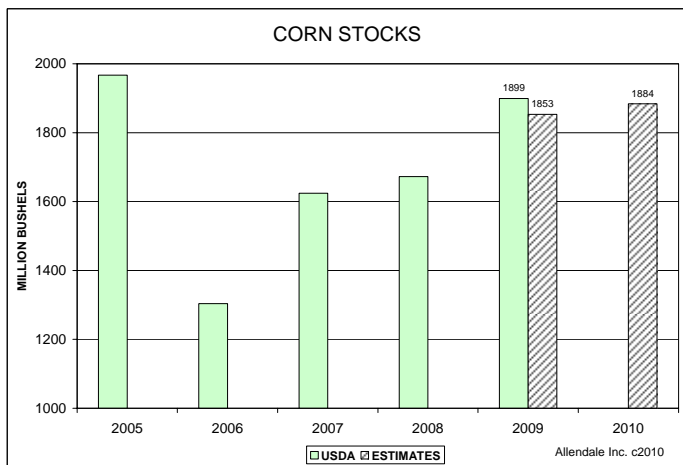


## Allendale Wrap-Up for Business Day 05/10/10



**Corn:** What we saw today was a very typical trade before a USDA report. After a good start, following a higher overnight market, corn started to set back in reaction to a calming of outside markets and speculators getting flat ahead of tomorrow. There have been many producers that spoke with us and we are not hearing any that thought this frost would result in permanent damage to the corn. Even speculators in Chicago who would want to buy this market on a frost scare can't do it in fear of a bearish report tomorrow. Any buyers who want to be frost buyers will have to wait until tomorrow while

keeping fingers crossed for at least a neutral report. While we expect this report to be neutral to slightly bullish, there does hold at least the chance for a bullish enough new crop number to break the 400 level. Estimates for the new crop carryout are wide, anywhere from 1.500 to 2.400 billion bushels (with our estimate being 1.725). Most analysts feel the recent higher demand will lead to a draw in old crop with an average guess of 1.853 vs the April estimate of 1.899. Our estimate on old crop once again is 1.783. There is no doubt that corn has trended sideways since January and if this new crop report does come in near the average guess, more sideways action can be expected. What this would allow us to do is trade futures rather than trading options. Another approach may be to sell options on bounces as the lower volatility also means less chance of sold options to finish in the money. There is still an inflated risk premium in options even though recent trading has been much calmer than recent years. A USDA report holds the opportunity to break outside of the recent range but at the moment estimates do not call for it. Even if the sideways range continues, hedgers need to sell bounces to be protected from the potential downside moves this market can find.

**Direction:** Resistance came in once again in the low 390's with stronger resistance expected at 395 for December. Support comes in at 380 with stronger support at 375. Tomorrow's report holds the potential for volatility but most are calling for a neutral report making the overall market action sideways...Ryan Ettner

### **Working Trades:**

- (03/24) Bought July 380 call/sell July 440 call/sell July 340 put 4 1/2, risk to -4, objective 19. Closed 5 1/4.
- (05/04) Bought July 365, risk 358, objective 382. Closed 370 1/4.

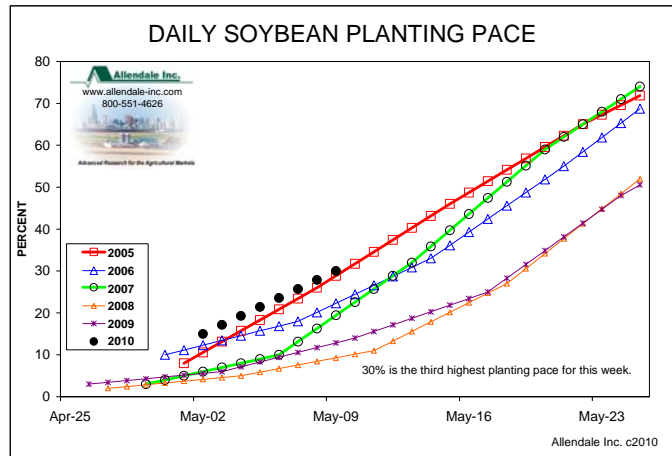
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**Advanced Charts Direction:** Sideways to slightly higher is still the trend in corn. Before we can say this is a clear bull market, there is clear resistance to get through. In this case that mark is last week's 380 high. We are short at 375...Rich Nelson

**Soybeans:** There was strong buying early in the session in response to the Euro's \$1 trillion credit package which sought to stabilize fears of a contagion stemming from Greece economic woes. This buying lasted until about 10 am when traders started to buy back the lower dollar. As the dollar rallied, all commodities started to back away from strength and caution became the clear direction as any contagion would result in de-leveraging...a risk that would be significant for over-inflated commodity futures. Deliveries today were heavy at 421 contracts which suggest there is no shortage of US supplies. USDA

will release the first estimate of 2010 supply-demand at 730 am. Our table is on “Grains Fundamental I” page in the Advisory section of our web site. Expect old crop stocks to drop from 190 to about 180 and new crop stocks to exceed 300 million bushels. This increase in stocks has potentially very bearish long term consequences unless something changes dramatically.

