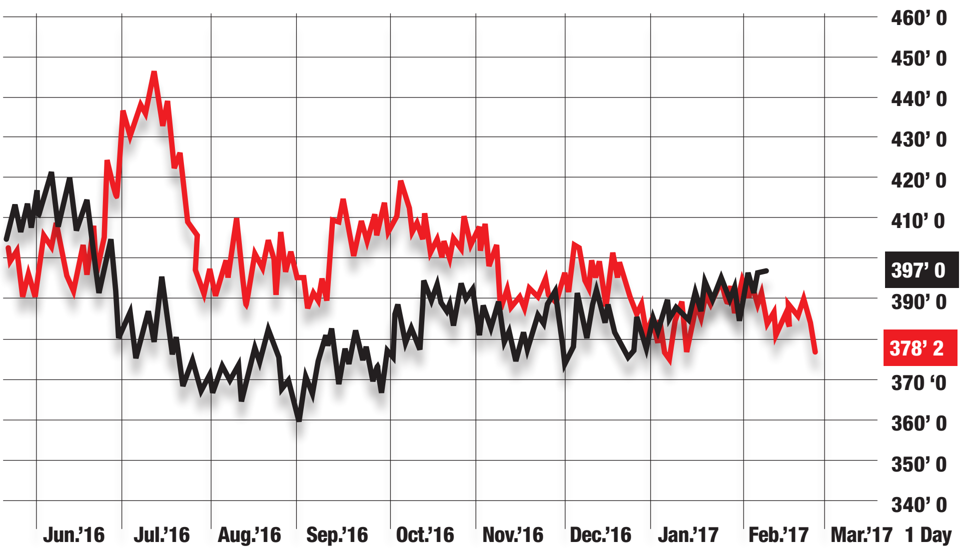
By Al Kluis

December 2016 Corn / December 2017 Corn



The current price of December 2017 corn finally broke above the price that the December 2016 corn was trading at during this time last year. The current soybean-to-corn price ratio (2.8 to 1) suggests that corn is too low when compared with the price of soybeans. Get new-crop hedges in place between May and July, and make sure those hedges are in place when December 2017 corn trades between $4.40 and $4.70. Stay disciplined and be patient.

FINE-TUNE YOUR 2017 MARKETING PLAN

CROP INSURANCE IS KEY TO A RISK-MANAGEMENT STRATEGY.

It's that time of year when farmers are studying all of the new and different crop insurance products. They are trying to figure out what RP crop insurance policy to purchase in 2017. Many farmers are also taking time to evaluate all of the new over-the-counter policies that are being promoted.

First, though, we need to get back to the basics with a review of my simple three-step risk-management plan. This is a plan I've been recommending for the last decade. I have made some slight modifications over time, as the insurance policies have changed. This simple plan has worked well in bull markets like 2012 and in the bear markets of 2015 and 2016. Now, for the first time in six years, it looks like the February RP price guarantee will be higher than it was last year. Finally, the long-term trend for grain prices is turning higher.

THREE-STEP RISK-MANAGEMENT PLAN

Here is my simple three-step risk-management plan.

Step 1. Buy the right RP crop insurance policy. Work with a trusted crop insurance agent.

Step 2. Once you have the RP crop insurance in place, use any spring/summer rally to get 50% to 80% of your insured bushels sold ahead. Use hedges, hedge-to-arrive contracts, or cash contracts to get this done.

Step 3. Use the same seasonal rally to get puts bought on the other 20% to 50% of your total crop.

You'll find that buying crop insurance gives you a license to sell. As a part of this three-step plan, your crop insurance will become part of your bullet-proof risk-management plan.

I am a chartist and I work to analyze long-term price cycles. For the first time in six years, the February guarantee will be higher than the previous year's guarantee. This tells me the long-term low is in place in the grain market. The odds are very high that there will be better pricing opportunities in 2017 than in 2015 and 2016. Nonetheless, I still think prices can set back to a harvest low. I am optimistic about prices, but I still expect the normal seasonal pattern in grain prices to work again in 2017.

With this in mind, here is how I have fine-tuned my three-step risk management plan this year.

For corn. I am optimistic about corn prices, but I want to be realistic. In both 2015 and 2016, corn prices dropped back to an early harvest low.

