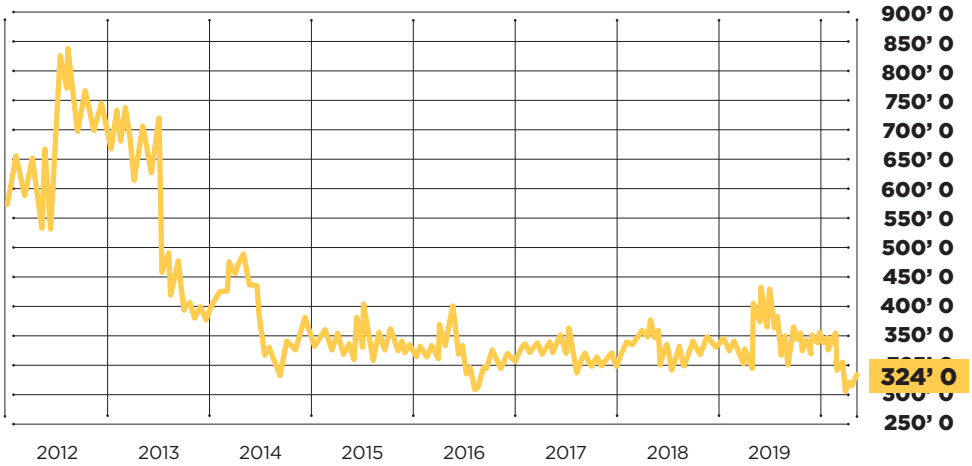
CBOT CORN MONTHLY



This is the monthly CBOT Corn Continuation Chart. This chart shows corn futures plunging lower from January 2020 to the April 2020 low and double bottom at $3.01. Now a monthly close above $3.50 will confirm a major low in the corn market and turn the downtrend to a sideways to higher market signaling higher corn prices after harvest.

IS AN ELECTION YEAR RALLY STILL POSSIBLE?

Three ways to assess your risk.

By **Al Kluis**

have never had as many emails or phone calls about an article as I did for the "Your Profit" article I wrote in December 2019 about the grain market outlook for the election year. After six long years of a grinding bear market in corn and soybean futures, I wrote that I thought the timing was right for a major rebound. I did advise caution and admitted that some of the projections were not realistic, but based on the historic data I outlined in the article, I projected higher prices.

What happened? The grain markets rallied and kept rallying into early January. The U.S. stock market rose to all-time highs, and the United States and China signed a trade agreement in the middle of January. Farmers called and wrote to us and said, "This is great. How did you know?"

Then came February. Three negative factors hit the grain markets starting that month.

First: Record corn and soybean crops develop in South America. This increased global supplies of corn and soybeans, and both Argentina and Brazil were willing to sell below whatever low price U.S. grain companies offered.

Second: COVID-19. The global pandemic created a lot of market volatility, and it reduced global economic growth. This increased unemployment, which reduced food and energy demand around the world.

Third: An oil price war between Saudi Arabia and Russia. The combination of reduced demand and increased supply bombed the crude oil, gasoline, and ethanol markets. The hard drop in ethanol price and crush dropped U.S. corn futures back to the August 2016 low.

The world and the grain market fundamentals looked a lot different in April 2020 than they did when I wrote the article for December 2019.

The tone of the emails and phone calls changed in March and April, when I got the same question over and over: "Do you still think prices will rally in this election year?"

Part of my answer remains the same: "Yes, I think they can rally." Yet, because we are starting from a much lower price, I'll need to move the price targets lower to be realistic. The timing I mentioned in the December article ("… Sell hard on any three-week weather scare") is still a good recommendation.

I also encourage you to take a good look at your current risk levels. Here are three specific things to focus on:

