



Weekly Commentary

For August 18th– August 22nd 2008

By: Matthew Bradbard

Cash is king and do not try to be a hero is just some of the advice I am giving to existing clients. I would caution traders on establishing any sizeable positions unless they have a longer time horizon. I have in the past tried to avoid day trading but with the current volatility going home flat for clients on most days would allow me to sleep much better. Looking at our trade activity I find more transactions in options as opposed to outright futures as we infer the exact timing of opening and closing futures will be more difficult than determining a good entry point for a move we expect to develop in weeks to months as opposed to days or hours. Although this is contradictory to the previous sentence I guess the lessons are expect volatility, do not get married to a position and if you reach your risk objectives or profit target sooner rather than later act. In this environment it will be extremely important to plan your trades and trade your plans. We may be the minority but we are not convinced the rout in the dollar is done and again the minority when we feel that the recent sell off in commodities may have overshoot on the down side. That is not to say we are advising getting long all commodities but there is a number of commodities that we feel should be higher in pricing in the months to come. That is not to say that they will make it back to the excessive levels we saw just months ago in the near term but evaluating a fair price we do have several commodities that are on our buy list.

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Although the selling has slowed October Crude was down again last week losing \$1.40 closing at \$113.94. Solid support comes in at the 200 day moving average at \$108.66 on the October contract. If for whatever reason that level was to give way we see the next support at \$104.87 with resistance coming in just above \$116. We continue to recommend a position on the sidelines as the day to day volatility is not conducive unless you are day trading and extremely disciplined. As we said last week we would potentially probe from the long side on a trade down to \$105-108. For now we will not fight the trend which is obviously down, but the fact that virtually everyone is leaning one way and calling for Crude to

continue lower we are starting to think we may start to track higher or at least consolidate for a period. Generally when everyone is looking for a particular trend the market moves in the opposite direction. Remember not to long ago everyone was looking for \$150 plus and well you know how that turned out.

Last week prices were down less than 1 cent in September heating oil closing at \$3.1191 registering the fifth consecutive lower weekly close. Although we have seen a trade below \$3.07 in September heating oil we have yet to see a settlement below that price. Considering the contract high and low this year on the September contract \$3.05 is the 61.8% Fibonacci retracement level and should serve as solid support with first resistance at the 9 day moving average; \$3.1185. If we can muster a settlement above that price next resistance comes in at the 20 day moving average at \$3.30. September RBOB is currently dancing around the 200 day moving average; we have not closed below that average since August of last year on this contract so pay close attention this week. Last week prices were down 348 ticks closing at \$2.8602. Next support comes in at \$2.71 with current resistance at \$2.91.

We have had natural gas on our radar now for weeks looking for an entry and while we previously had suggested a possibly entry in September we opted for October last week as we are lightly starting to get long for clients. Last week October natural gas was down 29 cents and from the peak just over one month ago prices have come off 42% which we feel is overdone. Even with adequate injections over the last few weeks and what we view to be sufficient inventories for this time of year being that prices have come off so dramatically and that we are still in the heart of hurricane season we feel it is worth the exposure to have a light long bias. We are undoubtedly bucking the trend so do not fall in love with the trade and if we get a bounce albeit a short covering \$2 advance be quick to take a profit. The MACD, momentum and stochastic support a move higher from oversold levels. Furthermore there is a seasonal tendency for prices to advance this time of the year so we are lightly long and are looking for higher prices in the weeks to come. How we are playing this for our customers is selling out of the money call options collecting in the neighborhood of \$7000 and going long the futures looking to exit the trade at a profit in the futures and less of a loss on the option at higher prices.



