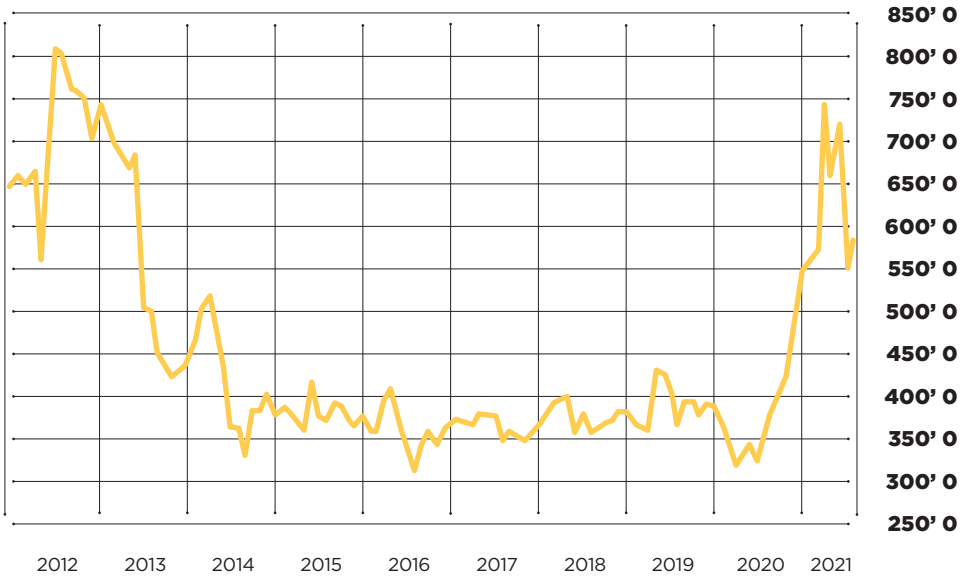
CBOT CORN MONTHLY



SEARCHING FOR A LOW

Seasonal odds project an early harvest low.

By **Al Kluis**

At a late-summer seminar, a longtime customer asked if I still expected the corn and soybean markets to bottom during the World Series (one of my old rules). I said yes, but that it was more complicated now. I think we're in a long-term bull market in the grain markets.

I am amazed at how global grain fundamentals have turned very positive over the past 12 months. The recent USDA reports show that global ending stocks of corn are down about 60 million metric tons (mmt) or about 21% from three years ago. Soybean ending stocks are down 10 mmt, about 19% lower than five years ago, and global wheat stocks are fractionally lower than three to five years ago. With global consumption moving higher, stocks-to-use ratios continue to fall. The mentality has changed 180° in the past five years. In 2016, we wondered, "Where will we store it all?" This year, we wonder, "Will we run out?"

Weather in the United States this year was less than ideal. A major drought in the northern and western Corn Belt lowered corn and soybean yields. U.S. spring wheat production came in 45% below last year. Canada's wheat and oilseed crops were hit by the worst drought conditions in a generation. By October, all of this is factored into the current price level, which is much lower than prices in May. Yes, the long-term fundamentals are positive. However, crop prices will usually pull back to a harvest low. Maybe during the World Series.

Looking ahead, the focus is now on the South American weather and crop outlook. Again this year, early expectations are for a big increase in Brazilian corn and soybean acreage and production. In the past two years, these early projections were far too optimistic. I think the weather pattern has changed in Brazil. The country seems to have more extremes and less yield potential each year. Also, if the early forecast for a La Niña to develop is correct, then this usually results in lower soybean yields for central and northern Brazil. I am skeptical of the record crop production forecasts for Brazil and Argentina in the 2021-22 crop year, just like I was this year.

I have studied what corn prices do in the month of October since the major high in 2012. The only years it has paid to sell in October were 2012 and 2020 when the markets rallied into harvest.

What you gained then did not offset what you lost the other 80% of the time if you sold in October. About 40% of the time you sold in the bottom half of the yearly trading range. Another 40% of the time, prices were in the bottom third of the trading of the yearly trading range. A couple of times, selling in October resulted in sales at the low of the year. October is a bad time to sell. On the other hand, it is a good time for livestock feeders or ethanol shareholders to buy corn.

