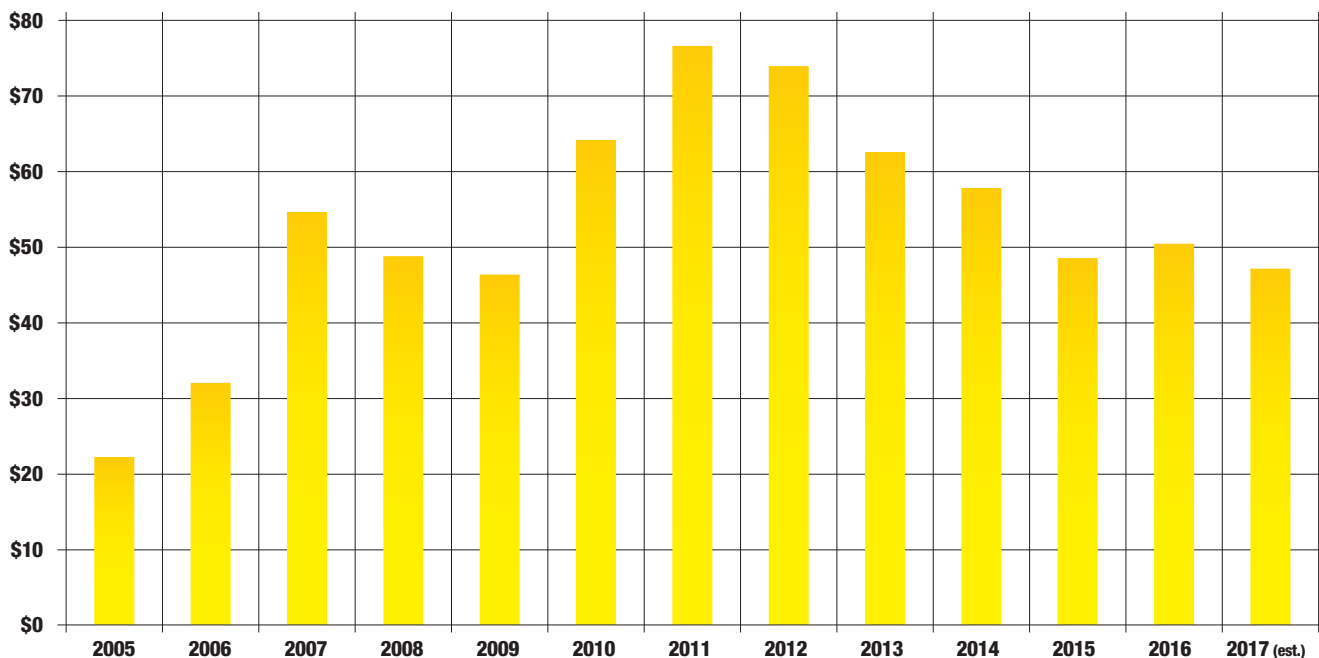


YOUR PROFIT

By Al Kluis



U.S. Corn Revenue (2005 to 2017, in billions of dollars)



CORN REVENUE MOVES LOWER A LONG-TERM LOW IS DUE IN 2017.

At all of my summer seminars, farmers asked, “When will farm prices and farm profits begin to improve?” One older farmer at a southern Minnesota meeting said, “I am used to the ups and downs in farming. Since I started farming in the late 1960s, it was usually two to three years of improving profits followed by one to two years down. I have never watched prices and profits go lower for five years in a row!”

I agreed with the farmer that the five-year downtrend in the corn market was one of the longest bear markets I have lived through. I also pointed out what I saw on my charts.

Three key factors have kept grain prices under pressure for the last five years.

The year-to-date lows on my corn and soybean charts show that both corn and soybeans have held higher lows (the seasonal lows in 2017) than the lows in 2016.

At the time I wrote this column, the 2017 low in corn was 30¢ per bushel higher than the 2016 low, and the 2017 low in soybeans was 50¢

higher than last year. This sets up the potential pattern on my long-term continuation charts of higher lows and then higher highs.

So when will farm prices and farm profits begin to improve? To answer that question, I find it useful to first review what happened to take prices lower and then to look ahead to what can take prices higher.

