



## Weekly Commentary

For June 2nd – June 6th 2008

By: **Matthew Bradbard**

Amid the recent tornadoes, floods, wildfires and earthquakes, one may think that it is the end of the world. Storms are brewing in the commodities markets as well as regulators, politicians and investors try to figure out the role speculators have had on prices. As opposed to looking for a scapegoat, why not just recognize that, for whatever reason, prices are moving up and take advantage of the volatility and appreciation? As an investor you do not make money by answering the why questions but rather the when questions. When is now; whether it be thru a self directed account, broker assisted or via managed futures, make commodities a part of your portfolio.

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July crude oil closed up on Friday at \$127.35 in a relatively quiet session after Thursday's big drop which made little sense being that we had an 8.9 million barrel draw in inventories when the trade was expecting a modest build. This represents the largest single week decline since September '04. On the week prices dropped \$4.33 and we closed 6% off the recent record highs. Generally when a market does not move higher on bullish news you will most likely move lower, so for the short term we are looking for a pullback. We are not advising getting short but rather moving to the sidelines, looking to get a long entry at lower levels. We should find support between \$123/24 but would not be surprised to see a quick move to \$119 on July. Due to declining oil production, Indonesia announced that they are leaving OPEC.

Heating oil has led crude and RBOB higher for the past few weeks on strong diesel demand from Europe and Asia. Even though oil traded lower on the week, the underlying strength in heating oil may have kept crude from declining further. Heating oil should remain the leader and we expect heating oil to hold up the best if prices do fall further. As we warned last week expect large price swings, and even though prices may back off in the short term we are not yet convinced the highs are in. Prices could come down all the way to the trend line support of 3.40 in July heating oil, but we expect to find moderate support above there around 3.56. July RBOB has support at 3.29 followed by 3.22.

With '08 hurricane season officially under way, natural gas traders will be paying close attention to the weather reports. Remember after a brutal 2005 hurricane season prices traded above \$15 per million British thermal unit, which remains the record into today. What makes this season more frightening is that we are starting at just below \$12 when in '05 prices prior to hurricane season were trading below \$7. We start the month of June with inventories in storage 16% below last year's levels. We are still looking for a pullback but have started to price out 50 cent bull call spreads for July and August for our clients waiting for our price. We bounced off the trend support line last week in July, but we hope to get an entry with futures closer to \$11, current price being \$11.75.



After the close Friday, the USDA estimated the week's beef production at 474.8 million pounds, up 3.0% from a year ago. August live cattle made a new contract high, closing slightly higher on the week, just below 102. As we said last week we are bullish live cattle and expect to see higher prices moving forward. Immediately we may get a retracement from over bought levels but we would suggest using that as an opportunity to build long positions in either August or October. August feeder cattle edged higher on the week as well, picking up slightly, closing over 116 for the first time. Trail stops if long. South Korea is taking steps to resume full imports of beef from the US, which it had previously banned in late '03 over a food safety scare. Once back in full swing, this should help exports and promote higher prices.

Pork production was estimated at 366.7 million pounds, up 5.8% from a year ago. August lean hogs closed up 1.57 at 78.97, the highest close in nearly three weeks. August cattle closed up .92 at a new contract high of 101.85. As we voiced last week, we are looking for a significant move higher in hogs and currently are advising clients to be long August. We were able to hold the 40 day moving average last week and closed near the high of the day on Friday, which should be supportive going into Monday. In coming weeks look for a new contract high. We will be advising clients to scale into longs trailing stops looking to build a position. We were expecting a bounce in July bellies but we thought prices could get to 70 first; for now look for a bounce to 84.00.



**Stocks:** The Dow ended the week up 159 points or 1.3% to 12638. The S&P 500 climbed 24 points or 1.8% to finish at 1400. The NASDAQ added 78 points or 3.2% to close at 2523. As the month of May draws to a close the Dow will finish slightly lower, now ending lower 6 of the last 7 months. Conversely the S&P eked out a 1.1% gain, putting together back to back winning months after 5 losing months.

The NASDAQ finished almost 5.0% higher and has put together 3 straight positive months. If it wasn't for a pullback in energy, the light volume you saw last week may not have been enough to keep prices in positive territory. Current support and resistance comes in at 1385 and 1425, respectively, for the S&P and 12500 and 12725 for the Dow. We would be cautious getting long and too committed until getting closer to d-day for the FOMC, when we get another rate decision at the end of the month. Equities may deliver a bounce from oversold levels aided by a further correction in energies.

**Bonds:** The bond market continued to sell off last week, lifting yields on US Treasuries back to levels not seen since the first of the year. The likely culprit was the fear of inflation largely supported by the recent surge in energy prices. For the week the 10-yr note yield rose 22 basis points, to 4.05%, although it traded as high as 4.14% before pulling back. The 30-yr bond yield increased 16 basis points to 4.72%. Looking at the trade we would continue to advise clients to sell rallies; if it is not broken do not fix it, and this approach has been working for the last 2 weeks. June bonds should remain in the down sloping channel between 116'16 and 113 this week. Thursday's low in June notes should serve as first support at 113'04 as we expect a minor rebound.