Lack of interest in cash sales at current pricing may have contributed to weakness on the board last week on beef prices. October feeder cattle were slightly lower closing 48 ticks to settle at 114.53 just above the 61.8% Fibonacci retracement considering the recent high and June low. Support comes in at the current trend line at 113 followed by the 111 level which on a closing basis was the support in June. October live cattle were 70 ticks lower last week to close just below the 20 day moving average at 105.85. Support comes in between 105.70-90. On a trade below those levels look for 103.80, the low on July 23 to serve as solid support. Resistance on the October contract comes in at 108 followed by 109. We are currently positioned with clients in October and December call options and will be looking for a long entry in

futures on signs of a reversal. The cattle market has tended to find an interim low in late August and to rally into September. The traditional end to outdoor grilling season can temporarily deplete grocer stocks just as the return to school and the approach of cooler weather can increase retail beef consumption. For cattle on feed this Friday early analysts' forecasts call for increased cattle placements last month due to corn's price slide during that period.

After 5 weeks of steady gains October lean hogs posted a losing week giving up 2.45 cents from over bought levels. We closed under the short term moving average and would expect prices to track lower in the short term which should set up a good long entry. 73.30 would represent a 50% pullback from the most recent move and we will be looking for long entries in October futures as well as pricing out options; the 76 call for 200 points should be on your radar. Current resistance comes in at 76.90 with support at the trend line 74.60.



Stocks: Last week the Dow ended the week down 74 points or 0.6% at 11660. The S&P added just 2 points or 0.1% to 1298. The NASDAQ had its fifth winning week in a row rising 38 points or 1.6% to 2453. The rally off the lows in mid July we view as nothing more than a sector rotation with money moving from asset class to asset class; out of commodities and foreign currencies into dollars, treasuries, and stocks which we expect to reverse very soon. Although past performance is never indicative of future results the stock market has tended to be erratic and weak at various times throughout summer. Will this year be any different? The two reasons why we have seen the stock market rally in the last month could be about to reverse in direction so what will that mean for stocks if this happens? Crude oil has slipped to its lowest level in four months but with a potential OPEC production cut come September and with China coming back from vacation next week we think oil may bounce from oversold levels. The currency market appears to have priced in an increase in rates domestically and with the PPI coming in the hottest in 27 years and with the dollar retreating we think the dollar is starting to come to terms with the fact the Fed is on hold indefinitely. Rallies should be sold as we continue to expect equities to track lower as we have been adamant about in recent weeks. 11500 should serve as resistance with first support at 11200 followed by 11140 on the September Dow. In regards to the S&P resistance this week should be 1290 with support at 1255 followed by 1237.

Bonds: With all the recent market volatility have you noticed that the likelihood of the Fed raising interest rates has lessened? The federal funds futures market, which had previously priced in at least two 25 basis point increases in the Fed's target rate now puts the odds on the current 2.0% rate holding through the end of the year. With 30-yr bonds and 10-yr note prices tracking higher I guess the market does not believe the Fed will raise rates. As of Tuesday morning we have traded above recent resistance for bonds and notes which should now serve as moderate support; 115'15 for bonds and 115'26 on notes.

We are not long or short but will be looking for a short entry from higher levels potentially via futures and options. We are still waiting for a down day to cut our losses for clients on Euro-dollars puts.



The economy of the 15-nation euro area contracted 0.2% in the three months ended June 30, in what was the first quarterly shrinkage since the euro was introduced in '99'. This is the clearest evidence that a weaker global economy, high oil prices and the strong euro have taken a serious toll on Europe. For now it appears the ECB is determined to stick to its mandate to tame inflation, arguing that higher inflation is still a greater threat than lower growth. Last week the Euro was down 339 ticks closing below 1.47 and the lowest level in 6 months. The easy money has been made on the short side and although we are looking for lower prices we are advising clients to wait for a bounce before establishing fresh shorts. Current support is 1.46 with resistance at 1.49.

