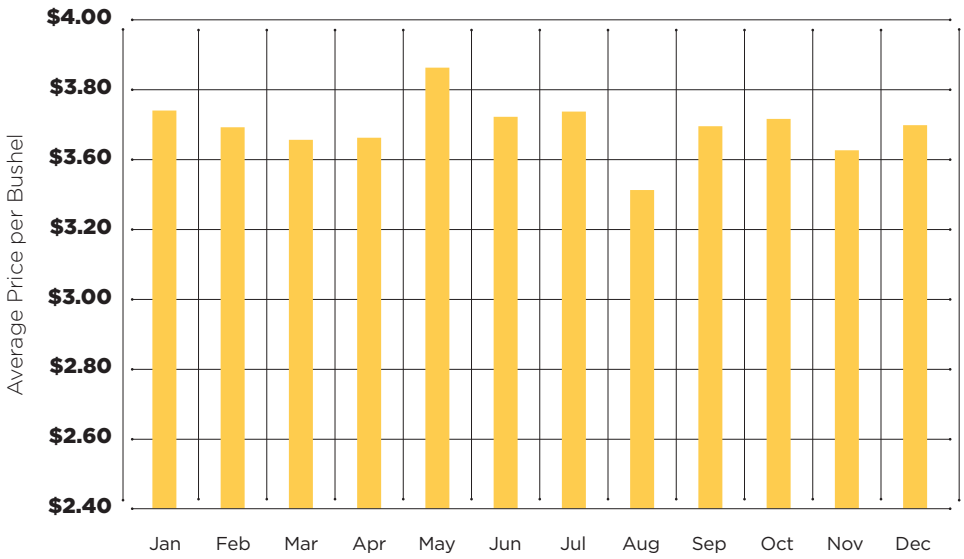
SEASONAL CORN PRICES FIVE-YEAR MONTHLY AVERAGE



This chart shows the monthly closing price of nearby CBOT futures going back to 2015, avoiding the extreme highs from 2012 and 2013. This chart has changed a little over the past 40 years. The highs come in earlier in the year (usually in May), and the lows also come in earlier. The lows usually come in before harvest in August or September.

THE GRAIN MARKETS ARE CHANGING

How to make better decisions this year.

By Al Kluis

In late July, I met with a manager of a large grain company that has elevators across northern Illinois and eastern Iowa. The main merchandiser said he liked my "Your Profit" articles. He also said, "You made us change our policy on DP (delayed pricing) programs for our farmers who can't make a decision." After watching farmers hold millions of bushels of corn and soybeans into late August in 2017 and 2018 – and then watching them sell at the low for the year – the company decided the price-out date for DP corn and soybeans would change from the last day of August to the last day of May. "Some farmers were mad," he said. "Others came in later to thank me."

The manager had been in the grain business for four decades. He was very sincere in wanting to help his customers make better marketing decisions. I enjoyed talking shop with this veteran, and we had a good talk about how the grain industry had changed over the past 40 years.

Here are some of the major changes that have developed in the last four decades.

1. Consolidation in the grain industry. The number of country elevators has dropped by nearly 80%. Co-ops are merging, and major international grain companies continue to buy processing plants and export facilities. There are fewer buyers, but competition in the grain industry has increased nonetheless. That is because a lot of nontraditional buyers are also willing to bid for farmers' grain.

