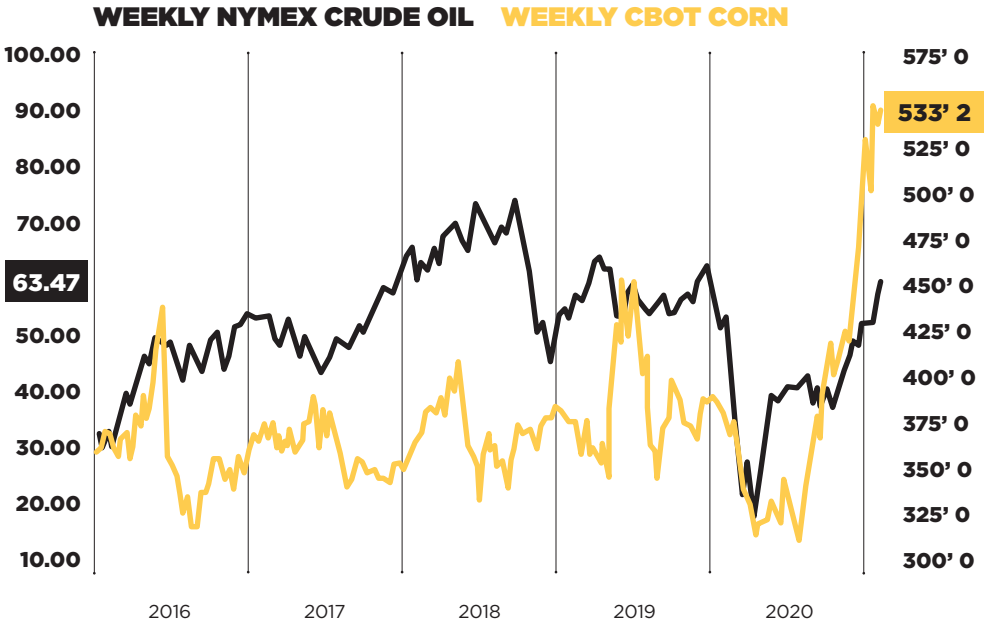



**This chart shows weekly corn continuation (the yellow line) and crude oil (the black line). You can see how closely the crude oil and corn prices are correlated. This chart shows the highs in corn and crude in 2018 when corn traded over $4 per bushel and crude oil was over $70 per barrel. From there, prices plunged to the low in late April 2020 during the COVID-19 crisis. Since then, both crude oil and corn prices have rallied sharply.**

# APRIL IS A TRANSITION MONTH

## Lessons from the COVID panic.

By Al Kluis

April is one of my favorite months. After a long, cold winter in Minnesota (especially this year), I look forward to higher temperatures, longer days, and more sunshine. After 2020, I especially look forward to the spring and summer of 2021.

This year I see a lot more potential than I did during the COVID-19 meltdown last April. Last year, the market scare turned into a full-blown panic. The energy, stock, and commodity markets fell sharply in April. I have traded for more than 40 years, and I will never forget April 20, when the expiring May crude oil futures contract price plunged to -$40 per barrel for a few minutes. By August – another transition month – the energy, stock, and commodity markets began to turn higher. By the first quarter of 2021, prices had roared back.

**Let's look back at what caused the panic and the super-low prices.**

The first factor was the fear of demand destruction. The economy slowed down, unemployment went up, schools and colleges sent students home, and many businesses cut back or closed. That downward spiral accelerated as COVID-19 turned into a global pandemic. Week after week, the news got worse: Businesses cut back on employee hours, restaurants closed, and the U.S. consumer stopped spending. The engine of economic growth stalled.

The second factor was the trade war with China. When the pandemic was just starting to make headlines, our trade dispute was still in place, and African swine fever was decimating China's hog herd. China's demand for corn and soybeans was much lower than in previous years. Furthermore, the feed grains and soybeans the Chinese needed were available from South America.

The third factor was a very clear demonstration of a new reality: All the markets are now interconnected. The hard drop in crude oil took gasoline, ethanol, and then the corn market sharply lower. The slowdown in the U.S. and global economies reduced demand for soybeans. Commodity funds that had been holding huge longs in the commodity markets eventually switched to huge (and near-record) short positions.

