



Weekly Commentary

For July 7th– July 11th 2008

By: Matthew Bradbard

Life has been good if you have been long just about any commodity for the last year or so, but you know things are getting out of control when oil magnates in the Middle East are paying as much as \$1 MIL for customized license plates. That being said, a variety of commodities are looking heavy and with the G-8 warning that we are “entering the danger zone” and with potential for a dead cat bounce on the dollar, we would recommend tightening up stops on your longs and step aside looking for commodities to back off short term. This will set up a nice long entry for several commodities from corn to cotton. Continue to monitor oil and the dollar as most commodities are keying of their direction.

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August crude oil was up \$3.58 for the week and is quickly approaching the \$150 level with little signs of stopping there. We are overbought, we are seeing demand destruction domestically, volume has been light but as we said last week, \$150 appears to be a self fulfilling prophecy. The true test is when we reach that level how the market reacts. Will all the longs let go or will the market start focusing on the \$160 level? We are not suggesting long or short futures exposure but would advise traders that are looking to gain exposure to purchase \$5-8 bull call or bear put spreads into September, now that August options only have 2 more weeks. \$150 should serve as the next upside objective and support for now comes in at the 9 day moving average at \$140.60.

We were in search for a break lower looking at the charts, but the relentless move higher in crude should support current prices and with another leg up in crude look for distillates to follow. Demand has been slowing in gasoline and you have started to see the effect in prices as we were only able to gain 1.4 cents last week and at the same time August heating oil gained 11.60 cents. They say the best time to buy an umbrella from a street vendor is on a sunny day when demand is low, the same may be true for heating oil. Heating oil prices are being supported by the building of inventories on the wholesale level ahead of

the expected increase of residential usage when the weather turns cold and coupled with China's hoarding of diesel ahead of the Olympics one month away. For well capitalized accounts we will start playing heating oil from the long side via futures and options looking to buy a break of 15- 20 cents. As far as RBOB it looks like the market is getting tired and although strength in crude and heating oil may support, we feel the only viable trade in RBOB is to be short against heating oil in the same month looking for the spread to widen. Call for more details.

The U.S. Department of Energy said that underground supplies of natural gas were up 85 billion cubic feet last week to 2.118 trillion cubic feet, less than expected. Supplies are now down 15% from a year ago and down 3% from the five-year average. August natural gas prices were up 31 cents on the week, but this is not a market that moves in a straight line; beware of the volatility; on Wednesday we had a 49 cent trading range or \$4.900 / contract. We would caution the faint of heart because any significant weather news could send prices \$1 higher or lower. We would continue to advise buying breaks simply because it continues to work. The call spreads we have spoken of should work into expiration, but we would not establish new positions and will start pricing September in the next few weeks.



Bulls and bears will likely take a step back after futures open on Monday to gauge early-week market direction after being away from the action since Thursday. As for trades, we bought October 76 calls for clients last week and got positioned long December in lean hogs. We are looking for the most recent gap lower to be filled on a move above the 100 day moving average, back to at least 75.36 which would be a 50% Fibonacci retracement. MACD and stochastic should support a move higher and with confirmation we would look to add to longs.

Traders on Monday will look forward to the official start of the Goldman roll on Tuesday that will conclude on July 14. The roll will consist of funds moving some of their August long positions into October and possibly December in cattle. We are long feeders for our clients looking for prices to start trending higher soon. Last week August feeder cattle traded in a 2 ½ cent range but didn't get anywhere as prices only gained 30 ticks. As we have been voicing, we are looking for buyers to emerge around the 50 day moving average where we sit currently. August live cattle were virtually unchanged on the week not wandering from the 9 day moving average on a closing basis. We have no trade recommendations here, but would entertain buying dips if prices were to get closer to the 102 level.



