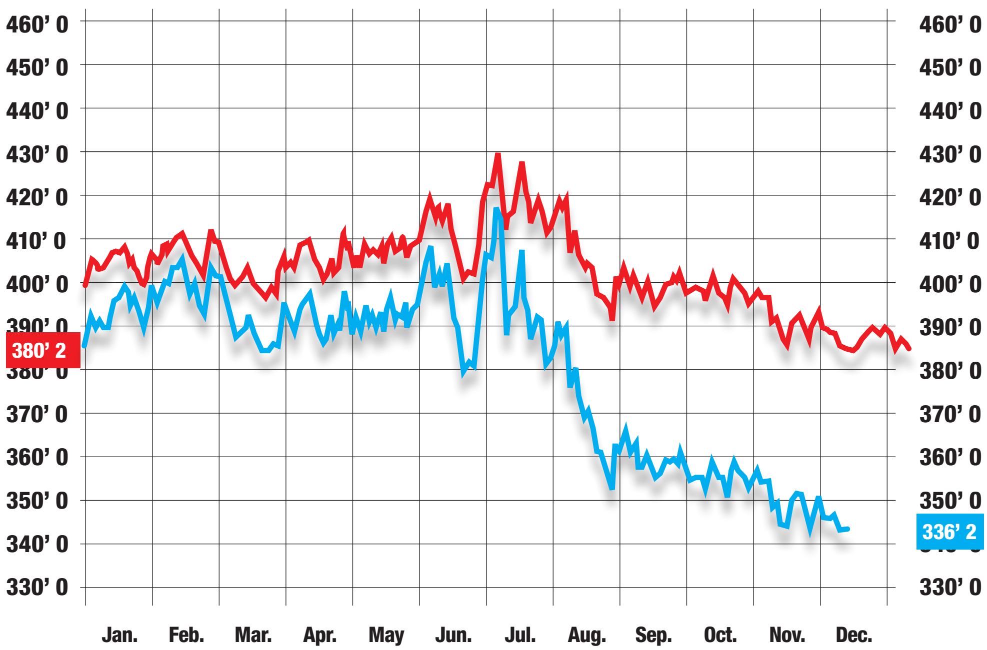
YOUR PROFIT

By Al Kluis

December 2017 Corn vs. December 2018 Corn



The current price level and market action for December 2018 corn is very similar to what prices were doing one year ago for the December 2017 corn chart. The current price of December corn is 2¢ lower than last year at this time. Last year, prices rallied for three weeks to an early July high, then fell to an early harvest low in late August. Farmers who had RP crop insurance in place and had hedged the 2017 crop ahead were happy with the results at harvest.

FINE-TUNE YOUR 2018 MARKETING PLAN

PLAN TO USE THE THREE-STEP RISK-MANAGEMENT PLAN FOR 2018.

For the last decade, I have recommended that you use a three-step risk-management plan. This simple plan has worked well in bull and bear years. However, you still need to make several decisions each year to get the best version of this plan in place for your farm operation.

First, let's review the three-step risk-management plan.

1. Buy the right revenue protection (RP) crop insurance policy.
2. Hedge 50% to 80% of the insured bushels (your "A" bushels) on the seasonal rally.
3. Get the last 30% to 50% of your bushels (your "B" bushels) protected with put options.

For the first step, I cannot offer any product-specific recommendations because I am not a crop insurance agent. My only recommendation is to work with a full-time professional agent who has years of experience in the crop insurance industry.

The second step is where I can help: Knowing when and how to hedge.

Let's start by studying the official crop insurance coverage levels. These are calculated by looking at the average futures price for the months of February and October, and choosing whichever is higher.

This table shows how those averages looked over the last five years for corn futures.

Average corn futures prices for the month

	Feb. Avg	Oct. Avg
2013	$5.65	$4.39
2014	$4.62	$4.15
2015	$4.15	$3.83
2016	$3.86	$3.44
2017	$3.96	$3.49
2018	*$3.90	

***My current estimate.**

What does this chart tell you for 2018? First, in five of the last five years, the February average has been higher than the October average. The February premium has been an average of 58¢. Even if you throw out 2013, the February premium is still 41¢. Will 2018 be the sixth year in this series? I don't know. However, I give it a better than 50% chance that there will be a February premium again.

I am always a seasonal seller. I will hedge 50% to 80% of the crop ahead when the price between May and July gets up to the February average or higher. In five of the last five years, that has been the right decision.

Now let's look at soybeans. Here are the averages over the last five years for soybean futures.

