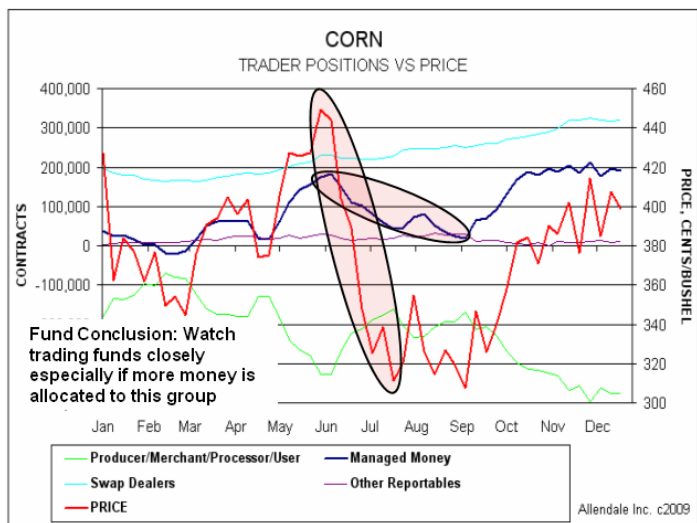


## Allendale Wrap-Up for Business Day 01/19/10

**Corn:** The market tried to rally last night and it looked like they wanted to rally on the close, but funds have turned seller today and this was overwhelming for the market. CFTC reported the managed funds area long 230k contracts awhile the index funds were long 352 for a very large and very vulnerable position in light of the very bearish fundamentals. This causes us to be very careful about turning bullish. Nothing wrong with taking a shot at buying an oversold market against support....but keep stops tight and keep them in so you get out if support fails. We got out of our long position with minimal damage. It

appears that if the market fails to hold critical support at 369, there could be significant managed fund liquidation. The last time this happened, the pendulum swung much further than most traders expected. We would think that the end users will be interested in buying futures from 350 on down to 300 as this will reflect cash prices not seen in a few years.



**Direction:** Re-establish short positions on a rally into the gap, or if support fails to hold...Bill Biedermann

### Trade Idea(s):

- (01/14) Bought Mar 382 1/4, objective filled 371 1/2 01/19 for -\$537.50.

- (01/19) Sell Mar 401 1/4 or 365 stop, risk 14 from entry, objective 25 from entry.

### Option Strategy(s):

- (01/14) Sold Mar 370 put 12, risk to 16, objective 0. Closed 13 1/2.
- (01/14) Buy 1 Dec 420 put and sell 1 Dec 520 call 27, risk to 32, objective 45.

**Final Note:** Our staff has worked hard this last year and has provided you THE closest estimates of USDA reports that the industry has seen all though-out the year. Please reward these hard working people by attending the Allendale conference this weekend.

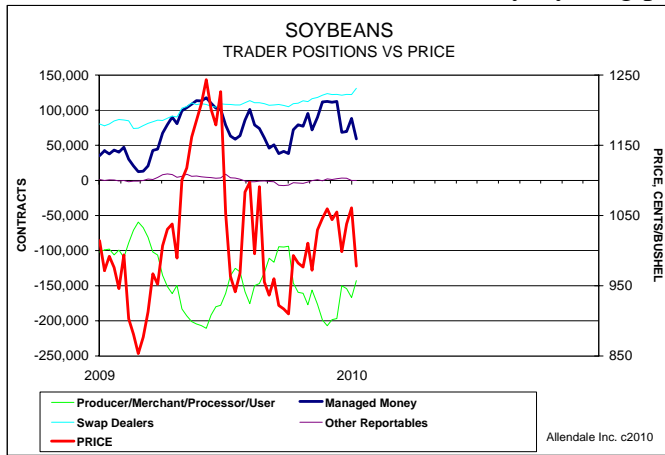
**\*\*\*Disclaimer\*\*\*** The commentary and trades below are derived from technical indicators provided in our Allendale Advanced Charts pages and may not correspond with the fundamental commentary above.

