

Allendale Wrap-Up for Business Day 02/17/09



Corn: Traders are focused on Argentina weather. This is improving later this week and Brazil's crop is actually improving. The market is also in tune with the economy. I can only say that the economy is still struggling and that there is another wave of banking issues followed by a wave of transitions that we expect to see in the Ag sector (related to the fertilizer price decline). So the market is bearish. The lower it goes the better a chance we will have this summer of a rally. But right now, we are clearly bearish. In the coming weeks the trade will turn its attention towards acreage. Allendale's annual Acreage Survey, starting on the 23rd and lasting for two weeks, will be key for helping the trade make some decisions. There are 5.5 million acres (4 from wheat, .5 from CRP, .5 from small grains, and .5 from cotton) which will be divided among corn and soybeans.

Direction: We have sold futures, we have recommended farmers sell 100% of old crop. We also recommended farmers put on 3 way put protection...Bill Biedermann

Trade Idea(s):

- (01/28) Sold 1 3850, risk 3956, obj 3450. Closed 349 1/4.

Option Strategy(s):

- (01/23) Bought 1 Dec09 410 put @ 51 to lock in a floor. This as a starting point for a position to be built as the market moves.
- (01/13) Bought Jly 390 put/sold Jly 460 call at 12, risk at 8, obi 50. Closed 37 1/8.

Corn Technical Commentary:

Corn closed below the early Feb low today, but now the market is very oversold. Tomorrow's trade could be critical in determining whether or not this market heads lower.

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

Vital Technical Indicator: the next projected major turn day is forecast February 23.

Soybeans: Last Monday's high was 1060. Today's low is 899. That is \$1.61 in 6 trading days. That is insane. We have been writing about how the acreage situation has changed and is now very bearish. Rich mentioned the 5.5 million acre that will be allocated to corn and beans. Last week he said "Whether they only get 2 to 3 million extra acres, which will be the low end, or as much as 5 to 6 million acres, it is still bearish. Our downside objective, which is likely too conservative, is for November beans to hit 755 by harvest. If we get that, 5 to 6 million extra acres then \$6 to \$6.50 is a target." I cannot emphasize how good of a trade selling beans is. Obviously there is movement and there could be a rally back towards 920-950. That would be a selling opportunity.

Direction: We believe the market is headed lower. The animal numbers have been hurt and in some cases, financing will not happen and the comeback of those lots will be slow. Acreage is increasing every day. With the declining market, odds will favor even more acres of beans. Selling beans – even at breakeven or a small loss is better than doing nothing and selling at a huge loss. Our objective was hit today and we took profit on shorts. We will resell any bounce and will continue to remain short via options...Bill Biedermann

Trade Idea(s):

- (01/27) Sold 1 Mar 986, obj 920 filled 02/17 +\$3,300.
- (02/17) Sell 1 Mar 927, risk 9473/4. Obj 870.

Option Strategy(s):

- (01/28) Bought 1 Nov 840 put, sell 1 Nov 720 put at 43, risk 20, obj 70. Closed 52 3/4.
- (02/11) Sold 1 900 May put/sold 1 1140 May call 53, risk 30 from entry, obj 0. Closed 58 3/8.

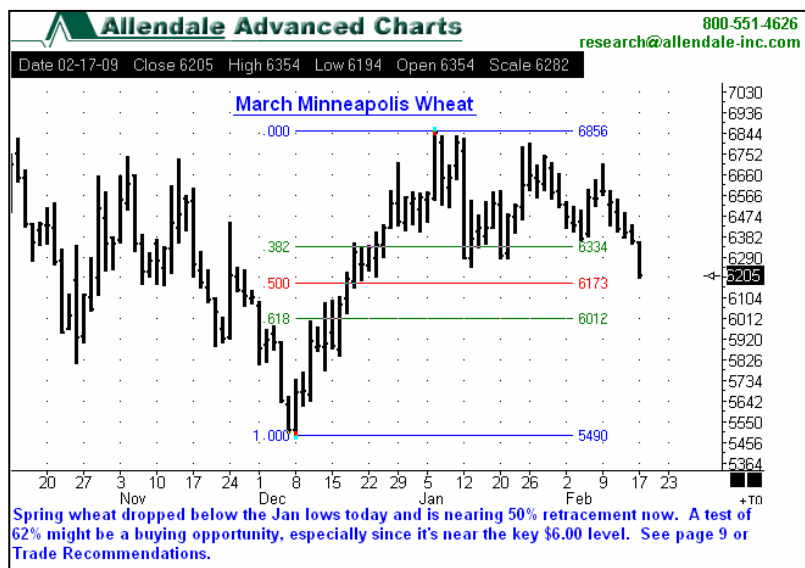
Soybean Technical Commentary:

