

## Allendale Wrap-Up for Business Day 05/18/09

**Corn:** So we have a forecast which is conducive to planting, and prices rallied? That's the question many are asking today. The key issue is the market wants to see planting active rather than jumping on a forecast. Keep in mind many Eastern Corn Belt farmers will not be in the field until Wednesday. During last year's delayed planting time December corn made a temporary peak on May 9. That coincided with the week where we planted a big 24% of the crop. In other words, this market is watching planting, but it wants to see it get done before believing it.

**Corn Planting:** USDA found 62% of the corn was in the ground as of Sunday night. That fit into the floor talk of 60%-65% complete. We are still behind the five year average pace of 85%. However, as we all know, this week's forecast should let Eastern Corn Belt farmers get back to work. The two key states right now are Illinois and Indiana which are 20% and 24% complete respectively.

**Outside Money:** Funds, both the Trading Funds and Index Funds, have been buying corn for at least two months. Last week, through Tuesday, the Trading Funds bought a large 55,794 contracts while Index Funds sold a small 2,135 contracts. The net effect here is bullish for corn.

**Energy Markets:** Also, we have to point out crude oil posted its highest close of this uptrend. It did not make new highs but did post the highest close.

**Direction:** Until this market gets information it needs, planting almost complete, we would rather trade this market from the long side. Traders have concerns about lower new crop ending stocks, potentially lower yields from late plantings, and better than expected old crop demand. At this point many will be asking if this market can ever go down. The answer there is yes it can. If corn can confirm the spring high is in we have a 334 projected low for December corn before harvest. Yes prices can fall, and usually do fall, going into harvest in declining stock years. The bullish issue will really come in play after harvest. If we have tighter stocks and higher energy prices in 2010 then you can argue for a strong old crop based rally. For producers, we have 35% locked in with a floor at 420. This market can rally all the way up to 540 before producers do not gain any more. (The value of your cash crop in the fields will rally while the short calls will not be "turned on" until 540...Rich Nelson

### **Trade Idea(s):**

- (05/13) Bought Jul 422, risk 410 1/2 filled 05/18 for -\$575.

### **Option Strategy(s):**

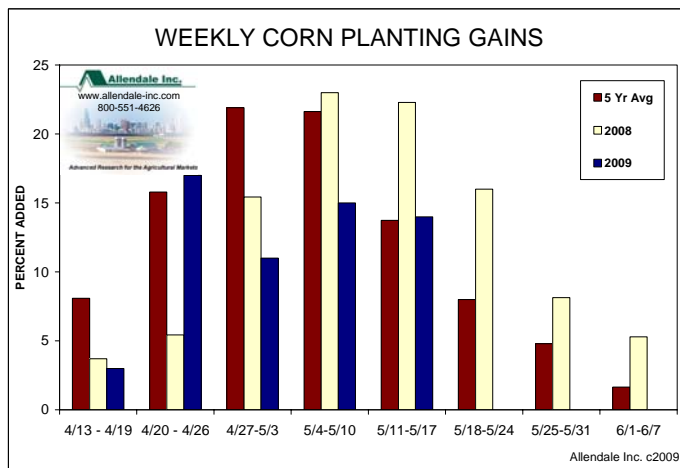
- (01/23) Bought 1 Dec09 410 put @ 51. This as a starting point for a position to be built as the market moves. Closed 34 5/8.
- (04/21) Sold Jul 350 put/sold Jul 430 call for 27 1/2, risk at 36, objective 0. Closed 20 1/2.