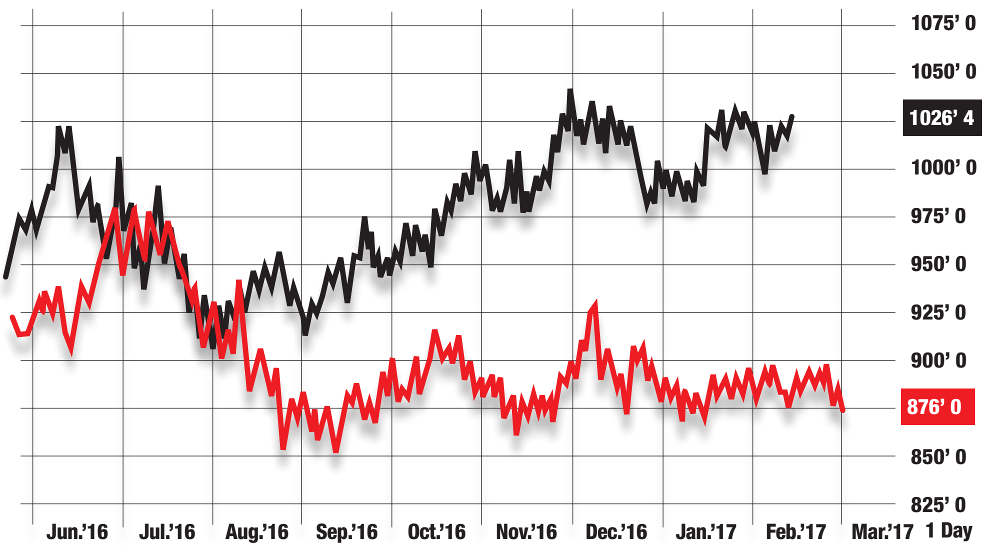
Even though I am a long-term bull on the corn market, I have to be realistic and stay with a disciplined plan and avoid what I think is likely to be another harvest low. I expect that low to arrive between August and October. The current price of December corn is about 98¢ above the 2016 low, which would be 50¢ above the 2015 low.

In 2015 and in 2016, I recommended a lot of new-crop corn hedges when December corn was trading between $4.20 and $4.48. This year, I recommend that you place some hedges when December 2017 corn rallies to between $4.20 and $4.60. However, with the long-term corn cycle turning higher, I suggest using more puts and less hedges.

I usually go with an RP crop insurance policy of 75% or 80% and will make that decision just ahead of the March 15 deadline.

For soybeans. I have mixed feeling on soybeans. My long-term chart studies and time cycles all suggest that prices will be trending higher. However, I need to ▸

November 2016 Soybeans / November 2017 Soybeans



The current price of November 2017 soybeans is about $1.35 higher than where November 2016 soybean prices were trading at last year at this time. The low for 2017 soybeans also came in much earlier than last year. Be on guard for an earlier high in soybeans. The last two years, the soybean market peaked in mid-June. This year, it could be a month or two earlier.

be realistic. The possibility of an extra 3 to 6 million acres more soybeans in 2017 tells me that I need to stick with a disciplined new-crop marketing plan. If good weather develops this summer, then November soybean futures could be down to $8 or less by this fall. The current new-crop November 2017 soybean price is about $1.25 a bushel higher than last year at this time and about 50¢ higher than 2015.

At this time, the current price of new-crop soybeans is creating about $50 per acre more profits for soybeans than corn. If it stays that way through planting, then watch out. The current new-crop soybean/corn price ratio at 2.8 to 1 suggests that soybeans are too high or that corn prices are too low. In 2016, I started placing some hedges at $9.90 and kept on making scale-up 10% hedges. My last hedge was $11.30.

For the 2017 crop soybeans, I again started at $9.90 and have placed some additional hedges on the recent rally up to $10.30. If I get a chance to get any November 2017 soybeans hedged ahead at $11, then I will push my new-crop hedges up to 60% or more of my insured bushels. If I get 50% to 60% hedged ahead, then I will get some $10 or $10.20 puts bought to protect the rest of my crop.

If soybeans rally up to $13 or $15, then I will leave some money on the table. However, if November 2017 soybean futures drop back to $8, then I will keep my farm profitable. That is the ultimate goal of risk management.

INSURANCE POLICIES

Now a few thoughts on some of the new private insurance policies that are being offered again this year.

These are not really new products; they're just old products with new names and new advertising campaigns to promote them. Some of these products are worth looking at. However, before you buy any of them, check out how much they cost compared with increasing your RP crop insurance policy by 5% or 10%.

A FINAL NOTE

The biggest question I've been getting at every seminar I've done recently throughout the Corn Belt is, "What happens if we get into a trade war with China or Mexico?"

I believe the chance of either event occurring is less than one in 10. However, if it did happen, it would be pretty devastating to grain and livestock prices and farm profits. That's precisely why risk management should be a standard practice.

If you have a solid risk-management plan in place with the right crop insurance, hedges, and puts, you will keep your farm going – even in the face of a trade war. SF

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

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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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