

# YOUR PROFIT

By Al Kluis

## U.S. Balance Sheet Estimates & Kluis Projections: Corn

	USDA 2015/16	USDA 2016/17	Avg. USDA 2017/18	HIGH AI Kluis 2017/18	LOW AI Kluis 2017/18
Planted Acres	88	94	90	90*	90*
Harvested Acres	80.8	86.7	82.4	82.4*	82.4*
Yield	168.4	174.6	170.7	174*	167*
Production	13,602	15,148	14,065	14,328*	13,494*
Beg. Stocks/Imports	1,731	1,792	2,345	2,345*	2,345*
<b>Total Supply</b>	<b>15,401</b>	<b>16,980</b>	<b>16,410</b>	<b>16,683*</b>	<b>15,389*</b>
Food & Seed	6,643	6,970	6,925	6,925*	6,925*
Ethanol for Fuel	5,224	5,450	5,500	5,500*	5,400*
Exports	1,898	2,225	1,875	2,000*	1,800*
<b>Total Usage</b>	<b>13,765</b>	<b>14,645</b>	<b>14,300</b>	<b>14,425*</b>	<b>14,125*</b>
Ending Stocks	1,737	2,335	2,110	2,258*	1,264*
Stocks/Use Ratio	12.6%	15.9%	14.7%	15.6%*	9%*
Yearly High Price	\$4.40	\$4.40	\$4.50*	\$4.40*	\$4.80*
Yearly Low Price	\$3.60	\$3.50	\$3.50*	\$3.50*	\$3.80*

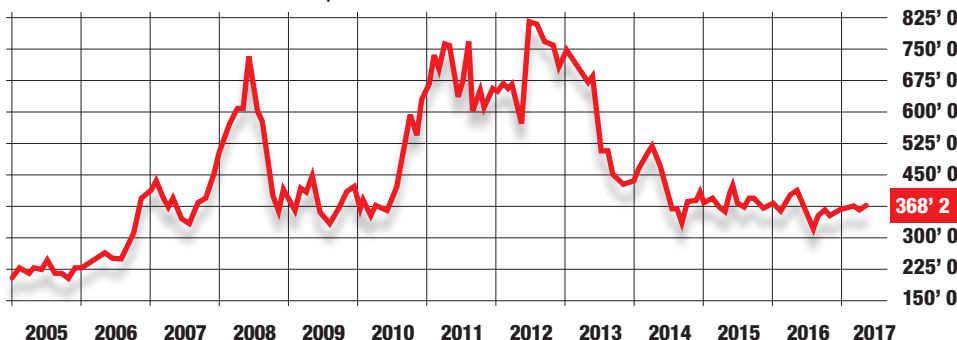
\* Kluis Projections

left: It will take a yield of 174 bushels per acre (nearly as high as last year) before ending stocks increase. The yield currently projected by the USDA (170.7) results in a slight reduction in ending stocks. If the national average yield drops to 167 or less, then ending stocks drop to less than 9%. At that point, my projections would be for corn futures to test \$4.80.

Bottom line: We need to consistently harvest a 14-billion-bushel crop going forward.

below, left: The long-term corn chart shows the major low in 2008 at \$2.90. You can see the huge rally up to \$7.40, and then the huge drop to the major low in late August 2016. The double top at \$4.38 will be tough initial resistance with more resistance at \$4.90 to \$5.

## CBOT Corn Monthly



## GLOBAL GRAIN FUNDAMENTALS BEGIN TO IMPROVE

IS THE FIVE-YEAR BEAR MARKET FINALLY OVER?

The grain markets have been trending lower since the major highs in 2012. This five-year grinding bear market has made it difficult for most farmers to turn an operat-

ing profit. At every seminar last winter and again this spring, I got the same question: When will prices and profits turn around?

Turnaround will begin when U.S. and global inventories begin to move

lower – and that turnaround has started.

The recent USDA Supply/Demand Report showed that global corn and soybean inventories will begin to move lower next year.

How can this happen with record global production? The lower trend in ending stocks is because of increased global demand.

The USDA projections are for global wheat inventories to increase. However, all of the additional inventories of that increase are in China. I

am skeptical of the Chinese stocks numbers. Even if they are correct, the wheat that is landlocked in China will not enter the global export market. If you look only at global wheat exporters and importers, then global wheat stocks are also beginning to trend lower.

In August and September 2017, traders from around the world will be focused on the yield and crop potential in the U.S. I think the current USDA corn yield estimates are very optimistic and believe the final corn yield this year is likely to be closer to 167 bushels per acre vs. 171 bushels per acre.

August weather makes the soybean crop, so I am using a broad range of 46 to 50 bushels per acre for a national soybean yield at this time.

