

Allendale Wrap-Up for Business Day 02/01/10

Corn: Markets have been beat up for 3 weeks. Funds have liquidated over 100,000 contracts from the high. News that China would re-start their stockpiling policy was supportive. With the dollar -30 and the crude +194, and talk of new investment money coming into commodities at the first of the month were all good ingredients for a bounce. But we believe the bounce has limited potential. Funds are still long 40,000 contracts and there is no reason these funds cannot go short. Pipeline supplies are adequate and end users are scale down buyers but they are not ready to chase a rally yet. We think when futures are around 340, then end users will start to take a stand and if futures hit 330, then cash is so cheap the end user should be willing to chase a rally for fear they missed the bottom. Thus for now, we are waiting for that wash out low to switch from a long term economic bear to a neutral to bullish posture into the 2010 growing season. That means traders should still sell a bounce and producers should still get income locked in using an option play that allows you to be short only if the market is going down. If the market is going up, you have a "price box" in which you are not committed to a short. This allows your cash grain to gain in value. The best way for you to understand this is to call the office and hook your computer up to ours. We can then show you via the *Evaluator Programs* how different strategies will help you.

Direction: Resistance at 364 should be sold if you are not already short. We will remain a seller with a 340 objective. An alternative to being short futures is to use the options to box up a minimum and maximum short position. Call our office and we will show you how to do this.



I will be speaking tomorrow in Shenandoah IA. If you interested in visiting with me personally, I will be at the ELKS club all day. Call 712 246 2205 for directions. I will be happy to spend time with you before or after I speak...Bill Biedermann

Trade Recommendation(s):

- (01/25) Buy July 380 corn put/sell 420 corn call at 7 cents, risk to 15, objective 20.
- (01/27) Buy December 400 corn put, sell 450 corn call, sell 300 put 11, risk to 0, objective 41.

Working Trade(s):

- (01/20) Sold March corn 365, risk 372 1/4, objective 340. Closed 359.

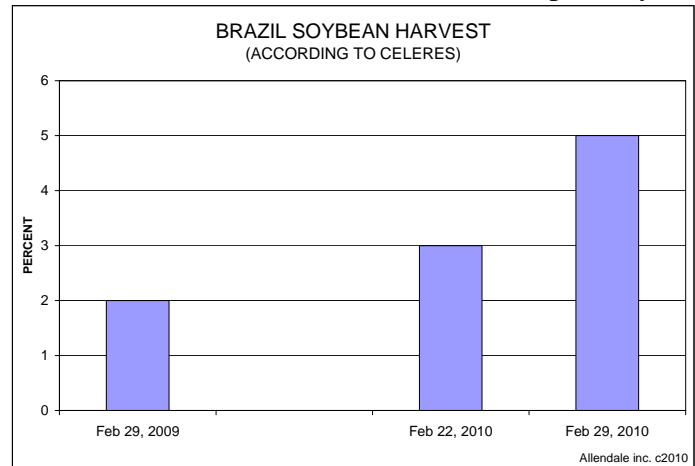
*****Disclaimer***** The commentary and trades below are derived from technical indicators provided in our Allendale Advanced Charts pages and may not correspond with the fundamental commentary above.

Advanced Charts Direction: Corn posted a small inside bar on the chart today as the market traded both sides of 62% at 357 3/4. A solid close below this level would be a sell signal and could open the door to the lows from last fall near 315...Monica Moehring

Vital Technical Indicator: the next projected major turn day is February 16.

Soybeans: If you were watching closely this morning the beans ran up to 924 3/4 on the March contract. There was a small correction followed by another push higher to 923 1/4. Those were two quick selling opportunities that were short lived. As we have mentioned in the before, the line of those willing to sell on a bounce is long. Just as expected a bounce this morning was quickly sold back. It was actually surprising to see a bounce at all today seeing as how the fundamentals were more bearish this morning than ever. Argentina and southern Brazil each received better than expected rains last weekend. To go

along with that, their forecast calls for better rains than earlier expected as well. After the recent dryness concerns, this rain will be very welcome in finishing off the crop. To go along with the better weather, it now looks that Brazilian beans have moved from a \$3 per metric tonne discount to US beans out to a \$12 discount. This is a discount needed for China to switch to Brazilian beans. We will need to keep our eyes on the export news even closer now to see if this switch occurs soon. All of this news continues to suggest that we sell bounces. Short term buying remains possible while the beans remain technically oversold. Those short bursts of buying will provide more fundamental traders with additional chances to sell. Looking farther down the road, a turnaround will gain the most traction if numbers from the Brazil harvest begin to come under the record that is expected. Until we see numbers like that we will continue to sell the fundamental bearish picture that we are given.



