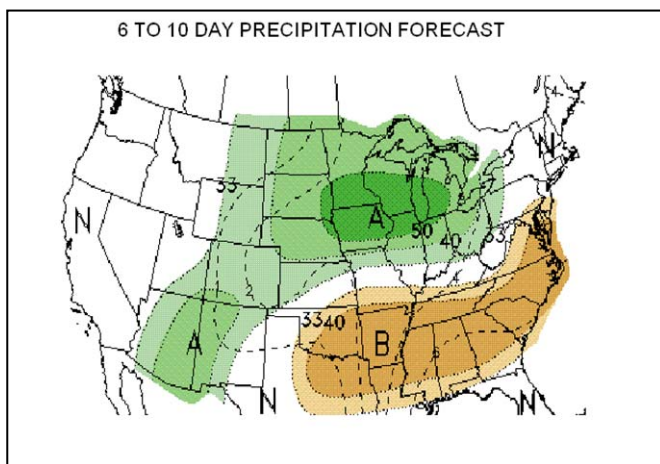


## Allendale Wrap-Up for Business Day 07/19/10



**Corn:** An improving weather scenario and a large speculatively-owned market left the prices vulnerable to decline today. Funds, as of Friday afternoon, were long 193,000 contracts. That is within 30,000 contracts of a typical capacity position. Monitoring fund activity this week will be key as an exiting of these positions would press values quickly. Yields are still the big debate. Even with good weather traders are questioning if the crop will make 163 bushel per acre (bpa). Current prices reflect ~160bpa. Allendale yield studies still suggest yields will meet or exceed 163 bpa. Export inspections were good at 38.91 mil bu. Export sales

on Thursday are expected to show more sales made to China and strong demand remains under the market for new crop. However, the old crop demand is highly volatile. There are many areas in the central corn belt that have pulled all bids for nearby. There is a lot of inventory out there, a lot of poor quality corn that no one wants. The elevators need to wait for new crop supplies that should be near idea quality that they will use to blend inventory to useable grades.

**Weather maps** are now out till August 4 and no crop threatening ridge is expected. It will be hot but there are rains that move through. Corn conditions were expected to be steady on this afternoon's report but fell 1%. Crop progress was expected to show that 60% of the crop had silked. USDA trumped that with a 65% figure. That is amazing and leaves little weather risk for pollination problems. Filling stage typically draws from subsoil but a good rain in that process is always necessary to top the crop. 60 days from silk and the farmers will be harvesting. Our fundamental price objective of 415 has for all practical purposes been met with Thursday's 410 high. We need technical confirmation before we will start selling the market for traders. Our long term objective is 333. All farmers should be near 100% sold using box or 3-way structures that run between 0-20 cent cost. You should also have on a chunk of 2011 corn hedged 420-500 mark. If you are not locked in, call your Allendale broker...Bill Biedermann

### **Working Trades:**

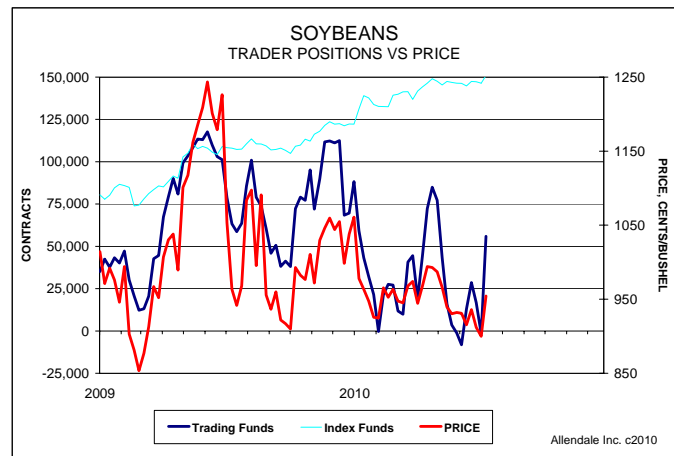
- (05/19) Sold September 330 put 8, risk to 15, **move objective to 1**. Closed 1 3/8.
- (07/01) Sold December 350 put 16, risk to 25, **move objective to 9 1/2**. Closed 10 1/4.
- (07/15) Bought December 401, risk 391 filled 07/19 for **-\$500**.