**Advanced Charts Direction:** Corn posted negative weekly close by settling on major support. The 3.68 to 3.70 level will more than likely be tested next week unless support comes from outside markets. Due to well establish range we are suggesting buying the May 400/450 call spread...Paul Georgy

**Vital Technical Indicator:** the next projected major turn day is February 1.

**Soybeans:** Funds were sellers today and this capped three attempts to rally today. It even appeared that the locals tried to buy the market going into the close expecting a rally, but when fund selling rather than buying showed up, the market hit the skids into the close. Technically, this was another signal to add to short positions. South American estimates continue to grow now as even the most skeptical analysts are raising their numbers. The strength in the dollar is perfect timing for China to consider switching purchases from the US to South America. However, they bought two cargoes today and we would not be surprised if more has been done. There is still not a clear enough discount in Brazilian pricing to encourage them to switch. But we believe that for every cargo they are now buying in the US they are buying a 10 from South America. Economic realization that the long term bearish prospects are now "in

play” could cause a swift exit of long positions by funds. Until futures reach economic values, we will remain a seller most of the time and only try long positions when futures are oversold and against support.



**Direction:** We took profit on a short position against support. Today’s close is bearish and suggests a move to 908. There is however major support at 955 and a bounce is likely. If you do not have options on, call us and we will help you get a box into position...Bill Biedermann

**Trade Idea(s):**

- (01/19) Sell March 985, risk 1002, objective 955.

**Option Strategy(s):**

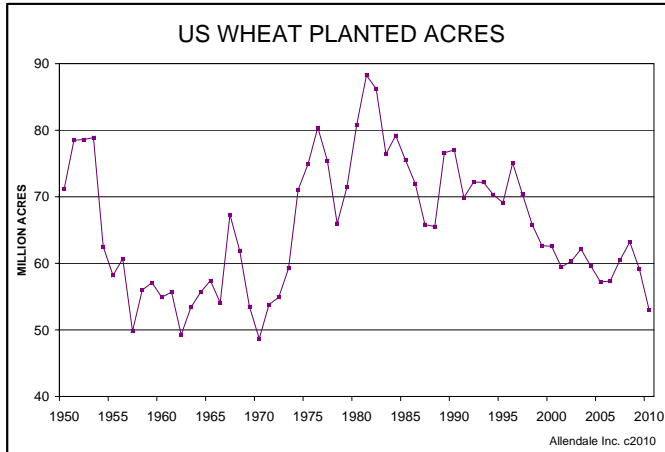
- (10/08) Bought Mar 920 put, sold 1020 call, sold 800 put for 10...for producers.

- (01/19) Buy May 940 put/sell May 1060 call 5 cents, risk to -12, objective 32.

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**Advanced Charts Direction:** Beans confirmed a double top with Tuesday’s close and Wednesday’s retracement. A quick rally back and close above 9.92 is needed to negate the downside objective to 8.90. We suggest selling rallies in futures or selling call options. Call for your personal strategy...Paul Georgy

**Vital Technical Indicator:** The next projected major turn day for soybeans is February 3, soybean meal is February 5, and soybean oil is January 29.



**Wheat:** We have become accustomed to the idea that funds will only buy futures. But managed funds (not index) will trade either side of the market. This group flipped from a long to a short last week. They have more to sell. Futures are still overvalued relative to cash. Some argue the reduced acreage is bullish. Not so when you consider a complete loss of production on 6 million acres would only reduce your end stocks to 700 million bushels. That is still a plentiful supply and with world stocks at a massive 195 mmt. There is simply no economic reason for an end user to chase a rally. That leaves the speculative buying as the only real reason for

the market to move higher. Since the charts have turned bearish, the speculative sector is headed out the door...not in.

**Direction:** Charts look bearish and project to new lows. Fundamentals are in alignment with this assessment. Do not trade the long side. If you missed getting it sold, try to sell in the 510 area...Bill Biedermann

**Trade Idea(s):**

- Chicago Wheat: (01/15) Sold March 514, risk 529, objective 484. Closed 500 1/2.
- KCBT Wheat: (01/19) Stand aside.
- MN Wheat: (01/19) Stand aside.

**Option Strategy(s):**

- (12/10) Sold Mar KW 580 call 16 1/8, risk to 18, objective 0. Closed 2 7/8.

