

Allendale Wrap-Up for Business Day 06/15/09

Corn: It took two days of price declines to wipe out virtually an entire month of gains. Traders viewed the good looking crop, good weather for this week, and a strong dollar as reasons to sell and ask questions later. It was interesting to see USDA announce at 1245 this afternoon that South Korea purchased a large 275,000 tonnes of US corn and to see the market NOT react.

Crop Progress: Last week we noted the market has shifted focus from getting the Eastern cornbelt planted to evaluating the condition of the growing crop itself. Producers in southern Illinois and parts of Missouri have told us they are

moving to soybeans now. With that in mind the majority of the crop that is in the ground is doing well. The good to excellent rating improved from last week's 69% on up to 70%. This is sharply better than the 67% five year average for this week. In the market's mind, the crop is doing well and the current weather forecast suggests it will continue to do well. As a side note, it is interesting to note the ratings of the top three corn states...Iowa 78%, Illinois 55%, and Nebraska 82%. Will the late planted Eastern Cornbelt crop show weakness the first time we throw some stress at it?

Direction: There is nothing wrong with a good panic sell-off here or there to shake a few leaves off the bullish tree. The short term fundamentals here (crop, weather, US dollar) have turned slightly bearish. The longer term picture remains intact though. At the end of this month we would expect USDA to drop the corn planting slightly. In addition, there will be a weather scare or two in the coming months. How will the ECB corn react to that? There is a phrase we can use when fighting a significant price decline. It's called, "...trying to catch a falling knife." In other words, it is not a smart thing to do. We certainly would not attempt that action in soybeans. However, with quite a few potentially supportive things for corn we will try it this time...Rich Nelson

Trade Idea(s):

- (06/15) Buy Dec 408, risk 394, objective 440.

Option Strategy(s):

- (01/23) Bought Dec09 410 put @ 51. This as a starting point for a position to be built as the market moves. Closed 37 1/2.

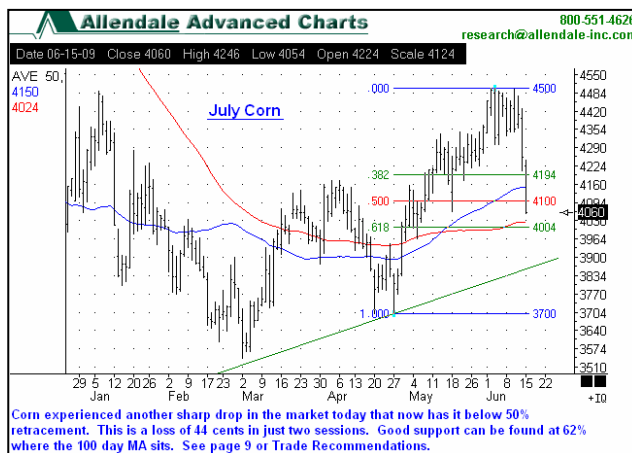
Corn Technical Commentary: Corn experienced another sharp drop in the market today that now has it below 50% retracement. This is a loss of 44 cents in just two sessions. Good support can be found at 62¢ where the 100 day MA sits.

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

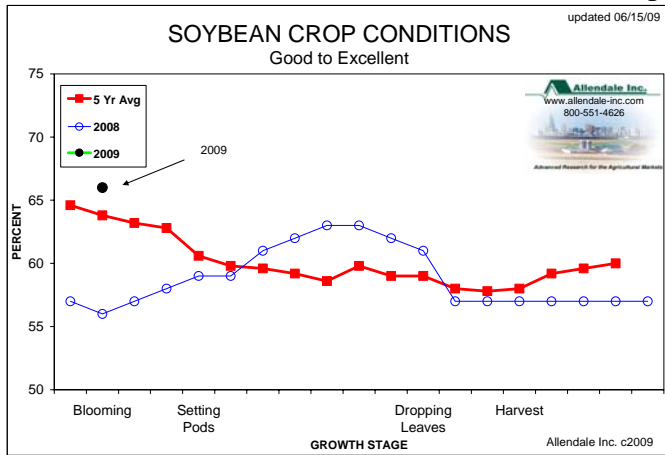
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Soybeans: If there is a market which has the most dramatic change in fundamentals from one crop year to the next it is soybeans. At the end of the month, USDA will add anywhere from 1 to 3 million acres. We expect them to drop their big new crop export number in the coming months. So far, the crop that is planted is doing fine. With the changes noted above, it is easy to show how old crop stocks could go from 110 million bushels to easily 300 million bushels. (USDA is currently using 210 million for new crop.) **A dramatic change in fundamentals could mean a dramatic opportunity.**

Crop Progress: With the crop 87% planted and 72% emerged the focus is on the developing crop. It will eventually get planted. Today, USDA graced us with the first good to excellent rating of the season and



estimated the number at 66%. That is just above the five year average for this week at 64%. The market views recent weather, and this week's forecast, as productive for the crop.