Argentina Ag ministry estimated harvest at 77% and yields suggest a crop of 54 million tonnes vs. 52.5 previously estimated. Rumors of China buying US bean oil and beans continue to circulate. Gulf prices were +2-4 cents today but we were not sure if that was reflecting the strong barge market (factoring in oil slick EPA risk) or because of export demand. Today’s export inspections were only 5.3 mil bu versus 8-12 expected.



**If you did not listen to this week’s research meeting – go to our home page for a link...it is worth it.**

**Direction:** USDA report and latest Euro news will provide direction. Call our office or check our web site after the report for latest information. For our traders, we are looking to re-sell on this bounce or on chart failure. Produces should be 100% sold on old crop and 75-100% sold on new crop. If you are not, call us and will be happy to help you get on a box or 3-way option position now...Bill Biedermann

**Trading Recommendations:**

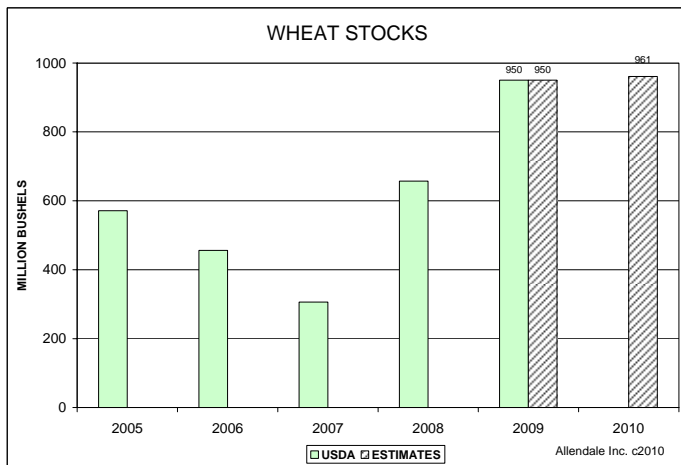
- (05/07) Sell July 974 OCO 945 stop, risk 15 from entry, objective 930.

**Working Trades:**

- (04/15) Bought Nov 940 put, sold 1040 call, sold 800 put 18, risk to -25, objective 100. Closed 22 5/8.

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**Advanced Charts Direction:** Last week’s sharp price decline has brought this market close to support at 943. On the same token you are not looking at much reason to start buying aggressively yet. Resistance, as shown by the red line, is up at 983 3/4...Rich Nelson



**Wheat:** Tuesday morning at 730 am central time, USDA is scheduled to release its first 2010/2011 domestic and global supply and demand estimates. In a nut shell, we have likely experienced the heaviest world stocks of wheat at 195.82 million metric tonnes by using Allendale estimates of 191.5 mmt, down 2.2%. However we do anticipate US stocks of wheat to be 954 million bushels for 2010-11 vs USDA’s estimate of 950 million for 2009-10. Even with supply limited acreage down 9% year on year, stocks are expected to rise within the US and is fundamentally bearish to price. Presently, USDA is using 490 per bushel for 2010-2011 vs an old crop season average farm price of 490, no change year on year. It is estimated funds were sellers of 6,000 contracts of wheat today on the lack of any frost/freeze damage even though weekly

inspections were more than 5 million bushels above the high end range of pre estimates of 15 million. Last Monday, USDA reported the wheat 19% greater than the five year ave in the good to excellent area. This afternoon USDA's NASS reported the good to excellent conditions of 66%. That is a decline of 2% which has been fundamentally expected as per our weekly condition reports.

**Direction:** We are neutral to futures with a nearby range of 473 to 515 vs the July CBOT contract...Joe Victor

### Working Trades:

- (04/12) Sold July Chicago 440 put/sold 520 call for 24, risk to 37, objective 0. Closed 19 3/8.
- (05/10) Sold 509, risk 520, objective 489. Closed 508.

