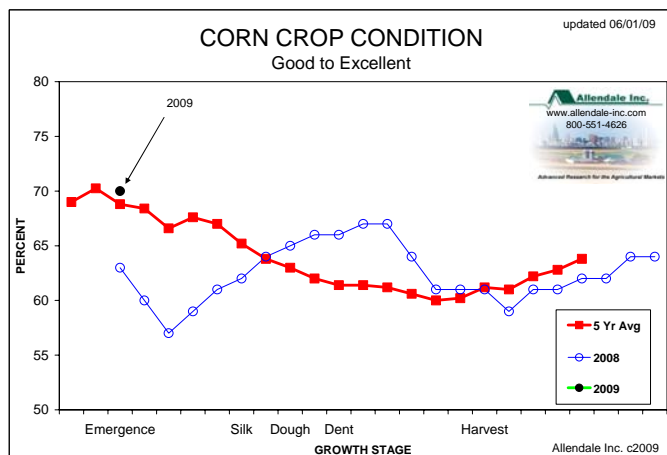


## Allendale Wrap-Up for Business Day 06/01/09



**Corn:** Last year, from the end of May up until the June 27 peak in December corn, a 172 3/4 cent rally was seen. That last push up was made on flooding. This morning we noted some clients had that magic 799 1/4 price in their head for December corn and were interested in debating the possibility of that move this year. Let's keep in mind last year on the May supply/demand report USDA started out the year at 763 million bushel new crop ending stock. On the June report that was dropped down to an extremely short 673 million bushels. On the June 30 planting report they somehow found 1.3 million more corn acres (in the face of tremendous

flooding concerns). USDA later took those acres back out. This year in May we started out at 1.145 billion bushels in new crop ending stocks. We may see an acreage change or a yield change and drop that to 1.0 to 1.1 billion on June 12. So #1...we have more stocks. Additionally, crude oil at the start of June in 2008 was 127.76 and it peaked at 147.27. Right now we are looking at around 68.00. So #2...we have a sharply lower crude price.

**Corn Progress:** 93% of corn is planted compared with the five year average 97%. That makes it seem as though we are just fine in planting. However, there are 5.949 million acres that are not planted as of Sunday night. Illinois is responsible for 2.2 million of those while Indiana is down by 1.3 million. Last week at this time we noted most Illinois/Indiana farmers still felt they would try to get corn in. Today that talk has changed. For the first time there is talk of a switching to soybeans on a few remaining corn-intended fields. Today was perhaps more important due to the ratings portion of the report. Typically when you have around 75% emergence USDA starts with weekly ratings program. They estimated the first rating of the season at 70% good to excellent. That is better than last year's 63% during this week and the five year average of 69%! While Eastern Cornbelt farmers wonder how you can rate a crop that has not even emerged, we have to keep in mind our friends in the west (except for Missouri) have a great crop on hand. By tomorrow we will have our well known yield model updated with these numbers and will be able to spit out a numbers-only based yield estimate. It is still way too early in the season to call this reliable but we are sure the numbers-only based approach would show no problem with yields. New crop production should still be considered bullish based on possibly falling acres and possibly harmed yields due to late plantings.

**Direction:** This is a bull market and no one will argue with that. We have concerns about planted acreage, yield, and crude oil. Until the first two of those factors are satisfied we could see this market remain strong. For trading we will stay with the general bullish slant we have had. For producers we will keep our moderate 35% of new crop hedges. Keep in mind producers fully benefit from higher prices on the December all the way up to 540...Rich Nelson

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

- (06/01) Buy Jul 442, risk 432 1/2, objective 460.
- (05/22) Sold Jul 430 1/4, risk 436 3/4 filled 05/29 for \$-337.50.

### **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 26 1/4.
- (04/21) Sold Jul 350 put/sold Jul 430 call for 27 1/2, risk at 27, objective 0. Closed 26 1/8.