Direction: The old crop export story is about over with. There is still some support from old crop crushing as noted on Grain Fundamentals 1 this morning. However, the market has shifted its focus to new crop. There are many more variables on that side than the domestic numbers. Most of those variables are potentially bearish. Last week we noted how important it was to note that calls were running almost double what a put was, with both the same distance away from the market. Some of that has been corrected now but there is still opportunity remaining. November futures closed at 1024 3/4. A 920 call closed at 44 1/2 while an 1120

call closed at 62 1/4...Rich Nelson

Trade Idea(s):

- (06/15) Sold Nov 1024 3/4, risk 1049 3/4, objective 970. Closed 1024 3/4.

Option Strategy(s):

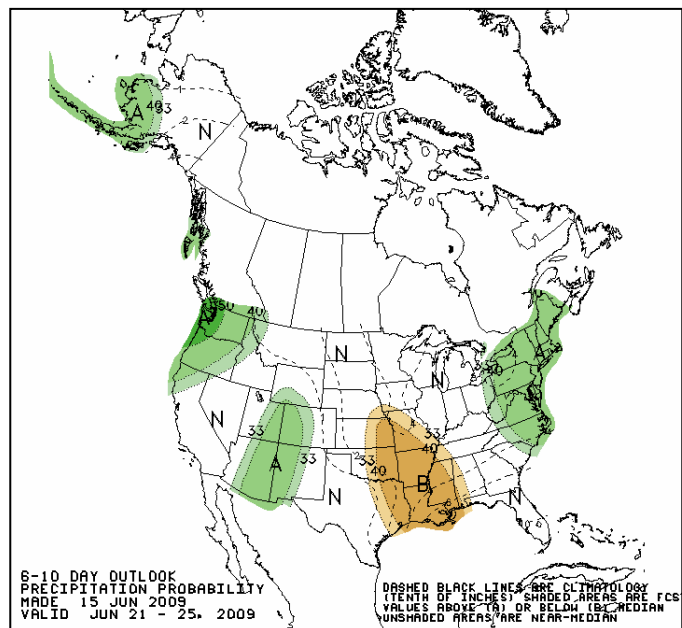
- (05/14) Sold Jul 1040 put 16 3/4, risk at 16, objective 0. Closed 5/8.
- (06/09) Sold Nov 1240 call/sold Nov 800 put 62 1/4, risk to 90, objective 20. Closed 51 7/8.
- (06/15) Sell Nov 1220 call 40, risk to 65, objective 0.

Soybean Technical Commentary: The bean market experienced a similar drop today and now has the market nearly 100 off its high from last Thursday. Today's close was just below the 20 day MA, but there is further support at 1177.

Vital Technical Indicator: the next projected major turn day for soybeans is tomorrow, soybean meal is June 26, and soybean oil is June 18.

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Wheat: The winter wheat crop may be a little behind at 9% complete versus the 19% five year average. However, no one is saying this is something to panic about yet. In the last week there has been little to no talk about recent yield numbers. From experience that would imply an expectation for better yields as the harvest progresses. On this afternoon's crop progress report winter wheat ratings were left unchanged from last week while spring wheat conditions jumped from 72% to 75% good to excellent this week. We can believe the idea that winter wheat, though damaged, is not a disaster. Those spring wheat numbers are pretty darn optimistic though. For direction we are bearish the winter wheat contracts and bullish spring wheat...Rich Nelson



Trade Idea(s):

- Chicago Wheat: (06/04) Stand aside.

- KCBT Wheat: (06/11) Sold Sep 652, risk to 669, objective 620. Closed 647 1/4.
- Minn Wheat: (06/04) Stand aside.

Option Strategy(s):

- (06/09) Sold Aug 700 call 20 1/8, risk to 27 1/8, objective 0. Closed 8 1/4.

Wheat Technical Commentary: KC wheat has retraced more than 62% of the spring rally now. Today's close was above 62%, which means tomorrow's trade could be key. If this area holds, it might be a short-term buying opportunity.

Vital Technical Indicator: the next schedule projected major turn day in store for wheat is June 25.