Stocks: The gradual slide south continues, but the selling hasn't been climatic, which tells us that before you see a capitulation, the path of least resistance is down. If you have never heard of the "Hindenburg Omen" you may want to Google it because it indicates there is a 25% probability of a full blown stock market crash that will happen in the next 120 days. Wake up, last month was the worst June in 78 years and the first 2 quarters showed the worst performance in stocks since 1970. The Dow ended last week down 58 points or 0.5% to 11289. The S&P fell for a fifth straight week and gave up 15 points or 1.2% to 1263. The NASDAQ lost 70 points or 3.0% to 2245. We are officially in a bear market and although we could get a short covering bounce, we are not confident enough to call a bottom. Lighten up, hedge, diversify, shift into non-correlated assets...do something!

Bonds: The U.S. Labor Department said that the unemployment rate remained at 5.5% in June. Non-farm payrolls were down 62,000, roughly as expected. Non-farm payrolls in May were revised from a decline of 49,000 to a decline of 62,000. Treasuries were range bound last week and although we have a bullish bias being that stocks may rally irrationally, you could see some liquidation of debt that would take prices lower. We remain on the sidelines looking for a better entry for now. September 30-yr bonds find resistance at last week's high of 116'16 and support at 115'00 followed by 114'22. September 10-yr notes should have trouble getting above 115'04 and on a pullback should be supported at 113'25.



The ECB increased its interest rate from 4.0% to 4.25%, as expected. It was the first increase this year and puts the rate at its highest level in seven years. The September Euro fell in response as comments from Trichet indicated that it may be one and done even though inflation readings are twice as high as the ECB would like. We have some clients positioned short futures and sold 154 puts against their shorts. The reversal pattern on the daily charts indicates that we may get a quick move down to at least 1.5500 from over 1.5850 just 3 sessions ago. We will most likely add shorts to this position and be selling rallies for clients this week on signs of increasing Euro weakness or dollar strengths. Last week we told you to put the September 150 put on your radar and it may be a viable play; not to hold till expiration, but with a delta of 17% on a violent 300 plus point move you should be able to pick up \$500 on \$750 premium without the margin and unlimited risk of futures.

The September British pound was down 1.35 cents on the week back below the 200 day moving average. Assuming the recent high holds, we could get a 50% Fibonacci retracement taking prices back to 1.9545.

As with the Euro we advised a put option play here as well. The September 195 put has picked up about \$100 since we told you to put it on your radar. Try to buy it this week for 170 points (\$1062.50) and look to liquidate for 240 points (\$1500) at a later date. For futures, sell rallies looking for prices to track lower. Thursday the Bank of England is expected to keep rates steady at 5.0%.

September Australian dollar made a new contract high, but was down slightly on the week losing 5 ticks. We want to be long but the market is starting to look heavy, after a 3 cent advance in just about three weeks the Aussie looks like it may take a rest, so be patient with new entries. On a pullback .9500 should serve as first support with more significant support at the 20 day moving average at .9420.

As we said last week we were looking for shorting opportunities, perhaps from higher levels. On the week the September Swissie lost 80 ticks ending the week near the lows. From here one could be short with stops above last week's highs just above .9900. We are looking for prices to make their way back to the bottom of the recent trading range around .9550. Assuming a fill at the current price, as of this writing you are looking at a 1:1.5 risk/reward ratio which is not that good, so it is up to you if you take the trade. We think the better plays are in the Pound & Euro to be short.

The Canadian dollar has tended to rally throughout the first Canadian fiscal quarter (April-June). Once into July, however, it has regularly rolled over and declined into August. We recognize that past performance is not indicative of future results, but the charts aren't telling any real story so we will go with history and expect weakness in the Loonie. Look to sell rallies that are contained by the recent highs around .9940 ultimately looking for a trade back to .9650.

We advised clients to go to cash on their yen positions. When it doubt move to cash. It is much better to be on the sidelines wishing you were in the market as opposed to, in the market wishing you were on the sidelines. Prices should find resistance at .9900; the 40 day moving average and support just under .9300, but it could go either way so we have no trade ideas for now.