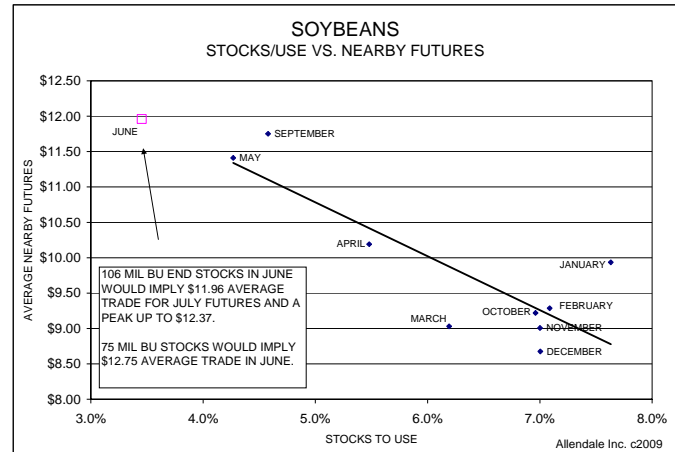
### **Corn Technical Commentary:**

Corn went right through resistance at 434 3/4 with ease today. The market was even able to test next resistance near 450. If we see another close above 435 tomorrow, we are likely to enter a buy order near there to stay with this uptrend.

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

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

**Soybeans:** Last week noted a quick study suggesting if old crop ending stocks fall from 130 to 106 million bushels on the June 12 supply/demand report it could imply an average trade during June of 1196 and a peak of 1237. That study was based on the July contract. That still appears to be valid target. It was interesting to see the market did not hesitate at all today even though the trade got confirmation of China canceling two to three cargoes of US old crop beans. We noted this morning that should not be much of a bearish factor as we are still far ahead of USDA's target pace, even after that cancellation.



**Soybean Progress:** 66% of soybeans are planted compared with the five year average 79%. There are no concerns about getting the crop in. The only thing we would point to from a production standpoint is just how many acres will be found on the Planted Acreage report released at the end of this month. Some people are suggesting an easy 1 million acres will have switched from corn to soybeans. Keep in mind that is not including the trade's perception that soybean plantings were already too small on USDA's March 30 preliminary estimate. New crop production should be considered bearish.

**Direction:** Tightening old crop stocks and stronger crude oil are bullish. However, we pointed out last week there is one problem for the bull this month. 1) After the June 12 supply/demand report, when USDA will tighten old crop stocks one more time, what is there left to be bullish about? Old crop demand is no longer raging. Exports are actually getting back to normal. 2) Additionally on June 30 we will have a jump in acres to contend with. You are looking at anywhere from 1 to 3 million more acres. We are not saying it is time to get bearish, indeed it is not. However, we are pointing out this month may be the one where a caution flag is raised...Rich Nelson

#### Trade Idea(s):

- (06/01) Buy Jul 1200, risk 1173, objective 1242.

#### Option Strategy(s):

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

#### Soybean Technical Commentary:

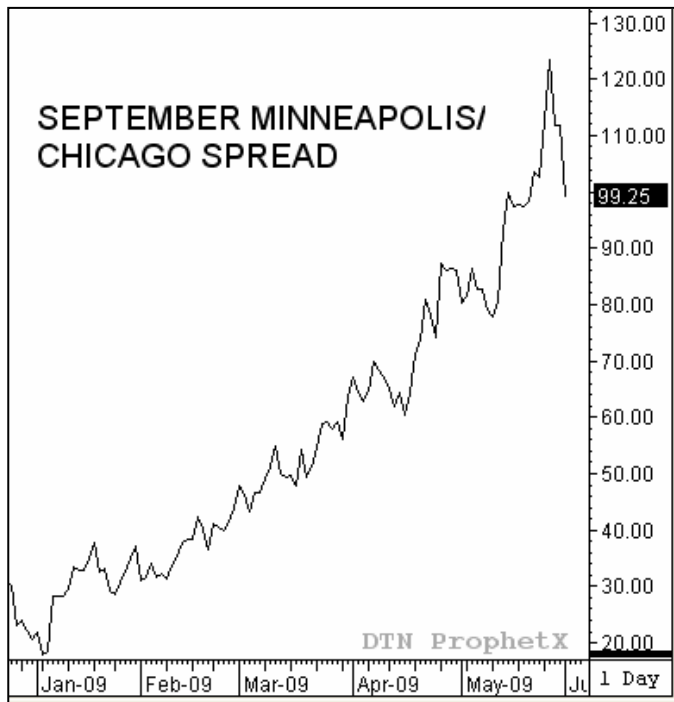
Beans also shot higher today and took out 50% retracement during the session, but couldn't close there. This might be a sign of a possible pullback for tomorrow. With such a strong uptrend in place, it could be a buying opportunity.

**Vital Technical Indicator:** the next projected major turn day for soybeans is tomorrow, soybean meal is tomorrow, and soybean oil is June 4.