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Softs: A strong dollar took the bullish momentum right out of the market. Today was a negative day all around the markets. Sugar broke 34 points today, closing at 14.86 and very close to taking out the support from a few weeks back. Today had everything to do with the bulls profit taking and lighter volume. The markets reacted very negative with the talk of the dollar finding a bottom. Cotton closed limit down with liquidation from long positions and the lack of buyers due to the market attitude. We really need to see a rebound in the market tomorrow to keep from seeing more liquidation. July cotton closed at 53.10 with a 3.00 limit move. Cocoa took out a 10 day trading range all in 1 session. July cocoa closed down 160 points finally resting at 2601. We feel this market could return back to the major moving averages near the 2450 area with more liquidation to come. Just as we said before keep an eye on the dollar. If the dollar continues to rally we should see more selling pressure as the market attitude continues to be negative...Steve Georgy

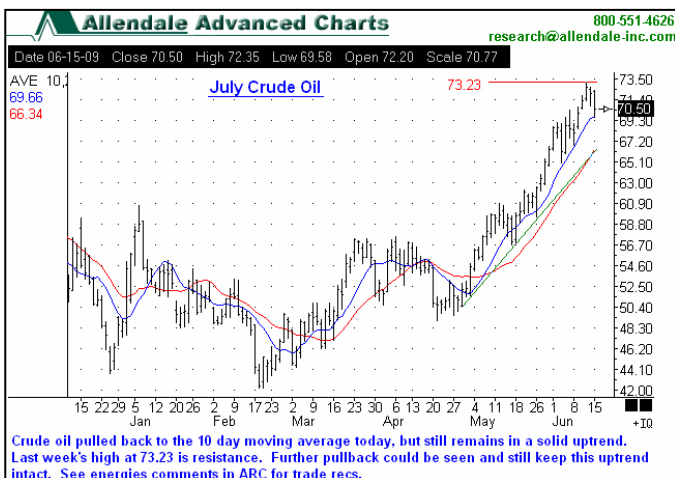
Trade Recommendation(s):

- Sell Oct Sugar 16.51, Risk 17.10, Objective 15.60
- Sell Sept. Cocoa 2770, Risk 2870, Objective 2445

Working Trade(s):

- Sold July Sugar 15.70, Risk 16.15, Objective 14.90 (Profit hit +\$896)
- Buy July Cotton 54.30, Risk 52.20, Objective 58.70 (Stop hit -\$1050)
- Buy July Coffee 127.40, Risk 123.95, Objective 137.00 (Stop hit -\$1293.75)

Technical Commentary: All technicals look weak after today's big sell off. The question is can we do it again. If we don't see a bounce tomorrow in the market attitude could roll over and see huge amounts of liquidation from long positions. The talk is that the dollar has bottomed and we could see deflation in the coming week.



Energies: July Crude Oil was \$1.42 lower at settlement, closing at \$70.62. While it appears that we saw a bit of spread unwinding in the energy market with the trade buying Natural Gas against Crude Oil, RBOB, and Heating Oil, the Dollar Index again provided the main influence in commodities today as we saw another round of short covering in the Dollar. We will keep an eye on the September Dollar as a move above last week's high near 82 would project to 85. A rally of that magnitude in the Dollar will most likely bring more selling in the energies and could bring Crude down to support where will be a buyer. We will continue to look for dips in the market to buy as we

have maintained an up trend since mid February...Brian J. Splitt

Trade Recommendation(s):

- **Buy 1 August Natural Gas** at \$3.87. Risk to \$3.57 with an objective of \$4.35.
- **(Aggressive) Buy 1 August Crude** at \$69.85. Risk to \$65.85 with an objective of \$78.85.
- **(Conservative) Buy 1 August Crude** \$66.55. Risk to \$63.45 with an objective of \$73.35.

Working trades:

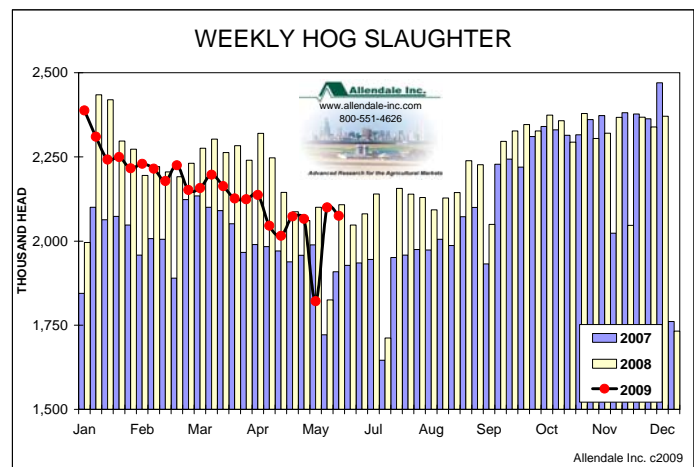
- **Bought July Crude** (6/4) @ \$66.16. Risk to *\$68.16* with an objective of 76.00. July Crude closed at \$70.62.