Beans sold off sharply today and settled below 50% retracement. Further weakness could be seen again tomorrow. We will place a buy stop above 50% in case the market rebounds.

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Vital Technical Indicator: the next projected major turn day for soybeans are February 26, soybean meal February 23, and soybean oil is tomorrow.

Wheat: After trying to hold near unchanged last night, wheat gave way to the selling pressure in all other grains and outside markets. From the crude to the Dow, everything pressured the market. Futures fell to support at 515. This is key. If it holds, then the market would have symmetry and could be a head and shoulder bottom. You can argue fundamentals on both sides as crop losses in have been reported in some countries, acreage losses in other countries. The reality however, is that the stocks of wheat are still large and are growing to 150 mmt due to large carry-in meeting demand destruction. We have been playing the short side but we were willing to buy against this support. We just are not willing to risk much.



Direction: Be willing to try the long side, don't risk much. This is a bear market but is very oversold.

Trade Idea(s):

- Mar CBOT Wheat:(02/12) Sell 1 558, risk 572 or buy 515, risk 506.
- Mar KCBT Wheat: (02/09) Sell 1 Mar 609, risk 620, obj 578.
- Mar Minn Wheat: (02/10) Sell 1 Mar 667, risk 678 1/2, obj 640.

Option Strategy(s):

- (02/04) Sold 1 May KC 500 put/sold 1 May KC 640 call 37, risk to 50, obj 0. Closed 26 1/2.

Wheat Technical Commentary:

Spring wheat dropped below the Jan lows today and is nearing 50% retracement now. A test of 62% might be a buying opportunity, especially since it's near the key 600 level.

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

Softs: Soft markets today were under pressure again due to equities. The attitude of the market was very negative from the start this morning. The stock market was down, energies were down, and with the dollar higher gave the bears an edge. To sum up what is really going on in most of these markets is not due to fundamental reasons but it is speculative money running because they are scared to be long anything right now. There was little news out here today but in the coffee the International Coffee Organization released figures that showed supplies falling and demand is rising. This is usually a bullish scenario but with specs scared right now we may not see this effect anything until we can find good support. We feel we can see support tomorrow and hopefully see some follow through into next week. Steve Georgy

Trade Recommendation(s):

- Buy 1 May Cocoa at 2585, Risk 2470 stop, Objective 2895
- (Cotton) Buy Dec Cotton / Sell May Cotton at 4.80 cents , Risk 4.30, Objective 6.60

Working Trade(s):

- Bought 1 May Coffee at 114.00, Risk 112.00 stop, Objective 121.00

Technical Commentary: Coffee is much oversold right now but is being influenced by outside markets. Technically we broke through good trend line support today and need to see a rebound in order to give the bulls hope. Allendale is long this market right now but keep in mind a few lower closes will change this trend. Support at 111.60 and 108.35 with resistance at 115.90 and 116.15.

Energies: March Crude Oil settled \$2.58 lower today at \$34.93 after just about all markets traded materially lower from equity market pressures. Equities have been used as a gauge for demand in many commodity markets; when you have the major indices revisiting their November lows, it paints a bleak picture for demand. Fears that the European economy will drag our economy down further are keeping the extended outlook heavy...Brian J. Splitt

Farm Hedge Recommendation(s):

- Buy April Mini Natural Gas (per 800-825 acres of corn production) @ current levels. Lift hedges as you commit to purchasing cash NH3.
- Buy April Heating Oil (per 42,000 gallons of diesel fuel use) @ current levels. Lift hedges as you commit to purchasing cash fuel.

