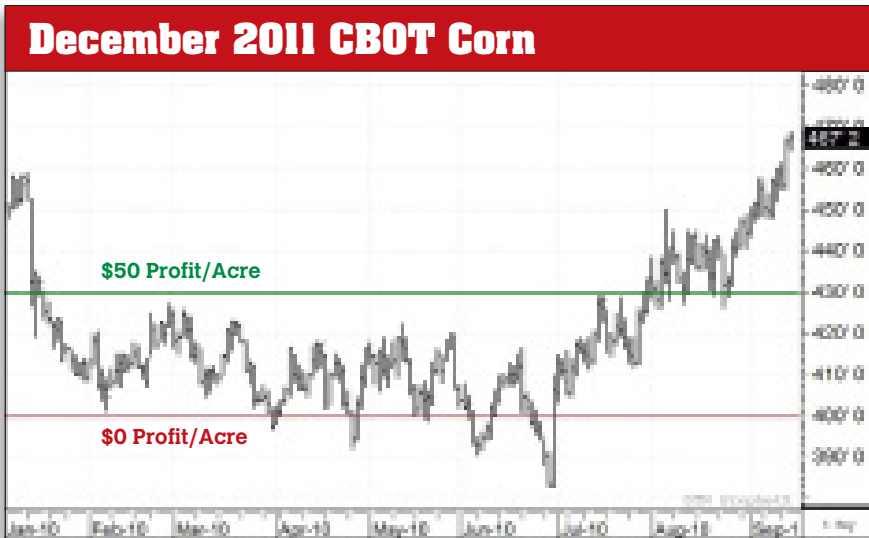


Three Possible Price Scenarios

Here's how to best position your farm in uncertain times.



Preliminary projections for the 2011 Corn Kluis Profit Index show that it will take \$4.00 corn futures to break even and \$4.30 to make \$50-per-acre profit.

This question was asked by a farmer at a grower meeting in Quincy, Illinois: Can the grain markets keep moving higher right into harvest, when the rest of the U.S. economy is moving lower?

Here was my short answer: The U.S. grain markets respond more to international grain fundamentals than ever before. And as long as China keeps buying, odds are good grain prices will stay strong. (My complete answer is toward the end of this column.)

I explained that the rally right into harvest was unusual and that this had been an unusual year in the grain markets. The January high was followed by a late-June low and now a rally was right into the middle of the corn and soybean harvest.

For me, this is the third time in 36 years I am delivering on some corn and soybean hedges that are below the market. I had a really good crop this year and got about 50% of my 2010 crop sold ahead.

Forward-pricing works about 90% of the time. But this was one of the years where waiting until harvest to get hedges on was the right move. That does not mean I will change my plans for next year. I have locked in good profits on the first 50% of my 2010 crop. And now I will focus on locking in better profits on the last 50% of my 2010 crop.

So how do you position your farm in these uncertain times?

Here are three possible price scenarios going forward. And on the next page, you'll find strategies on how to position yourself to maximize your gains no matter which scenario unfolds.

Bear: In the bearish grain and commodity market scenario, grain and equity prices put in a major high in the fourth quarter of 2010. And as the global recession gets worse, demand slows and 2010 prices and profits drop lower. This is not likely, but it's not impossible.

The current global economic risk is one of the reasons we are 50% sold on the 2010 crops and will get more sold by early 2011.

2 Bull: In the bullish grain and commodity market scenario, gold and crude oil lead all commodities higher. The U.S. and global economies would start to inflate and investors would buy commodity and commodity-related exchange traded funds (ETFs), taking all commodity prices sharply higher. This scenario is not likely, as the most recent economic data still show a greater chance of a slow economic recovery in most of the Western economies.

3 Both: The short-term bearish grain market scenario unfolds with prices dropping back into February-March of 2011. The bulls then take over as the

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Can the grain markets keep moving higher right into harvest, when the rest of the U.S. economy is moving lower? ”

– Illinois farmer

2011 acreage battle and weather scares rally prices higher into April-August of 2011.

But before I can make marketing strategy recommendations for any operation, I need to ask four key questions.

1. What is your storage position? If you have your crop all in commercial storage, then any strategy that involves ➤

November 2011 CBOT Soybeans



Preliminary projections for the 2011 Soybean Kluis Profit Index show that it will take \$9.70 soybean futures to break even and \$10.74 to make a \$50-per-acre profit.

holding cash corn and soybeans is not your best alternative. If you have storage (especially for corn), it is likely to pay an excellent return to use that storage until March-July of 2011.

2. What level of basis are you working with? Depending on how fast you get the corn and soybean crop put away and how large the crop is in your area, there may have been all kinds of different basis levels to work with. For most Corn Belt farmers, holding off on locking in basis until at least late November to early December is usually the best decision.

3. Is the marketing paying you to hold (carry) the corn and soybeans you have just harvested? And if so, for how long? At this time it looks like carrying corn is the right merchandising decision, while carrying soybeans does not pay.

4. Are you willing to use futures and options to manage risk on your farm? If you are willing to use this risk-management tool, it greatly increases your chance of making the right financial decisions. If you only are willing to make cash sales, your alternatives are very limited.

Corn Strategies

For the 2010 crop that you have to sell, about 50% of that crop is currently being held.

My first choice is to hold the cash corn into the April-August 2011 time period. I would not be surprised to see a sell-off after the first of the year. But long term, futures are likely to rally, and you can see significant basis appreciation. You will need to have a disciplined scale-up plan to sell the last of your corn inventory.

If you need the cash out of the crop or if it is in commercial storage, then getting the crop sold and replacing with some calls is a distant second choice.

Hope and hold could work, but this has the most financial risk.

Soybean Strategies

For the 2010 crop, I have suggested having at least 60% sold. For the balance, my first choice is to sell the rest of the soybeans and replace with call options.

The market is not paying to hold (carry) soybeans, so get them sold and retain ownership with a known risk. This

is also a good strategy to use if you think the global economy is going to pull commodity prices lower in 2011.

Hold the soybeans and protect the downside risk with a put in case the bear scenario unfolds. Your basis might improve, but from cash flow and financial-management perspectives, this is a distant second choice.

Hold and hope are not good business, basis, or financial decisions.

For both corn and soybeans, my combination of strategies is designed to get the cash out of the crop, earn as much as you can on your storage, and protect your downside risk if the global economy tanks. I want to see at least 50% of the 2010 crops turned into cash by year-end.

Livestock Strategies

I am more concerned with the impact that the slowdown in the U.S. economy will have on livestock prices in the next six months than on the grain market.

I continue to suggest getting the majority of the livestock prices locked in. □

Al Kluis

Al Kluis has been a commodity trader and adviser since 1974.

Join his free webinar on Tuesday, November 9, at 8:00 p.m. CDT for updated strategy and merchandising recommendations.

To register, go to www.alkluis.com.

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