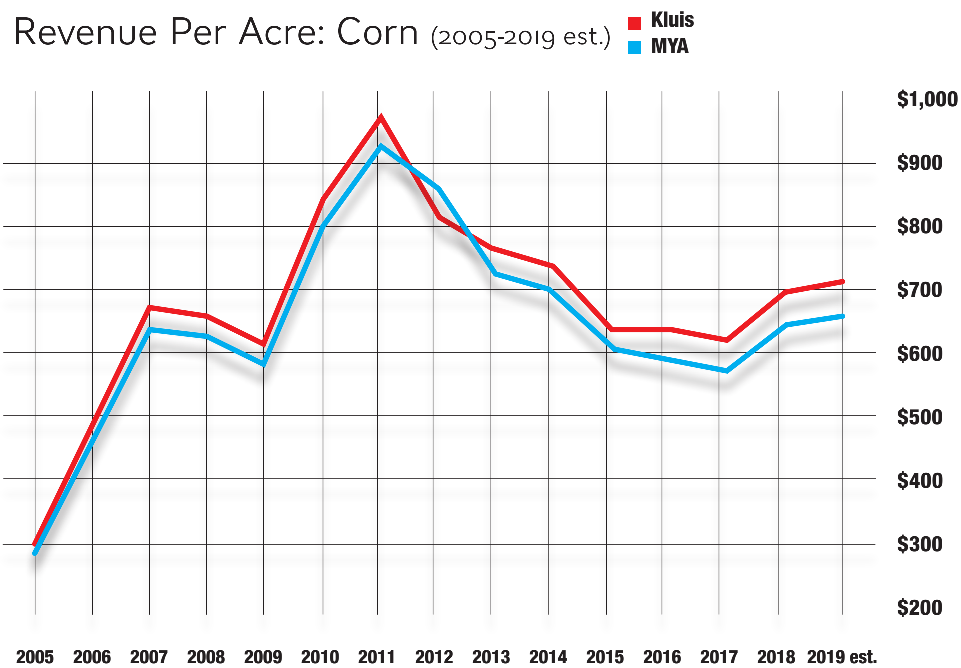
By Al Kluis



This chart shows how corn revenue increased from just $300 per acre in 2005 to over $900 per acre in 2011. Even though prices went higher then, yields went lower, so total revenue moved lower. For 2019, it looks like a slight increase in revenue from last year, but total revenue is still below where it was. My revenue per acre assumes that my customers had the average national yield. My estimated revenues are the red line. For the last three years, selling ahead aggressively and then waiting for the summer rally has helped really beat the average farm selling price.

THINK REVENUE PER ACRE IN UNCERTAIN TIMES, EVEN A SEASONED PROFESSIONAL CAN LEARN A NEW STRATEGY.

This started out to be such a promising year for the grain markets. The long-term global fundamentals have turned positive, but the threat of a trade war with China and the large U.S. corn and soybean crops pressure dropped grain prices by harvest. Now, prices are back to some very low price and profit levels.

Every year, I enjoy getting out and speaking at farmer meetings. One of the big benefits is what I learn from farmers who attend.

Late this summer, I spoke to a great group of producers at a Farm Bureau meeting in western Illinois. I have spoken to this same group about a dozen times or more in the last 30 years. These farmers not only are great producers in an area with really good soil, but also work hard at marketing. I explained how I use price and time targets, use a combination of hedges and puts, and make incremental scale-up sales. Then I showed the results of using my approach.

One longtime customer liked my app, chart work, and specific price targets, and he said he followed my recommendations. He also told me I was making it too complicated.

"It's all about revenue per acre," he said. His method was to figure out revenue goals per field and then revenue goals for his entire farm operation. His goal was to ramp up yields by 3% and increase his average selling price by 3% each year. Because this has a compounding impact, the bottom line result of his approach is a huge 9% increase in revenue each year.

Using the rule of 72, I figured out that if he is successful, then in eight years, he will be able to double his gross income without adding more land.

A SUCCESS STORY

So was he successful?

"From 2005 to 2012, I did way better than that – even if I sold too much ahead too early. In the last three years, it has kept my farm in the black. This year, it looks like a 5% to 8% increase in yield. I already have most of my new crop hedged ahead at higher prices than last year," he said.

His comments sent me back to work on my spreadsheets.