- (01/14) Sold May CHI 500 put 22 1/8, risk to 29 1/2, objective 0. Closed 29 1/8.

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**Advanced Charts Direction:** Long term support was broken when 5.14 was broken today. This is the lowest close since early October. A quick rally is needed to change a potential downside target of 4.60...Paul Georgy

**Vital Technical Indicator:** the next schedule projected major turn day in store for wheat is January 28.

**Softs: Sugar:** Sugar had a very strong day even with a rally in the dollar. Fund buying continued to push this market into new highs with a 133 point gain. Today's move was more technical as we continued to see fund buying as resistance levels were broke. Mexico released sugar harvest estimates and projected an increase of 1.3% from last months totals. We are now short sugar and look for profit taking in the next few days. We are keeping a tight stop just incase we see the funds continue to push this market.

**Cotton:** Cotton had a wild ride today starting higher and finishing lower on the session. The March cotton closed 23 points lower and may continue its oversold conditions. We are still standing on the sidelines for now but may come in and try a buy if we can see further declines. Cotton broke mostly due to a strong dollar so keep that in mind throughout the week.



**Orange Juice:** Orange Juice found support at the 50 day moving average and jumped almost \$4.50 off the lows. With talk of damage from the cold weather OJ may continue to rally back to test the highs if the 50 day holds. We are trying to buy dips but just missed today's pullback. Keep an eye on the dollar and energies for early direction tomorrow...Steve Georgy

**Trade Recommendation(s):**

- Buy **March OJ** 127.20, Risk 121.00, Objective 151.00
- Buy **July Sugar** 25 cent calls / Sell **July Sugar** 32 cent calls at 100 points, Risk to 20 cents, Objective 620 points

**Working Trade(s):**

- (1/19) Sold **March Cocoa** 3430, Risk 3530, Objective 3250, Closed 3461
- (1/19) Sold **March Sugar** 28.90, Risk 29.60, Objective 27.00, Closed 29.98

**Energies:** Tomorrow is last trade day for February Crude Oil, so we will be watching March for the next month. March Crude settled \$1.02 higher on the session at \$79.02. Even though the U.S. Dollar traded sharply higher throughout the session, the trade was unwilling to sell energies with equity markets rallying. Since the currency markets made their moves early, the fact that the Euro futures tested and held major support at 1.4250 might have given investors reason to buy commodities. This is not a bad strategy since equities and commodities should rally with the Euro if it manages to hold 1.4250. If the Euro does manage to close below 1.4250, we could see further Euro weakness which should lead to Dollar strength which in turn should lead to commodity weakness...Brian J. Splitt

**Closed Trade(s):**

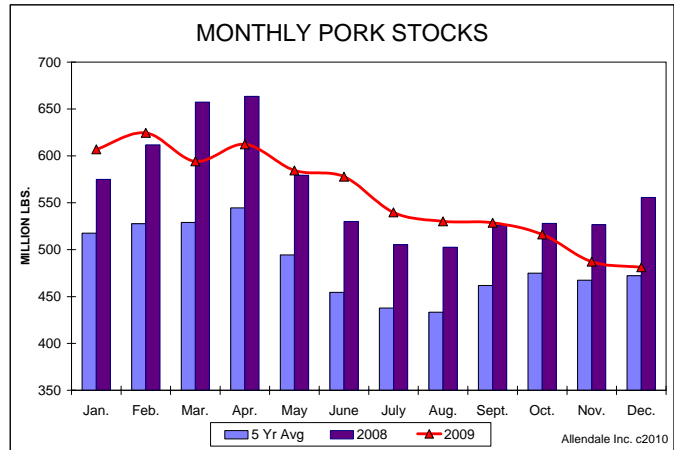
- (1/4) **Sold February Crude Oil** (1/6) @ **\$82.30**. Objective of **\$78.30** hit (1/15) for **+\$4,000**.

**Trade Recommendation(s):**

- (1/14) **Sell March Crude Oil @ \$81.30**. Risk to a close above **\$84.55** with an objective of **\$72.80**.

