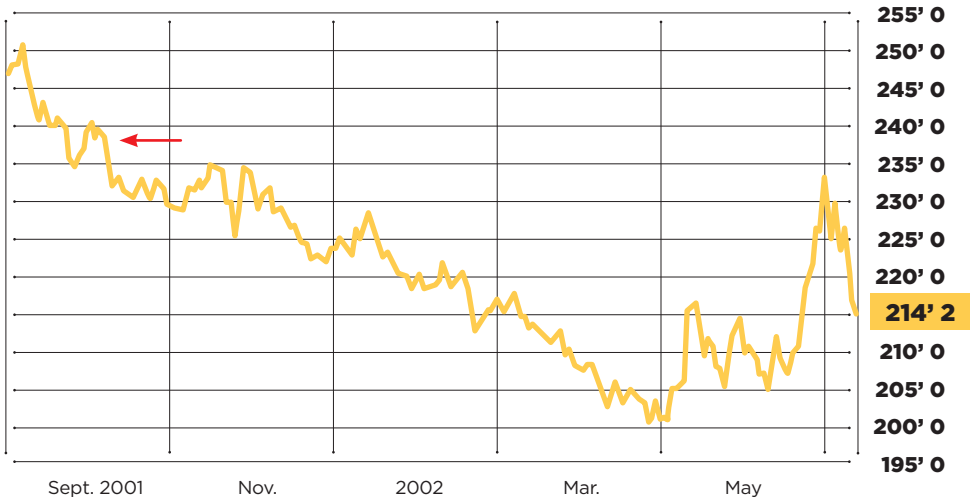
JULY 2002 CBOT CORN



The red arrow shows when the September 11, 2001, attacks occurred, which dropped U.S. stock and commodity prices. When trading resumed three days later, the corn market plunged. Futures attempted to rally back over the next month before moving sharply lower to the low that came eight months later in May 2002. A weather scare in June rallied prices back close to the highs made in late 2001 by July 2002.

THE COVID-19 CRASH IN THE AG MARKETS

Here are some key signals to watch in 2020.

By **Al Kluis**

When I started my first company over 40 years ago, I set up my office in my house because it was free rent. Fast-forward 40 years: I am working in my house again. This time, it is to comply with the stay-at-home guidelines issued by the state of Minnesota.

In the last few months, I have conducted a record number of webinars for numerous corn and soybean associations, the Farm Bureau, and many others. After trading grain and working with farmers for the last four decades, I have lived through a lot of major ups and downs in the commodity markets.

Remember the Carter Grain Embargo? Then there was the Dot-Com Bust and the fallout after the 9/11 attacks.

This correction is different, though. The other major corrections were brought about by man-made events or emotions (like the greed leading to the Dot-Com Bust). The COVID-19 crash is like war – but with a virus. This biological enemy is hard to detect, and it can mutate, or hide, to come back again this fall.

What I've Learned from Previous Crises

I can't say I know what is going to happen, because I don't. As a chartist, though, I am watching for patterns. Here are the stages I saw in previous crises.

Stage One: Plunging prices. This usually lasts one to four weeks, and farmers remain hopeful for a rebound.

Stage Two: The rebound rally. This rally quite often brings prices close to the prices available before the crisis started. This is often a two- to four-week rally.

Stage Three: The hard down. In this stage, prices fall to the final bottom, which arrives after four to six months. This becomes an emotional time for farmers, many of whom are tempted to just throw in the towel.

Stage Four: Recovery. Within 12 to 14 months, corn and soybean prices are at or above the price level that was available when the downtrend started.

In previous crises, I have also noticed that corn tends to fall the hardest and takes a longer time to come back. While soybeans are not hit as hard, they have usually rallied back faster. Wheat generally holds on better and comes back eventually.

What Has Worked

You need to stay liquid and get the cash out of the crop.

Here is a good example of a farmer who navigated the COVID-19 crash. This long-time customer came into the fall with over 60% of his corn crop hedged at over $4 per bushel. When his local ethanol plant basis narrowed to 8 under the March CBOT corn futures, he sold the rest of his corn and replaced it with a December corn bull call spread. He paid 22¢ for the spread.

