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5 hot picks for the week of 4/21/08-4/25/08

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1.) With more expected bad news in the housing market and further credit troubles in coming weeks, we are advising a short in the British pound. We suggest getting short as the pound approaches 2.0000. This strategy has worked in recent weeks and believe will continue to work moving forward. Buy the 1.95 June puts for approximately $750 looking for a double on a move in the futures back to last week's lows and potentially beyond. We like the 1.95 strike because that's where the open interest is; you have 46 days before expiration, out of the gate starting with a 29% delta.

2.) We like being long corn for clients, but have little reservation being that prices are at record levels. That being said, we suggest for less aggressive traders to be long new crop 'December' and short old crop 'July'. Last week the trading range was 6-11 cents on the spread, you should look for an entry this week anywhere from 7-9 cents. This trade should be good for approximately 15 cents as we look for the spread to widen in coming weeks. On improved weather that allows farmers into the fields, or fund selling if corn does stage a pullback, we would advise covering the short July position and holding the December long looking to potentially make money on both legs. On exiting one leg on a pullback, December should be well supported around the $5.85 level.

3.) Look for an entry to get long July soy meal between 340 and 345 with a stop at 332. If you prefer to trade without stops but want to implement some form of risk management, one could sell the 400 July calls for $1000. With this approach you have approximately 2 months of protection, unfortunately you have a 28% delta working against you on the way up, but you have collected $1000 on a move against you. We expect to see prices run higher and fill the gap from 3/6 at 372 and make their way back to the March highs.

4.) We are recommending that dips be bought in October sugar. Although the daily chart looks over bought, the weekly chart looks good, and the fact that the last 3 weeks we have seen higher highs and higher lows we would recommend being long. The historical seasonal pattern from April into July is a strong uptrend and we anticipate that to be the case in 08'. For less risk adverse traders that may not want to be only net long futures, you could sell the 1400 call and use that premium to buy the 1400 put for October. This would cost just over $100 in premium. This would allow you to weather any volatile movement and have some downside protection if sugar prices were to move south. The quandary though with that protection, is on a move to the upside you have limited your profit potential.

5.) If you have heard the saying 'buy the rumor sell the fact' that is how we would recommend approaching June live cattle. We believe that the recent advance in cattle prices were in anticipation of S. Korea buying US beef again and now that they have re-opened their borders we expect prices to back off. Remember that demand is only one side of the equation and with cattle producers loosing on average $200-250 per head, in upcoming weeks we're expecting for more supply to come on the market as producers cannot continue to loose money. Sell cattle looking for gaps at 91.75 and 90.15 to be filled in upcoming weeks. Initially we are looking for a pullback in prices to the consolidation level around 90.50 we saw in late march. As we garner some momentum we are looking for an eventual test of 87-88 and ultimately new lows. As opposed to putting in a stop and running the risk of getting jigged out of the trade, traders could sell the 92 put for approximately $900. If the market confirms a top and starts to move lower, we would advise buying back the put at a loss. The last time the Williams % R was at these levels in late February, cattle prices were at 96; 30 days later they were 9 cents lower at 87 at $400 per penny.
