Weekly Commentary

For August 11th – August 15th 2008

By: Matthew Bradbard

There are conflicting opinions about whether the Bull Run in commodities is over or not. We view the recent pullback as a correction in prices. The bubble bursting argument just doesn't make any sense being that a variety of commodities are still showing sizeable gains ytd. Some commodities may have over extended their move to the upside and now may come back to a more realistic value, but with more mouths to feed, consumption for raw materials (from base metals to energy) in emerging markets increasing, we view the idea of the bull market coming to a end as ridiculous. Even though there is no doubt that global consumption is slowing down at the moment, the longer-term trajectory for consumption is higher. We cannot dispute that prices have come down and in the short run will most likely come down more, but as opposed to running away from a market where prices are governed by supply and demand, we advise investors to actually do some homework and quantify the supply and demand and then tell me commodities are not in a multi-decade bull market. I am not implying prices will go up in a straight line, however we will continue to advise clients to buy dips. Restricted supply and more demand should lift the prices of commodities in the long term. Furthermore, along the way opportunities will present themselves to go short or bet on price depreciation; the same amount of money can be made or lost, it is simply figuring out the right direction.

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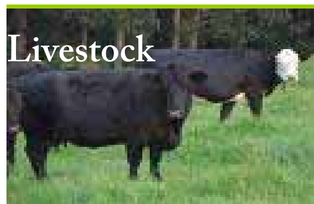
September Crude oil continued moving down this past week loosing just shy of $11 ending the week at $115.20, levels we have not seen since the first week of May. We have seen a very dramatic price correction, but what most prognosticators fail to recognize is that on January 1st of this year prices were at approximately $95, so even with this decline Crude oil is still up over 20%. The same people that were calling for $200/ barrel oil are now looking for prices to go to $60/barrel; not happening. We have seen a 50% correction in prices and there may be a little more left on the downside, nevertheless we feel that a trade down to $105-108 should be bought. The 200 day moving average currently comes in at $108.08

and we also would have a 61.8% Fibonacci retracement around that level. This buy recommendation should not be taken by the faint of heart or by accounts that are not well capitalized as $5000 daily swings are now commonplace. August is typically a bullish time for energies; in fact it is the strongest month on record for Crude oil. We have gotten into trouble in the past by saying that this time things are different, so we expect to see selling slow and for prices to gain in the weeks ahead. Support on September comes in at $115 with resistance at $122.50.

For individuals that live in the Midwest or Northeast that are getting ready to fill their tanks with heating oil for the Winter should be relieved as prices came off an additional 33 cents/ gallon last week and have fallen over $1 in the last month. Both daily and weekly charts are getting to the point that prices should stabilize and we may even get a bounce from oversold levels. I am not advising a trade here, but I have told consumers to lock in their prices as retail prices should soon reflect the 25% reduction in prices we have just experienced. Next support comes in at $3.05 on September with resistance at $3.30. September RBOB lost just over 20 cents last week taking prices to $2.8874 with prices closing below $3 / gallon for the first time in 3 ½ months. The break has been welcomed by consumers like myself especially being I only get 14 mpg on the vehicle I drive. Unfortunately, it looks like we may get only another 15-20 cent break before support most likely kicks in, that being said, anything lower than $3.50 at the gas station seems a little implausible all things considered. If buying was to emerge we would need to see 3 consecutive closes above $3 in September to believe an interim low was made.

It's on our radar and when prices stop falling we feel that natural gas will be one hell of a buy as we would expect to see a $1.50 – 3.00 advance, but from what level is yet to be determined. At this point we cannot rule out a trade down to $7.50; the levels we were at last fall before a miraculous advance of virtually 70%. There have been repeated head fakes, so we will wait for a bottom before venturing long with clients again. When we get long we will advise a mini-future as well as 50 cent bull call spreads for $1500-1600. Stay in tune with this market because when it turns it will happen quickly.