Last week the dollar index traded slightly higher helped by comments from the ECB, but on a holiday shortened week and light volume we're not reading into this too much. We will look to see how the dollar reacts this week as traders get back from the holiday to see if we get some follow thru. Thursday we closed on the pivot point with support coming in at 72.80 and resistance at 73.30. Continue to monitor movement in the dollar, not so much to trade, but to see how other markets react to its movement. As many commodities are priced in dollars, if you see a significant move either way look for commodities to move in the contrary direction.



Look for action this week to be influenced by Informa and the USDA reporting on demand and yield.

Corn: Weekly export sales showed 325 t.m.t. of corn was sold last week. With the USDA's most recent acreage report behind us, traders will wait for the next update in August hoping for more detail. The planted acres estimate of 87.3 m.a. up from March 31 is sure to change as we think a reduction will happen as we digest late plantings, reseedings, and flood damage. For now it is all about weather and its impact on the yields. Price moves are becoming more exaggerated as there is a lot more money trading in this area. December last week was down limit on Monday and up limit on Wednesday so expect increased volatility. Last week alone we had a trading range of 572 cents or \$2862.50/contract. The 20 day moving average has been the line in the sand to date, but if it were to give way look for a trade down to 7.35 and potentially 7.25. We still favor the long side, but the charts are ugly so if you are going to play from the long side be prepared to sell different months for coverage or use options to limit your exposure. After this correction runs its course we still do expect another leg higher ultimately taking December to at least 8.50.

Beans: Weekly export sales showed 465 t.m.t. of beans were sold last week, up from a negative reading last week when China cancelled previous orders. Last weeks USDA acreage report showed 74.5 m.a. were planted. With near perfect growing weather into harvest, we look to see ending stocks near 150 m.b. Any significant drop in yield or a considerable jump in global demand and we run the risk of running out of beans next year unless prices went high enough to ration demand. The market will need to deal with this from now thru August until we get a better idea of yields. A stretch of hot and dry weather now could send November beans well over the \$20. As we started off with too much rain and flooding we now need to see mild precipitation so as to prevent beans from cooking in the heat. We have advised clients to lighten up on their longs as prices look like they are due for a setback. By no means do we think the highs are in, but looking at a candlestick chart with the Doji formation on Thursday and the lack of follow thru after a new record posted, we could get a mild retracement. For now prices are supported at the 9 day moving average at 15.92 on November, if that were to give way we could see a trade down to 15.50 with out any chart damage. We will be buying dips in November for clients via futures and option call spreads. On a larger break than that we would get more aggressive the closer November got to \$15.

Wheat: Weekly export sales showed 668 t.m.t. of wheat was sold last week. There was no noteworthy information on the most recent USDA acreage report for wheat. The winter crop should be 50% harvested by this week and the spring wheat crop growing has 70% of the key head development time ahead of us, so weather will play a factor. Last week September CBOT lost 24 cents ending the week at 8.87 1/4. We continue to favor the short side and would be comfortable being short as long as we do not get a settlement above 8.93 in September. In the short term we are looking for prices to find their way to 8.40 and ultimately back below \$8. KCBOT for September also gave up 20 plus cents last week ending the week at 9.12 1/2. We find resistance at 9.28 and support at 8.78. You could sell at current levels with stops above 9.30 looking for a trade back to 8.75 and down the road filling the gap at 8.29 from the first week of June.



December Cotton prices have dropped over 600 points from the close on Friday 6/27. The market has been pressured since the release of the USDA's acreage report as it showed that 9.246 million acres was planted. This was down from the March report estimated plantings at 9.39 million acres, but the report was viewed as bearish because traders were expecting plantings to come in around 8.90 million acres. Although prices may come off short term, if one reads into this number it appears we will be planting 15% less cotton than last year. We are already positioned long for clients with 10 cent call spreads in December and will be using the current pullback to get clients whom were not previously positioned long via the same call spreads or long the futures as soon as we see signs of a reversal. We maintain that prices in December should make their way to 90 cents in the coming months.