Technical Commentary: The short term trend in Crude Oil is up and the charts have a round bottom formation. Close-in support in August crude is \$69.85 while last week's low of \$67.72 provides further support. There is a band of consolidation near \$60.50 that may be a target for bears if we see a large round of selling and long term trend line support is riding along the 100 Day M.A. at about \$56. Close-in resistance will be last week's high of \$73.90 which is also the high for the move; \$76.72 and \$80 will remain upside targets if we can make a move over \$73.90. Stochastics are over bought and are pointing down.

Looking at Aug natural gas now, the market is taking out the long-term downtrend and is nearing the high from June 2 at 4.408. We will place a buy order near the 50 day MA in case there is another pullback.

Hogs: In the weekly meeting with the brokers, this afternoon, we pointed out news in this bear market got a little worse today. One of the minor stories in this H1N1 issue was the finding of swine flu at a Canadian farm. The story was that a worker came back from a trip to Mexico and infected hogs. The story also explained that the farm was quarantined, no pork got into the human supply chain, and the hogs would eventually be slaughtered when the farmer was ready. That story unraveled today as Canadian officials said tests did not find a link between the worker and the hogs. In other words, the worker did not infect the pigs...that means the pigs got it from somewhere else...that means if that farm got it from somewhere else, there is a good chance other farms are getting it that have been undetected. While we all know you cannot get the virus from eating cooked pork, even if it came from an infected hog, how will our foreign pork buyers react? Will this make Russia, who has been looking for any reason to keep its partial bans on US and Canadian pork in place, change its mind?

Supply Is Big: Another bearish thing to consider is how hog slaughter has been running almost even with last year. A few weeks ago we were running 3% to 5% lower than last year. Part of the extra numbers is producers catching up on delayed marketings. Part of the numbers is a few more gilts being diverted from the breeding herd. Either way, with slaughters running almost equal to last year, and at heavier weights, we have more pork production than last year. More pork production at the same time as this export problem means this market is re-evaluating winter pricing.



Direction: The trade had believed the H1N1 issue would be wrapped up by the end of summer. If summer futures are being discounted by 25% or so from last year...then what business does December and February have being anywhere close to last year? For pricing we feel summer futures are about right. Our key focus is the December which could easily hit \$50...Rich Nelson

Trade Idea(s):

- (06/12) Buy Jul/Sell Dec -.75 or better, risk to -2.10, objective +3.00.

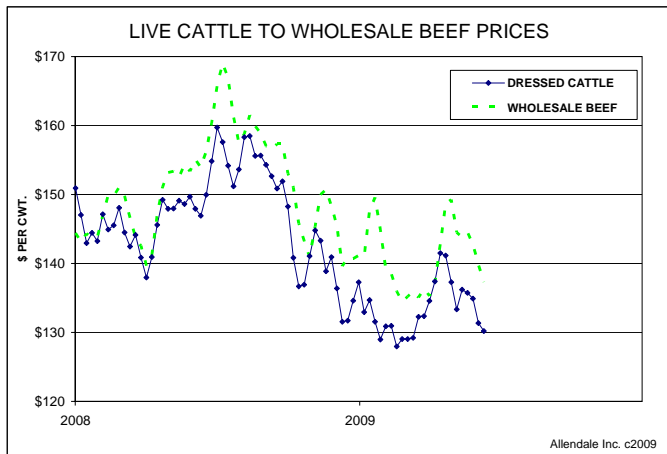
Option Strategy(s):

- (06/01) Sold Jul 69 call 1.07, risk at 1.10, objective 0. Closed .27.
- (06/15) Sell Dec 62 call 3.20, risk to 4.07, objective 0.

Lean Hog Technical Commentary: Hogs pulled back today and are now looking poised to test the low from last week at 57.80. Even though the stochastics are pointing upward, this market has had a hard time rallying as of late.

Vital Technical Indicator: Next projected major turn day for lean hogs is June 17.

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Cattle: At the broker meeting, the key focus we noted for cattle was the fact wholesale beef prices were still falling. Generally, if beef is falling then cash cattle are falling. With the extra tonnage of pork being left in the US, we see no reason to expect any significant rallies here. Trades taking advantage of this slow grind lower (such as selling options) appear to be a good bet. We are long term bullish this market but feel a bottom should not be seen until July or so...Rich Nelson

Trade Idea(s):

- (05/28) Sold Aug 82.25, risk to 82.10,

objective 79.80. Closed 80.82.

Option Strategy(s):

- (05/21) Sold Aug 84 call/sold 78 Aug put at 3.10, move risk to 3.00, objective 0. Closed 2.07.

Cattle Technical Commentary: Cattle also saw another pullback today, not able to capitalize on last week's late strength. We will leave a sell order up near the trendline at 82.55 since the moving averages are near there.

Vital Technical Indicator: Next projected major turn day for live cattle is June 23 and for feeders is June 22.

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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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