This chart shows March 2022 and December 2022 corn prices. (The March prices are in red and the December prices are in black.) This chart depicts the huge rally from the third quarter of 2020 to the May 2021 high. Farmers who made scale-up new-crop hedges between May and June locked in good profits on their 2021 and 2022 crops. From the spring high, the March 2022 corn futures market dropped by over $1.00 per bushel, while the December 2022 price is down about 60¢ per bushel (so far).

LESSONS LEARNED FROM THE 2021 BULL MARKET IN GRAINS

Farmers managed the rally by following three good decisions.

By Al Kluis

Over the past 20 years, I have watched three major bull markets in the grain markets. Each one had the potential to have a huge impact on your farm's profits, and so will the next rally, when it comes.

Each rally is different, but how you should handle it is not. Let's start by looking back at how each of the three rallies unfolded and what happened when the trends changed.

• **Rally #1:** The first rally started after the lows in 2006 and took prices much higher from early 2007 into June 2008. This rally started as a demand-driven market. When spring weather problems developed, prices spiked higher into June. Prices put in a major high the third week of June. Then, as the nation entered a major financial crisis and recession, stock and commodity markets crashed. Prices eventually made a low in December 2008. However, the grain markets stayed under pressure for two years, and prices didn't bottom until the harvest of 2010.

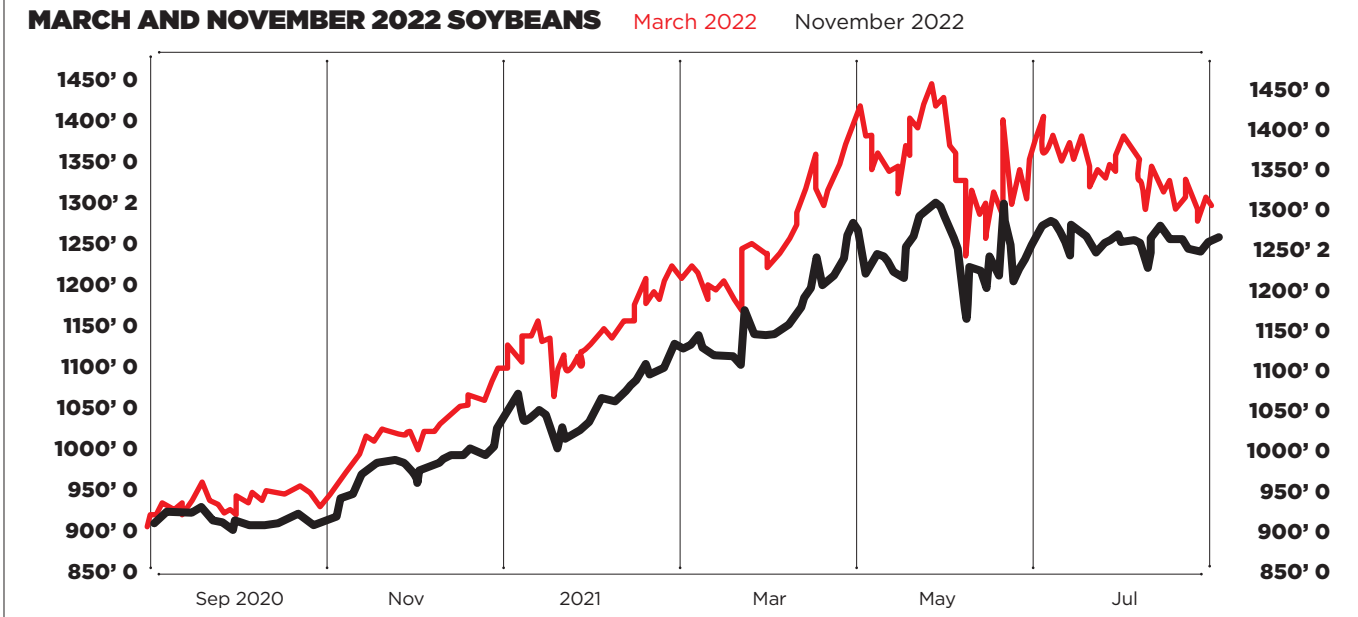
• **Rally #2:** The second rally started in 2010, and corn and soybean prices rallied to all-time highs by the third quarter of 2012. That year, the late-summer drought in the central and southern Corn Belt cooked the crop. Prices rallied to the late August 2012 high before prices collapsed lower into the fall of 2014. The grain markets stayed low with limited profit opportunities all the way through 2019. The COVID-19 meltdown took prices to new lows in April 2020. Prices were flat for most of that summer with an important secondary low in August.

• **Rally #3:** The third rally started in August 2020. That was when a late-summer drought developed and China started to actively buy record amounts of U.S. corn and soybeans. The corn and soybean markets peaked in May 2021 and hit an important secondary high in early July. Then prices turned sharply lower into the preharvest lows. The 2021 rally was driven by strong demand. Many farmers across the Corn Belt sold corn and soybeans at a large premium to the CBOT futures price. By harvest, the big basis premiums were gone.

What are the good decisions made by successful farmers in each of these major rallies?

• **Good decision #1: Making incremental cash sales.** Farmers made a series of incremental cash sales as the futures market rallied from the late-March lows to the highs between May and early July. In 2012, the rally lasted into late August. However, in 2008 and in 2021, hanging on to any grain into the month of August was a big mistake. As I evaluate risk vs. reward, I never hold any cash grain after the Fourth of July. Notice I have written that they made a series of cash sales. Many farmers who wanted to hold for the top ▸

Chart Source: DTN ProphetX



This chart shows March 2022 and November 2022 soybean prices. (The March prices are in red and the November prices are in black.) This chart illustrates the huge rally from the third quarter of 2020 to the May 2021 high. Farmers were able to hedge in good prices on the 2021 and 2022 soybean crops. By the fall harvest of 2021, the March 2022 soybean futures dropped by over $1.20 per bushel and the November 2022 soybean futures were down 70¢ per bushel (so far).

were pretty upset by late August.

• **Good decision #2: Getting hedged on new-crop sales.** Many farmers made a series of 10% sales starting at $5.20 and had 40% to 60% sold by the time December corn hit $6.20. They ended up with a really good average price. For soybeans, a lot of farmers started at $11.20 and just kept on making 10% sales as the November contract rallied to over $14.20. This scale-up method of getting 40% to 60% hedged looked really good at harvest.

• **Good decision #3: Selling 10% to 30% two or three years out.** One group of farmers sold 10% to 30% of the 2022 crop ahead using hedges or hedge-to-arrive contracts. Many of these farmers also sold some grain ahead two or three years in 2008 and 2012. This gave them the confidence to price grain out for two years again in 2021. I know it is hard to hedge corn two years out at just over $5.00 per bushel when nearby corn is over $7.00 a bushel. It's just as hard when nearby soybean futures are over $15 and the 2022 bid is only at $12.50. It's just tough to get excited about hedging. However, history shows the rallies do not last forever. Farmers who make disciplined sales on a rally are generally happy with the hedges when they eventually deliver at harvest.

Now the next two big questions: When is the major low coming? Are we going to have another three- to five-year bear market?

Let's start with the low. The long-term corn and soybean charts I work with projected a major low in 2019. The next time I expect a major low is in the fall of 2022.

What about a long bear market? I do not expect a three- or five-year grinding bear market. After the low of 2022, I expect higher grain prices.

Meanwhile, one of the main challenges over the long term will be managing input costs and keeping your farm profitable. Keep yourself in the game, and you can be in position to make good marketing decisions when the next bull market comes around. 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 ProphetX