

YOUR PROFIT

By Al Kluis

ANALYZING USDA REPORTS HERE ARE SOME EARLY THOUGHTS ON YOUR 2016 MARKETING PLAN.

I have enjoyed studying USDA crop reports for the last 40 years. I even had the good fortune to witness the dramatic lockup process that happens at the Washington, D.C., headquarters of the USDA, in the crucial hours before the release of each major report. Commodity brokers and lifelong grain traders don't normally get to have an advance peek at these market-making reports. However, since I'm also a writer, I got invited to come in for a look.

Indeed, it was traumatic. The USDA officials gave me (and the reporters from Bloomberg, Reuters, and other publications) an advance copy of the report an hour before anyone in the trading pits got a peek. They also locked up my phone and cut off my Internet connection, so I couldn't trade on what I was reading. It wasn't just me; all phones were checked at the door as we came in through security.

The USDA has a sophisticated routine for creating these reports. We got a small tour and an explanation of the steps, including the overnight lockup of the dedicated staff who worked on the final numbers. Our participation in those final prerelease hours was just part of USDA's effort to spread the word – accurately – about U.S. crops.

I have always had a lot of respect for the USDA reports, and I have even more faith after being locked up in its offices. Data about crop supply and demand is serious business, and the USDA treats that information with the respect it deserves.

These days, I invest more time than ever in making my own predictions before the reports, comparing my analysis with the USDA reports and then watching what actually develops over the long term. (My track record in correctly analyzing the reports is right at 60%.)

Try it yourself. Put together your own numbers and com-

U.S. Corn Fundamentals Kluis Projections

*In millions of bushels

2016-2017	Low	Average	High
Planted Acres	90.0	90.0	90.0
Harvested Acres	82.6	82.6	82.6
Yield	158	168	174
Carryin*	1,837	1,837	1,837
Production*	13,051	13,877	14,372
Available*	14,888	15,714	16,209
Total Use*	13,545	13,545	13,545
Carryout*	1,343	2,169	2,664

I expect a planted U.S. corn crop of 90 to 92 million acres in 2016. The big wild card is spring weather. If there's a late wet spring, then my projected acreage and yield will initially move lower. The key for the final yield is the summer weather in July. A 2-bushel-per-acre change in corn yields will have a larger impact than a 1-million-acre shift in production.

pare them with the USDA reports. You will quickly learn to respect the job the USDA does.

Although I respect the USDA numbers, I don't always agree with them. The USDA track record is not perfect. However, I learned the hard way that trading against the USDA numbers is usually a financial and a marketing mistake.

Occasionally, a farmer calls and tells me he is so mad at the USDA because of bearish crop reports; he knows the USDA is wrong. After a little delicate conversation, I typically find the farmer has not been making good marketing decisions. Farmers tend to get mad at the USDA when prices go lower while the farmer is holding onto too much inventory.

3-STEP ANALYSIS

Here is the three-step process I use when analyzing the major USDA reports.

1 I put together in-house estimates of what the report will say. I look at prior USDA reports from the last month, the same month last year, and similar years.

2 I factor in weather and any major changes in demand I think will impact usage. Then, and only then, I look at the trade expectations. I don't want the trade estimates to affect my research. I really like it when my numbers are different than what the trade is looking for – especially when I end up calling it right.

Right or wrong, I prefer to do my own analysis, not just listen to what the rest of the industry is speculating.

3 I look at the relative price levels and what prices are doing just before the report. These days, with instant access to information, getting perspective is really important. Because of that wide access to informa-

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U.S. Soybean Fundamentals Kluis Projections

*In millions of bushels

2016-2017	Low	Average	High
Planted Acres	83.7	83.7	83.7
Harvested Acres	81.8	81.8	81.8
Yield	42	45	48
Carryin*	460	460	460
Production*	3,436	3,681	3,926
Available*	3,896	4,141	4,386
Total Use*	3,690	3,690	3,690
Carryout*	206	451	696

I expect a planted U.S. soybean crop of 82.5 to 84.5 million acres in 2016. The one big unknown is double-crop soybean acres. With less winter wheat, odds are good that double-crop soybean acres will be lower in 2016 than last year. However, a late wet spring could shift some corn acres to soybeans. The key for the final yield is the summer weather in August. A mere 1-bushel change in yield has more impact on prices than a 1-million-acre shift in planting.

tion, a bullish report is already built in (taken for granted) on the day it is released, and the market doesn't even flinch.

Other times, the report is bullish (compared with the prior year, for example) but not as bullish as the trade expected. As a result, prices fall as if it were a bearish report.

The opposite also happens. A bearish report can send prices up instead of down if it's not as bearish as expected.

Another development that affects the reports (and the lockup sessions) is the timing of when the reports are released. The big USDA reports used to be released at 8:30 a.m. ET, while the Chicago pit traders were still driving in from the suburbs to the CBOT floor. No more. Today, the reports are thrown wide open at 11 a.m.

This means the value of predicting the USDA numbers is higher than ever, because a trader willing to take that risk can get into position before a report. You can be sure the USDA lockup security measures are tighter than ever.

Looking ahead, what do I expect for supply, demand, and prices in 2016? More important is how this should impact your 2016 marketing plan.

Even with a bullish weather event and rally this spring or summer, odds are good that prices will be low again by the fall of 2016.

3 THOUGHTS ABOUT SELLING

Here are three early thoughts about selling the 2016 crop.

1. With lower grain prices, demand will be larger than expected.

I've been amazed at the recent USDA reports of global ending stocks falling, even with record crops in South America. How is that possible?

It's due to global demand, which is higher after three years of lower prices.

2. The odds of having another trendline-or-better corn and soybean yield in the U.S. in 2016 is much less than usual.

Later this spring or summer, the El Niño weather pattern will be switching to the La Niña pattern. When that happens, chances for weather problems and rallies go up.

3. Even with a bullish weather event and rally this spring or summer, odds are good that prices will be low again by the fall of 2016.

WHAT TO WATCH

During this month, watch the Crop Progress report on May 9. It is difficult (but not impossible) to get a trend yield if you are not at least 50% planted by May 10.

The weather during the weeks ending May 13 and May 20 are two of the most important and usually volatile weeks of the entire year. I love selling planting delay rallies.

THE BOTTOM LINE

The fundamentals I am seeing in 2016 are simi-

lar to 2015. Last year, there was one good three-week selling opportunity. Then prices fell, hard and fast, until that fall.

If there's a weather scare in 2016, then you have to be ready. You need to be prepared to get the last of your cash inventory sold and up to 50% of the 2016 crop hedged ahead. **SF**

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.



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