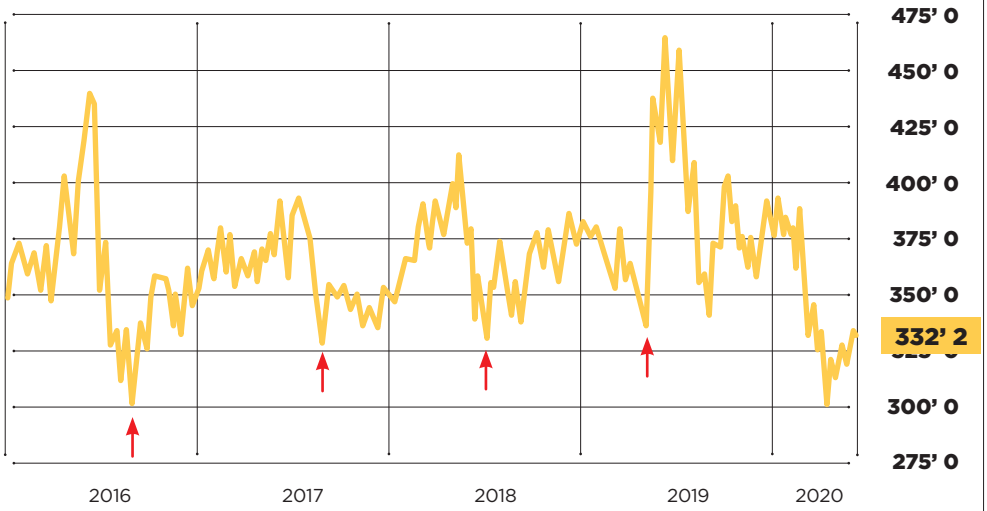
CBOT CORN WEEKLY



This weekly corn chart shows how consistently the corn market has bottomed in late August or early September the past four years. This year it looks like the low came in June, but Kluis still expects a retest of that low in the August-to-October time period.

WILL THE GRAIN MARKETS BOTTOM AGAIN IN AUGUST?

Three steps to help you make better marketing decisions.

By **Al Kluis**

write down and keep a lot of old grain trade axioms. Here is one that was true five out of the last five years: "To not make a decision is a bad decision." This is important to think about in August.

When I look at my weekly and monthly corn continuation chart, I am amazed at how consistently the corn market has bottomed in late August or the first week of September the last four years. My weekly corn chart shows major lows in the corn market in the last week of August in 2016, 2017, and 2018. In 2019, the low came in the first week of September.

Many farmers held onto the cash corn until late August and then had to sell to make room for new crop. They did not make a decision until they were forced to make a decision. That is not good marketing. The farmers who put corn into delayed pricing (DP) programs that had to be priced out by the last trading day of August were also hit hard.

Selling old- or new-crop soybeans in August has also usually been a bad decision, but the pattern has not been as consistently bad as with corn. Here are the weekly lows in the soybean market over the last four years: February 2016, June 2017, July and September (a double bottom) 2018, and May 2019. Late August has never been the low for the year, but it has usually not been a good time to sell.

I showed this price pattern at a Farm Bureau marketing seminar in Illinois this summer. After the meeting, one farmer said, "I do not need help finding the bottoms, I need help finding the top!" I explained that I do not try to sell at the top. Instead, I recommend making a series of sales that get a good average selling price. (In fact, the farmers who try to sell at the top are quite often the ones selling corn in late August.) Rather than just talk and write about the lows, I like to work on identifying the steps you can take to make better marketing decisions.

Looking ahead at the corn and soybean markets, here are three steps to consider for your 2020, 2021, and 2022 crop sales.

