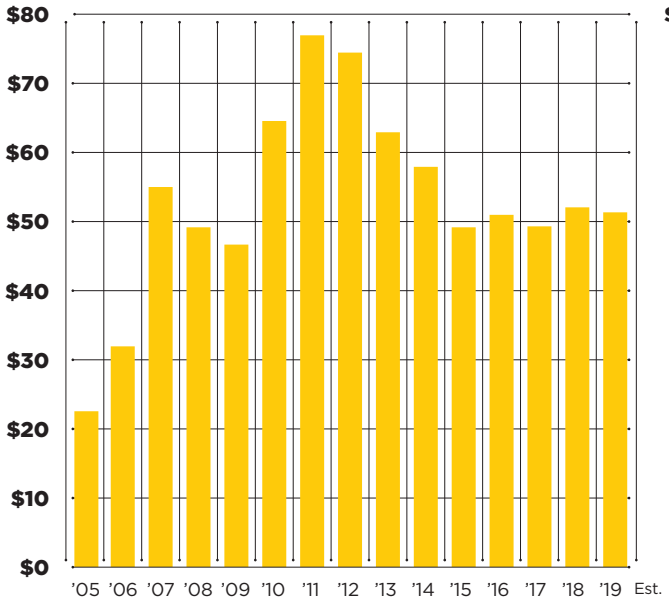
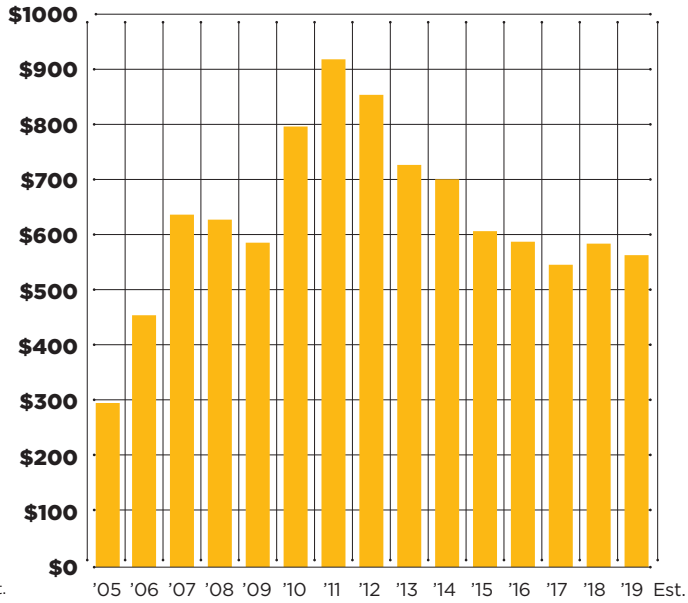
U.S. CORN REVENUE
2005 to 2019 Est. (In billions of $)



U.S. CORN REVENUE PER ACRE
2005 to 2019 Est.



TRADE WAR TAKES A TOLL ON REVENUE

Soybean revenue falls to the lowest level since 2009.

This chart shows the large jump in corn revenue (300%) from about $300 per acre in 2005 to the high at just over $900 per acre in 2011. Then revenue per acre dropped into $550 to $580 for the last three years. I think the 2017 low will prove to be a long-term price and revenue low.

By **Al Kluis**

What most farmers want is quite simple: Harvest a large crop and sell it at a high price. What drives farm prices and profits is also quite simple: Revenue per acre.

However, for most of the last 40 years, I have watched a roller-coaster pattern in grain prices and farm profits. Each year, I sit down with my charts and a calculator, and I look at patterns. I look at grain prices, as well as farm profits. Seeing the big picture in black and white has an impact I don't get day to day sitting in front of my trading screens. It is easy to lose sight of the big picture when you are focused on getting through the day or the season. Looking at my charts, I can see it has been rare to have two great years – or two really bad years – back to back.

From 2005 through 2012, farm prices and revenues rose year after year. Three key factors helped prices and profits improve. First was ethanol production, which kicked into high gear. Within the first decade of the ethanol boom, more than a third of the U.S. corn crop is now converted to ethanol. Second was China's huge and growing demand for soybeans. Third was the low U.S. dollar. For most of 2005 to 2012, the U.S. dollar index was trading at 72 to 90, making U.S. products a good bargain for foreign buyers.

In 2011 and 2012, total crop revenue for corn and soybeans peaked. The roller coaster stopped – or should I say, it headed down. Total crop revenue (and revenue per acre) went down for four years then hit major lows in 2015 (soybeans) and 2017 (corn).

