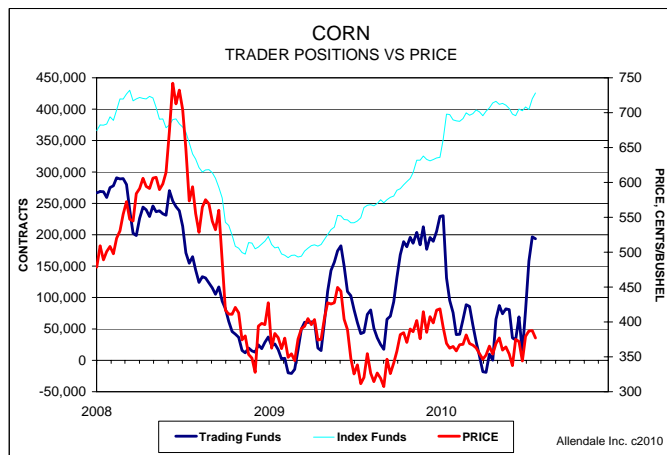


## Allendale Wrap-Up for Business Day 08/02/10



**Corn:** A sharply higher open today on carry over influence from the Euro wheat market, higher crude and equities. Government officials are also discussing inflation/deflation and how the picture could change given further economic “easing” if a “double dip” looks imminent this fall. One trader said, “if any soybean trader holding “short” positions was scared today, they bought it early.” But gains did not seem to last as traders looked for crop conditions to hold steady or improve. Opening on the high and closing on the lows, taking 13 1/2 cents off the opening leaves traders in a quandary. Everyone seemed to turn bullish corn over the

weekend, sighting a shift in demand to corn rather than Russian wheat. But in reality, this is not the case. Today Russia sold 180,000 tonnes of wheat to Egypt \$22/tonne cheaper than the US price. Obviously Russia sees this rally as an opportunity and is taking advantage of it. Most traders are now committed to the bullish argument and will do whatever they have to in order to defend their position. We want to state the facts:

- Crop Conditions were 71% good to excellent v 72% last week and 68% last year.
- Weather is much better than traders have been calling for in the US. Yields have gone from 158 bushels per acre (bpa) to +163 (Allendale has stuck with +163 since planting). Yield is key because if it is less than 163, then US ending stocks will be considered very tight. Dry weather stress developing in the SE needs to be monitored but little corn is produced in those states.
- World corn stocks are normal.
- Weather in the FSU has reduced wheat and oat production. Corn and soybean production has been little affected.
- Demand for corn is huge and will continue to require that the US produce record levels. Keys to watch is the Ethanol credit and blend debate. Livestock numbers will increase in 2011.
- Economic Value 430 is top end and 330 is low end given +163bpa. We are currently near the top end.
- Seasonal tops are normally in between 06/26 and 08/10
- Momentum is currently very strong as funds are building a record long position. Many small traders who were short got out last week. Commercial hedgers are short, funds long.

So the fundamental side of this market is to use the rally to get short and for producers to take advantage of these profitable prices. The technical side is completely opposite right now. Technically it was a horrible close but until the market takes out 375 support, the bullish trader is still “on.”

**Direction:** December corn achieved one objective today and still has 430 as a possible target as long nearby support holds. If support fails, then 375 will likely be tested quickly. Speculators need to be careful and keep stops in on all long positions. Producers should be 100% sold or if you are in an option program this is the double up opportunity that you need to review. This is not market move to blow out of hedges. End users, keep hand to mouth...Bill Biedermann