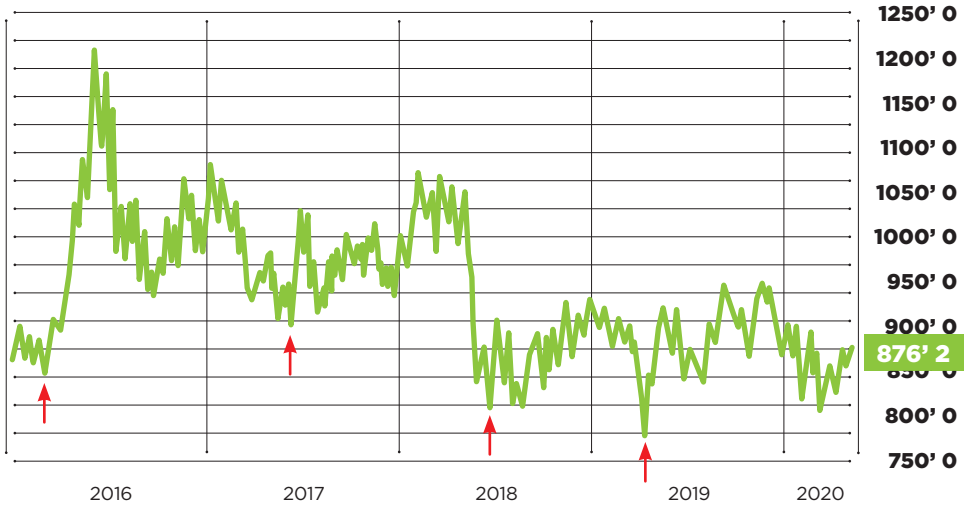
For Corn ...

Step one: Always watch the new-crop corn futures contracts that are trading out one to three years. The carrying charge in the corn market will often let you sell corn ahead at 30¢ to 45¢ over the nearby futures price. My initial target to make new-crop sales and start with a 10% or 20% hedge is at $4.18. Note the high in December 2020 corn was $4.23 and December 2021 corn was $4.22. Having even just 10% hedged at $4.18 looks really good today.

Step two: From late April through early July, make incremental 10% or 20% cash sales and put hedges on 20% to 30% of your new-crop corn. If you are not comfortable with hedges, then at least get some puts bought to manage new-crop risk.

Step three: If August and September have consistently been a low, then avoid getting in a cash or storage position where you have to sell in August and September. This means you have to think ahead and make smart decisions. Remember: Hold and hope is not a good strategy. The most reliable seasonal pattern the past five years has been the August to November rally in the cash corn market.

CBOT SOYBEANS WEEKLY



The weekly soybean chart shows a pattern of bottoming in May or June the last several years as prices move lower when South American farmers make new-crop sales at harvest. November and January have been the best times to sell the past few years. The weekly soybean chart shows a potential bottom in June of 2020.

For Soybeans ...

Step one: Always watch the soybean futures contracts trading out one to three years. The futures contracts out one to three years have not offered much of a carry and have often been inverted. That means the contracts out one to three are trading lower than the nearby contracts. As I am writing this article, the soybean futures from August 2020 out through November 2021 are all trading within 5¢. This lack of a carrying charge has made getting new-crop hedges in place a lot more challenging but not impossible. My initial target for hedging new crop and starting with a 10% or 20% hedge is at $9.80. Note that the November 2020 contract high was at $10.05 and the November 2021 high was at $9.99. Having 10% or 20% hedged at $9.80 will sure look good in the fall of 2020, and I am betting it will also look good in the fall of 2021.

Step two: The fact that Brazil now produces more soybeans than the United States has changed the seasonal odds pattern. I now suggest two key windows to make cash sales and place new-crop hedges. The first window is right after the U.S. harvest. That is when Brazil and Argentina are starting to plant soybeans. Make incremental 10% and 20% sales from early November through late December. Avoid January and February (unless there is a weather problem in South America). A rally into January or February because of weather problems in Brazil can be a great time to sell. Most years, wrapping up sales in May and June is the right move, especially if futures rally into that time period.

Step three: The soybean futures market does not provide you with an incentive to store soybeans most years. As I put on my grain merchandising hat, this tells me to get my soybeans sold in the November-to-December rally. Then if I want to try to make money on any rally the next year, I would buy back call options or bull call spreads. This method involves making more decisions and having a brokerage account. But I do not grow soybeans to store them. My philosophy is to grow the beans and turn them into cash at harvest or by the end of the year when I get the right basis. If the fundamentals look positive for a rally, then holding calls is the right move and is actually less risk than holding soybeans in the bin.

At that Farm Bureau meeting in Illinois, a young farmer asked me if I had developed any of my own trade axioms after more than 40 years of trading. After the break, I came back with a new "Al-ism" for him. Here it is: "Way more money has been lost in the last 10 years by holding too long than by selling too early."

Don't forget: To not make a decision is usually a bad decision. SF

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