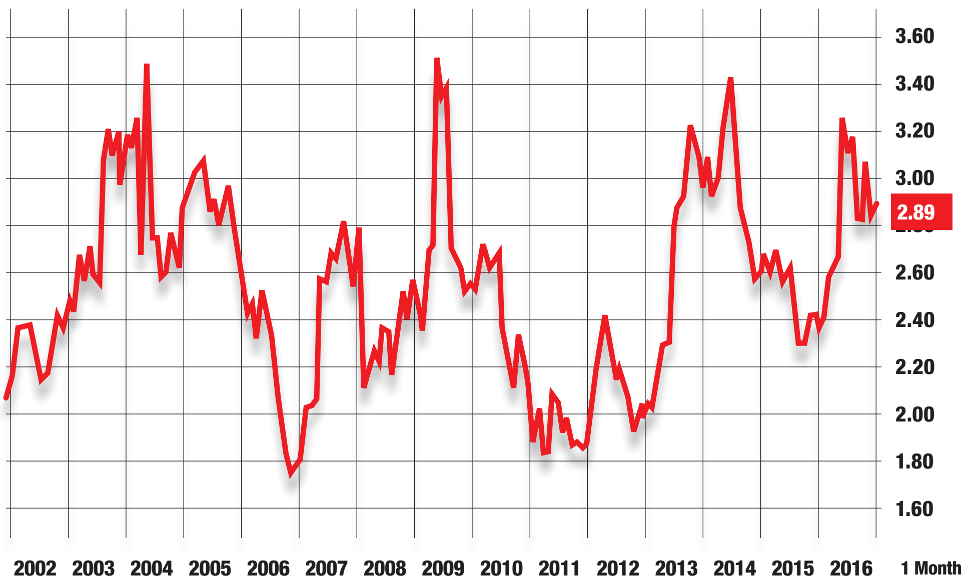
By Al Kluis

Soybean-to-Corn Ratio Monthly



This is the monthly CBOT soybean-to-corn price ratio chart. The ratio has rallied to over 3.4-to-1 in 2004, 2009, and 2014. The low point of the last several years came in 2011. In 2012, corn rallied to over $8 per bushel, and the ratio dropped to 1.9-to-1. This year, look for resistance at 3-to-1 and initial support at 2.5-to-1. This ratio has a five-year cycle and is likely to hit a major low sometime in late 2017. Are soybean prices too high or are corn prices too low?

SOYBEAN-TO-CORN PRICE RATIO FAVORS BEANS WHEN EVERYONE IS BEARISH, WATCH OUT!

I recently got an email from an Illinois subscriber who said, "My banker thinks I should get to 100% sold on my 2017 soybean crop now." That was when November 2017 soybeans rallied to over $10 per bushel. It was one of several dozen emails that came in with a similar message of concern. The same fear of low soybean prices was talked about at every seminar this winter.

Right now, I am getting mixed signals as I analyze the soybean market. The projections for 4 to 6 million acres more soybeans in 2017 has everyone – myself included – wondering how low soybean prices could go by this fall. However, when I look at my charts, the trend is higher. The funds that trade using trend-following buy-and-sell signals are very long. They have made a boatload of money so far in 2017 and are buying every break.

When I get mixed signals, I go with my charts. I also look at the different scenarios that could develop, and I try to find analog (similar) years with a pattern that prices could follow. The most important thing I do is to develop a strategy that works in the different price scenarios that may happen. I know the outlook is scary, but when everyone gets this bearish, watch out. They cannot all be right. Even if they are ultimately right with the super-bear forecasts, they may be way too early.

THREE SCENARIOS

Let's look at the three different scenarios that could develop.

1. The bullish scenario.
Think 2012. Some weather or disease problem develops. Soybeans take off and go from just over $10 per bushel (where they are when I am writing this article) back to over $15 or even challenge the all-time high at $17.80.

If you have 100% of your crop sold ahead and end up with no crop or a small crop to sell, you are putting your farm at financial risk by hedging 100%.

2. The bearish scenario.
Think 2016. U.S. farmers plant over 88 million acres of soybeans in 2017, good weather develops, and farmers harvest a soybean yield of over 52 bushels per acre. This creates another record crop of over 4.48 billion bushels. This could create a projected carryout of over 500 million bushels. In that scenario, November 2017 soybean futures would likely drop to around $7 per bushel.

3. The combo scenario.
Think 2008 when soybeans went from $16.60 in July to $7.80 in December. In this scenario, soybeans go sharply higher into late June to early July, then they plunge by harvest.