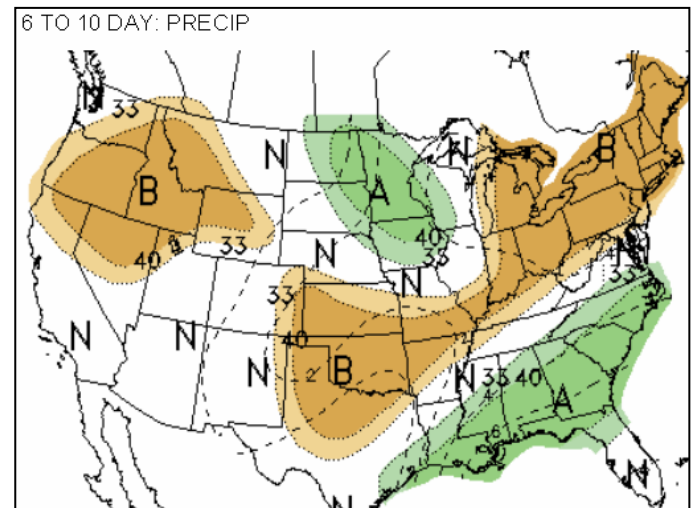
### **Working Trades:**

- (08/02) Stand aside.

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**Advanced Charts Direction:** Corn saw a lot of early strength today that was able to push through resistance at 410 and 415 1/2. The close was well off these highs and looks like a buying exhaustion. This could be the first sign of a possible top. A close below the 200 day MA and key 400 level would confirm this...Monica Moehring

**Soybeans:** Last night Paris milling wheat futures were up 36 cents so of course our wheat followed along. There is no surprise to see beans following once again, especially with fund buying as active as it was on the opening. Beans were not without their own news though, now getting an updated bullish forecast for the Delta. On the noon forecast maps there was little relief on the horizon for that area. They see a small reprieve Wednesday through the weekend but then dry out again with little relief. It can be argued that some areas may be too far advanced to be affected but it will need to be watched. In the end it will be the wheat market that has the largest effect on the beans. What this forecast may do is to reduce the size of the setback once speculative trade is finished buying. During this run higher we want to state the importance of either staying in hedges. If getting out is absolutely necessary then this crop should be sold in the cash market. Given that the reason for this much of a rally is not backed up by local fundamental news a sizeable correction is still expected. Worst case scenario would be to exit hedges and not replace those with cash sales while watching the market drop. There is nothing necessarily wrong with stepping aside but have working orders to get back in on a drop if not in the cash market. One way to do that would be to place sell stops below the current market price so to not sell unless the market starts heading lower again. Even though recent weather forecasts have been on the bullish side, wheat has proven to remain in full control of beans for now. It is evident where the beans want to go without wheat support finishing only 5 cents higher even after wheat finished 30. Selling found near the close is this market showing us where it really wants to go. Will wheat be up another 30 cents overnight? There is nothing that should surprise us there but most importantly have a plan ready and do not allow fast and volatile markets to move you off a pre decided plan. Let the wheat market panic, we will not.



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**Direction:** A more bullish weather market was given today but it still doesn't justify any part of the recent run. That weather news may slow the setback but it is as simple as following the wheat. Have an open sell stop order in case the bottom falls out of the wheat while sleeping tonight but otherwise producers are urged to sell at pre-decided levels while not letting the volatile opening of the day session scare us out...Ryan Ettner

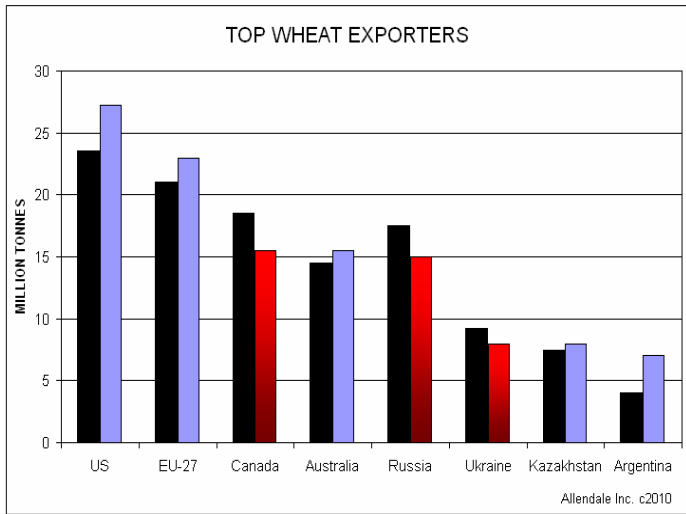
#### **Working Trades:**

- (07/16) Sold September 970 put 24 5/8, objective at 8 filled 08/02 for +\$831.25.

