A Timely Matter

If you follow my column, you might realize that there is a method to my madness. Markets seem to react to daily sound bites of news, which makes putting the bigger picture into perspective more difficult. I find it beneficial to review old columns to validate their importance to the times. A lot has happened since the summer. Revisiting my columns might be helpful as we focus on 2012. To refresh your memory, visit *www.TopProducer-Online.com* or *www.gulkegroup.com* (click the tab "Read Monthly Articles").

Summer 2011: "Price Discovery Process." If pictures are worth 1,000 words, the monthly corn chart said it all. Price attacked the 2008 high but failed and turned lower, posting a monthly sell signal similar to 2008, which suggested price rationing of demand had already begun and multiyear highs were in the making.

September: "The 800-lb. Gorilla." The spotlight was on China and its ability to grow corn to satisfy internal needs while importing nearly 60% of all the exportable soybeans in the world. I questioned the validity of the market's expectations for corn imports, and, to date, China has imported a disappointing amount of U.S. corn because its crop set another record. The first year-over-year decline in soybean imports in five years validated the $3.50 collapse from the high posted on Sept. 1 to the December $12 low.

October: "The Value of the U.S. Dollar." The downtrend of the dollar had been successfully broken and technical price signals were flashing a buy. The U.S. economic situation might have looked bad, but other economies were looking worse. Soybeans are most sensitive to the relationship of the U.S. dollar and the Brazilian real. The four-month uptrend and the uncertainty of the European economy continues to loom as a nemesis to grain prices.

November: "Land—To Buy or Not?" While economists feel there isn't a land bubble in sight, I noted the divergence between commodities (CRB Cash Index), equities (NASDAQ) and housing (Toll Brothers stock). The relative difference was likely as wide as it was going to get. Commodity prices have since dropped as the world deleveraged to reduce risk while embracing the equity markets. Toll Brothers stock has since doubled in price. Selling what is high and buying what is low might be vogue in 2012.

December: "A Pause That Refreshes?" Was the drop in corn prices from September to December a pause that refreshed with a new uptrend? Or was the ensuing December rally thwarted by the January USDA limit down report, the pause before another leg down that puts $4 in front of the futures price? Price is a great fertilizer. Those with high land costs have to plant regardless of price, while those who have debt-free land will easily profit. Will the 10 million unplanted acres from 2011 get planted, and, if so, to what crop? Any further demand reduction suggests we might not need a trendline yield if we plant 94 to 95 million acres of corn.

January: "Soybeans Come Full Circle." Being plagued with nearly 10 million metric tons more global soybeans on Sept. 1 than a year earlier signaled that soybeans were overpriced relative to competition, and prices lost a full year's gain. The end of a bull market often leads to a 90% retracement of gains. Soybeans and wheat have done so; only corn has not yet. Rains might have come in time for soybeans in South America; however, production of corn and wheat in other countries threatens to offset losses in Argentina's corn crop.

Grain price action has been about as textbook during the past seven months as I have witnessed. The 2008 market was one of fear due to energy demand and use of food for fuel. The 2010 bull market was never all about demand; it began with production destruction in the Ukraine, then Canada and finally in the U.S. Demand proved to be price-sensitive, just as it should be. The future now depends on weather and economic stability or the lack thereof. We walk near a precipice where supply could exceed demand for longer than we expect. We might come full circle and see a two- to three-year demand-building phase similar to 2008 to 2010. ■

Jerry Gulke farms in Illinois and North Dakota and is president of Gulke Group Inc., a market advisory firm with offices at the Chicago Board of Trade. Gulke Group recently published *Technical Analysis: Fundamentally Easy.* For information, send an e-mail to *info@gulkegroup.com* or call (815) 520-4227.