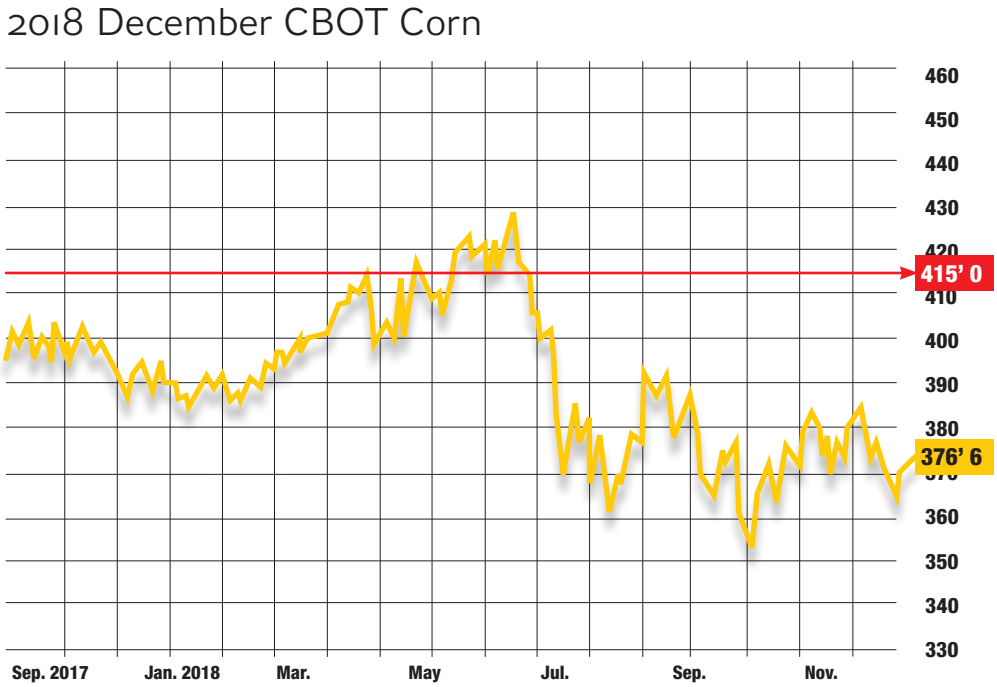
By Al Kluis




**This is the daily chart of December 2018 corn futures. You can see the high at $4.29 on May 24, 2018. From that high, prices dropped to the eventual low at $3.44. This was 18 weeks later on September 19, 2018. Farmers had some good opportunities to sell the 2018 corn crop ahead in the summer of 2018 and only three weeks to hedge their 2018 crop ahead at a profit during the 2018 growing season. From the May high to the September low, revenue dropped by $170 per acre in just over four months.**

# THE GRAIN MARKETS HAVE CHANGED HERE ARE THE NEW RULES FOR MARKETING IN 2019.

At a meeting in northwest Iowa, a longtime subscriber made this honest observation: "The markets have changed. The way I used to sell 20 years ago just doesn't work anymore. What do I need to change to adapt to the new markets?" A very good question, indeed!

First, let's review how the markets have changed over the last 20 years. Then, I will give some new rules to use in making marketing decisions.

## 4 MAJOR CHANGES

Here are four major changes in the grain markets.

**1. Fewer crop-production problems.** We have much better seed varieties than 20 years ago. Farmers have put a lot of money into drain tiles and have adapted much better farming practices. The crop gets planted on time and in nearly ideal conditions most years. Nonetheless, after the last four years of good weather and large crops, I am cautious about predicting another huge yield in 2019.

**2. Increased global competition.** In 1999, Argentina produced 13 million metric tons (mmt) of corn. In 2019, the Argentine corn crop is projected to be 42 mmt. For soybeans, the production has also jumped, from 20 mmt in 1999 to an estimated 55 mmt this year.

For Brazil, the numbers are even more dramatic. In the last 20 years, corn production has jumped from 31 mmt to 91 mmt. Soybean production has exploded from 31 mmt to this year's projected crop – even after being hit with hot dry weather – of 112 mmt.