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**Advanced Charts Direction:** Beans started off strong today and looked like they might test the high from January at 1035 1/2. When the market couldn't quite get there it began to set back. The close was in the lower half of the range, but still above last Friday's high...Monica Moehring

**Wheat:** It is estimated funds bought an additional 13,000 contracts of wheat for the first day of August. Add the estimate to the number of contract longs before we entered the side by side trade day of 66,300



contracts and you have estimated fund contract longs of 79,300. How much higher can wheat go? Ask the index and hedge funds as this present situation is about money flow and not necessarily fundamental news about the drought in Russia, too wet in Canada, and as of today, too dry in Argentina and Western Australia. Weekly inspections were viewed as bullish to wheat as well as last Thursday's sales. Not pleasing to wheat was the weekend announcement of Russia selling wheat for August shipment to Egypt. Gulf rates continue to sink (not good for nearby basis) as long as futures head higher. Take advantage of new crop hedging, you will not be alone in the northern hemisphere. Crop conditions for spring

wheat came in at 82% good to excellent, down 1% from last week but 11% higher than last year.

**Direction:** We remain bullish for short term price expectations. Make use of the box option ideas for hedgers while traders can use the spreads...Joe Victor

### Trading Recommendation:

- (08/02) Stand aside

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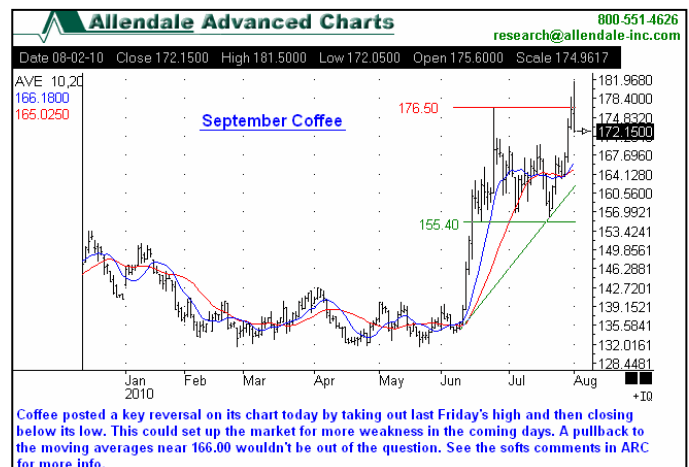
**Advanced Charts Direction:** KC wheat tested resistance from June of 2009 at 727 1/4 today. The market pulled back into the close, but the bulls may not be done here just yet. We are standing aside on all wheat markets right now due to the increased volatility...Monica Moehring

**Softs:** The markets have been wild and today did not disappoint. The dollar slipped more than 60 points and most markets finished higher. Sugar might have turned around today as well as coffee. Watch support for further downside.

**Cotton:** December cotton hit resistance today and closed near the lows. We are now recommending putting on a long March short December spread. The December contract has been over extended and put almost 3 cents of premium in that spread. The fundamentals are bearish but the funds have pushed this spread out wide enough. We are risking a penny from entry.

**Coffee:** Coffee made new highs early today but closed with an outside day down on the charts. This is a negative sign and should bring further weakness in the coming sessions. We are going to move our profit order in our bull call spread down to \$5.00. Today's chart action was negative and could put in a short term top if we see further downside tomorrow.

**Sugar:** Sugar put in an outside day on the charts after putting in an early high this morning. We are standing on the sidelines for now but wait to see how the October contract reacts near the 18.80 level. Sugar has been in a big uptrend and should use the 18.80 as support. A close below that could open the door to near 16 cents. Keep an eye on the charts over the next few sessions...Steve Georgy