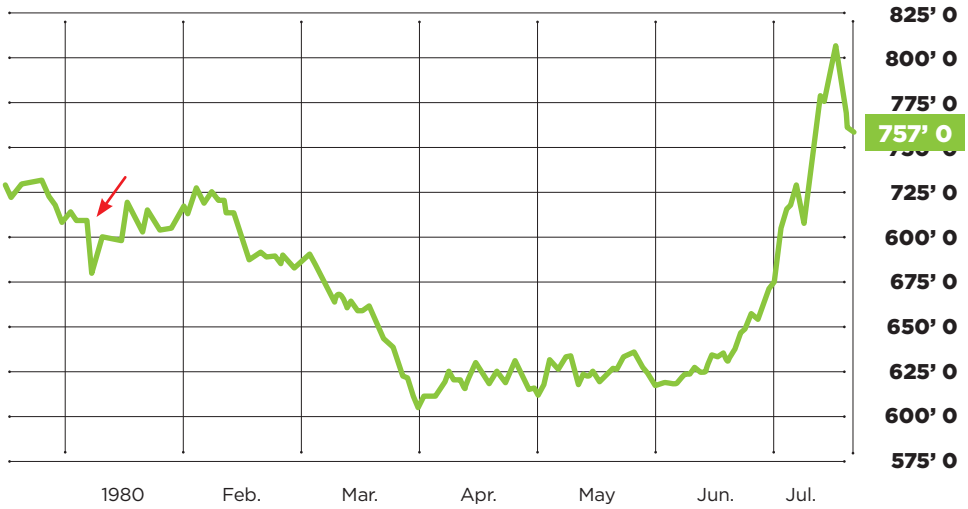
The bad news: He has lost about 12¢ on the spread.

The good news: The cash corn market has tanked by over 60¢ per bushel.

Between the collapse in the local basis bid and the hard down move in the corn futures market, his loss of 12¢ on the call spread has been ▸

Chart Source: DTN, Prophet X

JULY 1980 CBOT BEANS



The red arrow shows when the Carter embargo was announced in January 1980. Prices plunged in the first week, rallied back to above where prices were trading within a month, and then eventually bottomed out four months later in April 1980. Then weather problems rallied the soybean market up to new highs in July 1980. I am not forecasting that to happen in 2020, but I do think the timing is worth watching.

pretty minimal. He has had all of the money out of his corn crop since early February. He also put a similar strategy in place on his 2019 soybean crop.

What Has Not Worked

I have had phone calls from farmers who have no 2019 crops sold and still have large operating loans to pay off at the bank. At the same time, they need funds to buy the 2020 inputs. Hold and Hope is never a good marketing plan. If you find your farm in that position, then it may be time to consider a managed grain program.

What to Watch

Here are some of the key fundamentals you should be watching.

In June, be focused on the weekly USDA Crop Progress Reports and the extended weather forecasts. Will we achieve trend line yields again in 2020? Will China jump in and buy boatloads of bargain-basement priced pork, soybeans, sorghum, and corn? The country needs the pork and soybeans and it also has very skillful long-term traders who know a bargain when they see it.

Two key macro factors you should be watching are unemployment and energy. When (on a monthly basis) will unemployment start to move lower? When will energy consumption start to improve?

In the fourth quarter of 2019, the U.S. was using 9.5 to 10 million barrels of gasoline a day. The most recent reports showed daily gasoline consumption of just over 5 million barrels per day. Until U.S. consumers get back to work, resume driving, and dining out, it will be difficult to sustain a rally.

You should also be watching for three important chart signals.

1. Watch the spreads. Pay particular attention to the July 2020 vs. December 2020 corn spread. If that spread starts to narrow, that is known as bull spreading. That is a positive price signal. Watch the same on the July 2020 vs. November 2020 soybean spread.

2. Watch for the nearby corn and soybean futures to close above the two previous weeks' high. This can signal a short-term trend reversal.

3. Watch for the nearby corn and soybean futures to close above the two previous months' high. That chart signal will confirm a long-term low.

Final Thoughts

I know it always looks the absolute worst right at the bottom, and that June is four months from when prices turned lower. (Perhaps that will be the Stage Three final bottom.) But having lived through other farm profit crashes, I have noticed that when the industry and individual farmers start to focus on solutions – not just on the problems – real progress happens. 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 judgment at a specific time and is subject to change without notice. There is no guarantee that the advice given will result in profitable trades. •

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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 "Kluis Report" by going to kluiscommodities.com.

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Chart Source: DTN, Prophet X