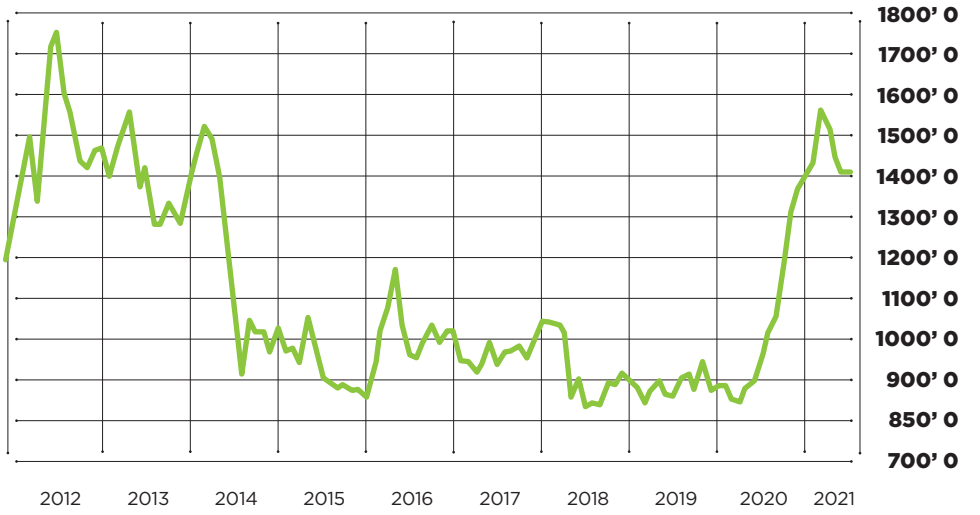
I also sense a change from just focusing on weather and projected crop size. We are shifting into a more global-demand-driven grain market in which global consumption and production both continue to grow, and ending stocks are trending lower.

The fundamentals are turning more positive. What does this mean for grain prices and what strategies should be used to predict grain markets? I stay up-to-date on global and U.S. fundamentals and look at all kinds of scenarios. However, when it's time to make decisions, I review my long-term and short-term charts.

Let's start with the long-term charts. I have noticed that the seasonal chart patterns have changed for corn and soybeans, and I believe this is because of the increased competition from South America.

Chart Source: DTN/ProphetX

CBOT SOYBEANS MONTHLY



January and February used to be quiet and flat months in the grain markets, but not anymore. We now have two "weather-scare seasons" to trade and two harvest lows to wait for. Global grain buyers know they will have a new supply of corn and soybeans entering the market every six months. This has created more short-term volatility in the grain markets. Now prices move sharply higher or lower every few weeks. It's not like the old days, when uptrends and downtrends would last for months.

The seasonal patterns I watch now for corn suggest two important time periods for a possible high. The first is between December and February. That is the crop-scare season in South America. The second time for a high is between May and June, the crop-scare season in North America. The harvest lows come between March and April and between September and October.

For soybeans, the timing is slightly different. The highs come in January and February, then again in May and June. The lows are in March and then (the North American harvest low) in August through November. So, yes, I will be watching for a low during the World Series in late October. This is also when the U.S. corn and soybean harvest usually passes the 50% mark.

Besides the October low, here are four indicators I am watching:

1. Very narrow trading ranges. My charts show that when prices bottom, you get very flat prices. Last year, as corn prices bottomed, you had days with just a 3¢ trading range and weeks with just an 8¢ to 12¢ trading range. For soybeans, we saw a lot of days with less than a 10¢ trading range and weeks with just a 17¢ to 21¢ trading range. This October, as prices bottom, watch for smaller trading ranges to develop.

2. Bull spreads. Watch for the nearby corn and soybean futures to start to gain on the new-crop 2022 futures. When the bull spreads started working in the third quarter of 2020, it signaled a bull market. When the bull spreads stopped working in the second quarter of 2021, it signaled a top.

3. Basis. Watch for basis improvement once the nationwide corn and soybean harvest moves beyond the 50% mark. This shows that commercial buyers are pushing bids to get as much cash corn and soybeans bought before farmers put it in the bin.

4. Two-week highs. The grain markets have gone through the full cycle over the past 18 months. First, the uptrend lasted from August 2020 to May 2021, followed by the May-to-late-summer downtrend. Now, we are in the sideways basing trend. Next, I will be watching for the first week that nearby futures close above the two previous weeks' high. That will signal a possible change of trend and the resumption of the long-term uptrend. SF

I have reviewed soybean prices in the month of October since 2012. If you look at the yearly price range since 2012, then you see that 40% of the time if you sold in October it was in the bottom half of the yearly price range, and 40% of the time you sold in the bottom third of the price range. October is often a good month for livestock feeders to buy soybean meal ahead. However, it is usually a financial and marketing mistake to sell soybeans in October.

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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

Chart Source: DTN/ProphetX