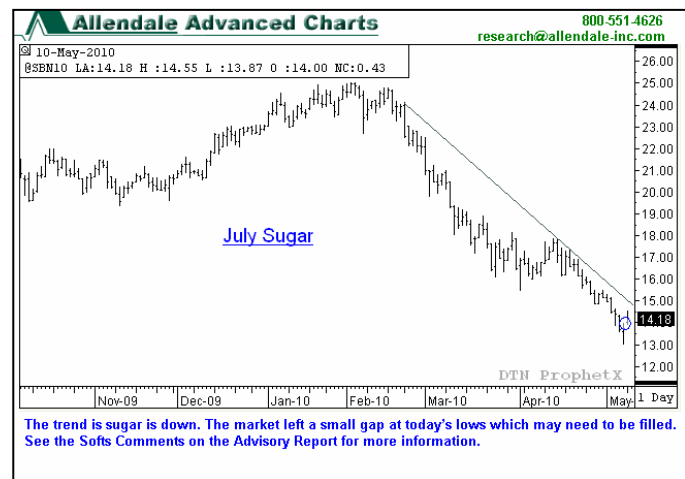
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**Advanced Charts Direction:** Friday's failure to hold above that 525 1/2 level on the July Kansas City contract clarifies that price as THE place to break in order to restart a bull run. Today's lows act as support...Rich Nelson

**Softs:** With a big recovery in the stock market today the softs decided to follow along. The strength in most of the outside markets was also due to a weaker dollar. We feel more strength might be a good selling opportunity and this rally might be short lived.

**Lumber:** Lumber rallied early today as the stock market closed stronger. We talked on Friday about a push to the 288.00 area in July and we have seen that today. The gap that was made last week was filled but sold off from those levels. At one point, lumber was up limit and closed almost \$7 off those highs. We are still going to look at selling strength over the next few sessions.

**Sugar:** Sugar rallied today as the dollar slipped back. We are going to keep our order to sell strength for the next few sessions. The charts had shown a gap that we filled on Friday that goes back to March of 2009. It seems there is one more target near the 11.50 area that still needs to be filled. We are going with the trend and looking at selling a rally back at the trend line. That also is near the 20 day moving average...Steve Georgy



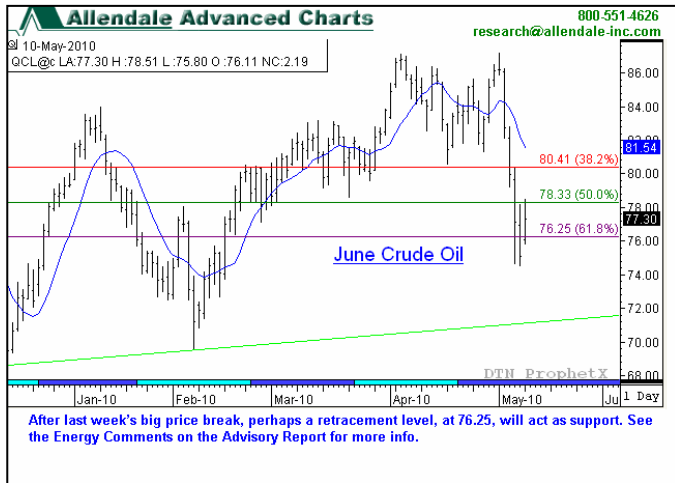
### Working Trade(s):

- (5/5) **Stand Aside**

### Trade Recommendation(s):

- (4/21) Sell **July OJ** 142.00, risk 144.00, objective 131.00.
- (5/3) Sell **July Sugar** 16.20, risk 17.30, objective 14.50.
- (5/10) Sell **July Lumber** 285.00, risk 293.00, objective 272.00

**Energies:** June Crude Oil finally corrected its oversold condition and rallied today. The market finished the day at \$76.80, which was \$1.69 higher for the day. The commodity bulls came out buying today as the stock market surged on the EU's bailout plan. The rescue plan gave the market hope that the Greece's sovereign debt problem will be contained. The bailout package also allowed the Euro currency to rally and thus put pressure on the US dollar. This gave the energy market some outside support. Long term, we feel that Crude Oil will consistently be a market that wants to trend higher. It's hard not to keep some premium in prices for a product that has a large percentage of its production coming from one of the most historically unstable regions on the planet. We will continue to stand aside from the energy markets until we get a better handle on how the equity markets will respond to the European bailout package. We are



interested to see if today's move higher was just a correction bounce from the near term liquidation mode we have been in lately or if we have reached an area of economic value that should hold be bought...Jim McCormick

