

2011 Corn: July - December Spread



The spread between July 2011 corn and December 2011 corn has changed. In late June when prices bottomed, July corn traded at a 5¢ discount to December 2011. When the bull spread turns lower, it will be a sell signal to get your cash corn sold and your 2011 hedges in place.

a national yield of 162 bushels per acre for corn and a total corn crop of over 13 billion bushels. Due to extreme heat, the final national average yield dropped back to 152.8 bushels per acre, with a total corn crop of just 12.447 billion bushels. This dropped projected ending stocks from over 1.2 billion bushels to just 675 million bushels, or an 18-day supply.

5 Factors That Created The Grain Market Rally

Here are the signals that tell you the market is peaking.

Did you forecast grain prices to go this high last year? What caused it?" These were the first two questions from a farmer at a seminar in Colorado this winter.

The first question was easy to answer: No, I did not forecast corn to rally above \$7 or soybean futures above \$14 last year. But I did expect \$6+ corn and \$13 soybeans after looking at the January 12, 2011, USDA reports.

The answer to the second question is a longer answer. There are five main factors that caused the grain market rally into the spring of 2011.

1 Record demand from China for more grain. The economy in China continues to grow, creating more jobs as its economy expands rapidly. China is creating a lot of jobs, and wages are

increasing. This is increasing its demand for meat, especially pork and chicken. China is importing a record amount of soybeans and has become a net importer of corn.

2 The smaller harvest in Russia and the Ukraine in 2010 due to the worst drought on record. Those two nations have become major export competitors in the wheat, barley, and sunflower markets in the last five years. The 2010 drought resulted in an export embargo. Many nations that usually bought wheat from Russia and the Ukraine changed the purchases to the U.S., and wheat prices led the corn and soybean markets higher.

3 The smaller harvest in the U.S. In August 2010, the USDA and most private analysts were projecting

4 Crop production problems in Argentina. The world needs a large crop out of South America in 2011. However, Argentina was hit with hot, dry conditions through the spring and into the early summer. The result is a drop of about 6 million metric tons of soybeans, or a 200-million-bushel drop in production in 2011 compared to 2010. The total corn crop in South America also looks to be 200 million bushels less than last year. This keeps global buyers coming back to the U.S.

5 Crude oil going to over \$100 per barrel. This is keeping ethanol profitable and leading the USDA to project an additional 50 million bushels of corn being crushed to ethanol. Ethanol processors keep grinding more corn. And with high sugar prices, corn sweetener production has also increased. U.S. and global corn and soybean demand continues to grow.

A Third Question

A third question was asked at that recent Colorado seminar: "What will signal the top in the grain markets?"

I don't have one surefire sell signal, ➤



The spread between July 2011 soybeans and November 2011 soybeans was just 10¢ per bushel premium in late June 2010; by mid-January 2011 it was at \$1.20. When the bull spread turned lower in early February, it was a sell signal to get your cash soybeans sold and a good portion of your 2011 soybeans hedged.

tures going over \$7 per bushel and soybeans over \$14 that we have not had any real signs of price rationing occurring yet in the corn or soybean markets. I do not see corn staying above \$7 or soybeans above \$14 for the balance of the year. I look for a grain prices to peak in the next 30 to 90 days and set back into this fall.

The further prices go up to ration demand, the further prices will fall when futures turn lower.

I do not see corn prices dropping back to below \$3.50 per bushel or soybeans dropping below \$9 per bushel. For most farmers, though, a \$1.50 down in corn futures and a \$3 drop in soybean futures will take away a large part of 2011 profits.

Because of the risk and the long-term cycles that I work with, I am recommending a combination of crop insurance, hedges, and puts. Remember it always looks bullish at the top. And if you do not learn to sell when prices are going up, you will be forced to sell when prices go down.

Stay disciplined. □

but I will watch these five primary indicators that will signal a possible peak.

1 The trend lines have held in the corn market, while the soybean market fell below the major uptrend line in February. Since the lows last June into early February, the corn and soybean markets have made a series of higher highs and higher lows. The first month that you get a lower low and lower close could signal a possible top in the markets.

2 Basis levels into the Illinois River have been improving. This is a signal for real demand as we enter this spring, and exporters and processors are competing for limited farmer sales. If the futures move higher and basis bids to the Illinois River widen out, it will be a signal that prices are high enough.

3 Bull spreads have kept working. The two charts on this page and the previous page show the price spread between July and December 2011 corn and July and November 2011 soybeans.

The old trade rule is that bull spreads work in bull markets. Using that rule, you

would still be holding your cash corn, but the crash in the soybean bull spread in early February was a sell signal. Of all the indicators I work with, analyzing the spreads is one of my best indicators.

4 I am waiting and watching for the markets to close lower after a bullish USDA report. In the last 36 years of watching the grain markets, I have often watched prices top out after a bullish report. This will indicate that all of the bullish news is built into grain prices.

5 I am watching for a price reversal in the April-through-early-June time period. I anticipate a seasonal high during planting time. I will watch the daily charts for a short-term sell signal. The major indicator that prices have topped out will be when nearby futures close below the two previous weeks' low.

A Final Question

The last question at the end of the seminar was the most difficult: "Are these price levels sustainable?"

I have been amazed that with corn fu-

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