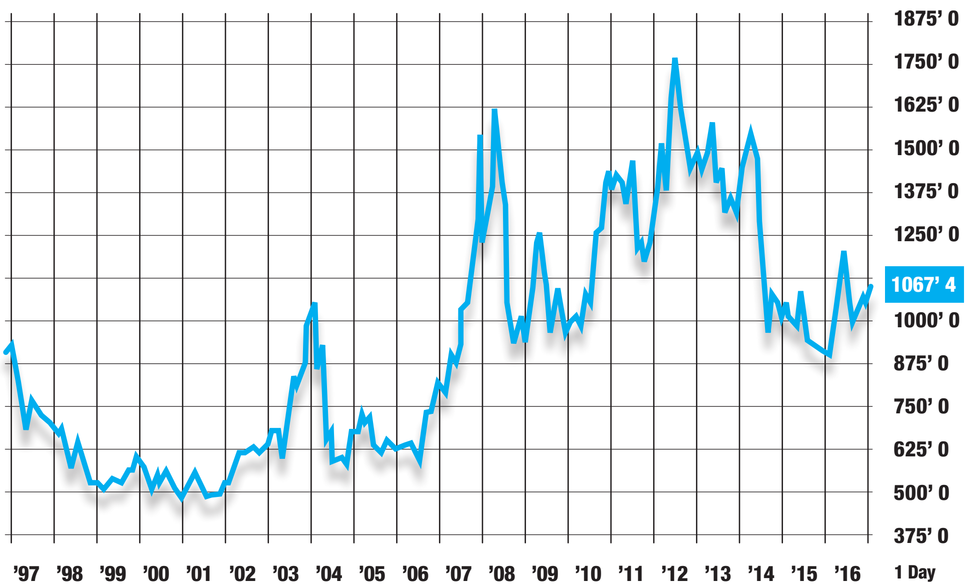
As I look at my charts and study the current fundamentals, I think the second scenario is the most likely. I cannot rule out the third scenario, however.

WHAT TO DO

Since I face these kind of decisions – and their

I know the outlook is scary, but when everyone gets this bearish, watch out. They cannot all be right.

CBOT Soybeans Monthly, 1997-2016



This is the monthly CBOT soybean continuation chart. You can see the long-term pattern of soybeans bottoming about every 39 months. The last major low was in November 2015. The next major resistance is at the 2016 high at $12.08. The long-term cycles I work with project a major low by the fourth quarter of 2017 or the first quarter of 2018. Holding soybeans too long this year could be a big mistake.

consequences – year after year, I've spent time over the last decade developing a three-step risk-management plan. It has proven itself useful. My plan worked well in years like 2012 (when prices went sharply higher into harvest) and in 2016 (when prices got really cheap at harvest). That's how I designed my plan to work.

Here are the three steps in my risk-management plan.

1. Select the right RP crop insurance policy.

2. Get up to 50% to 80% of your insured bushels hedged ahead.

3. Get price protection on the balance using corn and soybean puts.

In 2012, all of the puts expired worthless. You may have had to deliver on some new-crop soybean hedges that were $2 to $5 below the market. However, for most of you, 2012 was a very profitable year. Meanwhile, you had price protection, which helped you sleep at night.

In 2016, that price protection made the difference. The new-crop hedges and puts were the difference between having a profit or not.

Here's what history has shown. If you are going to place new-crop hedges, in about two out of 10 years you are going to leave some money on the table. In about six out of 10 years, having new-crop hedges in place makes the difference between having a profit or not. The other two years there is not a lot of financial difference. I recommend that you keep hedging.

DON'T FORGET PUTS

I have all of my customers hedged ahead on 30% to 50% of their 2017 insured bushels. Many have also bought some short-dated puts to get downside protection in place through the USDA's March 31 Prospective Planting Report.

Remember, puts are like fire insurance policies. You hope you don't need them, but having them helps you sleep at night. It's just part of a risk-management lifestyle that helps you manage your farm better. SF

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

SEE YOU AT THE 2017 COMMODITY CLASSIC

I will be attending – and speaking at – the Commodity Classic in San Antonio on March 2-4. Go to CommodityClassic.com for full details. Looking forward to seeing you there!

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.

Kluis Commodities
901 - 12 Oaks Center Drive
Suite 907
Wayzata, MN 55391
888/345-2855
alkluis.com | al@alkluis.com