Average soybean futures prices for the month

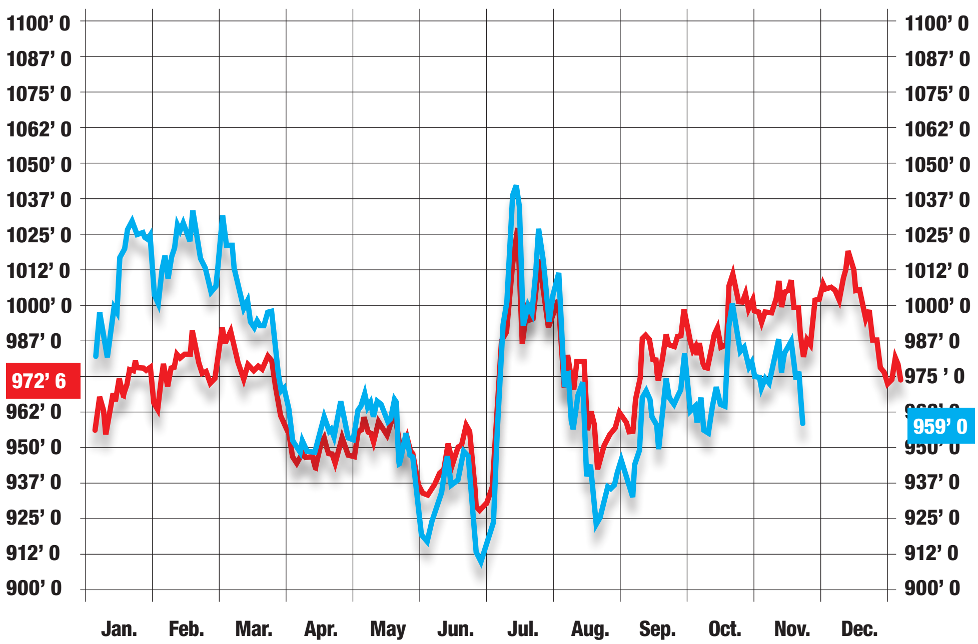
	Feb. Avg	Oct. Avg
2013	$12.87	$12.87
2014	$11.36	$9.65
2015	$9.73	$8.91
2016	$8.85	$9.74
2017	$10.19	$9.75
2018	*$9.90	

***My current estimate.**

SEE AL KLUIS LIVE IN ANAHEIM

Be sure to catch Al Kluis at the 2018 Commodity Classic Main Stage in Anaheim, California, on Tuesday, February 27 (12:15 p.m. PT), and Wednesday, February 28 (2:30 p.m.).

November 2017 Soybeans vs. November 2018 Soybeans



The market action for November 2018 soybeans is very similar to last year, as we are in a period of very low volatility. The current new-crop 2018 soybean prices are about 40¢ lower than the November 2017 prices were last year at this time. In 2017, there was a three-week rally into early July. Farmers who used that rally to aggressively hedge new-crop soybeans ahead were happy with the results at harvest.

For soybeans, the averages over the last five years have not been as consistent as corn. However, the five-year average is a February premium of 41¢. (This did not work in 2016, the one year the February average was below $9. That is a worthwhile number to remember.)

I am a seasonal seller in soybeans. I will hedge 50% to 80% of my soybeans ahead on the seasonal rally. In four of the last five years, that has been the right move. In 2013, the fact that some of my $12 hedges were against me by 80¢ per bushel did not hurt my bottom line. I hope I get that opportunity in 2018.

Try to get 50% to 80% of your new-crop 2018 soybeans hedged between $10.20 and $10.80.

Now on to the third step of the three-step plan: Buying puts.

I recommend buying puts on the last 30% to 50% of your estimated production (your "B" bushels). For corn buying, the puts worked well in four of the last five years. In 2015, you did not recover all of your put premium because the puts were expensive and the market did not drop enough to turn a profit.

For soybeans, the puts worked in three of the last five years. When the price of soybeans tanked into the fall of 2014 and 2015, it made a big – and positive – difference to your bottom line.

Keep in mind that I do not buy puts every year thinking the puts will make me money. I recommend puts because they are part of my risk-management plan.

RECOMMENDATIONS

Following are my specific recommendations for fine-tuning your 2018 marketing plan.

For corn, plan to buy your usual RP crop insurance policy. Get 30% to 80% hedged if you can get those hedges on between $3.98 and $4.28. If December corn gets over $4.20, then get the rest of your bushels protected with puts.

For soybeans, watch for the February average price. If it is above $10, then buy a higher level of RP crop insurance. Get more aggressive than usual with new-crop hedges.

I am very nervous that prices could get very low by next fall. If U.S. farmers plant 91 million acres of soybeans or more in 2018 and we have normal weather this summer, then watch out.

Try to get 50% to 80% of your new-crop 2018 soybeans hedged between $10.20 and $10.80. If November soybeans rally above $10.50, protect the rest with put options. SF

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

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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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