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**Wheat:** Interesting to see the trade wanted to put more excitement into the winter wheat contracts (KC and Chicago) than the spring wheat (Minneapolis) today. This afternoon USDA left the winter wheat

good to excellent rating at 45%, the same as last week. That is actually better than the “normal” 43% for this week. The key here seems to be if you’re going to buy a wheat contract based on non-wheat fundamentals (higher corn and beans or general commodity buying) you’re going to buy THE big wheat contracts. The less actively traded MN contract is not something the outside money trades.



**Direction:** We still contend no amount of winter wheat harvest damage can offset the fact wheat stocks are still too big. Wheat is rallying for non-wheat reasons. With that in mind we will not try to stand in front of this market for now. The MN/CHI spread fell back today and gave us a chance to re-enter that trade, this time on the September contract...Rich Nelson

**Trade Idea(s):**

- Chicago Wheat: (06/01) Stand aside.
- KCBT Wheat: (06/01) Stand aside.
- Minn Wheat: (06/01) Bought Sep MN/Sell Sep CHI 105, risk to 94, objective 135. Closed 99 1/4.

**Option Strategy(s):**

- (05/26) Sold Jul 670 call 26, risk 32 filled 06/01 -\$300.

**Wheat Technical Commentary:**

Wheat found enough strength to close above the Jan high at 670 today. This might now propel the market towards 38% retracement at 742 3/4, but we'll need to see confirmation of this strength tomorrow.

**Vital Technical Indicator:** the next schedule projected major turn day in store for wheat is June 9.

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**Softs:** The outside markets gave direction to the softs again today. July sugar closed up 27 points today, at 15.85, and is looking to retest the contract highs at 16.05. We are still in a sideways range and could look at this strength as a selling opportunity with a stop just above the contract highs. Cotton looks like it wants to rally and retest the recent highs as well. Those highs are at 61.67 but the July contract finished at 57.79 up 82 points. Cotton is friendly in the short term as long as the dollar continues to fall. Keep an eye on crude as well but it has an upside target near \$70 a barrel and we are getting close. Cocoa had a strong move today as well. We are looking for the July contract to test the 2796 area so pull backs are looked at as buying opportunities...Steve Georgy

**Trade Recommendation(s):**

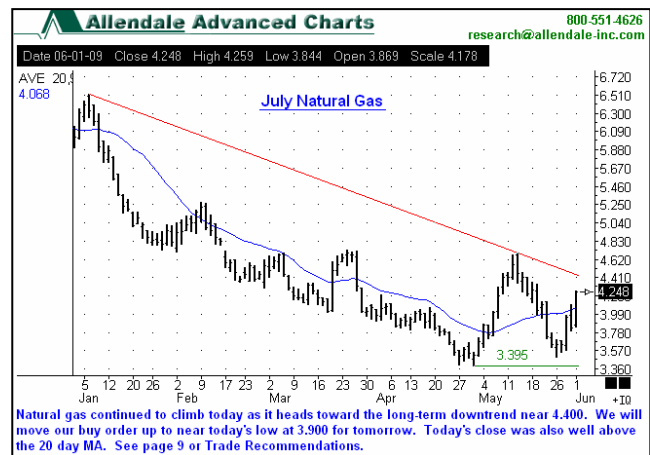
- Sell July Cotton 60.50, risk 61.90, Objective 55.50
- Buy July Coffee 127.40, Risk 123.95, Objective 1137.00

**Working Trade(s):**

- Sold July Sugar 15.85, Risk 16.10, Objective 14.90  
(July sugar hit 14.90 (5/15) 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 is at the high end of the range again and could be looked at as a selling opportunity risking just above the contract highs. Support comes in at the 15.30 area with resistance at 16.05.

**Energies:** Same story different day. Crude remains supported by a weaker US dollar and the stock market. The speculators are buying crude as a way to hedge against inflation. While at the same time, early morning reports about improving factory activity allowed the stock market bulls to continue their run, even after GM filed for bankruptcy this morning. This positive outlook for the stock market / economy has helped drive speculators to buy the crude even though the world has 62 days of use in storage. So even though we not going to run out of crude any time soon and we have no need to ration demand due to tight supply. The July crude contract settled at \$68.58 a barrel, the highest since the front month crude settled at \$70.53 on Nov 4, 2008...Jim McCormick



**Trade Recommendation(s):**

- (Conservative Recommendation) Buy 1 July Crude at \$56.33. Risk to \$51.45 with an objective of \$67.12.
- (Aggressive Recommendation) Buy 1 July Crude at \$59.53. Risk to \$55.60 with an objective of \$67.12.

