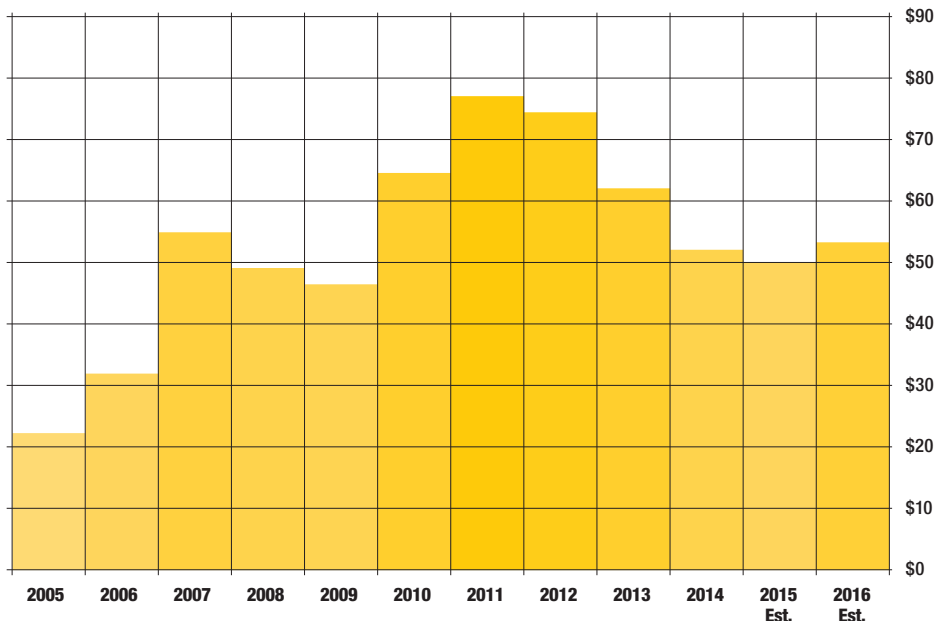


By Al Kluis

U.S. Revenue: Corn (in billions US\$)



You can see the huge increase in U.S. corn revenue starting in 2005 when the total value of the U.S. corn crop was just over \$20 billion dollars to the high in 2011 (\$78 billion). I project the low year for revenue will be 2015, at about \$50 billion. The chart shows lows about every four to six years. The timing is right for a low in 2015.

see the long-term profit cycles in farming. Indeed, they were well aware of these cycles; they told me how they almost lost it all in 1986.

Looking at the charts and thinking back to the mid-1980s helped settle them down. This husband and wife were very sharp.

I could tell this couple liked numbers, so I brought out my long-term corn and soybean revenue charts.

## WHEN WILL FARM PRICES AND PROFITS START TO IMPROVE?

LOOK TO 2016 FOR GRAIN MARKETS TO TURN HIGHER.

Recently, I met with an older couple, who had set up an appointment to come in and talk to me about farm profits. They had driven four hours from another state. They were nervous and immediately asked, “How long will it be until farm profits and land rents go back up?”

They told me they had a good renter. Cash rent had been as high as \$300 per acre in 2013, but it had dropped to \$250 per acre in 2015. The renter had proposed \$200 per acre for 2016. My visitors were realistic and did not want to put the

farm up for bids to get the highest rent possible, but the 50% drop in rental income – while property taxes were going up – was seriously squeezing them.

I took out my hand-drawn long-term weekly and monthly corn and soybean charts going back to 2000. We looked at those charts, and then we looked at similar charts on my computer that stretched all the way back to 1950 when the couple had purchased their farm.

I showed them these charts for two main reasons. First, I wanted to show them what a good investment they had made. Second, I wanted them to

### WHAT REVENUE CHARTS REVEAL

Revenue charts are one of the best indicators of the long-term trend in farm prices, farm profits, and land rents.