WHAT CAUSED GRAIN PRICES TO DROP

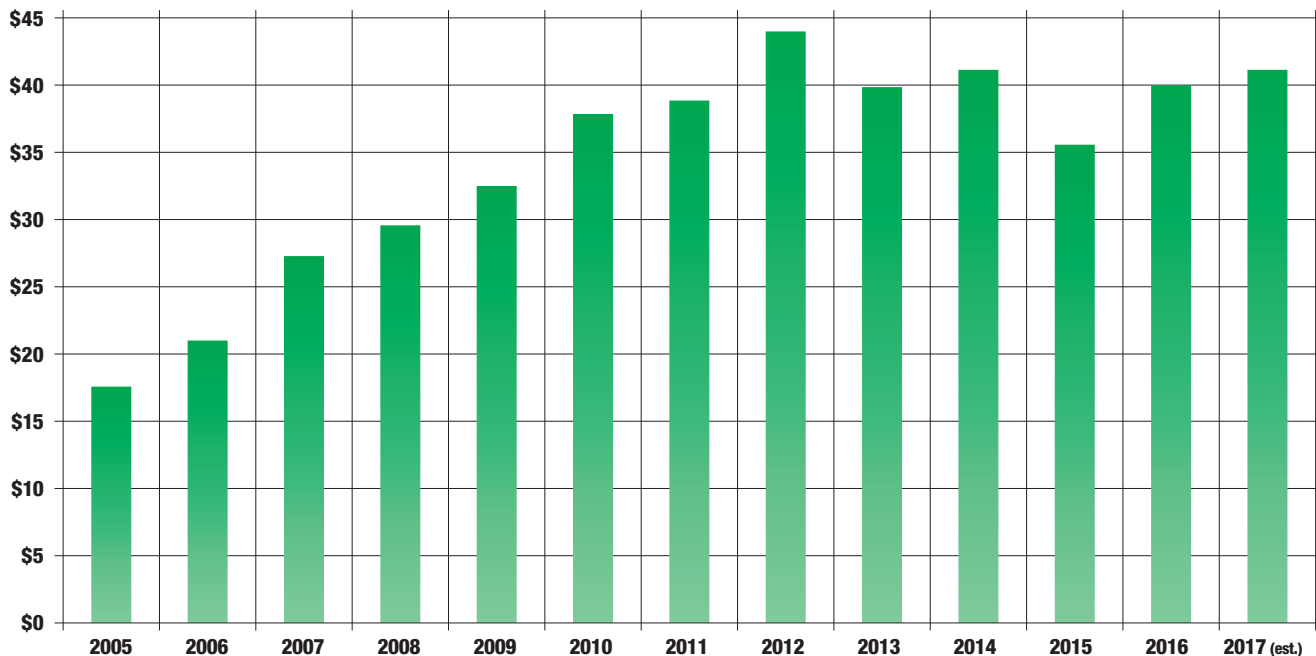
Here are the three key factors that have kept grain prices under pressure for the last five years.

#1: Prices were very high before 2012. This resulted in a huge increase in global corn, soybean, and wheat

This is the chart of total U.S. corn revenue. I build this chart by multiplying the U.S. corn crop size by the USDA marketing year average price. You can see the boom times from 2005 (when the total revenue was \$22 billion) to the high in 2011 at \$78 billion. From that high, total revenue has been trending lower now for six years. The pattern since the early 1970s has usually been for two to three years of higher revenue with a one- to two-year pullback. Farm profitability will not improve until we have at least two years of higher corn revenue. My long-term chart studies suggest that 2017 will be a major low in corn price revenue.

acres. Once land is converted from pasture to tilled farm ground, it is very unusual anywhere in the world for that land to go back to pasture. High acres stay high.

U.S. Soybean Revenue (2005 to 2017, in billions of dollars)



This is the chart of total U.S. soybean revenue. I build this chart by multiplying the U.S. soybean crop size by the USDA marketing year average price. You can see the huge rally from 2005 when the total revenue was \$17 billion to the high in 2012 at \$44 billion. From that high, total revenue went lower for three years and is now projected to be higher again in 2017. I look for a setback in 2018, but I believe that the long-term low was in 2015.

#2: Slower global economic growth slowed global grain demand. After the last U.S. recession, Europe went through a major economic slowdown. Asia remained the global engine of growth, but its economies grew at a slower rate. Global demand was still growing, but global supplies were increasing faster. This resulted in year after year of larger global grain stockpiles.

#3: Good weather and large crops for three consecutive years. In the U.S., we have had some regional weather problems. However, for the last three years, we have had large corn and soybean crops. The same has been true in South America.

Argentina has struggled with too much rain, and some dry areas have been reported in Brazil. For the last three years, however, both countries have had huge crops.

I am not a weather man but the odds of this favorable weather pattern in both hemispheres continuing is very small.

WHAT CAN TAKE GRAIN PRICES HIGHER

Economic growth rates around the world have

started to increase. Global wages are improving, too, which is positive for commodity demand – especially meat and protein prices. I expect growth rates to increase to 2.5% to 3% for global commodities in 2018.

I also expect global grain stockpiles to shrink. The stockpiles increased for several years and are finally showing just minor changes month to month. If demand grows, then it is just a matter of time until global stockpiles move lower.

Most long-term market lows develop when demand starts to improve, and then they kick into high gear when weather problems develop. It is not a matter of *if*; it's a matter of *when*.

So watch the first month that nearby CBOT corn, soybeans, and wheat prices close above the two previous

months' high to signal a major low. 

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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