



Weekly Commentary
For August 3rd– August 7th 2009
By: Matthew Bradbard

“Risk is Relative”

Even after the recent market turmoil it appears investors still have an appetite for risk. Whether the risk taking is misguided is debatable, but the reality is if investors are more informed about the inherent risk they may be more comfortable taking risk. Though there still seems to be more questions than answers for investors to earn above average returns, they may need to be willing to take above average risks. That is not to say the stock market alone, real estate, bonds, or even commodities should be your sole focus it just means that investors need to educate themselves on the unique risks for each asset class and really ask themselves what type of beta they can handle in their portfolio. My suggestion would be to consult a professional in the chosen asset class that interests you and align yourself with someone that has a comparable take on the markets.

To find out exactly how we are positioning our clients in commodity futures and options, Contact us today at 1-888-920-9997.

Energies

The DOE reported crude oil supplies were up 5.1 million barrels last week, supplies of gasoline were down 2.3 million barrels and heating oil supplies were up 200,000 barrels. This was the first gain in crude stocks since May. September crude oil was higher by \$1.40, but the real story was the volatility as the weekly trading range was over \$7. The trend line dating back to February held just below \$63 and we experienced a mid-week reversal. Support is seen at the 9 day moving average at 66.85 followed by the 20 day moving average at 64.50. Resistance comes in between 70.50/71.00 followed by 74.00. September RBOB was higher by 11.56 cents last week, its first trade above \$2/gallon since mid-June. Support comes in at 1.90/1.91 and resistance at 2.03/2.04, which had previously served as stiff resistance. September heating oil gained a measly 2.45 cents on the week. Resistance is seen at 1.85 followed by 1.88 with support at the 9 day moving average at 1.7775.

The DOE reported underground supplies of natural gas were up 71 billion cubic feet last week to 2.452 trillion cubic feet. Supplies are now up 23% from a year ago. September natural gas closed down 19 cents last week. Support is seen between 3.50 and 3.55 with resistance at 3.85 then 4.05. For new entries we would advise buying the November \$1 call spreads; the settlement Friday on the \$5/6 call spread was \$2380. Before ruling this play out look at the weekly chart, you will see the last 3 weeks we've had higher lows.

Livestock

October live cattle were higher by .625 last week and after multiple probes lower the 20 day moving average held. That being said we could see higher pricing so we advised clients to exit their October 86 puts at a loss of approximately \$200 per option. We will wait for further evidence before getting long but we do not wish to be short. Support is seen at 89.40 with resistance at 90.50 followed by 91.00. September feeder cattle was lower by 10 ticks but much like live cattle the 20 day moving average at 101.70 acted as support. We should see resistance at last week's high just above 103.10.

We expect last week's low in October lean hogs to serve as an interim bottom. Support comes in at the double bottom formed last week at 51.75 with resistance first at 55.15 followed by 56.20. We advised

clients to buy October 60 cent calls last week for \$540. This was for new entries and to average out with the clients that already own August 62 cent calls.

Financials

Stocks: The million dollar question was asked in Barron's over the weekend "How much of the recession's passing is already priced into stocks?" The S&P was higher by 7.50 points last week to trade to a fresh high for 09'. We are still not ruling out a test of 1000 before prices back off but we will remain consistent and reiterate that we do expect a sell off very soon. That being said we were light buyers for clients in the ES September 925 puts for \$800 last week as we expect in the next 2/4 weeks a trade down to 945/950. The Dow was higher by 75 points last week, gaining over 1000 points or 13% just in the last 3 weeks. With July now behind us the Dow put in its best monthly performance in more than 7 years, do things feel that good? Resistance is seen at 9200/9225 with support at 8990 followed by 8825. A trade back down to the 50 day moving average would only be a correction of 6%. We have suggested for clients to lighten up on those stocks in their portfolio that have gained over 50% since the March lows.

Bonds: September 30-yr bonds were higher by 2'25.5 points last week to trade to their highest level in 2 1/2 weeks. Resistance comes in at 120'00 with support at 118'00 followed by the 40 day moving average at 117'00. September 10-yr notes were bid higher as well gaining 27.5 ticks last week. Support is seen between 116'11 and 116'17 and resistance between 117'28 and 118'00. We advised clients last week to exit their NOB spreads at a profit of roughly \$1500 per spread as we reached our target. We also advised clients to lighten up on their Euro-dollar puts as we expect a trade higher in the near term. However we would sell into this rally and look to re-establish these positions in the coming weeks buying more June & September 10' puts. The NFP # guess comes in at a loss of 375,000 jobs for the month of July and an unemployment rate of 9.6%.

Currencies

The Euro was lower by 27 ticks last week just off the week's high. Resistance comes in between 1.43/1.4325 while support is seen at 1.4150 followed by 1.4025. We have no opinion on direction and would advise playing the breakout above resistance or below support. The ECB is expected to do nothing with rates this week keeping them at 1.0%.

The Swissie gained 10 ticks last week on 2 sided trading. Resistance is at .9425 with support at the 20 day moving average at .9280 followed by .9200.

The Loonie was a winner again last week picking up 55 ticks. Last week's high at .9306 should serve as resistance with support at .9150 followed by .9000. Follow metals and energies to determine the direction.

The Kiwi gained 4 ticks last week as prices appear tired. Resistance comes in at .6625 with support at .6490 followed by .6420. We are currently on the sidelines with clients.

The unemployment rate in Japan increased from 5.2% to 5.4% in June, the highest in 6 years. The yen was a loser last week by 11 ticks. Last week's low at 1.0432 should support with resistance seen at the 20 day moving average at 1.0630. We advised clients to cut losses on the 110 call options recommended last week losing just over \$200 per option. We're currently on the sidelines though we have a bullish bias.