September cocoa was down \$39 on the week but that does not tell the whole story as we were down \$130 on Thursday alone as we may have a potential triple top forming on the daily charts. As we voiced the last 2 weeks we are at extremely over bought levels, a price retraction is overdue. A stronger dollar would equate to a price reduction in cocoa. For now, the 20 day moving average at 3088 supports prices but we could get a move back to 2800/2900 with no chart damage. Eventually we will be advising to get long again but for now stand aside.

Like cocoa coffee has been on a tear, but prices late in the week exhibited a similar topping pattern. September coffee fell 3.80 cents on Thursday and we closed almost 4.50 cents from the highs. Being there is no threatening weather in the forecast for Brazil, and the long awaited harvest is said to be making progress, we could see prices in the short term make their way back to 144; that was the breakout level which initially served as resistance and now should serve as support.

September orange juice ended up 15.70 cents at \$1.2970 with talk of Tropical Storm Bertha off the coast of Africa. It is far too early to tell if Bertha will be any threat to Florida, but it wakes traders up to the presence of a new hurricane season. We got fortunate with clients as we recently established longs for customers (*see recent commentaries*) and this move allowed us to take profits a lot quicker than we had anticipated. Last week fcoj advanced almost 14% and may have gotten ahead of itself, we will use a setback to get clients repositioned long once again in futures and options.

Sugar has been sweet to us lately as you have seen prices advance 27% in just about one month of trading. We are now trading at the highest price we have seen in 3 ½ months and have advised clients to tighten up stops and to start moving their October 08' positions out until March or May of 09'. We sound like a broken record, but we will stay long sugar for the next few years looking for much higher prices to come. We feel the recent move was just a taste of what the next 18-24 months has to offer those who stay long sugar #11. For now prices seem to be overbought and we would not rule out a setback, so if you are

positioned long with options lighten up and if you have heavy exposure with futures sell some calls or buy some puts to protect your position.

For now lumber is like watching paint dry, however it appears to be a relatively low risk trade if you have the patience. Traders could get long futures in September or November with stops just below the recent lows looking for prices to move north in the coming weeks to months. What makes this attractive is the risk/reward ratio. We are back above the 50 day moving average for November as of last week and just #4 off in September. A word of caution as volume, and open interest are lacking so expect slippage, not so great fills and it is possible to see a gap down below stops, but not likely.



August gold had a positive showing last week building upon the previous week's gains as we have managed to trade \$60 higher in the last 2 weeks. We ran into resistance at the 50% Fibonacci retracement line at \$946 which for now should serve as resistance with support at \$923 followed by \$890. The major market mover last week was the ECB decision and more so the comments that accompanied. The lack of hawkish commentary showed their apparent neglect toward inflation and has left the door wide open for gold to move higher even in the midst of the summer months which are characteristically known for weakness. Technical's support a pullback so be patient looking to position long from lower levels. The key fundamental driver for gold, presently, is the renewed investment interest by investors looking for a safe haven as market turbulence intensifies thus longer term we expect a trade back to highs.

September silver managed to close above the 100 day moving average gaining 53 cents on the week closing almost \$1 off the week's low. This was a positive development, although it could have been better if we could have gotten a close above the resistance levels from March, April, and again in May at last week's highs around \$18.50. We will need to see that level penetrated to get any further confirmation that we will get back to the \$21.50 level that this contract saw around St. Patrick's Day. We will need to see an increase in momentum this week or prices will back off; the 3rd quarter just starting fund buying may do the trick or perhaps the next leg down in the dollar. We are positioned cautiously long and will be advising clients to add to their length from higher prices once we get thru \$18.50 on September. For option players on a move lower we will be pricing out \$1 and \$2 call spreads in September and December.

Risk Disclosure: The risk of loss in trading commodity futures and options can be substantial. Before trading MB Wealth recommends that you should carefully consider your financial position to determine if commodity trading is appropriate for you. All funds committed should be purely risk capital. Past performance is no guarantee of future trading results. There are no guarantees of market outcome stated, everything stated above are our opinions. Calculations of profit and loss have not factored in commissions and fees.