Statistics Canada said that real GDP was down .1% in the first quarter, but up 1.7% from a year ago, weaker than expected. It was the weakest performance in over four years. The June Canadian dollar closed down on the week but not as much as we had anticipated, losing 62 ticks. We expect last week's highs to serve as good resistance and anticipate a trade back below par to .9850 in coming sessions.

Eurostat said that the unemployment rate for the Euro area 15 remained at 7.1% in April. They also estimated that consumer prices were up 3.6% in May from a year ago, up from a 3.3% gain in April. The June Euro was down nearly 2 cents at 1.5546. With growing inflationary concerns it is unlikely we will see any cut in rates this year and extremely doubtful we will see anything this week. Rallies should be contained at 1.5700 and we will be looking to sell rallies for clients still looking for prices to get back to the 1.5400 consolidation zone from previous weeks.

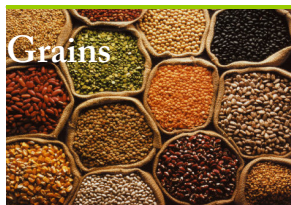
Japan's Statistics Bureau said that consumer prices were down .1% in April, but up .8% from a year ago. The unemployment rate increased from 3.8% to 4.0% in April and household spending fell 2.7% in April from a year ago. The June yen ended lower on the week which was not what we anticipated but investors are selling or "borrowing" yen to put to work elsewhere. Yes, the carry trade is back; we do not like it as we expect to see stocks roll over, and although out of our longs we will be buying dips that hold support looking to be there *if* and *when* stocks retreat. We will be using 20-40 point stops for our clients looking to catch the start of a move north.

The Bank of England's latest forecast for growth and inflation highlighted the growing risks posed by price pressures, and with the mixed signals it is unlikely we get any change in rate policy this week. We maintain that the move to come is most likely down but with inflationary concerns the pace of the decline may not be immediate. Last week we remained range bound, with selling emerging around 1.9800 in June and we are supported at the 100 day moving average at 1.9659. We are still looking for an entry point to get short for clients.

We recently forecasted a 3 cent up move and then the most recent 2 cent down move in the Swiss franc and are now recommending a position on the sidelines as it could go either way. More than likely if we get back down close to .9400 we will advise a buy, and if prices bounce off the 20 day moving average and get near .9750 we will issue a short recommendation. In range bound currencies play the range until it stops working.

As we said last week, in the short term we are looking for the Aussie to back off but we will use that as an entry to get customers long. Prices in June closed just above the 20 day moving average on Friday, but based on the technical indicators on a daily chart we should move lower from overbought levels. If we get a pullback to the .9370 area we will start exploring long entries for clients, but, ideally, we are looking for a pullback to .9250/.9300. Longer term, as stated last week, we expect the Aussie to reach par.

If the core PCE reading, which excludes food and energy, continues climbing above the 2.0% comfort zone, look for the dollar to continue to show modest gains, as it is presumed the Fed will eventually be forced to raise rates to quell inflation. We continue to monitor the dollar index not so much to trade but to help aid in entry and exit points in other transactions. We built good support just below 72.00 last week with resistance coming in at 73.30. On a move to 74.50 we would advise clients to get short.



*The government opened up 24 million acres of previously protected land from the CRP for cattle grazing. This action was taken hoping to reduce feed demand for corn although I feel the impact will be marginal at best. Ironically this move may not even decrease corn demand if cattle ranchers decide to increase the size of their herds*

**Corn:** Weekly export sales showed 477 t.m.t. of corn was sold last week. As we hinted at last week, if we see a move lower in outside markets we could see a retraction in corn; from Tuesday's high into the low of the week made on Thursday, we saw nearly a 35 cent correction. This could also be attributed to the funds ringing the register on longs. If you have been listening to our advice you should either be outright long December '08 or long December '08 against a short December '10. As of Friday the spread started to widen as we have been forecasting. One could have picked it up at even money the last few sessions and the spread settled at 16 cents going into the weekend. The market will still be looking at weather for

direction; pay attention to emergence as well as crop condition. Corn planting is virtually finished; as of last week we were 88% planted. If outside markets turn bearish and December closes below 6.00 exit longs or at least be prepared for a test 5.85. Look to add to longs on signs of strength. We are looking for 50 cents on the spread mentioned above and a new contract high in December above 6.55.

**Beans:** Weekly export sales showed 246 t.m.t. of beans were sold last week. Like corn, we notified you last week to be prepared for a quick move lower on the funds and outside market influences. November beans bounced off the 20 day moving average and closed back in the recent trading range after trading as low as 13.05. If you used this latest set back to get long trail your stop under the market. Recent wet weather should hinder significant planting progress, although many farmers have finished their corn and now have moved on to beans. As of last week we were 52% planted with last year coming in at 74% and the five year average 67%. Support comes in at 13.25 followed by 13.09 on a closing basis with resistance at the top of the recent trading range between 13.65 and 13.75. On a close above 13.65, look to add to longs for a run to 14.35 or, perhaps, higher.