**Technical Commentary:** The short term trend in July Crude continues higher while the long term trend (since November) is sideways. Close-in support in July crude at \$59.62, \$57.50, and the \$56.59 level which is the 50 day M.A. Trend line support comes in just above \$60.14 at our buy level on the trade recommendation. The 200 day M.A. was taken out today. Taking out this technical resistance looks to allow the market to accelerate higher.

Natural gas continued to climb today as it heads toward the long-term downtrend near 4.400. We will move our buy order up to near today's low at 3.900 for tomorrow. Today's close was also well above the 20 day MA.

**Hogs:** The bullish news this morning was word that Russia would decide in a day or two if they would lift their partial bans on US meat. The bearish news is the market just didn't care today. They are skeptical of any solid progress right now. Additionally you may remember on Friday Mexico said it would step up inspections of US pork. Mexico is a much bigger market for our pork than Russia. Additionally, we can note swine flu has now been found in all 50 states. We still stand by the idea that no change in export policies means no reason to expect cash hogs to rally from their \$59 current price. If there is a bullish play here it is with the far far deferreds. We hate to say it but if bankers start pulling the plug this summer like they're talking, we may have a much a much smaller hog supply, and higher prices next summer. In previous liquidation cycles the big players used that as a chance to get bigger. With the big boys in serious financial problems (not in danger of bankruptcy though) will the drop in production be as moderate as the last cycles?...Rich Nelson

**Trade Idea(s):**

- (05/27) Stand aside.

**Option Strategy(s):**

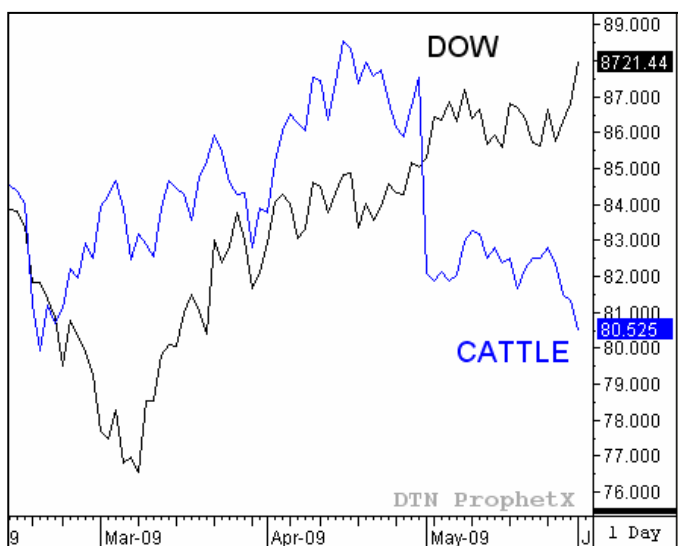
- (06/01) Sold Jul 69 call 1.07, risk to 1.50, objective 0. Closed 1.07.

**Lean Hog Technical Commentary:**

Hogs dropped to a new contract low today, but are now very oversold with an RSI value near 20. The gap left last Friday might be the first upside target if a rebound occurs, but this could be a selling opportunity.

**Vital Technical Indicator:** Next projected major turn day for lean hogs is June 10.

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**Cattle:** The stock market rallied but cattle couldn't follow suit. This is important to note. The stock market and cattle price relationship is not holding anymore. Wholesale beef fell \$1 today and we would imagine cash cattle will trade steady to \$1 lower this week from last week's \$84 and \$84.50 action. We have excess pork left here in the US that is not being exported and that is competing for the consumer dollar. Also in other news, a herd of cattle in Nebraska were found to have bovine tuberculosis. This disease can be transferred to humans if the meat is eaten. For the long term... we are bullish on 2010 contracts on expectations for the economy to rebound, cattle numbers to tighten further, and the renewed hope Japan may loosen its requirements it has placed on US beef. For

now...our downside is \$80 for the June and August and for cash to reach \$78 in a month or two...Rich Nelson

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

- (05/28) Sold Aug 82.25, risk 83.45, objective 79.80. Closed 81.65.

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

- (05/21) Sold Aug 84 call/sold 78 Aug put at 3.10, risk at 3.50, objective 0. Closed 2.52.

#### **Cattle Technical Commentary:**

Cattle dipped below first support at 81.60 today, but closed back above it. We have a buy order at 81.00 near the February low since this is the bottom of the long-term sideways trading range.

**Vital Technical Indicator:** Next projected major turn day for live cattle is June 12 and for feeders is June 5.

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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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