

CORN PRICES IN BRAZILIAN REALS MONTHLY



ALL EYES ARE ON SOUTH AMERICAN CROPS

Watch three indicators of grain markets.

By **Al Kluis**

For my first 30 years in the grain business, December, January, and February were a quiet time in the futures market. I would watch the December-to-March corn continuation gap (would it get filled?) and basis (would it improve?), then make early production forecasts. (What would total corn and soybean acres be that year in the United States?)

This began to change about 2005 when Brazil started to grow a lot more corn and soybeans. Now, December through February has turned into a really busy time. I watch the weather and forecasts for Brazil and Argentina more closely than for Minnesota; there is another major weather scare season to watch in the Southern Hemisphere. As a result, December through February is when market volatility really increases.

World grain traders are very optimistic about corn and soybean production in

South America for 2021. At the time of this writing, the forecast is for a record corn and soybean crop in South America. The total soybean crop from the continent's five major soybean-producing countries is projected to be 7.3 billion bushels. This would be 3 billion bushels larger than the 2020 U.S. crop. For corn, the total production from South America is estimated at 6.537 billion bushels, about 8 billion bushels less than the U.S. 2021 corn crop. Both the corn and soybean crops are projected to be about 4.5% larger than 2020.

This huge increase in South American soybean production has changed the seasonal price pattern for soybeans. The old price pattern from 20 years ago showed a steep drop into October, a rally between May and July, then down again into October. Now the seasonal pattern looks more like a "W." Prices will often bottom before the U.S. harvest, rally into November, drop back into the South American harvest low in

This monthly chart of nearby CBOT corn futures is converted into Brazilian reals. Think of it as the price of corn in Brazil. This chart shows the major low in corn prices in August 2014 when the price dropped to 8 reals per bushel. Now the combination of a very weak Brazilian real and the rally in the corn market has taken Brazilian corn prices to all-time highs with prices trading above the 2012 high. Corn prices are very profitable in Brazil, and farmers are ramping up production again for 2021.

February and March, and then rally to the secondary high in May or June.

The seasonal price pattern for corn has also changed. The lows come in earlier than 20 years ago. Prices bottom in August or September, then rally into December ▶

SOYBEAN PRICES IN BRAZILIAN REALS MONTHLY



and January. Often you get a pullback into early March, then the May-June high. It is not as pronounced of a “W” as in the soybean market. This year, any corn production problems in South America will take corn prices higher right into spring planting time in the United States.

Here are three key indicators to watch in the next three months:

1. Bull spreads. I am watching the spread between January and July 2021 soybean futures. This spread has rallied from a 12¢ carry (July over January) to a 20¢ inverse. This is a bullish sign for soybeans. When the spread starts to stall, it is a sell signal. For corn, I am also watching the March to July 2021 corn spread. This has rallied from a 15¢ carry to even money at this writing. As with the soybean bull spreads, as the inverse increases, it is bullish. If the spread starts to correct, then it is a sell signal.

2. Basis levels. The firming basis during and after harvest is a positive demand signal. If the futures rally and basis bids widen, then it is a negative signal for flat prices.

3. A bullish USDA report, but prices close lower. Funds have built a huge (near-record) long position in the grain markets. This is

bearish, eventually. The old trade saying is that a bull needs to be fed every day. A lower close after a bullish report would show that all of the bullish news is built in (already taken for granted) by the market.

Some final thoughts: The world has changed a lot in the past year. The pandemic created more uncertainty and a drop in fuel demand. The grain market outlook has changed dramatically since early August. We now have a super demand-driven bull market. Higher prices and increased volatility make having a good marketing plan more important than ever. At this time of year, and at this profit level, I am using more options to manage risk, and I encourage you to do the same. This winter will be a key time for you and others on your marketing team to learn more about grain marketing. 

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. •

This is the monthly chart of near-by CBOT soybean futures converted into Brazilian reals. This chart shows the last major low in 2014 when the price dropped to 24 reals per bushel. From that low, prices rallied to all-time highs in late 2020 at 59 reals per bushel. Prices are trading well above the 2012 high. With record high prices and good profits, Brazilian soybean farmers will increase soybean acres, and they are selling a record amount ahead of 2021 and 2022 soybeans.

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