After the close Friday, the USDA estimated the week's beef production at 517.6 million pounds, down 1.8% from a year ago. Although down on the week, we will continue to advise clients to use setbacks to buy both live and feeder cattle as we expect higher prices over the next weeks to months. October live cattle was down 135 ticks for the week as prices failed to get through mild resistance at the 50% Fibonacci retracement at 108.50. The 20 day moving average comes in just below last week's lows and should serve as support. If it does give way, prices could track down to the lows from 3 weeks ago at 104.00, but as long as that level holds we will be accumulating longs via futures and options in October live cattle for clients. After making a new contract high last week prices in October feeder cattle have corrected and now sit at 115.40, off just under 3 cents last week. We expect prices to be supported around the 114 level

and we currently have clients positioned with a light long position. We will be looking to add on strength and as we have voiced in recent weeks expect prices to trade above the 120 level between now and the fall.

Pork production was estimated at 417.6 million pounds, up 5.5% from a year ago. October hogs closed up 2.60 cents on the week at 77.90, another new contract high. From the beginning of July to present, prices have advanced 15% and with tremendous exports and record pork cutouts the trend should remain up. We will be advising clients to buy dips as we expect prices to track higher. Historically when you have seen setbacks in August on October, lean hogs in September prices have been strong rallies. Past performance is not indicative of future results.

Stocks: I heard an interesting piece of information in an interview last week with the Chief Investment Strategist with Raymond James. "There have been 24 300 point 1 day rallies in the Dow, none of which have been during a bull market." You interpret it how you would like, but we continue to feel the recent bounce in equities is a bear trap and that the lows have yet to be made. Last week the Dow had its best week since mid-April, ending an extremely volatile week up 408 points or 3.6% to 11734. The S&P 500 racked up its third gain in four weeks adding 36, or 2.9% to 1296. The NASDAQ climbed for the fourth week in a row increasing 103 points, or 4.5% to 2414. Resistance on the S&P comes in at 1300 with support all the way down at 1260 for September. The September Dow may attempt to fill a gap at 11785 from late June with support at the 40 day moving average; 11500. We continue to caution investors that this is not the beginning of another bull market and would use these rallies to exit equities and diversify into other asset classes. The inverse relationship between stocks and oil should continue.

Bonds: The Fed holds rates at 2.0% as the tug of war between growth and inflation continues. Investors continue to shift into Treasuries as a safe haven with notable interest in last week's debt auctions. September bonds were 11 ticks higher closing at 116'12.0 last week and the trend remains up with a likely trade up to 117'16.0 this week. September notes closed up 7 ticks higher finding support at the 38.2% Fibonacci retracement line mid week. We should make a run at the highs from one month ago at 116'02.0 which should serve as mild resistance with support coming in at 114'16.0 followed by 114'00.0. We continue to have a bullish bias, but have no exposure at present, seeing what we view as better opportunities elsewhere. We will most likely be cutting our losses for clients on our short euro-dollar positions this week or the next.

Currencies

Last week the ECB left rates unchanged at 4.25% and ECB President Trichet stressed keeping inflation under control as it is higher than current benchmarks. His hawkish stance lost its edge after he acknowledged that second half growth will slow and he has no bias or pre-commitment to future rate hikes. Further comments were interpreted as more dovish as the Euro fell hard last week trading at a 5 ½ month low against the dollar loosing 546 ticks on the week. The path of least resistance remains down but we have reached our objective on shorts and expect to see a bounce in the short term. If you took our recommendation from three weeks ago *(see weekly commentary from7/14-7/18)* purchasing the September 150 put at $450, it closed on Friday at $2362.50 and we would recommend liquidating 90% of your position and hold the remainder.

Further problems or weakness in the stock market could see safe haven buying in the metals which could help curb losses in the Loonie as it tends to look for guidance from metals. If energies were to slow their precipitous decline that would also be supportive. As we said last week on a break of .9700 look out below. Although we did not anticipate the extent of weakness we saw last week, the weakness commodity wide hit the commodity currencies particularly hard. We are not recommending a long yet, but the daily and weekly charts are starting to look more accommodative. Support comes in at .9300 with resistance at .9550.

An unexpected surge in the number of full-time employees last month is unlikely to stand in the way of an interest rate cut in Australia. Economists doubt this will deter the Reserve Bank of Australia from cutting rates possibly as early as next month. The Australian dollar gave up 405 ticks last week loosing 4.4% trading to its lowest level since mid March. We are on the sidelines with clients, but will be looking for a long entry for them on signs of a bottom here or interim top in the dollar as we think both of these trades got ahead of themselves last week.

