

December 2011 CBOT Corn Weekly



4 Questions

Here are four questions you need to ask yourself when making your marketing plan for 2011.

1 What crop revenue insurance product should I purchase for my farm?

Work with a trusted insurance professional and select the right policy. You must choose the right policy for your farm at the right coverage level that protects your investment before the March 15 deadline.

2 How much of my crop should I get sold ahead?

You will want to get income protection on at least 60% of your 2011 crop by the end of June. I plan to have my clients get up to 80% of a conservative yield protected with a combination of hedges and puts.

3 Should I use hedges or puts?

You will need to use a combination of hedges and puts. I usually have producers get at least 80% of their insured bushels (I refer to them as the "A" bushels on my website and weekly Al Kluis report) and get the balance of the production covered with puts.

This strategy has been the right financial move in the bear markets of 2008 and 2009 and the bull market of 2010.

4 At what price do I get the crop sold?

As a chartist, I will use the studies of time, price, and motion to make incremental scale-up sales. Then I'll add on additional sales when it appears prices have topped out.

This is my current analysis and suggested strategies for the December 2011 corn ➤

How To Fine-Tune Your Marketing Plan For 2011

Here are four key questions to ask.

Anxiety levels are going up. Even with the recent rally to \$6 corn and \$14+ soybeans, farmers are more worried than ever about cash rents, grain prices, and operating margins.

In 2006, my typical clients were farming 1,000 acres and grossing \$675 per acre on corn and \$525 per acre on soybeans. Their farms were grossing about \$600,000 to bring \$60,000 to the bottom line. Keep in mind that in the fall of 2006, farmers were collecting loan deficiency payments as part of their corn income.

Now, my typical clients are farming 1,500 acres of corn and soybeans. They're right at \$900 per acre on corn and \$700 per acre on soybeans. They will gross \$1.2 million to make \$90,000. This is better than \$60,000. But as you can see, the margins are getting thinner, and the risks are greater, as well.

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If you take a 10% hit in yield or marketing, it is easy to slip into the red. Also, now when the prices go lower, you are not going to get an LDP to offset the lower price.

At the seminars and webinars I have been hosting over the last 30 days, farmers are saying how much scarier marketing is now than it was just five years ago. The numbers have gotten a lot bigger, and the margins for 2011 are getting much smaller.

You are in the critical 60-day time period when you need to make a lot of decisions that will impact your 2011 bottom line.

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chart (shown on the first page). I have several swing objectives that project December 2011 corn up to \$5.95 and then to \$6.22. At this writing the top objective I have on the December 2011 chart is at \$6.68.

If those targets are hit, I will be willing to make at least a 10% hedge at each of those price levels. I expect a seasonal top in the May through early July time period. I will be watching for a weekly chart reversal to confirm a high in that key time period.

My current analysis of the November 2011 soybean chart (shown on this page) shows several swing objectives that project the November 2011 chart up to \$13.60, \$14.40 and \$15.20.

I will recommend a series of 10% sales if those price targets are hit. I will also watch for a sell signal to develop in the April through June time period, when I anticipate a potential high.

For both of the long-term corn and soybean charts, the time cycles I work with project a major change of trend (high or low) during these key weeks: March 25, May 27, June 30, and July 6.

Note that the weeks of June 30 to July 6



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have been the high (or the low) of the corn and soybean market the last three years.

Final Recommendations

Here are a few final recommendations.

- Many farmers delivered on new crop contracts that were \$1 below the market on corn and \$2 below the market on beans. These farmers are now reluctant to price ahead in 2011 because it did not work last year and the news is so bullish. You need to stay disciplined and make the new crop sales again this year. The new crop prices are a lot higher and the risks a lot greater.

- In 36 years of watching the markets,

I have watched three major rallies in the commodity markets followed by a collapse. Look at the history over the last 30 years. The peak in the grain markets in June 2008 was followed by a collapse, as the commodity prices fell lower following the panic in the financial markets.

In 1988 grain prices got high enough to reduce demand, and prices collapsed lower. It took 12 years to come back.

In 1980 it was the hard money policies put in place

by the new administration and the Federal Reserve Board that dramatically slowed inflation and slammed the commodity markets and land market lower.

I do not want to be an alarmist. However, I am concerned that so much of the financial news is focusing on the bullish situation in the commodity markets and not taking a historic look at the risks you are facing.

To learn more about how to fine-tune your 2011 plan, I invite you to participate in my free webinar on Tuesday, March 8, 2011, at 8:00 p.m. To register, go to www.alkluis.com. □

Al Kluis

Al Kluis has been a commodity trader and adviser since 1974. Join his free webinar on Tuesday, March 8, at 8:00 p.m. CDT for updated strategy and merchandising recommendations.

To register, go to www.alkluis.com.

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