**Technical Commentary:** March Crude Oil is in a ten month up trend. Close-in support is Friday's low of \$78.09 with \$77, \$76 and \$74.55 providing further support. Close-in resistance is psychological resistance at \$80. \$81.50, \$82.80 and \$84 provide further resistance. The continuous chart will provide resistance at \$85.80-\$86.25. Stochastics are pointing down.

**Lean Hogs:** There is a good argument for suggesting this market has gone a little too far too fast. While futures did close higher today, they ended a bit off their highs. Also, these prices compared with last year levels are much better than anyone expected. However, at this time we cannot say a major top is near. Cash pork prices continue to rally. Friday's monthly Cold Storage report may indicate that for four months in a row now, instead of building pork stocks, as we normally do, we are drawing down supplies. Our estimates for this report, including both total pork and pork belly stock estimates, can be found on the Livestock Fundamentals page of this report. The key wildcard that everyone still assumes is that pork exports, in which November levels were great, are continuing...Rich Nelson



**Trade Idea(s):**

- (01/15) Stand aside.

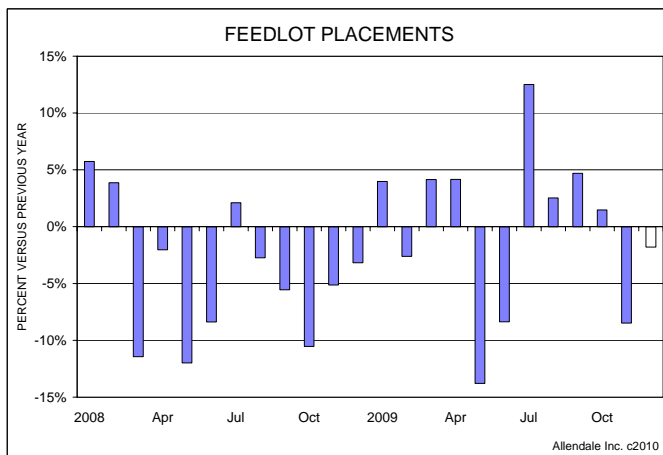
**Option Strategy(s):**

- (01/05) Sold Apr 64 put 1.40, risk to 1.70, objective 0. Closed .57.
- (01/14) Sold Apr 68 put 1.80, risk to 2.75, objective 0. Closed 1.15.

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**Advanced Charts Direction:** The bulls continue to take the hog market higher as they are now challenging the 2009 summer highs. We will place a buy order near support at 68.10 in case of a pullback. We do not want to buy strength because of extremely overbought condition...Paul Georgy

**Vital Technical Indicator:** Next projected major turn day for lean hogs is February 3.



**Live Cattle:** This afternoon we released our estimates for Friday's Cattle on Feed report. We look for placements during December to have been down 1.8% from last year in the same month. While July through October placements were higher than last year, the new trend, which is now developing should be lower. This would imply that marketings should remain above last year levels through March then fall in the summer (these are compared with last year). This is a key reason why June futures are now in the \$88 range. The 2009 contract expired at \$82.52. To be honest, most of the 2010 price premium is likely due to small supplies. Not much

of that premium is from any expected return of “beef demand”. In the short term there is a good argument for wondering if futures are now reaching the higher end of the expected trading range. While we can agree with that philosophy we must note that indicators which track “character of market” such as volume and open interest are still showing the bulls are clearly in control. We are joining in this bull parade for now...Rich Nelson

**Trade Ideas(s):**

- (01/19) Buy April 90.60, risk 89.40, objective 92.00.

**Option Strategy(s):**

- (11/25) Sold Feb 82 Put/sell Feb 88 call 1.82, risk to 1.70, objective 0. Closed 1.20.

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**Advanced Charts Direction:** Cattle gapped above major resistance today. Next resistance comes in at the October 23 high while support is now the 86.80 area. Aggressive traders could buy on a retest of support level...Paul Georgy

**Vital Technical Indicator:** Next projected major turn day for live cattle is January 28 and for feeders is January 25.

*For more technical information, including charts and trade recommendations, please visit the [Advance Charts section of the Allendale Research Center.](#)*

As always, if you have questions or comments, please call 800 551 4626 to discuss or send an e mail to [research@allendale-inc.com](mailto:research@allendale-inc.com)

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