Working Trade(s):

- Bought 1 March Crude and Sold 1 June Crude (2/13) at \$11.75 premium June on a stop. Risk to *\$8.75* premium June with an objective of \$5.75 premium June. The spread settled at \$7.95

premium June. ***Upon entry, know that you need to be out of this trade by the close on Friday the 20th.***

Closed Trade:

- **Bought 1 March RBOB and Sold 1 April RBOB (2/3) at 10.35 cents premium April. Risk to *9.35* cents premium April hit (2/13) for +\$420.**

Technical Commentary: The trend is down and rallies are to be sold. April Crude closed into new contract lows today. The continuous chart will provide support at \$38, \$35.55, \$33.55, and \$32.48. Close-in resistance is the previous contract low of \$39.82 with \$41.35, \$43.75, \$45.35, \$47.98, and \$49.15 as the resistance levels all the way to \$50. Just by reading this you should get the gist that it's easier to find resistance than it is to find support.



Hogs: You can make an argument for cattle futures to break hard on the stock market decline today but should hogs have touched limit down? A bearish economy does hurt pork demand but nowhere near as much as beef. We did have an inkling that this market was getting overvalued. In the past two commentaries we noted that volume had fallen on as prices were rallying. That is a bearish factor. Additionally, April typically falls a little when it becomes the front month after February expires. Perhaps the charts give us a better reason for the decline right now. Many hog contracts had left big gaps on the way up last week. Today, many of them

took big bites out of those gaps. The April only has five more cents to go. For tomorrow, it is easy to say a lower open should be due. In the short term we still say this market has sloppy action in front of it through May. That includes false rallies and false breaks. This still does not impact, in any way, our bullish target for the summer contracts and our \$84 target for June futures...Rich Nelson

Trade Idea(s):

- (02/17) Bought 1 May 74.50, risk 73.00 filled 02/17 for -\$600.
- (01/28) Bought Jun/sell Apr at 12.25, risking 1.50 from entry, obj 15.00. Closed 13.50.

Option Strategy(s):

- (02/04) Bought 1 Jun 78.00 call/sold 1 May 68.00 put .30, risk to -1.20, obj 5.50. Closed .60.

Lean Hog Technical Commentary:

Hogs also gapped lower today, but weren't quite able to fill a gap that goes down to 60.70. There are many gaps on this chart now, but we'll place a buy stop above today's high in case the market is able to rebound.

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Vital Technical Indicator: Next projected major turn day for lean hogs is February 24.

Cattle: A catchphrase of the Bill Clinton's 1992 campaign to unseat Bush I from the Oval Office was, "It's the economy stupid." Whatever you think of Bill Clinton, that phrase certainly applies to today's cattle market. The lowest on the Dow Jones stock index during this downturn was the November 20 figure at 7552.29. Today's 297 point decline put it right at 7552.60. In other words the stock market is staring at a new low close for this downtrend soon. This brings back fears of further deterioration in beef demand. Cash cattle averaged \$83 last week. We would gather steady or maybe even \$1 lower may be seen this week. We will still hold from panicking here until the \$83.60 low on the April is taken out. Instead, we rather suggest this market is ripe for sideways action in the near term. It is interesting that with all the bearish demand talk today's boxed beef was not down \$3, \$2, or even \$1. Choice closed up 23 cents while select was down 4 cents...Rich Nelson

Trade Idea(s):

- (02/13) Stand aside.

Option Strategy(s):

- (12/16) Sold 1 Apr 84.00 put @ 2.45, move risk to 3.60, obj 0. Closed 2.45.

Cattle Technical Commentary:

Cattle gapped lower today and closed near the lows of the session. This suggests we may see the Jan low at 83.60 tested as soon as tomorrow. Beyond that, the Dec low sits down at 82.45 as further support.

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Vital Technical Indicator: Next projected major turn day for live cattle is February 20 and for feeders is March 2.



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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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