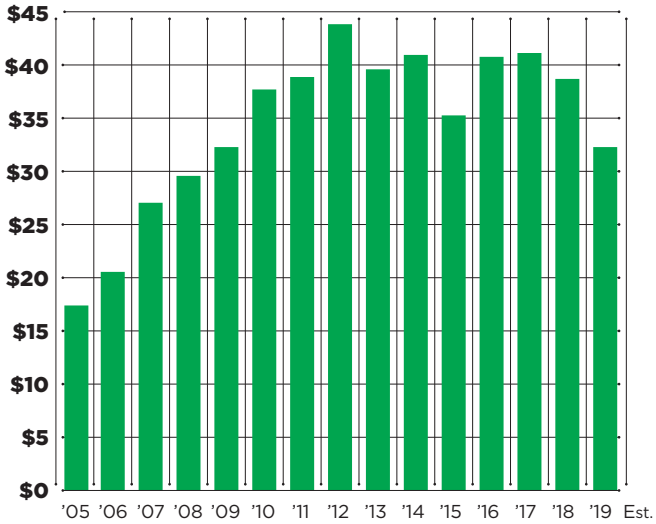
Finally, in 2018, prices and revenue began to improve. Farmers were still caught in a challenging profit environment, however. Grain prices dropped by 50%, but inputs only dropped by 35%. The top 30% of the farmers who got things right (by managing costs lower, getting good yields, and selling at the right time) were able to get back in the profit zone.

What About This Year?

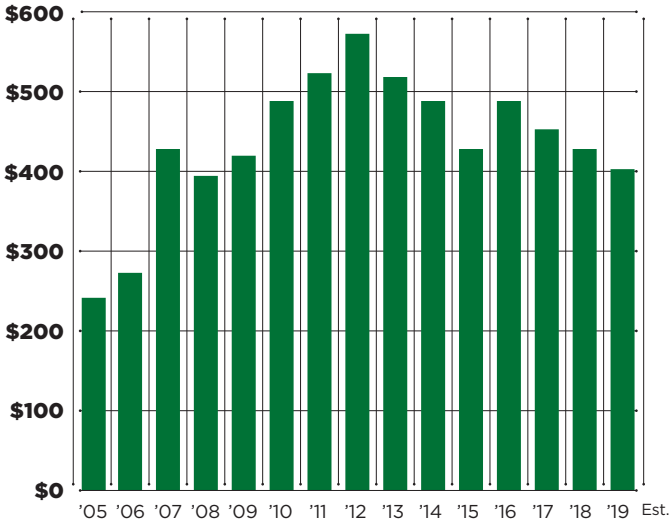
I knew soybean profits would be tough in 2019. On a recent weekend, I sat down with my spreadsheets and built my charts. I was stunned by the dramatic collapse.

It has been a challenging year to get hedges on in the soybean market. There

U.S. SOYBEAN REVENUE
2005 to 2019 Est. (In billions of $)



U.S. SOYBEAN REVENUE PER ACRE
2005 to 2019 Est.



was one very early opportunity to hedge November 2019 soybean futures above $10. After that, the rest of the spring and summer, we watched November 2019 soybean futures trade in the $8.80 to $9.40 trading channel.

Getting new-crop corn hedges in place worked well. We hit multiple price targets to get new-crop December 2019 corn hedged between $4.18 and $4.58.

But now, with the big – and ugly – picture in black and white, we have two important questions. What caused the revenue collapse? What can bring prices and profits back?

The revenue collapse developed for three main reasons.

1. The trade dispute with China. U.S. soybean exports to China dropped by nearly 50%, the lowest level in the last 11 years.

2. The large supply of foreign corn and soybeans that our export competitors sold into the global export market.

3. The strong U.S. dollar. The dollar index is currently above 98, which means U.S. products are not as good a deal as they were for foreign buyers.

What can bring prices and profits back? The super-wet spring has rallied nearby corn futures to the highest price level since 2014. Fortunately, there are a number of other factors that could make a difference. Some could happen very quickly, so keep an eye on your marketing.

For example, a weather or disease problem in South America can very quickly change the soybean outlook at some time in the next year. If a blockbuster trade agreement is put together with China, then it would at least give the grain and ethanol markets a short-term bump. If the U.S. dollar index can move back to 90 to 92, U.S. grains would be a lot more competitive in the global grain markets.

As you look ahead, expect more of a 1990s type of farm profit environment. You will see good prices and profits one year followed by a downturn the next year. Expect 2020 to be a lot better than 2019, especially for soybean and cotton farmers.

To view my monthly updated revenue projections, go to kluiscommodities.com. SF

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.

This chart shows the large jump (232%) in soybean crop revenue from 2005 through 2012. From the 2012 high, revenue fell by almost 30% to the 2015 low. Prices and profits rallied back in 2016 and 2017 before getting hit hard in 2019. The projected soybean revenue per acre in 2019 is at the lowest level since 2008 at a time when input prices are a lot higher. I am using USDA projections at this time, but I am confident that I am likely to be moving the revenue projection higher in future months.

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 "Kluis Report" by going to kluiscommodities.com.

Kluis Commodity Advisors
901-12 Oaks Center Drive
Suite 907
Wayzata, MN 55391
888/345-2855
kluiscommodities.com