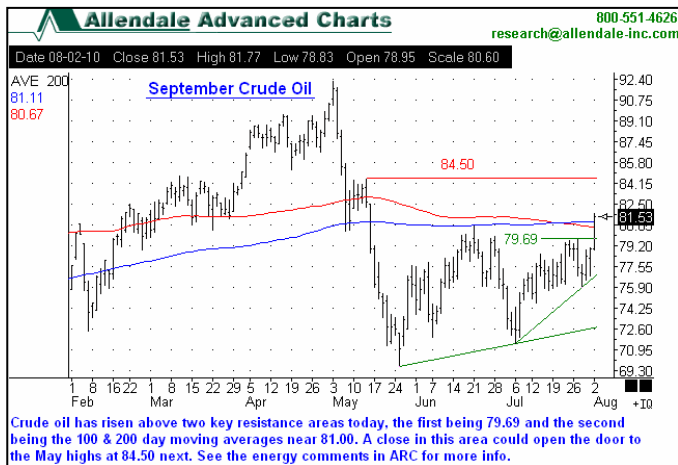


### Working Trade(s):

- (6/25) Bought **September Coffee** 170.00 calls/Sold 180.00 calls at 2.30, risk 0, objective 5.00
- (6/14) Bought **September Coffee** 145.00 put/Sold 135.00 put at 3.40, risk 0, objective 7.00

### Trade Recommendation(s):

- (8/2) Buy **March Cotton/Sell December Cotton** at 2 cents premium December, Risk to 3 cents



**Energies:** September Crude Oil settled \$2.39 higher for the day at \$81.34. Today's rally was a combination of a few friendly factors that added up to big gains for the session. We received support from European equity trade which hit 3-month highs on good results from some of their leading banks. The U.S. Dollar also fell to a 3-month low which added to today's support; it's no coincidence that equities hit 3-month highs while the Greenback hit a 3-month low. We're back to the same argument in Crude Oil that we've seen numerous times over the past couple of years; fundamentals just don't match the price movement. Weekly inventory data has showed increasing supplies over

the past few weeks and the market continues to buy bearish data as long as the stock market is pointing higher. This is very evident when reviewing Commitment of Traders data from the CFTC that shows money managers have increased their net long position in Crude Oil to the highest level since May... Brian J. Splitt

### Closed Trade:

- (8/2) **Sold September Crude Oil** 79.90. Risk 80.90 hit for -\$1,000.

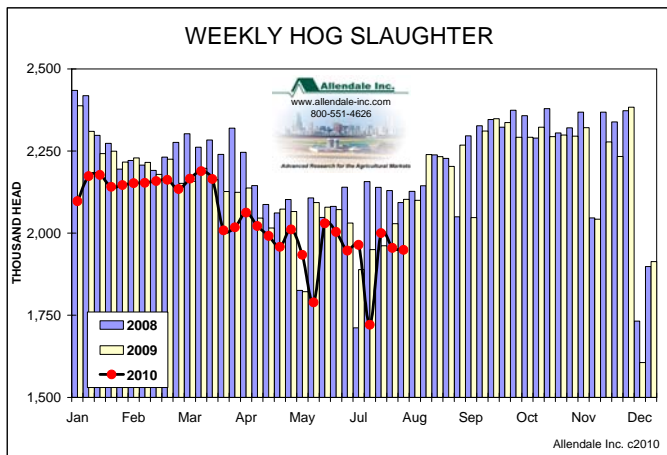
### Trade Recommendation(s):

- (8/2) **Buy September Crude Oil** 77.85. Risk 75.85. Objective 83.85.

**Technical Commentary:** Crude Oil is a market that is trending higher long term and since July 6. It was stuck in an \$8 range since late May, but today's trade broke out of that range. Close in support for September Crude will be the 200 Day Moving Average at 81.10 with 80.82 and 80.00 providing the next level of support. 78.55, 77.85 and the 20 and 50 Day Moving Averages sitting at 77.50 and 76.65 respectively add support. 75.62, 74.70, 73.75 and 72.60 provide further support. The June low of 71.92 and the July low of 71.47 will provide support above 70.00. Close-in resistance is today's high of 81.77 with 82.00 providing resistance just above. There is a band of consolidation from 82.00-84.50 with we may enter if we can break through 82.00 in the near term. 85.50, 86.00, 87.30 and 88.80 will be further bull objectives.