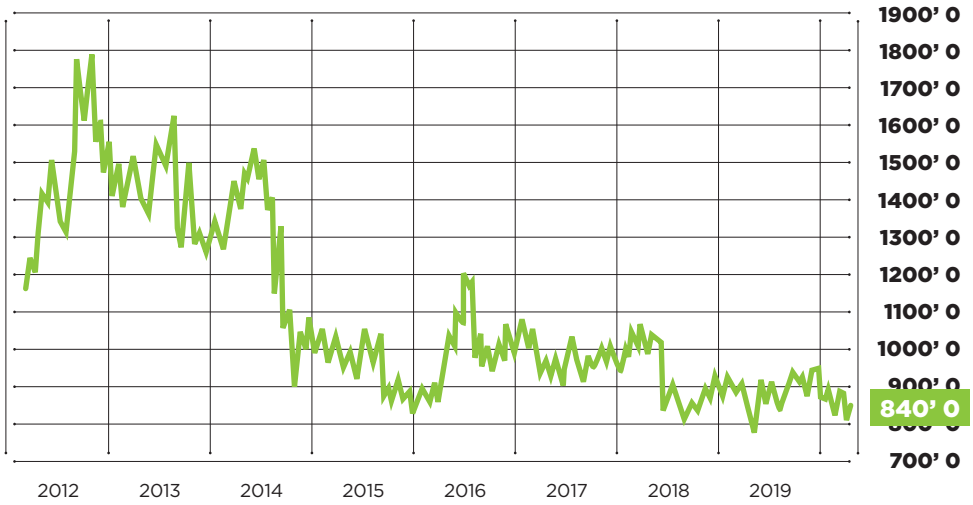
1. What bushels do you have in the bin? Figure out the futures risk and the basis risk that you have on that inventory.

2. What potential bushels do you have in the field? Figure out the new-crop futures and basis risk for those bushels.

3. Look forward. What are the current futures prices for 2021 and 2022? Look at the fall of 2021 and even fall of 2022 prices to evaluate the risk. I always watch for any profit potential in selling out one or two years from now, especially if the futures are offering a large carrying charge.

Once you've looked at your risk, you can decide what to do now. First, manage the risk you have on any of the old-crop 2019 corn and soybeans you are holding. This is a tough position. If the futures rally, then the basis will collapse. If the futures collapse, then your cash bids move lower. If you have a good basis, then set the basis on the

CBOT SOYBEANS MONTHLY



This is the monthly CBOT Soybean Continuation Chart. This chart shows soybean futures prices. The key to watch to change the long-term trend for the soybean market is a monthly close above $8.80 per bushel.

remaining bushels and make sure you get 25% of the corn and soybeans sold each week on any rally over the next four weeks. If you use the options market, then consider selling the corn and soybeans and replacing with "at the money" calls. You are selling low, but also buying low. If you have questions on how this works, use the email at the end of the article to contact me.

Second, manage the risk on the 2020 crop. You should have 20% to 40% of your new crop hedged ahead or protected with puts. For the farmers who bought high levels of revenue protection (RP) crop insurance, the current grain markets are frustrating. On the other hand, you have little financial risk if futures move lower into October. But remember that you still have basis risk. If you need to deliver a lot of grain at harvest for storage or cash flow reasons, then you need to manage that basis risk. Consider getting the basis set on those bushels. If you use options, then use any rally to get some puts bought. Even if you are at a low price, you still need to manage your downside risk.

Third, look at the new-crop 2021 and 2022 corn, soybean, and wheat futures. My minimum objective for hedging 10% to 20% of the new-crop corn one or two years out is $4.20.That is a long way from the current market right now, but that can shift quickly on any change in the U.S. or global weather. For wheat, my initial objective is $5.80. The soybean market is flat or inverted out into 2021 and 2022. It does not offer any profits to lock in at this time.

For all the contracts one or two years out, stay aware of the relative price level. Always know where you will want to put on your first hedge when the next rally develops. I had a customer who delivered $6.80 cash wheat off the combine this summer that was hedged in the summer of 2017, three years ago. When you can sell a rally and a large carrying charge, it almost always looks good at harvest.

COVID-19 Lessons

Some final thoughts: The COVID-19 pandemic is a curveball that was not in anyone's forecast earlier this year. The hard downward move in the grain and livestock markets again demonstrated the need for a risk management plan. The farmers who did a good job of managing risk were those who had a plan and executed the plan. Here are some key things they did right:

- **They had some of the 2019 crop hedged ahead for delivery at harvest.**
- **They made some incremental sales of the remaining inventory from November 2019 through early January 2020.**
- **They sold the cash crop when they were offered a good basis.**
- **They managed risk using a combination of futures, options, and basis contracts.**

Odds are good that the farmers who have a plan – and use it – will have good results with the 2020 crop.

The key to watch to change the long-term trend for the soybean market is a monthly close above $8.80. 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 the advice given will result in profitable trades.

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