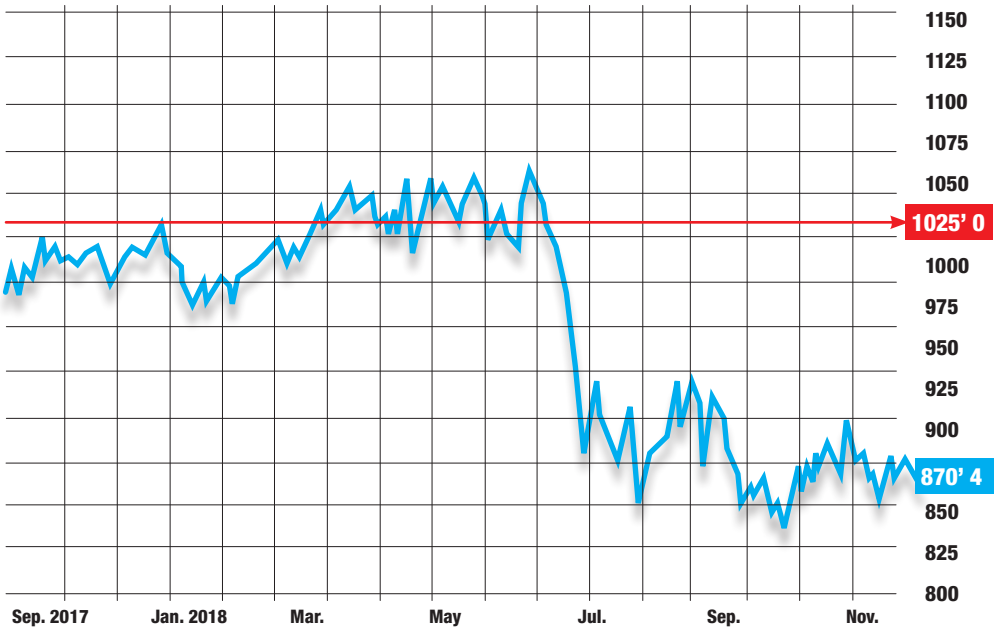
This makes it much more difficult to get a sustained rally in grain prices. If the U.S. crop is hurt, end users can get new supplies within three to six months.

**3. Better and more rapid communications.** In the pre-internet days, the large grain companies that had their own international information and communication systems had a huge advantage. They often had a two- to four-week head start on the retail trade. During the old days at the CBOT, it hired different outside brokers to do buying. That way, it could hide the way it was positioning.

Today, with farmers and grain traders around the world hooked up to the internet, this has really leveled the playing field. It used to take several weeks or months for bullish news to get priced into the grain markets. Now with faster and better information and with the Globex electronic market trading 17 hours a day, it takes just a few days to get the bullish news priced in.

**4. Hedge fund and algorithm trading.** Twenty years ago, hedge funds were mainly trading stocks and bonds. They did not move actively into the commodity markets until 2005. Today, on a daily basis, hedge funds and algorithm traders trade larger volumes than retail traders and grain companies combined. The funds use a lot of different methods, but they tend to be momentum traders. That means they buy on strength and sell on weakness. This tends to create higher highs and then lower lows. Prices move up and down very fast. In the grain markets, this means funds tend to have large long positions when markets peak and large short positions at the

## 2018 November CBOT Soybeans




**This chart shows the high at $10.60 on May 24, 2018. From that high, prices plunged to the ultimate low at $8.13 on September 19, 2018. From late February through May, farmers had about 18 weeks to forward-sell their 2018 crop ahead at a profit. But when prices turned lower, it was devastating. For soybean farmers with a 50-bushel yield, they went from a small $50-per-acre profit to a $100- to $120-per-acre loss.**

lows. This does not seem logical. It isn't! However, it is true. If you learn how to fade the funds, you're more likely to succeed.

### 5 NEW RULES TO USE

Here are the new rules you need to use in 2019.

**Rule #1. Sell early and sell often.** If you look at when you get a chance to sell at a profit, then the highs and the best opportunities tend to come in earlier each year. In 2018, corn was above the cost of production for most farmers for only three weeks. Soybeans were above farmers' cost of production for only eight weeks. When I say *sell often*, I mean make a series of 10% sales. With the increased volatility due to more hedge and algorithm traders, I want more flexibility to make scale-up sales when these scarce tear-your-head-off rallies develop.

**Rule #2. Use a price plan and set realistic price targets.** I talked with some farmers who planned to start hedging the 2018 crop at $4.50. However, they ended up having to sell at harvest. For soybeans, they planned to start at $11. Again, they were caught with no hedges or price protection. With limited storage, they had to sell at harvest. Don't let that happen to you.

**Rule #3. Use a seasonal selling plan along with your price plan.** I wasn't initially happy with some of my May soybean hedges last year; however, they sure looked good at harvest. Starting in April and continuing through early July, make some cash and new-crop sales each week. The corn and soybean farmers who held grain into late July or August have been hurt the last four years.

**Rule #4. Use all of your marketing tools.** By using a combination of hedges and puts, farmers have been able to put together an effective risk-management plan for the last decade. In 2012, some money was left on the table. However, in the last four years, farmers have been profitable in a tough environment.

**Rule #5. Call your offers in.** Grain markets now trade 17 hours per day. Hedge funds and algorithm traders can create extreme short-term volatility at any time of day or night. This means prices can spike up and down very rapidly; some of the highs and lows are in the middle of the night. In this new world of trading, it is essential to have resting GTC (good till cancelled) offers.

Entering April, have 60% to 70% of the cash corn and soybeans sold with 10% to 20% of the new-crop corn and soybeans hedged ahead.

### FINAL THOUGHTS

After four years of great growing conditions, I am wondering if we will get another large crop in the Corn Belt in 2019.

Successful farms and businesses need to adjust how they position their business every year. I am guessing I will have to write about the new rules again in 2020. 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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