

# Use a Weather Scare to Make Sales

**Global uncertainty will continue in 2012.**

**W**hat were the major events that created price movement in 2011? And can you forecast any events – negative or positive – that will drive prices in 2012?” Those were the first two questions that were asked at a Missouri seminar in early January. A third, equally important question was “What is your long-term game plan for 2012?”

**QUESTION #1: WHAT WERE THE MAJOR EVENTS THAT CREATED PRICE MOVEMENT IN 2011?**

Following are the five major events that were responsible for the very volatile grain markets in 2011.

1. The tragic earthquake and tsunami

in Japan. The uncertainty that this created initially dropped global stocks and commodity markets sharply lower. Later, though, the market rebounded on all of the indications that Japan would rebuild and that they would need larger meat and grain imports.

2. The European debt crisis that went from Ireland to Greece and then on to Italy and Spain. It seemed at least one weekend a month there would be bad debt news out of Europe, and that would bomb the global stock and commodity markets.

3. The political gridlock in the U.S., as politicians positioned themselves to make political gains rather than cooperating to talk about and to resolve the nation’s debt and spending problems.

4. The late wet spring in the eastern Corn Belt that created an April-May

The last six years have been very volatile with large daily trading ranges. The old seasonal pattern of a spring or early summer high in the corn market still works. I plan to get the last of my cash corn sold and a large portion of the new crop sold ahead by early July 2012.

weather scare rally.

5. The drought in the western Corn Belt that dropped corn, sorghum, and soybean yields in the western third of the Corn Belt.

**QUESTION #2: CAN YOU FORECAST ANY EVENTS – NEGATIVE OR POSITIVE – THAT WILL DRIVE PRICES IN 2012?**

It is difficult to anticipate all of the events that will drive prices in 2012 and some, unfortunately, will be reruns from last year. Following are my forecasts of how five events will drive prices in 2012.

1. The Euro debt problems are likely to be a major focus again by February. Several European nations have to roll over billions of dollars in sovereign debt in February and March. How these debt auctions go will have a huge impact on stock, currency, and commodity markets this month.
2. Congressional leaders in the U.S. will go through round two of the payroll deduction debate and will likely fight some more on tax-and-spend issues. ➤

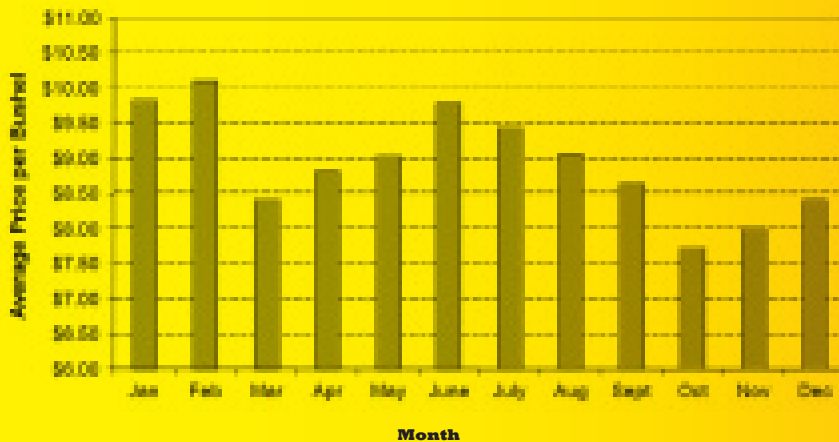


**How Congress handles the continuing debt issues will have a large impact on the U.S. dollar value and commodity prices.**



## Seasonal Soybean Price

Six-Year Monthly Average



**I believe we are in a year with slowing global demand for commodities, and if we end up with a large crop in North America, prices could be a lot lower by the fall of 2012.**



How Congress handles the continuing debt issues will have a large impact on the U.S. dollar value and commodity prices. 3. Weather in South America has turned hot and dry in early January. The world had been expecting a record crop from South America; any shortfall will have immediate price ramifications and can dramatically change global fundamentals ahead of planting time in the U.S. 4. Concerning weather in the U.S., we need the right kind of spring. The western third of the Corn Belt is critically dry. Too much rain this spring will delay corn

planting and could reduce some of the super-optimistic projections for more corn and soybean acres. If it stays dry, that, too, will be viewed (at least in the short term) as positive for the corn market. 5. The big question for 2012 is about China. Will China's economy continue to grow at the pace that China's policy-makers are targeting? It is a difficult balancing act to slow down an economy without throwing on the brakes too hard. If the policy-makers in China can slow down inflation and get the GDP to drop back to 6.5% to 8% growth, China and U.S. farmers will both prosper.

Be aware that any hint of a hard downturn in China will sink the stock and commodity markets in Asia and the U.S.

### QUESTION #3: WHAT IS YOUR LONG-TERM GAME PLAN FOR 2012?

**I** plan to be aggressive in getting cash corn and soybeans sold on any weather scare rally this spring and in getting most of the projected 2012 crop covered with hedges or puts. During the month of February, it is important to watch the price of December 2012 corn futures and November 2012 soybean futures, as this sets the price for 2012 crop insurance.

I will get ready to put together my three-step risk-management plan.

The last six years have been volatile and it is likely to stay that way again in 2012. The pattern of a spring or early summer high followed by lower prices into harvest still works most years. I plan to get the last of my cash soybeans sold and most of the new crop sold ahead by early July 2012.

**1** With dryness in a large portion of the Midwest, I will likely pay up and get a RP insurance policy at 75% or 80%.

**2** Once I have bought the policy, I will go ahead and increase 2012 hedges up to 50% to 75% (of my insured bushels that I call my A bushels) if December 2012 corn futures are trading over \$6.50 and November soybean futures are trading over \$13.

**3** If the rally continues into late May to early June, I will be a seasonal seller, and I will get hedge and put protection in place on 100% of my anticipated 2012 corn and soybean crops.

With all of the uncertainty, it is more important than ever to have a well-thought-out disciplined marketing plan.

I believe we are in a year with slowing global demand for commodities, and if we end up with a large crop in North America, prices could be a lot lower by the fall of 2012. •

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

### Al Kluis

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 [www.alkluis.com](http://www.alkluis.com).

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