Japan painted a darker picture of its economic health last Thursday, warning of deteriorating exports, lower output and slowing corporate profits signaling a point towards contraction in the world's second largest economy. We have seen a little better than a 50% retracement as of last week dating back to the lows in 2007, with prices oversold on the daily chart and not believing the stock market has much left we are exploring the long side of the September yen. Support comes in at Monday’s low at .9076 with resistance at .9250 followed by .9400. We were stopped on our long probes last week at a slight loss for clients and will look to get it back on our next long entry. Enter lightly and look to add when the markets proves you right.

As we said last week we are on the sidelines in the Swiss franc with a bullish bias. Well our bias was wrong, but the sideline choice was rewarded as we did not get caught in the most recent downdraft. Last

week if you were long any currency but the dollar, you would have been wrong. Last week the September Swissie lost 264 ticks trading down to .9255 levels not seen since February. Prices should find support this week just below .9200 if traders want to explore the long side with a tight stop. Resistance doesn't come in until .9420.

Last week the BOE left rates unchanged at 5.0%, but this may not be the trend moving forward as weakness spreads throughout their economy. The September contract gave up 552 ticks and made its way to a new contract low. We continue to prefer the short side, but would caution new entries to establish shorts as prices may bounce from oversold levels. We could see a bounce up to short term moving average at approximately 1.9480 and will explore selling rallies if that happens.

As long as lower oil prices continue to aid equity prices, the dollar should be well supported against most other major foreign currency markets. Further strain on the financial sector could see some money taken off the table on recent entries for dollar bulls that experienced its best one day performance in 6 years last Friday. We certainly did not see last week's strong advance coming and do not believe that it will continue. Although we will not get in front of this dollar advance we feel that it will set up a good short entry as the most recent parabolic move is not justified. The argument is that although things are bad domestically circumstances are worse abroad, but to me that is a weak argument. We have seen a 6.0% advance in the last month and we should see the buying pace slow in coming sessions to weeks. Next resistance is at 77.00 on September with support at 75.70 followed by 75.00

Grains

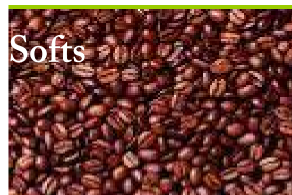
USDA crop report 8/12 will determine the direction for agriculture in the short term in addition to the weather while grains continue to look for guidance from outside markets.

Corn: Weekly export sales showed 877 t.m.t. of corn was sold last week. Last week the EPA made their decision to deny a request submitted by the State of Texas to reduce the nationwide Renewable Fuels Standard. As a result, the required total volume of renewable fuels, such as ethanol and biodiesel, mandated by law to be blended into the fuel supply will remain at 9 billion gallons in 2008 and 11.1 billion gallons in 2009. If there is a bullish surprise on the report we could easily see an instantaneous move back to $6.10/6.20 in December and higher over the next few weeks. We feel bearish news has already been factored in so a surprise bullish report should have more of an impact than a bearish report. An increase over the June 30th report of 87.3 m.a. planted, you would see the $5 level broken in December and see levels not seen since 2007. We have clients positioned long in December options, our more aggressive clients will be long futures and perhaps the safest route is to be positioned long December 08 and short March 09 or July 09 as both spreads are at or approaching full carry.

Beans: Weekly export sales showed 384 t.m.t. of beans were sold last week. November soybeans were $1.79 lower on the week as we experienced more fund selling with the largest weekly decline since the November soybean contract has been trading. It is apparent that prices may overshoot on the down side, but we have yet to recommend clients to get long. The June 30th report pegged soybean acres at 74.5 m.a. anything over should be viewed as bearish and under would be bullish. On a bearish report look for selling to continue taking prices in November down to $11 and on a bullish surprise prices could quickly find there way back to $13.50. We will be spectators in beans as we have long grain exposure in corn and lightly in wheat with clients.

