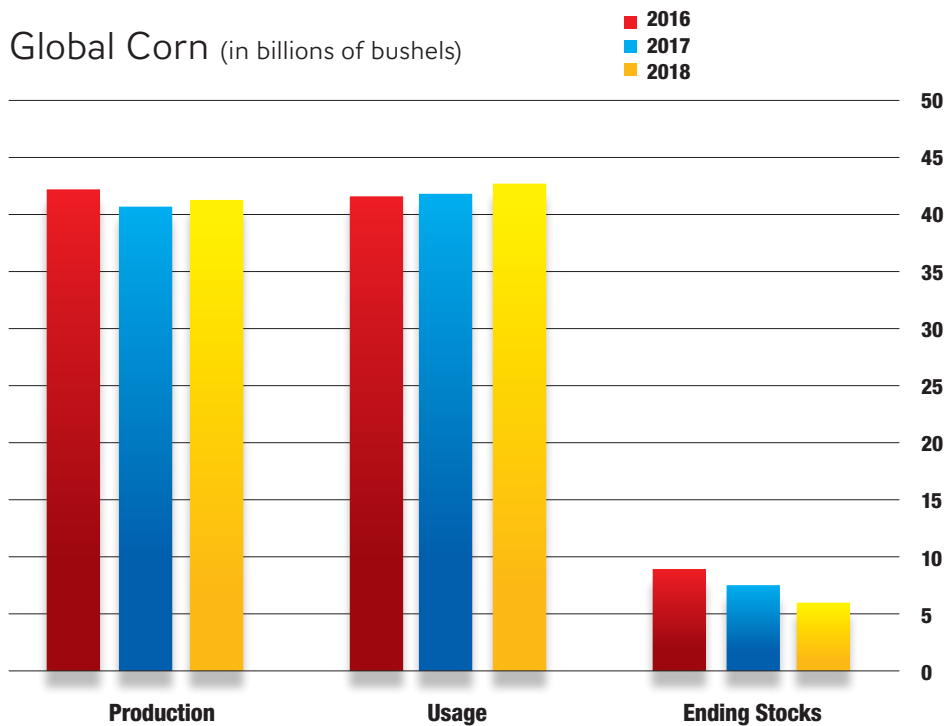


YOUR PROFIT

By Al Kluis

Global Corn (in billions of bushels)



This chart shows the last three years of global corn production, usage, and the projected ending stocks. The last USDA Supply and Demand Report shows another 1-billion-bushel drop in global corn ending stocks down to 6.2 billion bushels. The global stocks-to-use ratio for corn is down to 14%, the smallest in the last decade.

for four years. By the time prices bottomed out, grain prices were down by over 50%. The \$8 corn dropped to less than \$3, soybeans went from \$17 to less than \$8, and wheat prices went from \$12 to \$5 per bushel.

In 2015 and 2016, I started to notice a new pattern. Even as global supplies were increasing, global ending stocks were about unchanged or were moving lower. This signaled improving demand. The increased demand was because of the lower prices and increased economic growth. That was the first fundamental signal to me that grain prices could be making a major low and getting ready to turn around.

When I look at global inventories, the numbers are hard to comprehend. Global ending stocks of wheat reached 8.8 billion bushels. Corn is over 8.2 billion bushels; soybeans are at 2.8 billion bushels.

A better way to analyze these numbers is to look at the stocks-to-use (SUR) ratio. The SUR ratio shows how much you have left-over compared with what you are using. The smaller the ratio, the more positive it is for price. The larger

USING CHARTS AND FUNDAMENTAL ANALYSIS

DECLINING GLOBAL GRAIN STOCKS IMPROVE GRAIN FUNDAMENTALS.

College classes in futures trading were very different in the 1970s than they are today. Back then, the classes I took were focused on understanding farm policy, the current farm program, and the different acreage set-aside policies. We also studied U.S. grain fundamentals and reviewed different supply-and-demand alternatives. We would then look at different scenarios and the impact different yields would have on ending stocks and the resulting price.

In my first year out of college, I met a veteran commodity broker who helped me open my first trading account. Then he changed my life: He introduced me to charting. Because of my college training, I was initially skeptical. However, within 30 days, I was hooked. I read everything I could about charting and worked with this veteran broker for the next decade. I started keeping handdrawn daily charts for all of the grain markets. Now, I have a special cabinet to store all of the charts I built over the last 44 years.

The charts I use and the long-term cycles I watch suggest to me that corn and soybean prices will move higher postharvest 2018, while wheat prices are more likely to move lower as I look ahead to 2019.

