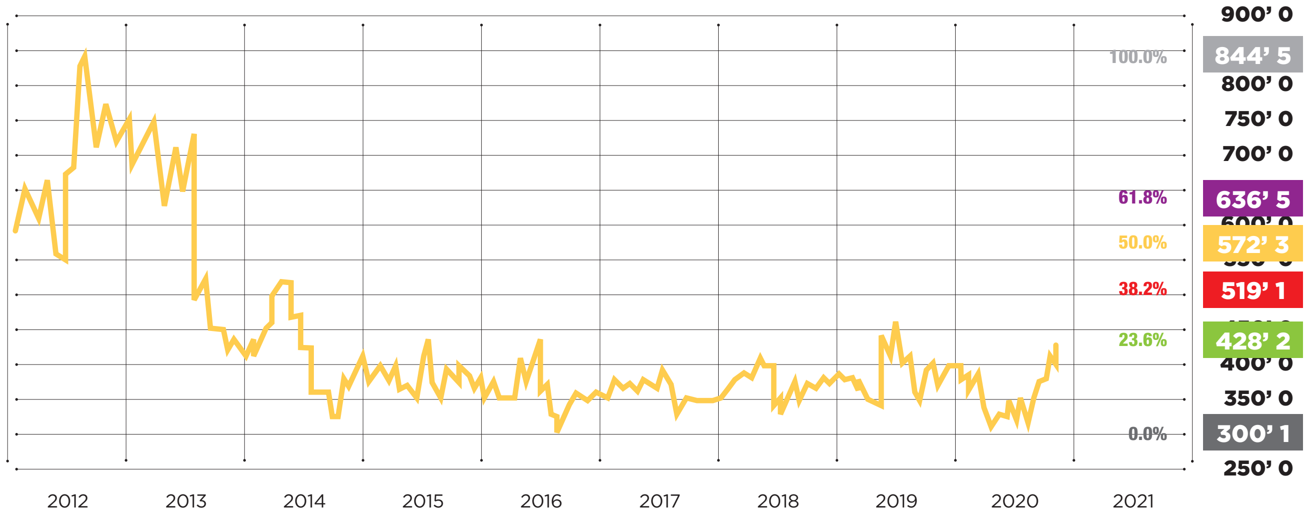
MONTHLY CORN WITH FIBONACCI RETRACEMENTS



This CBOT monthly corn continuation chart shows the monthly high, low, and close of nearby corn futures back to 2012. You can see the major high in 2012 at $8.44 per bushel and then the drop to the double-bottom at $3.00 in 2016 and 2020. After this extended eight-year bear market, I am watching for a 38%, 50%, or 61.8% retracement. I am also watching previous-year highs and the month the high came in. My first objective was at $4.28; I now have price targets at $5.19, $5.72, and $6.36.

NEW YEAR, NEW GOALS

Grain market and profit outlook turn higher.

By **Al Kluis**

In April, I received an email from a longtime customer who is a really good farmer who gets great yields, uses all the new technology tools he can, and works hard at marketing. He is usually an optimist; however, this was his question: "Is it even worth planting corn this spring?"

The outlook and uncertainty from April through August 2020 were as bad and as negative as I have lived through in the past 20 years. The farmers who were able to move through it all – and stay profitable – focused on cutting costs, maximizing yields, and using a full set of marketing tools. As a chartist, I had a lot of indicators that prices would bottom again in August or September 2020. Indeed, in 2020 the lows came in early August, but it was amazing how fast and how far this rally has taken prices and profits.

Here are the key factors that caused this huge counter-seasonal rally.

- **Strong demand**
- **Lower acres**
- **Lower-than-expected yields**
- **Global end-user buying**

Let's look at these factors in more detail.

1. Strong demand. China was actively buying U.S. corn and soybean meal in 2020. In 2019, exports to China were hit with a double whammy. First, exports were down because of the U.S.-China trade war. Then Chinese demand was hit hard when the country lost about 35% of its hog herd to African swine fever.

What a difference a year makes. The Chinese have been aggressively increasing hog production, increasing their sow herd by more than 30% in the past year – an estimated 78 million more hogs. (Compare this to the total U.S. hog herd: about 76 million hogs.)