Direction: Support remains down at 890 for March beans. Today marks the 15th day beans were not able to trade higher than the previous days high. Should a bounce come into the market that brings beans close to the previous high, which will trigger us to take another shot at selling. The recipe remains the same: 1) sell on any bounce 2) repeat until it doesn't work anymore...Ryan Ettner

Trade Recommendation(s):

- (02/01) Sell May 1000 call 17 or better, risk to 29 3/4, objective 0.

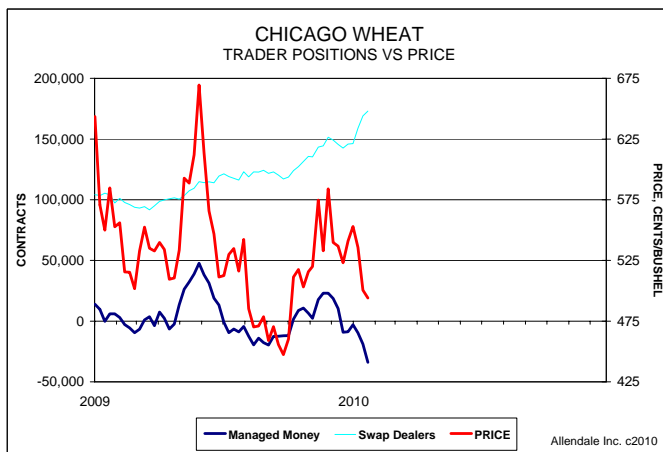
Working Trade(s):

- (01/26) Sold March 970 soybean call 12, risk to 19, objective 0. Closed 4 1/2.
- (01/28) Bought March soybean 926, risk 913 filled 02/01 for -\$650.

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Advanced Charts Direction: Beans continue to drift lower as the market struggles to find support. The lows from last fall near 890 are not so far away now and could get tested soon. Resistance sits up at 955 3/4 ...Monica Moehring

Vital Technical Indicator: The next projected major turn day for soybeans is February 3, soybean meal is February 5, and soybean oil is February 18.



Wheat: Index (long only) funds continue to add to longs, see Allendale Inc “special reports” commitment of traders. Within the same report you will view Managed Money at a 1/26/2010 level of -34,000 contracts vs +23,000 on 12/01/09 which has taken wheat futures lower. Yes old crop and even projected new crop US and world stocks are very large but as the crude oil goes so goes corn and wheat (starches) go. Allendale Inc suggest it is an end users market and feeding itself, hand to mouth as long as inter and intra spreads dictate. Any short covering rally is likely to be sold in old crop futures

whether CBOT, KCBT as well as MGEX. Key support in MGEX of 493 must hold but Allendale Inc does understand what ultimately may happen to triple bottoms.

Direction: A sideways to bearish stance on old crop CBOT, MGEX and KCBT continues to dominate futures....Joe Victor

Trade Recommendation(s):

- (01/28) Sell March MN wheat 514, risk 522, objective 498.

Working Trade(s):

- (12/10) Sold Mar KC wheat 580 call 16 1/8, risk to 18, objective 0. Closed 1/4.
- (01/29) Bought March Chicago wheat /sell March corn 120, risk to 109, objective 145. Closed 115.75.

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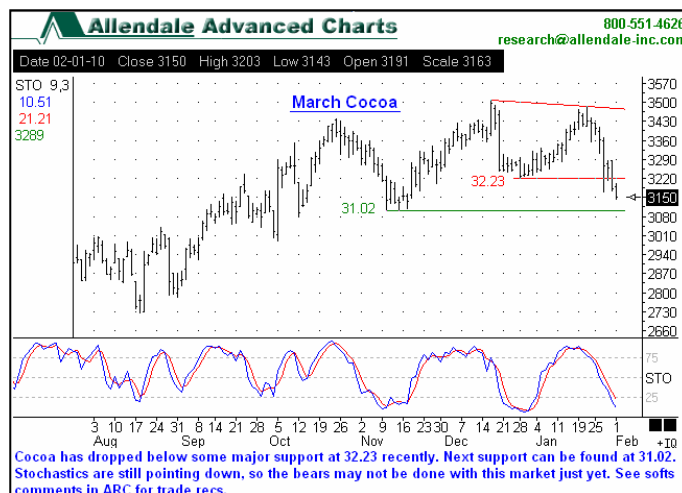
Advanced Charts Direction: KC wheat looks to be heading towards the October 2009 low at 4.75. The trend is clearly bearish here, but the market may be ripe for a corrective bounce given how much it has sold off recently... Monica Moehring