**\*\*\*Disclaimer\*\*\*** The commentary and trades below are derived from technical indicators provided in our Allendale Advanced Charts pages and may not correspond with the fundamental commentary above.

**Advanced Charts Direction:** Corn broke down today and settled below 50% retracement at 397 1/2 on the chart. Last week's high coincides with the 62% retracement level and could be a possible top. A close below 38% and the 100 day MA would confirm this...Monica Moehring

**Soybeans:** Friday the weather forecast took out the high pressure ridge which was advertised for this week but traders were not selling on it quite yet. Because that forecast was flipping back and forth on dryness concerns the trade waited until this morning to see what we would get. Sure enough they left out the high pressure ridge that was expected for this week and beans broke on the news. At noon today even more rain was put into the forecast which kept beans on the defensive. You will notice that beans did not drop proportionally to the corn drop. With long range forecasts still calling for a dry period in mid August, this market is far from throwing the towel in on yield concerns. Trade also had factored in a 1%

decline on condition ratings all day which kept some support under beans. While we are not feeling the need for beans to fall off quite yet we also want to mention that the recent high was a 62% retracement of the run lower. Only one grain market has been able to pass that retracement and that would be wheat. Even that market did not find much buying after passing that level. For this reason we look at future bounces as a sell. Should the funds come back in we will be active sellers of any spec buying bounce. A move back into the 980 area still looks to us as a selling opportunity. We simply cannot count on the August weather scare to come true. Since spring that forecast has already been pushed back from late July to mid August. If it is pushed back one more time we will have this bean market set in a very bearish tone and that can happen at any time. This morning the floor also estimated funds to be long 63,000 contracts which is starting to reach a large enough level where they are known to slow buying. Generally a position size of 100,000 in beans would be considered very large. This now means that future buying days are sells with less concern that our sell orders will just be run over by more fund buying down the road. When they were long 8,000 contracts we were more cautious about selling. There is no other way to look at fund buying days than to give the green light to sales.



**Direction:** Today may have set the tone for the week early. Concerns over extended forecasts will keep some support in this market but bearish weather forecasts will quickly take away current gains. Additionally, crop conditions rose by 2% instead of the 1% fall that was expected. As time passes each bearish weather forecast will gain more traction meaning we want to sell bounces sooner rather than later...Ryan Ettner

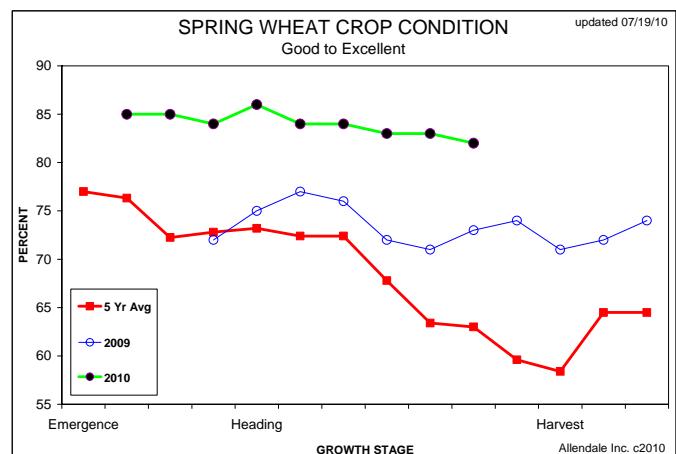
**Working Trades:**

- (07/16) Sold September 970 put 24 5/8, risk to 36 5/8, objective at 8. Closed 26 5/8.