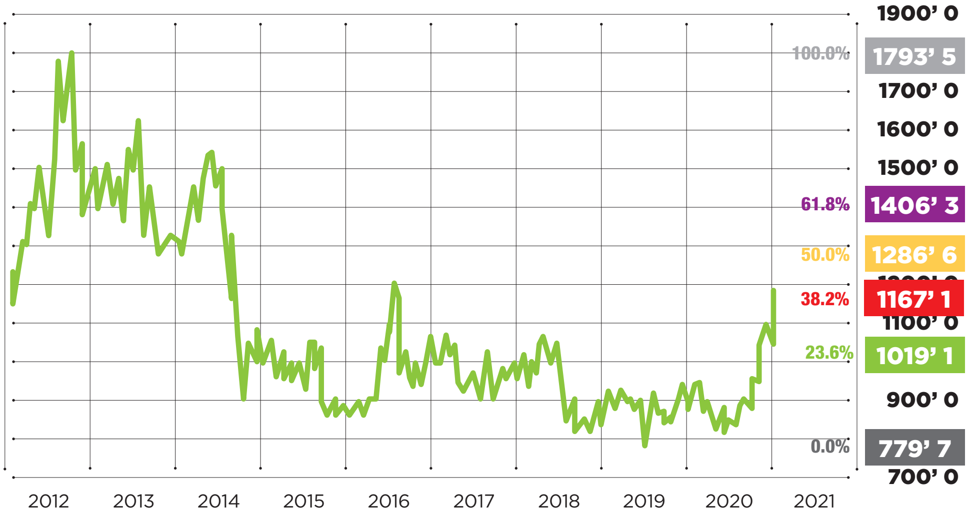
Recently, hog prices have been trending lower as supplies increase. However, Chinese hog farmers are still reporting over $100-per-head profit. Plus all those extra hogs take a lot more corn and soybean meal!

2. Lower acres. The USDA reported total U.S. corn and soybean acreage at 174 million acres, about 3 million acres less than expected. This drop was due to more prevented plant acres in the Dakotas. Then the derecho blew across the Corn Belt and hit Iowa very hard. The August windstorm lowered yields for (and in some cases wiped out) the corn and soybean crops on as much as 14 million acres of prime farmland. Odds are good that harvested acres will move lower in the USDA final crop production report on January 12.

3. Lower-than-expected yields. U.S. corn and soybean crop ratings moved lower each week in August as dry conditions expanded across much of the western Corn Belt. The USDA took both corn and soybean

Chart Source: ProphetX

MONTHLY SOYBEANS WITH FIBONACCI RETRACEMENTS



This CBOT monthly soybean continuation chart shows the high, low, and close of nearby soybean futures back to 2012. You can see the major monthly high in 2012 at $17.94 per bushel. From that high prices went down by just over $10 per bushel to the low at $7.80 in May 2019. The rally in late 2020 boosted futures above resistance at the May 2018 high at $10.70. Now I am watching the 2016 high at $12.08. The 50% retracement is at $12.86, and then the 62% retracement is at $14.06.

yields lower from October into November. The U.S. corn yield was reduced by 2.6 bushels per acre, and the soybean yield was reduced by 1.2 bushels per acre. Yields likely will move lower again in the USDA final crop production report.

4. Global end-user buying. Early this year, many world importers were waiting for a large U.S. crop with the plan to fill up at harvest. The wait for the harvest lows had worked great the past four years. When the markets took off so fast and so far in early August, many had no coverage. Panic mentality set in: They needed to get it bought before they ran out. This effect showed up in the weekly and monthly export sales report.

Two big questions now are: How high will the rally go? How long will it last? How high is a tough question. Since August, the grain market has moved higher and faster than I had imagined when I wrote more than a year ago to expect an election-year rally. To try to answer the question, let's pull out the long-term monthly corn and soybean charts.

For corn, let's use monthly retracements of the $8.44 high in 2012 to the $3.00 low in 2020. My initial objective was at $4.28. Next, I look at the 2014 high ($5.19). A 50% retracement of the 2012 high to the 2019 low projects prices up to $5.72.

What about soybeans? The soybean chart shows the major high in late 2012 ($17.94), then the drop to the low in May 2019 ($7.80). The first major hurdle was getting above the 2018 high ($10.70). The next objective after that is the 2016 high ($12.08). The 50% retracement is at $12.87.

Please note that these are not price forecasts. These targets are calculated using mechanical methods. Using charts in this way is more effective than watching the market, and it lets us take the emotion out of making decisions.

Now let's look at how long the rally may last. That is another tough question. This time, I will pull out my weekly corn and soybean continuation charts. The major low that I use when studying the timing of the market is the last major low, from early August 2020. The pattern that I have observed in the grain markets in the past decade is a pattern of nine to 10 months low to low. This pattern has been as little as six months and as long as 13 months. The grain markets will often rally for four to six months and then turn lower for three to five months. This January, the grain market rally will be a five-month-old rally. I am on guard for a high between January and March.

I will update my charts and provide my analysis of the USDA final crop production report on January 15 in a video. To view this video, go to **kluiscommodities.com/kca-tv-room**. SF

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Chart Source: ProphetX