Make sure you watch the USDA Crop Progress Report each Monday in August. If the U.S. ▶

## U.S. Balance Sheet Estimates &amp; Kluis Projections: Soybeans

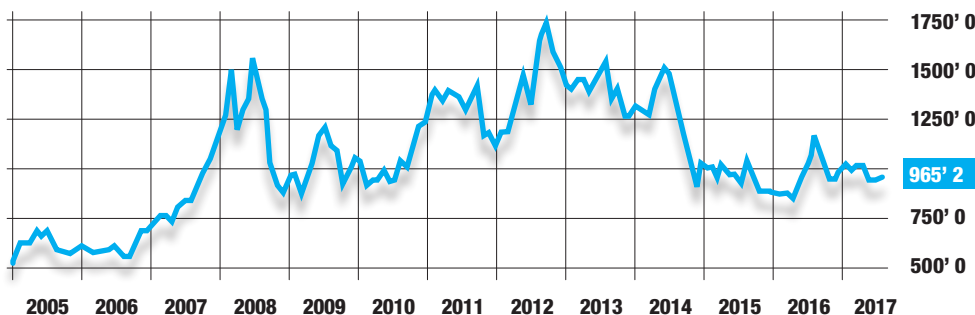
	USDA 2015/16	USDA 2016/17	Avg. USDA 2017/18	HIGH AI Kluis 2017/18	LOW AI Kluis 2017/18
Planted Acres	82.7	83.4	89.5	89.5*	89.5*
Harvested Acres	81.7	82.7	88.6	88.6*	88.6*
Yield	48	52.1	48	50*	46*
Production	3,926	4,307	4,255	4,430*	4,076*
Beg. Stocks/Imports	191	221	460	460*	460*
<b>Total Supply</b>	<b>4,140</b>	<b>4,528</b>	<b>4,715</b>	<b>4,890*</b>	<b>4,536*</b>
Crush/Seed/Residual	2,008	2,093	2,085	2,100*	2,085*
Exports	1,936	2,050	2,150	2,200*	2,150*
<b>Total Usage</b>	<b>3,944</b>	<b>4,093</b>	<b>4,235</b>	<b>4,300*</b>	<b>4,235*</b>
Ending Stocks	197	435	480	590*	300*
Stocks/Use Ratio	5.0%	10.6%	11.3%	13.7%*	7.1%*
Yearly High Price	\$12.00	\$10.50	\$10.30*	\$9.90*	\$11.30*
Yearly Low Price	\$9.80	\$8.80	\$8.50*	\$8.10*	\$9.50*

\* Kluis Projections

left: The large increase in soybean acres makes it difficult to avoid having a large increase in U.S. soybean ending stocks. If you use the USDA 2017 yield projection of 48 bushels per acre, then ending stocks increase to 480 million bushels. In 2017, a 50-bushel soybean crop would take ending stocks to over 590 million bushels and likely take soybean futures down to \$8.10. However, depending on August weather, a 46-bushel crop takes the stocks-to-use ratio down to 7% and soybean futures back to over \$11. Bottom line: We need to consistently harvest a 4-billion-bushel soybean crop going forward.

below, left: The long-term soybean chart show the major low in late 2008 at \$7.76. From that low, prices went sharply higher to the major high at \$17.94 in September 2012. Prices then dropped to the major low at \$8.44 in November 2015. This chart has major support at \$9.40 and then at \$9.44. Resistance above the market is at \$10.50 and then \$12.08.

## CBOT Soybean Monthly



conditions are going lower, then use the low end of this range as your yield target. If the crop conditions go higher in August (like last year), then use a higher yield number.

Here's how I project into next year. Using my spreadsheets, I plug in different U.S. crop yields. After making slight changes in usage numbers, I can then project U.S. ending stocks. Once I estimate ending stocks and the stocks-to-use ratio, I can make different price estimates for next year. These projections are not always right, but they will

allow me to build long-term expectations for trends and prices in 2017 and in 2018.

Expect about a minimum 90¢ trading range in corn each year and a \$1.80 trading range for soybean futures.

## 3 STRATEGIES

Here are strategies to consider in the late summer and fall of 2017.

- The outlook for corn prices looking ahead into 2018 is a lot better than soybeans. If you need to sell one crop and hold the other crop, then store the corn.
- For both corn and beans, if the weather is favorable

and there's another large crop in the U.S. in 2017, do whatever you can to hold your inventory in the bin or on the board into the spring and summer of 2018.

- If August weather takes yields lower and prices higher, then be ready to make aggressive 2017 cash sales and even 2018 hedges on that rally.

History has taught me to store a large crop, but to sell a small crop early.

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

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