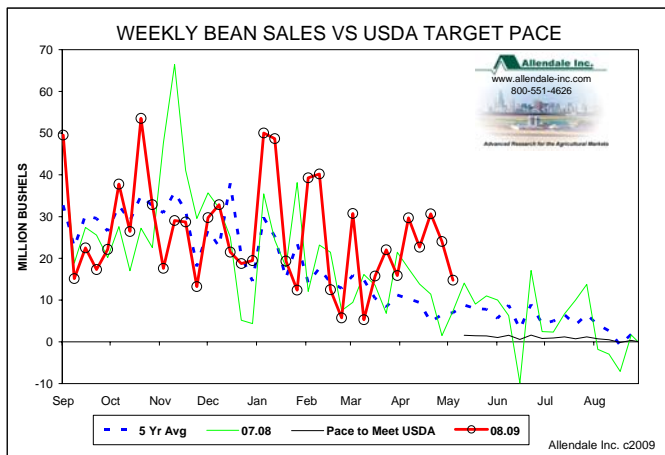
### **Corn Technical Commentary:**

Corn dipped down overnight to the 20 day MA then rebounded during the day to close above support at 417 1/2. This close was also back above the 10 day MA. This rebound may keep the upward momentum going for now.

**Vital Technical Indicator:** the next projected major turn day is May 26.

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





**Soybeans:** The demand story is still alive and therefore prices are still doing fine. That's the attitude we must keep in mind for short term trading. Today, Egypt purchased 120,000 tonnes of old crop soybeans while China picked up 116,000 tonnes of new crop soybeans. We have noted in previous commentaries that old crop stock numbers will likely be tightened a little more even next month. The other bullish thing sticking in trader's minds are USDA's expectations for NEW crop exports. USDA has looked at the recent trend from China where they are buying new crop beans actively and suggested it will 1) continue and will

2) likely rival this past 08/09 year. Keeping in mind we will have a much bigger crop in the US the idea we will have bigger exports sounds good. However, we should keep in mind our tremendous 08/09 sales have been made on Argentina production falling a huge 26%! How will our exports react when you plug in a more normal scenario for them next year?

**New Crop Bookings:** With China focused on new crop bookings we got to work and found total new crop bookings are now up to 106 million bushels. That is the largest since the 2003/04 crop year when we had 122 million locked in at this time of year. That sounds great. Does it mean prices go up forever? At some point this market will realize we have 1) the crop in the ground and 2) there will be more acres than USDA is thinking. When that happens, like seen on the November 2004 contract, prices will post a solid peak.

**Soybean Planting:** USDA found 25% of the crop was planted as of Sunday night. That was right on the average guesses the floor was noted around lunch today. Though we are still behind the five year average pace of 47% complete, there are no concerns that we "will just not get planted". It will get planted. We feel USDA was too low in its acreage guess on March 30 and it could get corrected on the upcoming June 30 report. For weeks and months people have been trying to pick a top on the idea, "...China demand has to end." For weeks and months when we go back and check the weekly export sales reports, guess who continues to buy? Essentially for soybeans, we feel this market has to see it to believe it.

**Outside Money:** Trading Funds and Index Funds have been clear buyers in the past two months for soybeans too. Last week Trading Funds added 6,476 contracts to their net long position while Index Funds curtailed their longs by 3,299 contracts. The net effect though is buying from Outside Money which is still supportive to soybeans.

**Direction:** The short term factors of old crop demand and other factors noted above are still supportive right now. For trading, we have kept things simple and stay with the uptrend until the market is ready to turn its attention elsewhere. For producers, we have a 3 way option position on for 30% of expected new crop. The remaining 70% is un-priced. Today's November close was 975 3/4. The option position we have on puts a floor in here at 940 and allows for a producer to fully gains on a rally up to 1100. This position is a good way, and a smart way, to start. Once we get halfway into soybean planting the trade may begin to turn its focus to new crop. Talk to your broker about it. 800-262-7538...Rich Nelson

### Trade Idea(s):

- (05/15) Buy Jul 1102, risk and reverse 1080, objective 1165.

### Option Strategy(s):

- (05/14) Sold Jul 1040 put 16 3/4, risk to 28, objective 0. Closed 17 1/4.

### Soybean Technical Commentary:

Beans were able to post another close above the top of the flag formation at 1131 today. This should keep the bullish momentum going here as well. We would still like to sell a July 1000 put for 12 cents as a way to be long.

**Vital Technical Indicator:** the next projected major turn day for soybeans is June 2, soybean meal is May 21, and soybean oil is May 20.