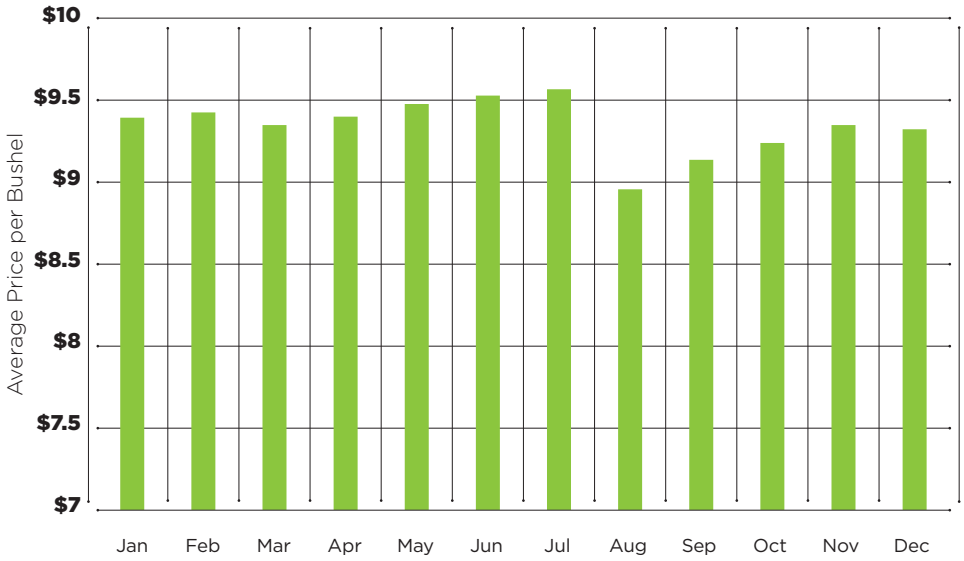
2. Larger farms are able to ship direct. Farmers will often haul grain more than 30 miles if the basis bid is strong enough to justify the trucking. Until about 20 years ago, most of the grain farmers sold was hauled less than 10 miles. A lot of the grain was hauled to the local elevator in grain wagons.

3. Global markets. We talked about the old days when the pit traders would watch the Chicago TV noon weather updates and the wild price moves that would develop between 1 p.m. and the 1:15 close. The focus was on the Illinois and Corn Belt weather forecasts. Now traders watch weather forecasts in Brazil, and wheat traders watch weather and crop development in Russia and the Ukraine. At certain times of the year, we monitor weather on three continents, at the same time. Thank goodness for the internet and all the available global weather reports.

4. Commodity funds and 17-hour-per-day trading. Wall Street started to create and trade grain ETFs (exchange traded funds) in 2003. Many hedge funds went from just trading stocks and bonds between 2005 and 2007 to including commodities at that same time. By 2008, commodity fund and algorithm trading volume became the dominant feature in the futures market. It has changed from the old days when trading at the CBOT was only 3¾ hours in the pits to today when the exchange is open 17 hours a day with global access. This has changed how you hedge, when you hedge, and how you place your orders.

With these huge changes in mind, here are some suggestions on how to make better decisions this year.

SEASONAL SOYBEAN PRICES FIVE-YEAR MONTHLY AVERAGE



This chart shows the monthly closing price of nearby CBOT futures going back to 2015. The old seasonal odds chart showed a rally into June and then a down-move to the harvest low in October. Now the chart shows two possible highs. One is a post-harvest high in the United States in November then, after the South American harvest in March, a secondary high in June or July, and then down to the August preharvest low.

#1. Notice rallies do not last as long as they used to. The weather rallies in the 1980s would last two to three months. The United States was the dominant grain producer in the world, and a lot of the traders watched weather forecasts closely, as well as crop development between April and October. Now there is more competition from the Southern Hemisphere, and the rallies last only two to three weeks. You get to the highs very fast, and then grind lower for months. This shorter window to sell means you must have a plan and be ready to take action quickly. You have to execute your plan during the key two- to three-week selling window. Pulling the trigger is more important now than ever.

#2. Take advantage of merchandising opportunities. In the past few years, farmers who were forced to sell at harvest have usually had the worst of both worlds – low futures and very wide basis levels. In the last three years, however, farmers who can store corn from October to March have gained 35¢ to 45¢ per bushel. Even after you factor in interest costs, the net gain of 25¢ to 30¢ per bushel is quite often your profit margin. Making that extra 25¢ to 30¢ per bushel is $50 to $60 per acre on 200-bushel-per-acre corn.

#3. Use the wide range of marketing tools now available. The increased competition in the grain industry has forced grain elevators to offer hedge-to-arrive contracts and basis contracts. Many will offer minimum/maximum (max/min) contracts. Almost all elevators offer picked-up-on-the-farm bids. This allows farmers to shop for the best basis they can find. Many farmers have their own hedge accounts and use futures and options to manage risk and make the right merchandising decisions. Elevators now realize that farmers who understand marketing are their most successful customers.

To summarize, a lot has changed. However, some old-school methods still work. Selling based on seasonal odds is one tool that still works. The seasonal odds chart for corn is similar to what I used 20 and 40 years ago. The seasonal odds for the soybean market have changed. I think this is because of all the competition from South America. Farmers who are disciplined and make cash and new-crop corn and soybean sales on any weather scare rally in April through early July are making the right marketing and financial decisions. 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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Chart Source: DTN Prophet X
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