



A move to hard assets warrants a look at soft commodities

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All asset classes have been hit and commodities are no different, as a way to diversify we suggest that investors with the financial ability, understanding, and intestinal fortitude have 10-20% of their portfolios invested in commodities. We suggest trading both futures and options depending on the circumstances and would advise gaining exposure in energies, currencies, agriculture, softs and metals to truly be diversified. Comparing the Dow and S&P 500 to the soft commodities ytd, the Dow is down 39%, the S&P down 44%, coffee is down 17%, cocoa up 11%, cotton down 33%, sugar up 8% and finally orange juice prices have been cut in half down 50%.

Coffee:

December historically has been the strongest month on record for coffee as drought risks increase. On top of that supplies are looking tight for both the 08-09 and 09-10 crops, according to the International Coffee Organization. Over the last 2 months prices of coffee have lost approximately 20%. According to Judy Ganes-Chase; a respected softs analyst, "the more coffee drops in the short-term the more bullish it's going to get." Should 09' turn out to be a bad off-season there is the distinct possibility of much higher prices. We currently have clients positioned long March 125 and 135 calls and will be looking for an entry in options and futures in May over the coming weeks.

Cocoa:

There are a number of critical supply side uncertainties that face the cocoa market largely because growing areas are located in countries with political uncertainty and unstable infrastructures. Any political jockeying in the Ivory Coast by the government or cocoa growers could potentially delay shipments and would be viewed as bullish. Number 2 producer Ghana is battling swollen shoot disease. Additionally, being that the harvest generally slows over holidays, reducing available supply should be price supportive. Notice a contrary relationship with cocoa to the US dollar as well so depending on your dollar stance cocoa should move inversely. Commercial traders, such as chocolate makers, have been moving to the long side signaling that they anticipate prices will rise. We recommend buying futures in March that hold the 20 day moving average at 2034.

Cotton:

The demand has been non-existent but based on recent deliveries against December contracts we are starting to see a pickup. In the last week we have seen roughly an 18% move from levels under 40 cents, which represent the lowest levels seen in just over 6 years. Last year in the US we had the smallest crop in 20 years and with current pricing we see little hope of a bumper crop coming this year. Being that China and India consume approximately 59% of the world's cotton, keep a close eye on what type of demand comes from around the globe. Traders could buy on a setback in the futures and one that exercises patience could expect to get a fill in May cotton closer to 40 cents (*current price 47*). For options we see open interest at the 50, 55, and 60 strikes.

Sugar:

Behind silver, sugar is our second favorite trade commodity wide. We have and will continue to advise clients to buy long dated contracts into 09'. Sugar demand is expected to exceed supply this coming season, according to the International Sugar Organization. For the last 2 years we have had supply surpluses, while the last time we had a deficit for world sugar was 3 years ago when prices traded near 20 cents/lb. (*current price 11.70*). Within the last 2 weeks Morgan Stanley raised their forecast on long-dated sugar contracts to 19 cents/lb. We have multiple bullish future and option plays, contact us for exact details.

Orange juice:

Even though we try to drink orange juice every morning to help demand, as of right now buying fcoj is like catching a falling knife. Hurricane season is officially over in Florida and although we could get a freeze scare, you are fighting the trend being a buyer. 75 cents has long served as a pivot point and that is approximately where prices are. Being that we just made new contract lows we would expect to see prices head towards 60/65 cents and view that as a good long entry. We recently tried to time the bottom with clients and got stopped out at a loss. The key will be patience, we will re-visit fcoj in the near future. No exposure currently.

Over the next few years with a growing population and with more mouths to feed we see that there is a distinct possibility of a world food shortage. Although the current talk is deflation the recent maneuvers of Central banks around the world should prove to be extremely inflationary, albeit not for some quarters. We recommend gaining exposure at current levels expecting if not an exact bottom at least a tradable bounce on soft commodities.

Everyone has discounted commodities and written them off, but we still managed to find opportunities like these. To get more specific trading strategies on soft commodities as a way to diversify your commodity portfolio contact us (888)-920-9997. www.mbwealth.com

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.