Vital Technical Indicator: the next schedule projected major turn day in store for wheat is February 16.

Softs: Sugar: Sugar closed 63 points lower today with speculators taking profits. The uptrend is still in place and we feel dips still need to be bought. We have seen huge volatility over the last few weeks and I believe this will only get crazier as we approach Brazil's harvest. I am looking at staying long sugar with options and I feel the market may give you an opportunity to get in again. Keep your eyes on the 20 day moving average; this may be good support for the next few days.

Cotton: Cotton broke hard again today. The March contract fell 81 points and closed below October's lows. This is a bearish chart pattern and the trend is certainly down right now. We were stopped out of our long position today. We tried to buy against support on oversold conditions but the charts remained bearish. We are going to stand aside right now and look for rallies as selling opportunities.

Orange Juice: Orange Juice found support today but closed below the 20 day moving average for the second session in a row. We are still looking for dips in this market as buying opportunities. OJ has held the uptrend and looks bullish in the near term. We are trying to get long with options but we need to see more declines before we are able to get filled. Watch for a close back above the 20 day moving average. This should bring more spec buying and make it's next move into new highs.....Steve Georgy



Trade Recommendation(s):

- (1/29) Buy **March cocoa** 3110, risk 3050, objective 3250
- (1/29) Buy **May OJ** 140 calls/sell **May OJ** 155 calls at 4.00

Working Trade(s):

- (02/01) Sold **March lumber** 257.00, risk 265.00, objective 239.00
- (01/28) Bought **March cotton** 68.90, risk 68.40, objective 70.40 filled 02/01 for a - \$250
- (01/27) Bought **May sugar** 30 cent calls/sold **May sugar** 34 cent calls at 86 points, risk to 0, objective 386 points. Closed 94 points

Energies: March Crude settled \$1.54 higher today at \$74.43. Stronger U.S. manufacturing data and an increase in consumer spending helped buyers remain active today as hopes for economic recovery are again resurfacing. The U.S. Dollar was also pressured today as President Obama expects the U.S. Budget Deficit to reach record levels in 2010; this pressure in the Dollar also helped support Crude. Many commodities are extremely oversold and sitting just above major support so this week could prove to be a pivotal week in the market. If we manage to hold support this week, we will need to start looking for retracement targets. If we are unable to hold support here, we feel another large scale liquidation event could follow, especially if it is accompanied by a Dow violation of 10,000...Brian J. Splitt

Trade Recommendation(s):

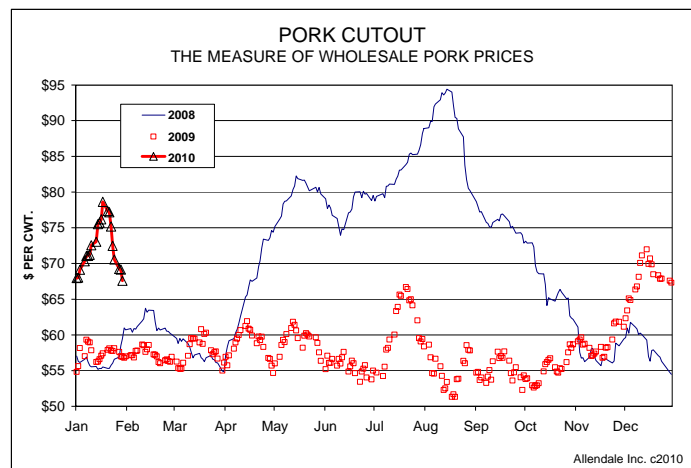
- (01/22) Sell **March crude oil** 79.75, risk 83.75 SCO (stop close only), objective 72.75.