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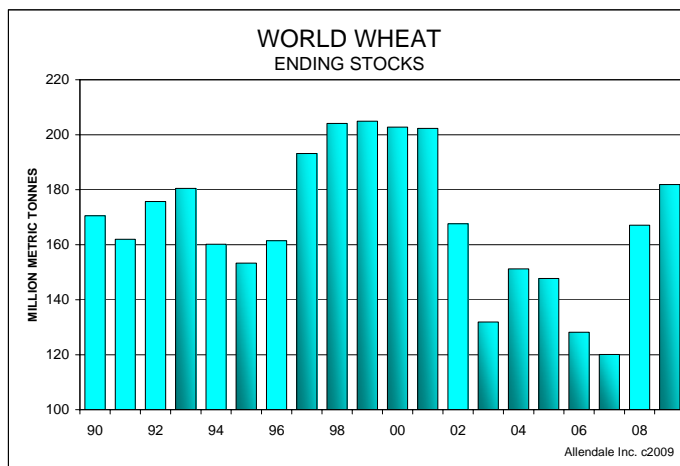
**Wheat:** It was impressive to see wheat do a great job today and come back from early morning lows. We have some bearish news in the form of India and Pakistan beginning to allow exports that are being overshadowed by “potential” damage to the US crop from frost/freeze. Based on strict supply/demand fundamentals this market has no business being at current levels.

**Spring Wheat Planting:** What do you say about a crop that is only 50% planted when the five year average is 90% complete? At this point producers will be leaving that ground unplanted or may begin moving to soybeans if things eventually dry out.

**Winter Wheat Ratings:** The crop continues to improve. Good to excellent ratings for winter wheat increased by 2% to 48% last week. That number is now clearly above the five year average of 46%. In other words, even with drought and freezes, this crop “looks” better than it normally does at this time. With wheat we have not found a good enough correlation between wheat ratings and actual yields to make a comment on potential yields. We have great models on corn and soybeans but with wheat you do not know what you have until you get into the field.

**Outside Money:** In the past few weeks Trading Funds have been buying. In the past four weeks their net short position has been curtailed by 24,950 contracts. Index Funds are a little different though. In the past two weeks they have been doing some light selling. While the net effect is still positive, as Trading Fund buying outshines the light Index Fund sales, it is not as clear as in the corn and soybeans.

**Direction:** Wheat prices are doing better than they should be and we must respect it for now. For trading we were stopped out of our short position and will stand aside for now. The better bet right now still appears to be playing the bullish Minneapolis card...Rich Nelson



#### Trade Idea(s):

- **Chicago Wheat:** (05/15) Sold July 579, risk 595 hit 05/18 for -\$800.
- **KCBT Wheat:** (05/15) Stand aside.
- **Minn Wheat:** (05/01) Bought July MN/Sell July CHI 118 1/2, move risk to 109, objective 145. Closed 128 1/2.

#### Option Strategy(s):

- (05/15) Stand aside.

#### Wheat Technical Commentary:

Wheat posted a large bar on the chart today, but finished strong. This might give the bulls another shot at taking out the key 600 area, but can they take it further this time? We will place a sell order at 595.

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

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**Softs:** Sugar, cotton and coffee found strength today due to the outside markets. Stock Market rallied 235 points today and the crude oil market closed near \$60 a barrel. This was bullish commodities and the soft markets went for a ride. Sugar gained 66 points in the July contract and looks like it wants to retest

the contract highs at 16.03. Allendale's price target for sugar was hit on Friday but did not trade through. We have a policy that the trade remains on until the target is taken out. With this said, July sugar is giving another selling opportunity near the contract highs. Cotton found strength today and continues its uptrend. We are long cotton and it looks like we are going to retest the highs made last week. Cocoa is following the downtrend started back in early April. Look for the July contract to take out 2262 before the end of the week. The bears have control of this market and looks like they want to test the contract lows of 2175...Steve Georgy

**Trade Recommendation(s):**

- Buy July Coffee 122.40, Risk 118.95, Objective 1127.00
- Sell July Cocoa 2430 , Risk 2520, Objective 2300