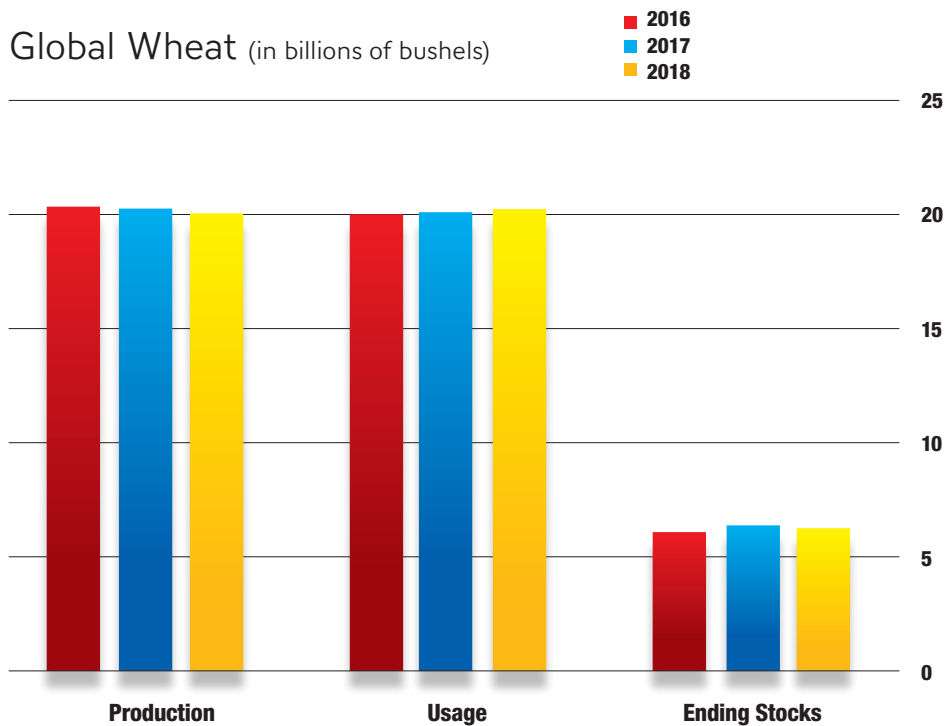
I use a combination of fundamental and technical analysis when making my long-term price projections and when building my master marketing plan. This is a marketing

plan that I create for my customers.

A REVIEW OF LONG-TERM GLOBAL FUNDAMENTALS

The monthly reports show the inventories of global grains were very tight when the grain markets put in the major highs in the third quarter of 2012. Then, for four years through the third quarter of 2016, the projected ending stocks of corn and soybeans became larger and larger. It is not surprising that from the third quarter of 2012 to the third quarter of 2016 global grain markets went lower. Prices did not go straight down, but rather, they ground lower

Global Wheat (in billions of bushels)



This chart shows the last three years of global wheat production, usage, and the projected ending stocks. The last USDA Supply and Demand Report shows ending stocks about unchanged from last month but down nearly 500 million bushels from last year. The global stocks-to-use ratio for wheat is still quite high at 35%.

the ratio, the worse for price, because it shows too much inventory.

In 2015 and 2016, the SUR for corn was 26%, soybeans were 22%, and wheat was 33%. The charts that I have built show global corn stocks are moving lower. The most recent USDA reports show a SUR of just 14% for corn. For global soybeans, the number is very large with a projected SUR of 16%. Wheat has had a dramatic shift, but still there is a large global SUR for wheat.

WHAT IT MEANS FOR PRICES

It means it is very easy to be bullish on corn for the next two years. Any production problems anywhere in the world will send prices higher, possibly sharply higher.

For soybeans, the trade and tariff disagreement with China has created some huge U.S. carryover projections. However, when I look at the global numbers for soybeans, they are still positive. I am longer-term optimistic for soybean prices.

Wheat prices had a huge rally in 2018. That will buy a lot of wheat acres all over the world in 2019. I have a lot of my 2018 wheat sold and will consider getting more 2019 wheat hedged on any rally into November. I may even consider some 2020 hedges. I am bearish on U.S. and world wheat prices as I look ahead over the next two years.

How should this impact your 2018 marketing plans?


Even with improving global fundamentals, expect seasonal highs and lows to develop in the grain markets. That is based on crop development in the southern hemisphere

this winter and in the U.S. in the spring and summer of 2019. I have 40% of my 2018 corn and soybeans sold ahead with hedges and another 20% to 40% of the crop protected with puts. I plan to store the remaining inventory into the March through July seasonal rally.

My initial price target for July 2019 corn is at \$4.40. For soybeans, my initial target is at \$10.20. For wheat, I used the August rally to get up to 80% of my 2018 wheat sold and have hedges in place on 30% of the 2019 wheat. If the wheat rally continues into November, then I will have all of my 2018 wheat sold and up to 60% of the 2019 hedged ahead with the balance protected with puts.

I am optimistic over the long term, but I also see the need to have a realistic price plan with specific

targets in place.

If you would like to learn more about USDA reports, go to kluiscommodities.com/usdareport/ to register for my online class, How to Understand USDA Reports. 

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

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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