**It always looks bad at the bottom. In April 2020, it looked really bad.**

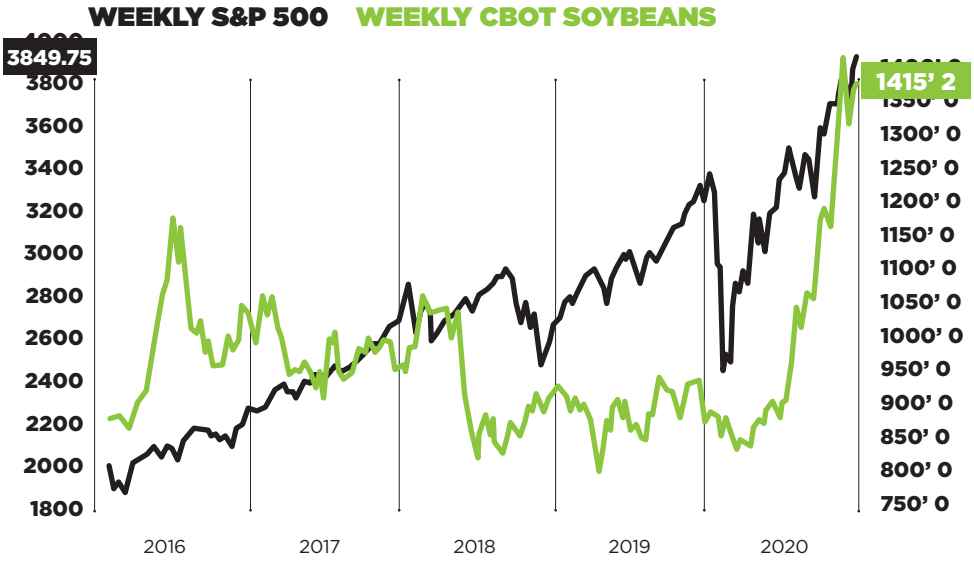
**How did things finally turn around? What created the change in trend?**

First, the government stimulus and Paycheck Protection Program helped restore consumer confidence. These programs put money in the checking accounts of many consumers who needed to buy food and fuel. I feel confident that without this government intervention, the downward spiral would have continued.

Then, as the United States and other countries adapted to the COVID-19 rules and realities, consumer demand stabilized and later started to improve. Gasoline consumption (which had dropped 70%) eventually rallied back to 92% of normal. Restaurants were able to use new take-out menus to keep some revenue coming in and food moving out.

By August, U.S. crop ratings turned lower. Week after week, U.S. yield ▸

Chart Source: Kluis Advisors




This chart shows weekly soybean continuation (the green line) and the S&P 500 stock index (the black line). You can see the close correlation between the U.S. stock market and soybean prices since 2016. The stock market and soybean market sold off into the third quarter of 2018. The soybean market bottomed in 2019. Both markets posted major lows in April 2020. Since then, the stock market has rallied to all-time highs, and the soybean chart has rallied to more than $14 per bushel.

potential fell when Chinese buying started to rise. The combination of a smaller crop and increased demand lit a fire under the grain markets. Prices went on a historic rally as we came into 2021. This has been an amazing change in attitude. We started with "Where will we store it all?" Yet, by the first quarter of 2021, it was, "Are we going to run out?"

Adding fuel to the fire was the huge reversal in the fund positions. Funds went from holding large short positions to nearly record-long positions.

**What did I learn during the COVID-19 meltdown? What can I use to make better decisions this year?**

**Here are three key concepts I learned during the price collapse and then the huge rally.**

**Lesson #1.** If you are really concerned with a potential price collapse and what it will do to your farm's profits, then protect the downside risk with put options. The puts I bought in 2020 all became worthless. However, I would do it again. It helped farmers sleep at night, and the loss on the puts was minimal compared with the gains in the cash market since the August 2020 lows.

**Lesson #2.** Use a combination of all your marketing alternatives. Look at your profit level and decide if you need to make cash sales, place futures hedges, or buy puts. The farmers who had some grain sold before the price collapse of 2020 were able to think straight and hold off until the grain markets rallied. Some farmers, unfortunately, had all their 2019 crop still in the bin and no new crop 2020 sold ahead. They were the ones who panicked and made large cash sales at the wrong time. I have written many times that grain marketing is not a game where you try to hit home runs. Instead, it is a business decision process where hitting singles keeps you in the game.

**Lesson #3.** Make incremental sales when you are at an acceptable profit level. Do not look back or second-guess those decisions. I have some $4.28 December corn hedges in place; I have some $10.50 and $10.90 November soybean hedges in place. The market is higher now. However, I have a percentage of my crop protected with hedges, more bushels protected with puts, and I have recommended RP crop insurance. This combination has created a disciplined risk management plan. I hope we do not go through another financial panic and meltdown in the grain markets. However, if we do, then having a plan in place will make a huge difference to your farm.

If you are a regular reader of my rules and advice, you will realize these are not new strategies for me or for my customers. These lessons were hammered home and validated in the most extreme conditions I have ever experienced. 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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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.

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Chart Source: Kluis Advisors