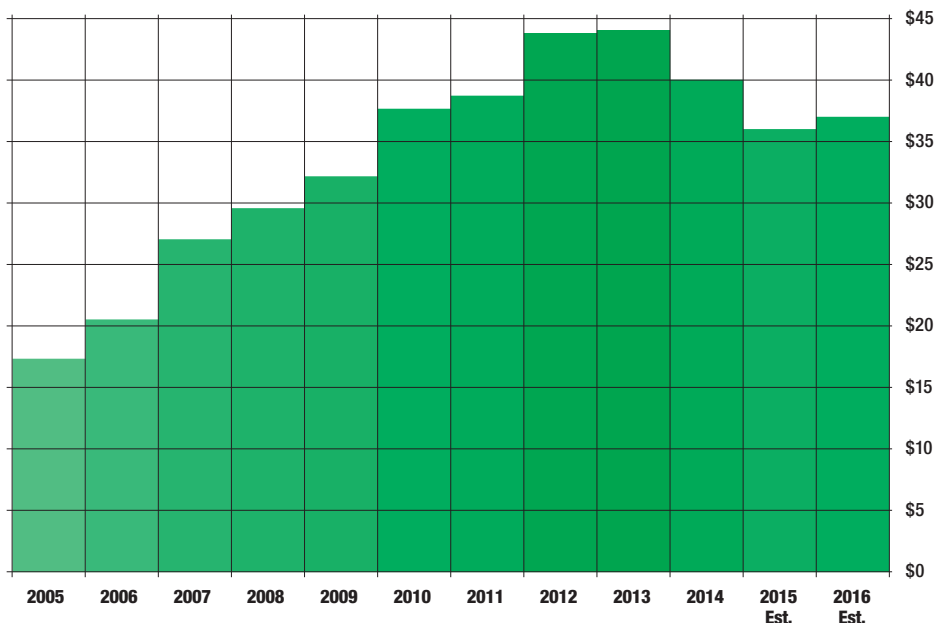
Revenue charts show the first big run-up in the commodity markets in the early 1970s. That’s when Russia began to import massive amounts of grain and OPEC (Organization of Oil Exporting Countries) slowed the production of crude oil. During this time, crude oil prices quadrupled from \$10 per barrel to \$40 per barrel.

The next big rally in the grain markets was created by the ethanol boom. The ride went even higher with crude oil, which went

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## U.S. Revenue: Soybeans (in billions US\$)



You can see the huge increase in U.S. soybean revenue starting in 2005, when the total value of the U.S. soybean crop was just over \$17 billion to the high of \$44 billion in 2013. The cycles I work with project a low in revenue in 2015, when total revenue will drop to just over \$35 billion. The timing is right for a long-term low in price and revenue for soybean growers.

from \$40 to over \$100 per barrel.

The final leg up to the 2012 high was driven by strong Chinese demand, plus back-to-back poor crops in South America and the U.S.

The overall pattern is for lows in the grain markets every four to six years, with major lows in 1999, 2005, 2009 and 2015.

Even though they understood the cyclical nature of the markets, my visitors were still concerned and commented how bleak the markets looked now. I asked them if it looked worse today than in 1986. They were quiet for a couple of minutes, looking at each other. Finally, the wife said, “No. It looks as bad as 1986, but not worse.” Her husband nodded.

### THE SILVER LINING

Following are three factors that I believe can turn the grain markets higher in 2016 and can lead to substantial price improvement by 2017.

**1. Increasing global demand.** In the short term, lower crude oil and energy prices have put pressure on the grain markets. It has been especially hard on ethanol and corn prices.

Long term, lower energy prices are a huge benefit to global consumers. The savings on energy will find its way first to the meat and dairy markets. This is positive for grain prices.

I believe there are three factors that can turn the grain markets higher in 2016 and can lead to substantial price improvement in 2017.

**2. China.** The growth rate in China has slowed, but it is still at 6% to 6.5%. China’s demand for food – especially protein – will continue to grow. China’s consumers will also have the benefit of lower energy costs this year

and ahead into 2016.

**3. Reduced supply.** We are likely to see some land in Argentina, the fringe areas of the western Corn Belt, and Canada go back to pasture and hay. Also, the odds are slim for another consecutive year of good weather and large yields in South America and in the U.S. in 2016.

### JUST HANG ON

Going back to the original question from my distressed visitors of when farm prices and profits will start to improve. In a nutshell: 2016.

My charts show the corn market put in a major low (\$3.18) in September 2014. The soybean market appears to have bottomed (at \$8.58) in September 2015. The CBOT wheat market bottomed (at \$4.50) also in September 2015.

This means the overall

trend is changing from a downtrend to a sideways trend. That will be followed by an uptrend.

Be sure to watch the monthly charts. Once soybean and wheat futures close above the two previous months’ high, then you will have confirmation of an uptrend in corn, soybeans, and wheat. Watch for this to happen any month now. Just hang on. You’ll be able to tell your grandchildren about surviving 2015.

**NOTE: Trading of futures and options has substantial financial risk of loss and is not for all investors.**

### 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 “Al Kluis Report” by going to [alkluis.com](http://alkluis.com).



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