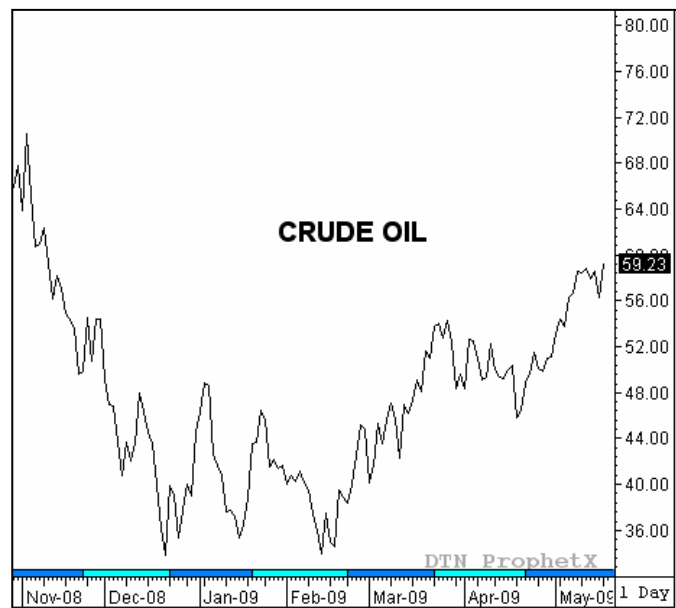
**Working Trade(s):**

- Buy July Cotton 56.50, Risk 55.50, Objective 60.50
- Sold July Sugar 15.85, Risk 16.10, Objective 14.90

(July sugar hit 14.90 but was not able to go through our profit price. In order for us to take profits sugar must trade through 14.90 to be filled.)

**Technical Commentary:** Sugar found strength today and looks like it is going to retest good resistance at the contract highs. We are looking at these levels as a good selling opportunity but keep a stop just above the highs. Resistance on the July contract is 15.76 and 16.03 with support at 15.06 and 14.90.

**Energies:** June Crude Oil closed \$2.69 higher on the day at \$59.03 which is the highest close for the move. June futures expire tomorrow so we will start to look at the July contract's technical picture. There really wasn't any reason not to buy today due to the combination of bullish news and bullish outside market activity. Aside from equity strength and Dollar weakness (which continues to provide support to the energy market), we had news of two other bullish events: a blast at a Sunoco plant in Pennsylvania and militant action in Nigeria. The fire at the Sunoco plant seems to have been contained and shouldn't add much more to the bull argument, but continued attacks on pipelines in the Niger Delta could add geopolitical support. Militants are also threatening to block key waterways in an effort to prevent exports from the region. Keep in mind that these militants always seem to be threatening some sort of attack, but current activity is elevated. On top of these stories, the trade is expecting a second consecutive week of draws in Crude Oil inventories since most of the refineries that have been running at reduced capacity due to seasonal maintenance are back to full capacity...Brian J. Splitt



**Trade Recommendation(s):**

- (Conservative Recommendation) Buy 1 July Crude at \$52.55. Risk to \$48.95 with an objective of \$59.45.
- (Aggressive Recommendation) Buy 1 July Crude at \$55.55. Risk to \$51.45 with an objective of \$63.95.
- Buy 1 July Natural Gas at 4.100. Risk to 3.700 with an objective of 4.950.

**Technical Commentary:** The short term trend in July Crude is up while the long term trend (since November) is sideways. Today's close fell just short of being the highest close for the move. We appear to be primed for another test of the recent highs. A second failure at these levels should bring a round of profit taking that could lead to a test of our major moving averages below the market. If we manage to close above the recent highs, we should be poised for a run toward \$65. Close-in support in July crude is \$57.50 with today's and last Friday's lows providing more support at \$56.75, \$55.20, \$53.13, \$52.55 and \$50.80 provide support above psychological \$50 support. Trend line support comes in just above \$52. Close-in resistance is \$59.85 while last week's high which is also the high for the move at \$60.86 will provide further resistance. Resistance above \$61 is interesting since we are now trading in the area where we were in freefall mode last year. We would think that a move above the recent highs should bring in another round of buying that will most likely lead to a test of \$65. The recent range of consolidation since November suggests that we could see a push as high as \$79.25 if we see this market begin to accelerate higher. Stochastics are overbought.