Working Trade(s):

- (01/22) Bought **March crude oil** 74.75, risk 72.45 SCO (stop close only), objective 79.75. Closed 74.43.

Technical Commentary: March Crude Oil is still maintaining its up trend from the July lows which supported the market at last week's and today's low. The up trend from the July lows converges with the December low near \$72.50, so we feel that the \$72.50 area should provide major support for this contract. Close-in support is \$74 and \$73.52. Last week's low of \$72.43 will provide support above major psychological support at \$70. If this market manages to violate \$70 on a closing basis, we may be primed for the market to ratchet the trading range down to the \$65-\$75 range. Close-in resistance is \$75.10 with \$75.90, \$77.10, \$78.50 and psychological resistance at \$80 providing recovery targets if this market is going to get the bounce some traders are waiting for. Stochastics are pointing up and are oversold.

Lean Hogs: At this afternoon's weekly broker meeting we again, placed a chart of lower end chicken prices. In the US we treasure the white meat (chicken breast and wings) and try to export as much dark meat as possible (legs, thighs, and leg quarters). As a side note, you are correct in pointing out leg quarters are a composite piece made up of the leg, thigh, and portion of the back. Since our failed attempt to get Russia to start taking our chicken, leg prices are down 12%, thighs are down 3%, and leg quarters are down 3%. We see this afternoon's wholesale pork report has the pork cutout down \$1.57. For comparison, we compute the pork cutout as being down 10% since the failed poultry talks. Aside from chicken, part of pork's woes are tied to the idea clear skies this week will finally let packers stretch their legs and run a full kill week. A rebound in pork production at the same time as competition shows up at the meat counter is seen as bearish.



Direction: The bearish parade still has another block or so to go. We will keep our bearish hat on for the short term...Rich Nelson

Trade Recommendation(s):

- (02/01) Stand aside.

Working Trade(s):

- (01/05) Sold April 64 lean hog put 1.40, risk to 1.40 filled 02/01 for **no loss**.

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Advanced Charts Direction: Hogs disregarded the overhead gap today and headed south instead. This weakness broke the long-term uptrend and the 100 & 200 day moving averages. Support at 65.65 was touched, but may not hold through tomorrow...Monica Moehring

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



Live Cattle: April futures closed at their lowest level in a month. Though everyone heard of those later sales in Texas at \$86, the trade knows there were a few extra head carried over into this week. That will push market ready numbers in the south enough to offset the smaller Kansas and Nebraska numbers. Also, Friday's Cattle report showed a few extra numbers in the bi-annual herd count that the trade was not expecting.

Dairy Answer: On Friday we reported some interest with USDA's dairy numbers on the Cattle report. Though everyone got the dairy cow numbers correct, -2.0% vs. the -2.2% average guess, we got

the heifer numbers wrong. Literally, everyone who made a guess on this report got it wrong. Instead of dairy heifer numbers, for dairy cow replacement, falling 2.5% like the average guess suggested, USDA counted 2.5% more heifers. It is a little harder guessing heifer numbers than cow numbers due to accurate cow slaughter information. In a conversation with one dairyman out of Wisconsin today, he did indicate hearing talk of growing dairy heifer numbers. Apparently producers moved all the old cows but saved up a ton of young heifers "...for when the market rebounds." If you look at the premium that milk futures had built into the back months, you can see why they did this.

Direction: It is easy to get bearish here. Futures have broke hard in the past two weeks as trade psychology has turned 180 degrees. While we are bearish on pork in the short term it is hard to get bearish cattle. We are playing it safe for trading and simply suggesting prices will be kept in a wide range in the coming weeks. That sideways mentality is shown on our price projection charts which are available on the website...Rich Nelson

Working Trade(s):

- (11/25) Sold February 82 live cattle Put/sell February 88 live cattle call 1.82, **move risk to 1.00**, objective 0. Closed .15.
- (01/29) Sold April 86 put/sell April 92 call 2.30, risk to 3.90, objective 0. Closed 2.15.

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Advanced Charts Direction: Cattle fell along with the other livestock markets today and closed near key support at 88.65. The 40 & 50 day moving averages are also in this area. We got long at 89.00 on this weakness. A close below it would be a sell signal...Monica Moehring

Vital Technical Indicator: Next projected major turn day for live cattle is February 19 and for feeders is February 12.

[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

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