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The Three Wisemen: Silver, Sugar & Soybeans

July 1, 2008

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I do not remember who told me that commodities that begin with the letter "S" trade together. I am not even sure if I buy into this but I do expect higher prices in these three commodities and maybe it's just a fluke they all begin with the letter "S". As a trader I am always looking for an edge so if it works maybe it's true. It could be that silver, sugar, and soybeans are moving higher on their own accompanying bullish fundamentals; whatever the reason we are expecting higher prices and have clients positioned long in various strategies depending on their account size, investment goals, and risk tolerances.

Silver

The historic price ratio of silver to gold shows that about 15 ounces of silver would buy one ounce of gold, a 15:1 ratio. Recently, the ratio is about a 50:1 ratio with silver at \$17.75/oz., and gold at \$925/oz. If the silver to gold ratio returns to historic values, from over 50:1 to 15:1, you can see why investing in silver with a longer viewpoint may make sense. We expect silver prices to move higher for the following reasons: More than all of the silver produced by the mines each year is consumed by industry, which leaves little to no room for substantial investment demand. A marginal increase in investment demand could drive prices higher. Most silver is produced as a by-product of mining gold, copper, zinc, or lead. Higher silver prices might not substantially increase the amount of silver mined each year. Higher silver prices may not cause much reduced demand. Why? Because most silver consumed by industry is used in tiny quantities in each application, such as in film or electrical contacts, therefore, rising silver prices will not easily slow down growing industrial demand. Money flowing into hard commodities as a hedge against global inflation has also supported silver recently. If the last 2 ½ years is any indication of what the future holds for silver, things are looking bright. In 06' for the front month of silver we saw an appreciation of 42%, for 07' we saw a 20% appreciation and so far in 08' silver prices have advanced 15% and do not look tired. On a move above the 100 day moving average as you can see on the chart, prices should find their way back to \$20 plus an ounce. With continued weakness in the dollar, global inflation, and growth in demand from emerging markets we expect the multi-year up trend in silver to continue.

Silver Chart



Sugar

As the sugar market continues the transition from a food commodity to a food/energy commodity the impact of changes in energy prices on sugar production will become more pronounced. We expect sugar based ethanol to continue to grow in popularity as prices of oil and corn remain at record highs. Not only is sugar based ethanol, more efficient it is also more cost effective than corn at these price points. As opposed to using 1/3 of our corn crop for energy we expect there to be a major shift into other alternatives for energy. Although we try to avoid picking bottoms, if you were to look where sugar prices have been and where they currently sit, a compelling argument can be made for why all commodity traders that can exercise some patience should have sugar in their commodity account with a 1 1/2 -3 year time frame. Depending on the contract month prices are trading between 11.50-15.00 cents/lb, to put things into perspective, with many commodities recently hitting record highs, sugar prices have traded in the mid sixties before. Coincidence or not, that was in the mid 70's, the last time we had an energy crisis. Past performance is never indicative of future results but those who chose to ignore history are destined to repeat it. Furthermore, if a market was to shift from a world surplus to a world deficit, would that be bullish? We think so! Over the last 2 years the sugar market has had a world deficit, but according to recent reports world production is expected to come in 1-2 million tons below world consumption in 08/09. On the accompanying chart you can see that we have recently started another leg higher and we are positioning clients long via futures and options, looking to have exposure for the next few years to take advantage of a major move higher. In the shorter term we expect to challenge the contract highs just under 16 cents on March 09'.

Sugar Chart



Soybeans

It is often debated whether a demand driven rally or a supply driven rally is more powerful, but I pose the question what if a demand driven bull market turns into a supply and demand driven bull market? Prices were already moving higher on insatiable demand for soybeans globally and then throw into the mix an on again off again strike in Argentina and record rain and floods in the Midwest that caused late plantings and reseedsings. November soybeans which represent the new crop are up 41% ytd and have recently made a new contract high. What I like about this move if you are long, besides the fact that we are moving in the right direction, is that you have seen both the open interest and volume grow as prices have made it to new ground. Although, we may get an immediate setback on the most recent USDA crop report, which is viewed as slightly bearish, we are expecting new highs in the weeks to months ahead. Due to volatile spring weather conditions most analysts don't think this report will provide a very accurate measure on acreage, so if we due get a retracement use it as an opportunity to get long. The USDA will release an updated acreage figure with its August crop report. Being that we expect Q3 exports to stay strong we think higher prices our in our future. I know you are tired of hearing about alternative energy but the dynamics of food/energy crops is changing. The world needs higher acreage because of the increased crush demand that is needed to support the higher bio-diesel consumption projections. We have an ultimate objective of \$18 as the market comes to terms with the crop damage and steady demand.

Soybean Chart



For specific strategies in these 3 markets in addition to other plays we are making for clients, contact us via e-mail at <http://www.mbwealth.com/contact.html> or telephone at (888) 920-9997 / 954-929-9997. For the most part investors reading this analysis want to be more hands on, however we suggest taking a look at our new managed futures section and consider diversifying further with CTA's with proven track records:

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