Wheat: Weekly export sales showed 801 t.m.t of wheat was sold last week. Futures rose on ideas that a price setback has sparked renewed interest from importers. These recent purchases may help put in an interim bottom on the charts as we like buying dips in wheat as prices are trading near recent lows. Additionally, you sometimes see increased volatility before a market shifts direction as we saw a 50 cent plus move higher on Thursday and a 40 cent decrease on Friday. We have remained long September KCBOT with clients and have been selling September CBOT on any signs of weakness. KCBOT wheat has support at $7.95 with resistance at $8.45 which we expect to be penetrated on the next leg higher in prices. CBOT wheat is supported at $7.50 with resistance at $8.25.

Softs



Buyers have been re-entering sugar on word of strong cane-ethanol demand from Brazil and the nation's crop may be a little smaller than expected. Additionally, sugar production in India, the world's second-biggest producer, fell 6.0% in the 10 months to July after farmers in the biggest cane-growing states delayed crushing. Production next year may drop 25.0% to 20 million tons as some cane-growers switched to more profitable crops such as rice, corn and oilseeds. Supplies are projected to be down in the top two producing nations and demand is expected to increase is the central argument we will be recommending longs in sugar for the next few years. This is not an exciting trade with movement like oil, but if you look at where sugar prices have been and where they currently are we see sugar as a value play and extremely under valued at current prices. We continue to accumulate March futures and options for customers. March should be supported between 13.80 and 14.00 with resistance at 15.50.

Cocoa prices fell in the last few weeks as dollar strength generally leads to lower cocoa prices. September cocoa came off $317 before finding support at the 61.8% Fibonacci retracement level at last week's low. We are not convinced the selling is done and are recommending watching from the sidelines until we get a clearer picture. If we were to see prices rally we should see resistance at 2800.

September coffee was largely range bound last week as prices backed off 4 cents making their way back to the bottom of the recent range. We have seen successive higher lows on the monthly chart so on the

longer term we do expect to see prices in coffee trade higher, but looking at a shorter time frame things could go either way and we are not confident in having any exposure long or short. Support on September comes in just below 134.00 with resistance at 140.00.

World cotton stocks are expected tighter in 08-09 amid decreases in production and lower mill use according to the International Cotton Advisory Committee. Global cotton stocks are forecast to be substantially tighter at 10.7 million tons in 08-09 from 12.10 million the year before. This in combination with demand expectations has caused the ICAC to increase its outlook for cotton prices 10 cents higher for next year. With current pricing below 70 cents and a price projection of 83 cents we will continue to advise clients to be long. We are using the most recent setback to get long futures in addition to add bullish option plays for clients. We are looking for last week's low of 68.20 on December to hold and would like to see by the week's end prices back over 72 cents.

Orange juice seems to be finding moderate support just above $1 on November, but until there is a reason to buy or we get confirmation technically that a bottom is in place, we are not interested in buying for clients. The seasonal tendency from now out until November is for a trend higher, however we would like to see some bullish news from the USDA or perhaps a hurricane that may cause speculators to get long. We are not in a rush to pick a bottom because if the liquidation in commodities continue, there are not a lot of bullish fundamentals currently that would cause FCOJ prices to move up. Last week's low of 99.65 serves as support with resistance at 112.00.

Metals

October gold is not glittering and remains under pressure as prices backed off $54.60 last week after breaking the 200 day moving average early last week. This was the largest weekly slide since mid March when prices backed off from levels over $1000/ounce. The unexpected rally in the dollar most likely contributed to the weakness as the inverse relationship between the two lives on. On the daily chart the recent slide has taken prices to oversold levels and we may get a bounce, but we would not be looking to establish longs just yet. We have seen a 50% pullback so looking at the big picture value investors may start to scale into longs, but it is entirely possible to see a further reduction of $50 before more traders get gold exposure. Gold has had a mixed track record in the month of August and being that things could go either way we are again content on the sidelines. We see mild support at $850 in October with resistance at $890.

Since trading below the 200 day moving average, which had previously served as support, we have seen September silver lose an additional $1.70 trading down to $15/ounce. At these levels the daily charts and

technicals are starting to look friendly, but we are not convinced the selling has completely abated. We are currently long with clients in December mini-futures and call spreads and underwater, but are confident between now and year's end we will see prices back at levels seen just weeks ago at $18-19. If investors were to chose between being long gold or silver we prefer silver.

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.