Silver is making a sizeable rally today as the market has pushed just above first resistance at 18.535 from a couple weeks ago. This market has traded in a sideways range for the better part of the past 3 months. Support sits down at 17.150.

**Lean Hogs:** This afternoon's slaughter report from USDA showed the drop in the day's kill was even larger than expected. Between ourselves and the other two analysts that Dow Jones surveys each morning, the trade was expecting the day's kill to fall to 359,000 head. Instead USDA reported a much lower 343,000 head number. Packers are attempting to run lines matching up with available slaughter ready supplies. From mid June to mid July hog slaughter ran around 2.5% lower than last year. Available numbers contracted in the last week of July and will be tight into mid August. Part of that was implied



from the most recent Hogs and Pigs report. A second issue is the assumption of lower finishing weights due to recent heat. It has not shown up in USDA's nationwide numbers but should soon. On the demand end we must again highlight the good news that came out last week for chicken. It was announced Russia cleared 39 more US chicken plants for export. That will help clear this chicken backlog quicker than expected.

**Direction:** Though we will suggest prices are in overvalued territory we cannot suggest futures will break just yet. The short term news issues noted above are all one sided. For trading, the risk on the

short October call was filled today. Though it will be more than offset by profit on the short August put, it is enough to convince us not to stand in front of this market yet...Rich Nelson

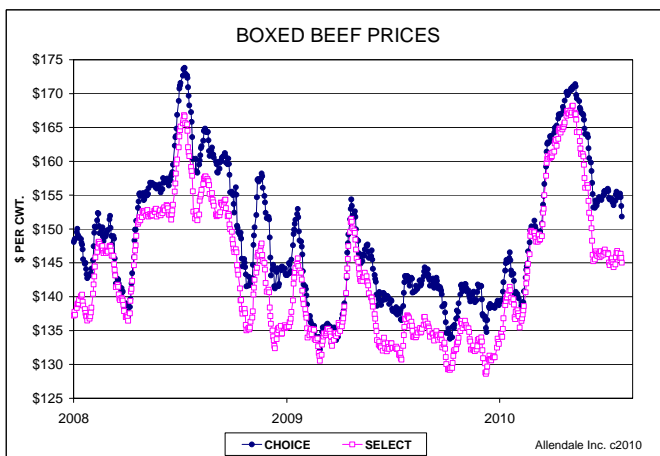
### Working Trades:

- (06/04) Sold August 80 put 2.75, risk 2.75, objective 0. Closed .10.
- (07/22) Sold October 78 call 2.25, risk 3.60 filled 08/02 for **-\$540**.

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**Advanced Charts Direction:** Hogs posted a new contract high for the third session in a row today. The close was in the middle of the range, but the uptrend remains very solid right now. Support rests down at 77.72. We have a buy order near it at 77.75...Monica Moehring

**Live Cattle:** Considering the fact that boxed beef was down \$1.12 and \$1.61 for choice and select, we cannot say today's slightly lower futures action was that bad. Traders are realizing cash cattle peaked two weeks ago at \$95 and are now headed lower for a few weeks. August futures, at \$92.17, with a normal  $-.74$  basis is implying cash cattle will be \$91/\$92 by the end of the month. Those who follow contracted cattle supplies can note packers can draw from captive numbers as well. The one supportive point to make this morning is the stock market was up strongly today. That may have added an underlying tone of support to futures.



**Direction:** We are longer term bulls on everything from the October on out. However, current prices are a bit too rich at this time of year. We will happily buy this market at discounted prices...Rich Nelson

### Trade Recommendation:

- (07/21) Buy December 94.10, risk 93.00, objective 96.45.

### Working Trades:

- (05/14) Sold August 98 call 1.20, risk to .67, objective 0. Closed .02.
- (05/27) Sold August 87 put 1.30, risk to 2.15, objective 0. Closed .02.
- (07/15) Sold December 94 put 2.55, risk to 4.15, objective 0. Closed 2.17.

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**Advanced Charts Direction:** Cattle pushed just above resistance at 95.15 today, only to settle well off this level. The close was above the 10 day MA though. We rolled our long from Aug to the Oct today and are now long from 94.65 here...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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