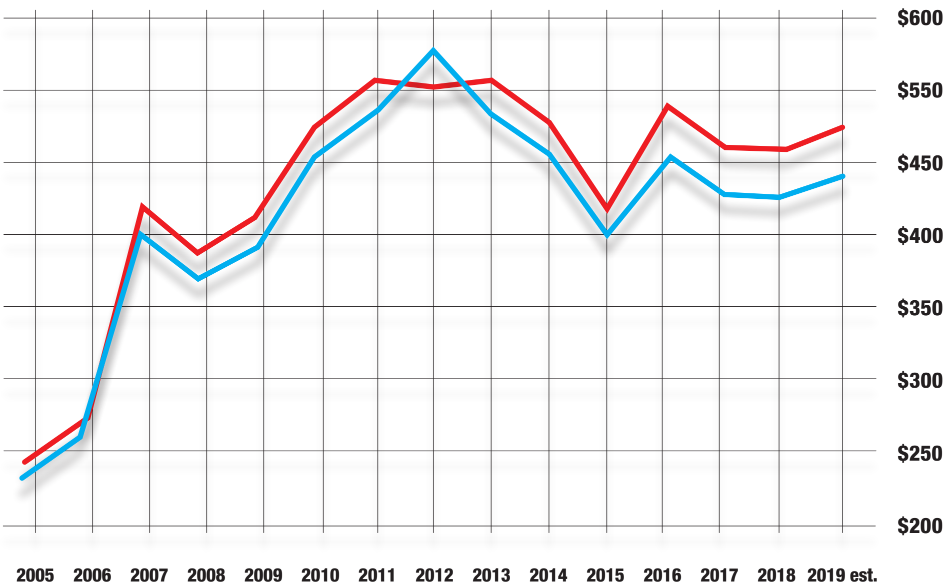
I have charted total U.S. corn and soybean revenue – as well as revenue per acre – since 2005. My long-term U.S. corn revenue chart goes back to the 1860s and my long-term U.S. soybean revenue chart goes back to the 1930s. The most relevant charts are the corn and soybean acreage revenue charts that go back to 2005.

Updating these spreadsheets and charts is time-consuming. However, the raw data is available on the USDA websites. The yield and marketing year average (MYA) information is what I plug in to make these revenue charts.

The comments from that Illinois customer got me thinking, and it created more work with my spreadsheets. I decided to compare my track record with what the USDA re-

Revenue Per Acre: Soybeans (2005-2019 est.)

Kluis
MYA



This chart shows the huge increase in soybean per-acre revenue from 2005 at just $240 per acre to $780 per acre in 2012. Revenues fell sharply from 2012 until 2015. Revenues have been working higher since then, although revenue per acre is still well below 2012. The combination of a record soybean crop with lower prices will help revenue increase by 2019. In 2012, I sold ahead and grain prices went sharply higher, so my average was lower than farmers who just held off until harvest. My estimated revenues are the red line. The last several years, selling ahead and then avoiding sales between August and October has been the right marketing move for my customers. This plan has helped me beat the MYA by over 8%.

ported as the average revenue per acre received by farmers. (To get this, take the average yield × the MYA.) I found that I was able to beat the MYA almost every year by an average of about 5%.

In the years like 2012 when the markets went much higher right into harvest, my results were not as good as farmers who just held on until harvest. However, in the last three years when prices moved lower into harvest and then rallied back to the seasonal highs the following summer, I averaged well above the USDA average.

WHAT THIS MEANS FOR YOU

What does this mean for your 2018 crop marketing plan? It shows me that you have to have a marketing plan. When I review where I am with the 2018 crop marketing plan for my customers, I am very confident that we will again beat the average by at least 8%.

Last spring, we used the rally into May to get 50% of the corn and 40% of the 2018 soybeans hedged ahead. We rolled the hedges out to the March contracts. Now our average March 2019 corn hedge price is at $4.17 and our average March soybean 2019 hedge is at $10.49. The reason for rolling the hedges out to the March contract was to avoid the really wide basis that we are slugging our way through at this time. The USDA estimate for the 2018 MYA for corn is at $3.60; the 2018 MYA for soybeans is at $8.90. With the large gains that we have on the first 40% to 50%, it looks like we can again beat the MTA.

It's important to do what works for your farm. I am very comfortable having farmers create marketing plans using the revenue goals method that my Illinois customer uses. Most farmers will do whatever they can to ramp up yields in 2019. Although I am somewhat nervous about plugging in another 3% increase in yield, history and the USDA trendline yield chart say to keep doing it.

With the global fundamentals improving, you should also be able to hit your 3% average selling price increase in 2019.

The key is that you create a plan that works for your farm. Avoid the hold-and-hope marketing strategy that has been a grain marketing and financial disaster the last several years. SF

NOTE: The risk of loss in trading futures and/or options is substantial, and each investor and/or trader must consider whether this is a suitable investment.

Past performance – whether actual or indicated by simulated historical tests of strategies – is not indicative of future results. Trading advice reflects good-faith judgement at a specific time and is subject to change without notice. There is no guarantee that the advice given will result in profitable trades.

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