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**Advanced Charts Direction:** Beans also pulled back today and settled just under 50% retracement at 973 1/2. This could spark further selling tomorrow and possibly put a top in this market. For now it may simply be a correction...Monica Moehring

**Wheat:** Fundamentally it is supportive the US received 28.5% of Iraq’s complete purchase of 350,000 tonnes of wheat. Not supportive to US wheat futures is how US wheat was 161/bushel more expensive than Russia wheat. Despite the 2010 drought, Russia has not backed off of its grain export program. That is confusing as its difficult to maintain grain stocks usually it is the export demand which initially suffers the consequences. According to a Reuter’s poll, the wheat price at the end of 2010 is using 559, up 3% vs. year earlier levels even though domestic world stocks to use have increased by 1.5% vs. year earlier estimates. Present world stocks to use are 23.4% vs. the previous five year average of 19.98%.



We remain convinced corn prices are subject to more of a starch sell-off than the wheat and a big reason why we are spread as suggested below. Spring wheat conditions came in at 87% good to excellent vs. 91% for a five year ave.

**Direction:** We have transitioned from neutral to bullish as of 7/9/10 for short term price expectations...Joe Victor

### Trading Recommendation:

- (07/15) Buy Sep Chicago wheat/sell Sep corn 204 3/4, risk 190, objective 229 3/4. Closed 200 3/4.

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**Advanced Charts Direction:** Last week's high near the key 600 level in Chicago wheat held again today. Once the market couldn't push through it headed south instead. If there is follow-through selling tomorrow this might indicate a top is in...Monica Moehring

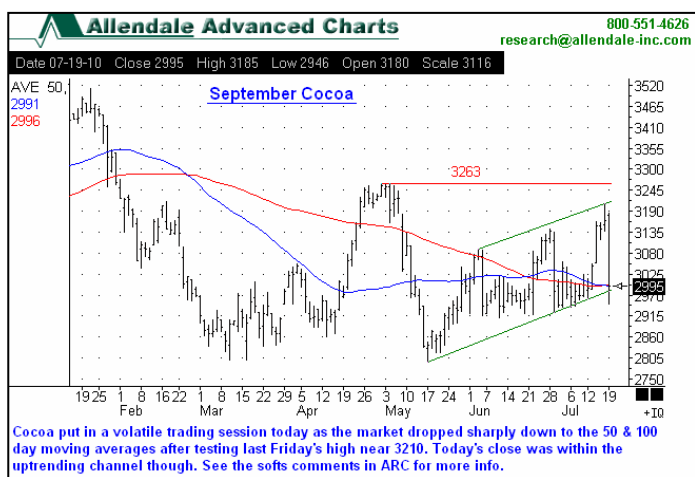
**Softs:** The soft markets were mostly lower today as the dollar could have put in a short-term bottom. Cotton may have reversed, sugar closed near last week's highs and cocoa's tight stock situation has been eased. This week will be choppy with a ton of volatility. This will produce many opportunities so call with questions.

**Cotton:** December cotton closed 35 points lower and well off the highs today at 73.62. We are short from 73.50 with a stop above last week's highs. Tomorrows support will be 73.06 and if that gets violated 72.31 is the next target. No fundamental news to talk on today but the last few USDA reports still keep a bearish tone on things.

**Sugar:** Sugar is still in an uptrend and closed 52 points higher. The October contract is much overbought and the fundamentals are quite. We are short sugar against the trend but we feel a nice correction could take place in the next few sessions. We sold the October contract at 17.30 with a stop above the recent

highs of 18.10. If the dollar can find support we feel sugar is ready to break. Nothing fundamentally says we need to continue to climb but charts remain friendly.