**Wheat:** Weekly export sales showed old crop at 341 t.m.t. and new crop at 904 t.m.t. This is a significant jump for new crop as buyers look to lock in current prices, recognizing that ending stocks remain at multi-decade lows. World production looks to be a record, but it is too early to say with certainty amid potential fungus problems and, again, questionable weather in Australia and abroad. With empty bins and a dangerously low stocks to usage ratio, end users are taking a good portion of their wheat and storing it, remembering just a few months ago what tight supplies can do to prices. Last week prices moved sideways and, quite frankly, we were surprised we did not get more of a short covering rally at month's end. For now it looks like we could get a bounce from over sold levels, but we do not expect much more than 8.00 in CBOT and 8.40 in KCBOT for July, before more selling emerges.



The USDA reported that 71% of the US crop has been planted versus the 10-year average of 76%. In the next couple of weeks the focus will shift to the weather and its effect on the growing period. A weather premium will begin to be built into the December contract. We have been recommending long options and long futures looking for higher prices in the coming weeks to months. A definitive low is yet to be confirmed but we suggest having a partial position and then adding to a winning trade if this proves to be an interim bottom. We expect cotton to continue to be a laggard as opposed to a leader so it should follow other grains.

Dow Jones Newswires reported that the chairman of the Indonesian Cocoa Exporters' Association expects Indonesia to harvest 500,000 tons of cocoa in 2008, down from 530,000 tons a year ago. He is also concerned that a fungus, vascular streak dieback, may reduce next year's harvest to 400,000 tons if

efforts aren't made soon to control it. July cocoa found support around 2550 and traded higher on the week gaining nearly \$200 closing at 2723. Support comes in at 2680 with next resistance just above 2800. Monitor the dollar for help with entry and exit.

Brazil's coffee regions are expecting cooler temperatures in the weeks ahead, but there is no talk of freeze yet. July coffee closed down 0.60 cents at \$1.3390. Playing the law of averages we would be selling rallies for clients, ideally close to 140, being that coffee prices for July futures have moved down 12 of the last 15 years, for an average of around 10 cents over the next 3 weeks. Past performance is not indicative of future results.

Is the worst behind us? It finally appears sugar is going to try to make a bottom as the stochastic and MACD would support a move out from these levels. October sugar ended down .12 at 11.43 but pared losses trading as low as 11.19 intra-day Wednesday. The bounce is being helped by bargain hunters taking advantage of the recent sell-off which, as we have previously stated, has been overdone. If you have a longer term perspective, we strongly recommend buying sugar futures and options and holding them into next year looking for much higher prices. We were undoubtedly early on our last entry with clients, but with the fundamentals starting to shift from bearish to bullish, to walk away now we feel would be foolish, as we think the majority of the movement down is at our backs.

The Florida Department of Citrus said that there were 119.3 million gallons of frozen orange juice concentrate in inventory on May 17th, up 43% from a year ago. July orange juice closed up 2.25 cents on Friday, but virtually unchanged on the week after making new contract lows. It appears traders are covering their shorts and we may get some movement from oversold levels, additionally the onset of the '08 hurricane season may be perceived as friendly. As we stated last week, we have initiated long option plays for some of our customers in September FCOJ; inquire for exact details. You see a significant volume spike on FCOJ on Thursday which is a positive sign, being that you often see such a spike near highs and lows; could a reversal be in the making?



The combination of weak oil and a stronger dollar prompted liquidation pressure in gold which backed off \$37.50 in June after the recent advance of \$85 starting on May 1<sup>st</sup>. \$850 to \$860 should serve as first support unless we see a significant leg down in oil or up in the dollar, which is not expected. We are content advising a position on the sidelines and expect to be able to buy gold from lower levels. On a breach of \$850 we could see \$800, which we welcome as we anticipate significant legs the second half of the year. Because metals generally come under pressure during summer as jewelry and industrial demand slow, be patient and pick your point.

Much like gold, silver generally backs off as demand subsides this time of year. July silver lost just about \$2 or 11% last week. This puts support at the 50% Fibonacci retracement at \$16.50 followed by the 38.2% coming in at approximately \$15.33 on July. As we warned last week, if long make sure you have an exit strategy because the seasonal tendency in June is overwhelmingly bearish for silver. We hope to show existing clients and perspective clients that it is not wise to trade on seasonal tendencies alone, but they should play into your decision-making process. We suggest using seasonal tendencies in combination with many other fundamental and technical indicators depending on the market and your exact strategy. We held onto our December call spreads for clients and will look to re-establish longs in futures further out, perhaps in September or December once this pullback has run its course. If you are still holding July, we may get a bounce from oversold levels that will let you out in coming weeks, so be alert.

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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.