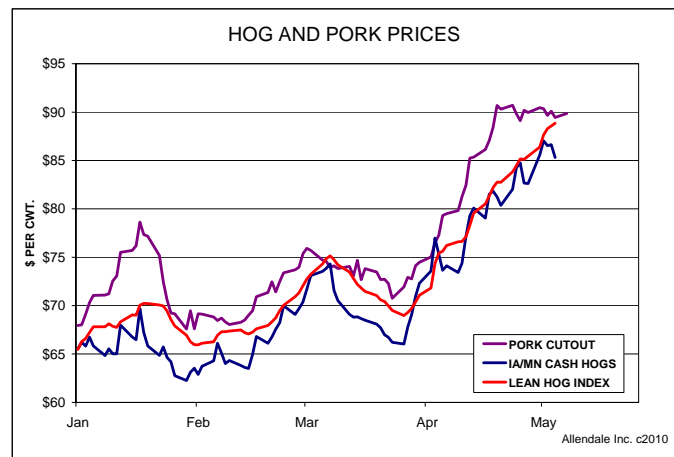
**Trade Recommendation(s):**

- (5/5) **Stand Aside**

**Technical Commentary:** Crude Oil is a market that is trending higher. Close in support for June Crude Oil is 74.50, 73.95, 72.50, and 70.75 provide further targets for bears above key 70.00 support. Close-in resistance is 76.00 with 77.85, 78.84,

80.00, 81.30, 82.05, 83.80, 84.85, 85.95, 86.20 and 87.15 all providing resistance on the way to the contract high of 87.59. Stochastics are pointing down.

**Lean Hogs:** To add some more confusion to this market, cash pork ended the day 40 cents higher. Wholesale pork is only 83 cents off its April 22 high. In essence, it is in no hurry to go anywhere. Packer efforts to lower the kill, helped out by on plant's planned shutdown for the day, are breaking cash hogs a little. Cash hog values, like wholesale pork, are not falling out of bed. Part of that reason is because there are just not that many hogs around right now. While this market has turned negative in the short term the large drop in supply into summer keeps us longer term supportive...Rich Nelson

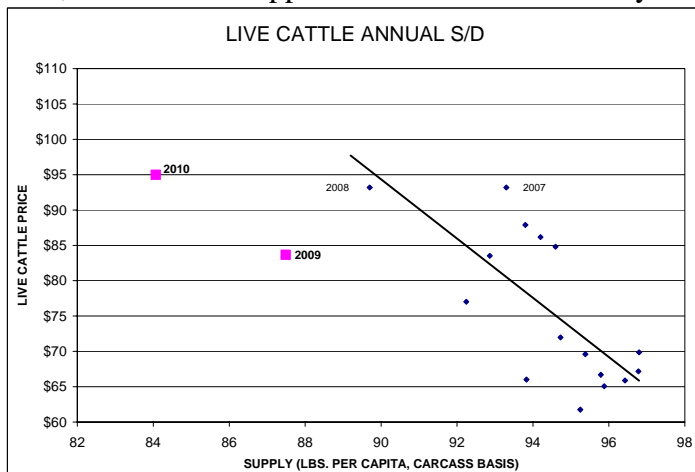


**Working Trades:**

- (04/06) Sold June 80 put 1.30, risk 1.60, objective 0. Closed .62.

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**Advanced Charts Direction:** We have drawn a channel on this chart. Last week's action tested, and failed, tests of both support and resistance. Sideways to lower is the current trend...Rich Nelson



**Big Picture for Cattle:** We wrapped up Friday's comments with exciting statement. Beef supplies in the US, after imports and exports, will be the smallest since 1997. The next step on the beef balance sheet is to divide that amount among the population. Since the US population rises by a stable 0.9% each year, that means beef per capita numbers are actually tighter than 1997. In fact, once you add in that last step, they are actually the lowest since modern agriculture's start in 1970. In essence, they are the tightest in modern history. Now,

before you go from bullish to outrageously bullish, keep in mind beef has been in a long term sharp decline in demand from the 70's into early 2000's. Additionally, it is just coming off double digit declines in beef demand in both 2008 and 2009. If we didn't have those holes to climb out of cash cattle would average \$119 in 2010! Instead, we are suggesting an average of \$96 will be seen this year. That means \$102-\$104 on the high end and \$90 to \$92 on the low end in summer. For the short term, bids of \$100 today were countered by \$101-\$102 asking prices. Based on beef prices we would point to \$102 as the value cash cattle should find this week...Rich Nelson

### **Working Trades:**

- (05/05) Sold June 98 call 1.25, risk 2.20, objective 0. Closed 1.00.

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**Advanced Charts Direction:** A steady to higher trade is currently dominating the feeders. Some light selling could be seen tomorrow as today's action would be characterized as a 'doji'. This would be seen as a failure up near resistance in the 97.00 area...Rich Nelson

[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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