**Cocoa:** Cocoa fell more than 170 points after a higher opening. A story was released this morning at around 9:00 that warehouse inventories of cocoa were being locked up by a large entity. It just so happened that the large entity was a speculative hedge fund. After having concerns of tight stocks, this story has soothed traders and it changed the fundamental picture. We are going to look at selling this market on a stop if it can take out solid support...Steve Georgy



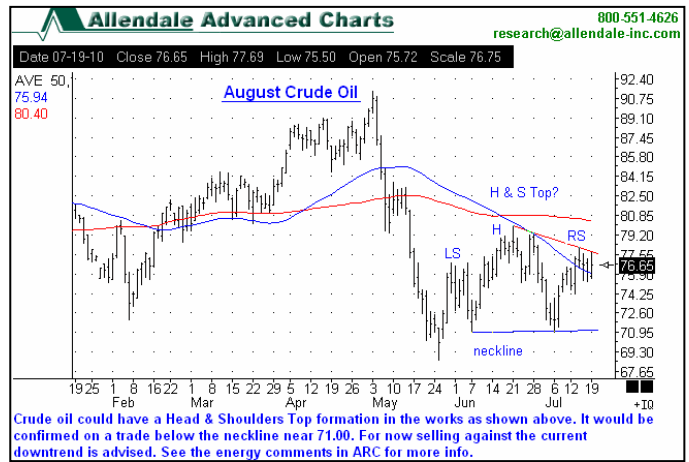
### Working Trade(s):

- (7/12) Sold **December Cotton** 73.50, risk 75.15, objective 70.50
- (6/30) Sold **October Sugar** 17.30, risk 18.15, objective 16.25
- (6/25) Bought **September Coffee** 170.00 calls/Sold 180.00 calls at 2.30, risk 0, objective 7.50
- (6/14) Bought **September Coffee** 145.00 put/Sold 135.00 put at 3.40, risk 0, objective 7.00

### Trade Recommendation(s):

- (7/19) Sell **September Cocoa** 2905 stop, risk 2950, objective 2800

**Energies:** August Crude Oil settled \$0.53 higher today at \$76.54; tomorrow is last trade day for August Crude Oil. The market was choppy today and took most of its cues from equity trade. There was a pipeline blast in China that provided some support due to a key port at Dalian being shut and refinery output being trimmed. That support may have been neutralized by disappointing data that showed homebuilding sentiment dropped to its lowest level in over a year which brings fears of economic slowdown back to the forefront of concerns. The stock market has shown a pattern of rallying into the quarterly revenue numbers and then putting in a top shortly afterwards. So far we have seen the rally into last week's results and a potential top has already formed. A move below 10000 on the Dow could be the signal we need to look for from equities. We will continue to look at this market from the short side with last week's high of \$78.55 as the point to sell against...Brian J. Splitt



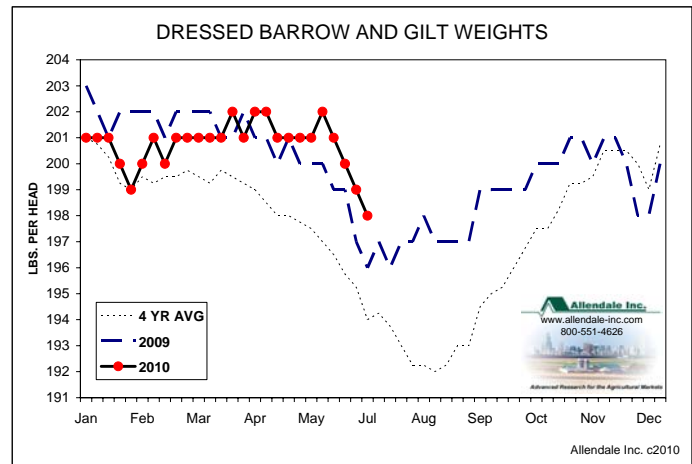
**Trade Recommendation(s):**

- (7/19) **Sell September Crude Oil** 77.60. Risk 79.10, Objective 71.80.
- (7/19) **Sell September Crude Oil** 74.60 Stop. Risk 75.60, Objective 71.60.