Natural gas posted its third consecutive lower high and lower low with today's bar on the chart. Support is just below today's low at 3.958. We will place a sell stop order below support.

**Hogs:** We have said the key to this market right now is not domestic demand but exports. Right now we are on a lower export pace from 1) Mexico 2) Russia and mainland China and 3) the no-name others. US pork companies suggest it is not as bad as two weeks ago but we are not near where we should be. Futures posted a good comeback today on rumors that Russia purchased some US pork. We do not have confirmation that they did actually buy any pork. Perhaps the important thing to note is the afternoon pork cutout, a measure of wholesale pork prices, fell 77 cents. Even if Russia bought US pork in a special deal of some sort, this would suggest the only way they bought it was by discounting prices sharply. That is not a bullish situation. We do expect futures to pick up a little in the coming weeks but for now...we cannot confirm exports are improving. Additionally, we do not like playing the 'rumors' game right now. The trading position's stop was hit on today's lows and we will stand aside. For now, the market is telling us our ideas of this market being underpriced are wrong. It has more money than us and we will have to listen.

**Outside Money:** Funds are still selling in the hogs. Trading Funds have been selling lightly for seven straight weeks now. Index Funds have sold in the past two weeks. Both of these groups selling is bearish for hogs...Rich Nelson

**Trade Idea(s):**

- (05/14) Bought Jun 67.50, risk 65.80 filled 05/18 for -\$680.

**Option Strategy(s):**

- (05/14) Sold Jun 66 put 1.50, risk to 2.00, objective 0. Closed 1.37.

**Lean Hog Technical Commentary:**

Although hogs rebounded off their lows today, they are struggling to work their way higher. The 20 day MA is providing overhead resistance and the lower gap might be acting as a magnet. We will stand aside still on the futures.

**Vital Technical Indicator:** Next projected major turn day for lean hogs is May 20.

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

**Cattle:** On the positive side traders are feeling better about the economy and beef demand. The stock market did well today. On the bearish end, we have rising supplies and are now over with Memorial Day needs. Seasonal demand will be a notch lower once we get into June. Today's boxed beef report showed mixed numbers instead of straight up. We are still neutral to bearish this market...Rich Nelson

**Outside Money:** We would call the Outside Money influence to be neutral in cattle. Trading Funds have been lightly buying while Index Funds have been lightly selling.

**Trade Idea(s):**

- (05/15) Sell Aug 82.00 stop, risk 83.45, objective 79.80.

**Option Strategy(s):**

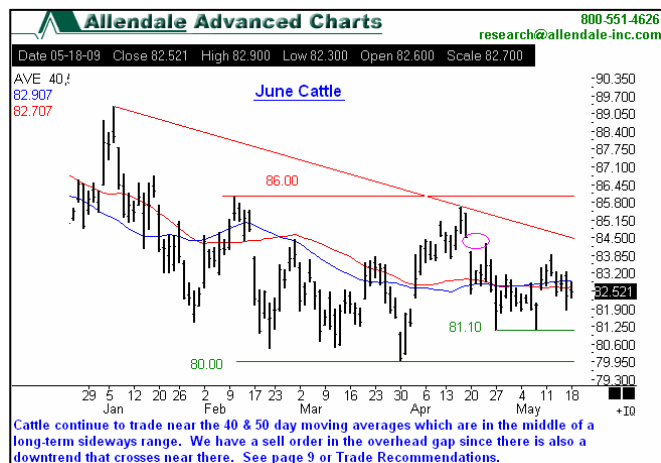
- (05/13) Stand aside.

**Cattle Technical Commentary:**

Cattle continue to trade near the 40 & 50 day moving averages which are in the middle of a long-term sideways range. We have a sell order in the overhead gap since there is also a downtrend that crosses near there.

**Vital Technical Indicator:** Next projected major turn day for live cattle is May 27 and for feeders is tomorrow.

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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](mailto:research@allendale-inc.com)

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