in profitable trades.

AL KLUIS Commodity Trader

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