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5 hot picks for the week of 12/17/07-12/21/07

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1.) Long January heating oil / Short January gasoline
With about 2 weeks until expiration look for heating oil prices to gain on gasoline. Stocks of distillates are now 6.9% below last year's levels, according to the EIA. The current spread is at 27 cents and we are looking for 31 cents. This is not for the faint of heart or under capitalized trader as this spread has the potential to move against us 5 cents before I would advise to abandon the trade. If everything works as planned we are looking to book you a profit of $1680, the current margin on the spread is approximately $2700.

2.) July Cotton
We are expecting cotton to be one of the main beneficiaries from the coming run for acres. With current price points we see farmers planting many more acres of corn, soybeans and wheat as opposed to cotton. The competition for food and fuel should take a front seat to a crop that is used for clothes. The ultimate wild card here is what type of demand we see out of India and China; which account for 58% of the world's cotton usage. We suggest buying the 80 cent July call option for $500, although 10 cents out of the money it has a 20% delta and with plenty of time (180 days) we expect this option to go intrinsic. On a move to 80 cents in July Cotton this should be worth upwards of $2000. So with a risk/reward ratio of 4:1 we feel this is a viable play.

3.) April Live Cattle
Look for an entry to get long April Live cattle, ideally closer to 96.00. Momentum indicators are still showing weakness so we are hoping to steal this position but either way we advise getting long by months end. Since 1987, April Live cattle have posted gains in December 13 times. January strength has followed December strength 11 times (84.6%). Once you enter we will be trailing stops looking to hold this position into the new year and a new contract high which currently stands at 101.525. Assuming an entry of 96.50 and closing the position at 102.00 sometime in January we would book you a net profit of $2200 per contract.

4.) Long March Wheat / Short May Wheat (CBOT)
With wheat prices making new contract highs on heavy volume we do not see this rally running out of gas any time soon. When wheat prices were at record highs in September this spread was trading at $1.25 premium to the March. Currently the spread is at 10 cent premium to the March, with full carry being at roughly -16 cents. Look for an entry between 5-10 cents to the March and ride this until wheat is done going up or the spread has widened to 35-50 cents premium to the March. Assuming an entry of 5 cents we would be comfortable advising a risk of 20 cents looking to pick up 30 -45 cents initially. In dollars and cents that equates to a risk of $1000 looking to pick up $1500-2250. On a move back to $1.25 on the spread you would profit just about $6000 per spread, which is not bad because the margin is minimal.

5.) Long March Silver
Although past performance is never indicative of future results we like seasonal tendencies that coincide with a supportive chart. March silver has moved higher 13 of the last 15 years from mid December until late February for an average gain of 47.25 cents. Assuming an entry of $14 even and just seeing the average move although we expect much more that would be a gain of $2,362 on the 5000 ounce contract and $473 on the 1000 ounce contract. If you prefer options buy the $14/$15 bull call spread for roughly $1750, help finance the cost by selling the $12.50 put for $1000; total cost of the trade would be $750 with the potential to make $4250 with limited risk as long as silver did not trade below $12.50.