The September Australian dollar closed up 174 ticks last week after positive comments from a Reserve Bank Governor caused some to believe that there may be *no* more cuts in interest rates. Prices traded to their highest level since 8/8. Resistance is seen at .8400/.8450 and support is eyed at .8200.

The Cable gained 246 ticks last week but at this point we feel prices have gotten a bit ahead of themselves and have advised clients to buy September 160 puts, we paid between \$550/600 and have a target of \$1000. Resistance is at 1.6750 followed by 1.70000 while support is at the 20 day moving average at 1.6375. We expect no action to be taken on rates by the BoE this week though there may be more gibberish on the quantitative easing program.

The US Commerce Department reported GDP was down .2% in the second quarter and down 2.4% from a year ago, better than expected. Ironically, this good news was used to drive the September dollar down to a new contract low as investors relaxed their need for a *safe haven*. The dollar lost 36 ticks last week as prices failed to get through the 20 day moving average on 2 attempts. This should continue to act as resistance at 79.60 with support at 78.30. Though we still expect a bounce, on a massive exit from the dollar and lack of flight to quality lower pricing is possible, for now we remain cautiously optimistic.

Grains

The upward extension in corn and soy beans was principally due to an explosive export number last week. If this was not a flash in the pan look for more upward pressure in coming weeks.

September corn was higher by 22 ½ cents last week trading to a 3 week high and with prices now above the 9 and 20 day moving averages we expect further upside. Our target in December remains \$3.50 followed by \$3.70. Our client's currently own December \$3.80 and \$4 calls at a profit and are looking for more. Support in September is seen at 3.20/3.25 with resistance at 3.50.

August soybeans were higher by \$1.14 ¾ moving 11% on the week, trading higher all 5 sessions. Support comes in at 11.00 followed by 10.80 with resistance at 11.50 then 11.80. Those of you who are long November outright or the \$1 call spreads we've recently recommended, we would suggest putting in profit orders. Additionally, it appears one of the CTA's we work with made a brilliant call getting long December soy meal, did any one follow? This too made a nice move gaining 8% last week.

September CBOT wheat was higher by 12 cents last week as it appears a base is building and at minimum we should get a bounce from oversold levels. Support is seen at 5.15, resistance at 5.35 followed by 5.45. September KCBOT wheat was higher by 9 ½ cents last week. Support comes in between 5.46/5.50 with resistance at 5.65 followed by 5.75. The same scenario exists in the December KCBOT/CBPOT spread; we like buying between 16-19 cents with a target of 35 cents risking to a stop close only below 10 cents.

Softs

September cocoa was lower by \$28 last week after multiple failed attempts to get through resistance at 2925/2935. Support is seen at 2785 followed by 2700. We expect prices to make their way to 2660 in the next 2/3 weeks. We currently own October 2500 puts for clients and are down \$190 per option.

October sugar was higher by 16 ticks last week taking prices to a 3 ½ year high. Prices have made their way to higher ground 14 out of the last 18 sessions but this has taken prices to extremely overbought levels. We are now hearing whispers of 20 cents/lb. Resistance comes in at 18.90 and support at 18.50 followed by 17.90. We would like to see a trade back to 17.25 before re-establishing longs for clients.

October cotton gained 93 ticks last week closing just below the 50 day moving average. Support comes in at 55.50/56.00 with resistance between 59.25 and 59.75. We are thinking about getting clients long December, but at this time it's just a thought. Being that Texas is the leader in cotton production in the US and they are experiencing one of the worst droughts in many decades we find it tough to believe we will not get some upward movement in the coming months. No new recommendations at these levels.

September orange juice was lower by 4.95 cents as what goes up must come down. In the last 2 weeks OJ is lower by 12%. Resistance comes in at 94.00 and support at the 50% Fibonacci level at 90.00 followed by the 200 day moving average at 88.00. We may look to get long again with clients but we feel there could be an additional 3-5 cents pullback so stay tuned.

September coffee was higher by 3.85 cents last week. We advised clients to cover their positions at a small profit or break-even trade as we thought resistance was going to cap prices. Perhaps we left too early but the good news is we took that money and went into gold which for now looks like a good call. Support is seen between 123.00/123.50 and resistance at 128.50 followed by 132.50; which would be a 61.8% Fibonacci retracement. Hindsight being what it is, the December 130/145 call spreads may have

been the play as prices settled at \$1670 Friday and we originally paid \$1250. The lesson here is both entry and exit on trades is very important.

Metals

September silver was higher by 5 cents last week but the reversal higher mid-week was nothing short of spectacular as prices closed 77 cents off the weekly lows. This pattern could signal higher prices are to come being we closed back over the 100 day moving average and are fast approaching the 50 day as well. Support comes in at 13.60 while resistance is seen at 14.20 followed by 14.60. We continue to buy December \$3 call spreads for clients.

December gold gained just \$1.30 last week, which does not seem like much but after further investigation, much like silver, gold experienced a dramatic reversal mid-week that carried prices back over the 100 day moving average and almost \$30 off the weekly lows. Support is seen at 942/945 with resistance at 962/968 followed by 986. Friday, when gold was higher by \$6, we advised clients to buy October 975/1025 call spreads for \$800. Some are still waiting for a further pullback but meanwhile we traded higher by an additional \$12 that day and those spreads settled up by almost \$400. The moral is you never can outsmart a market and if you want to be long get long. Keep an eye on the dollar and the stock market to determine the immediate direction.

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.