**Technical Commentary:** Crude Oil is a market that is trending higher long term, but has been stuck in an \$8 range since late May. Close in support for September Crude is 75.85 with 74.70, 73.75 and 72.60 providing further support. The June low of 71.92 and the July low of 71.47 will provide support above 70.00. Close-in resistance will be the area where the 50 and 20 Day Moving Averages converge near 76.65. 77.85, 78.55, 80.00 and last month's high of 80.82 add resistance. A move below \$71.47 will form a potential Head & Shoulder top that would project near \$63.

Silver broke the previous uptrend today and now might be heading towards the May low at 17.150. We got long at 17.800 late on Friday and were stopped out today at 17.500. We will take a look at copper next.

**Lean Hogs:** Part of last week's run-up in prices was due to the heat story. One interesting thing was the change in the forecast was more of a precip change rather than heat. Temps will still flirt with the low to mid 90's this week at one point. The 6 to 10 day forecast also continues that with above normal temps still in the picture. With temps holding high hog futures kept their premium in. Our summer expectation is for an \$80 to \$83 trading range through early August on the August futures. Use this higher trade to get hedges on...Rich Nelson

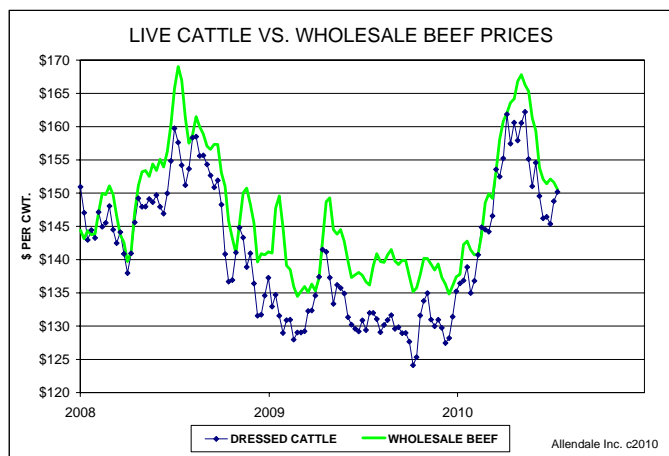


**Working Trades:**

- (06/04) Sold August 80 put 2.75, risk 2.75, objective 0. Closed 1.05.

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**Advanced Charts Direction:** Although the hogs made another higher high today, the close was weak and back below the moving averages. We remain long from 79.75 to see if this market can still make a run for the current downtrend near 83.50...Monica Moehring



**Live Cattle:** We want to be bullish here. Cash cattle have posted big gains in the past two weeks. Feedlots are ready to raise asking prices to \$96. It appears we have posted an early summer bottom. One thing we would like to get on board this bullish excitement is wholesale beef. In the past two weeks it has fallen \$1.88 for choice and \$2.11 for select. While cash cattle does not have to have beef moving with it every single week, it is harder to suggest cattle have another \$2 or so to go unless beef gets with the program. With this in mind we are calling cash cattle to trade steady this week. December futures have already met some of the

price targets we were discussing just a short while ago. Our fourth quarter average price, which was detailed this morning, is 95.20. Futures, after taking out normal basis, are implying that price. Heck, we are not even in the fall/winter higher price time yet. One other issue which is now being discussed is death losses in the plains. High heat has been an issue over the past couple of weeks. We are getting some reports of feedlot death loss. Typically these heat wave stories are not enough to cause a sustainable bump in prices...Rich Nelson

#### **Trade Recommendation:**

- (07/09) Buy December 93.32, risk 92.30, objective 96.00.

#### **Working Trades:**

- (05/14) Sold August 98 call 1.20, risk to .67, objective 0. Closed .12.
- (05/27) Sold August 87 put 1.30, risk to 2.15, objective 0. Closed .12.
- (07/15) Sold December 94 put 2.55, risk to 4.15, objective 0. Closed 2.45.

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**Advanced Charts Direction:** Cattle closed into a new high for the move today which should reaffirm the bulls' strength in this market. We may move our buy order up near the recent lows, but will wait another day to confirm this new strength...Monica Moehring

[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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