BOJ left rates unchanged at 0.50%. Japan's economy shrank for the first time in a year during the second quarter due largely to a downturn in exports and weakening consumer spending. The September yen lost 28 ticks last week and although we registered a loss it was hurt the least by recent dollar strength. The yen should be supported by the carry trade if traders continue to unwind long positions in higher yielding currencies like the New Zealand and Australian dollars. Additionally we maintain our bearish stance on the equity market and expect the yen to continue to move in a contrary direction. Support comes in at .9050 with resistance at .9150. Let a bottom form before putting any size on but when this currency bottoms we expect to see at least a 400-500 point move.

The Swiss franc continues to mirror activity in the euro but just to a lesser extent. Last week prices were off 123 ticks closing at .9113; the lowest level since late February. Prices are oversold but we are still recommending a position on the sidelines.

We are still looking for a long entry but there is no reason to catch a falling knife as the unwind of the commodity currency intensifies taking the Australian dollar down to levels not seen since the first month of '08'. As we have expressed for the last 3 weeks we still expect to see a trade up to par based on 2 simple assumptions, commodities will begin to track higher after this correction runs its course and the Australian economy will benefit and the fact that even with interest rates coming off in Australia we are still 5.0% higher than current rates in the US; do the math. Significant support does not come in for another 200 points so be patient, current resistance is about 200 points higher at .8850. We will get a clearer picture of the direction of ir with the release of the minutes this week from the RBA.

As of Tuesday morning we have traded lower for 12 consecutive days in the British pound. In the 8 years I have been tracking currencies I have never seen such a one sided trade. Much like the Euro the easy

money has been made on the short side. We still have a bearish bias but would suggest waiting for a rally or at least a positive day before establishing fresh shorts. With the BoE cutting its economic growth forecast for next year we would not rule out a rate cut before the years end. We should get a bounce from over sold levels to at least 190 before another leg lower begins.

For much of last week the Loonie traded sideways which is constructive being that we saw a significant retraction in metals and energies in recent weeks. This hints that we are finding some support around current levels. September gained 73 ticks last week which is nice but this is after losing 600 points the 3 prior weeks. We are not out of the woods yet but traders could probe longs lightly looking for last weeks low at .9314 to hold with a stop just below .9300. It may only take a turn higher in commodities to help garner a reversal and a potential move back to the .9600/.9700 level.

The recent climb in the dollar may have been too great and too fast to be sustained. In the last month we have seen an impressive move with the dollar gaining just over 8% but we maintain for the wrong reasons. I recognize you should never fight the Fed but we do not think there will be any change in rates in the near future. Over the next 30-60 days we expect the market to factor in the Fed is on hold. Additionally the argument that things are worse elsewhere is kind of like the argument to buy a certain stock sector because you will lose less. We do not like it and although we missed the upside we will be there with clients to play the downside or benefit from moves elsewhere that trade off a weaker dollar.



Corn: We have remained bullish on December corn through out and for all those naysayers our target now is \$6.90-7.30 between now and the fall. We question weather the recent wash out established a pre-harvest low, it is still too early to tell. As of the settlement today we registered 2 consecutive closes above the 200 day moving average at \$5.70 which is viewed as constructive. If we can get some help from outside markets corn should track higher. We are starting to hear rumors from the crop tour that a 150 yield may be more in line than the 155 yield the USDA reported last week. US farmers are expected to harvest 12.3 billion bushels which would be the second largest crop ever. Me being the contrarian question even if so which we do not believe because we expect a lower yield and crop abandonment that is not currently factored in what if the demand is growing quicker than the supply? We like being long December calls on dips and will be advising clients to add to or enter December 08' futures on pullbacks. On signs that the trade will move against you in the short term if you want to stay with the trade sell March 09' futures against your longs.

Beans: In last weeks USDA crop report they predicted farmers will harvest 2.97 billion bushels of soybeans with a lower than anticipated yield and a tighter carryout scenario for 08-09. This was friendly but not enough to reverse the trade. Extended dryness in the corn belt, accompanied the arrival of sudden

death syndrome in Illinois soybean fields and reports of widely varying pod counts from the participants on the Pro Farmer Midwest Crop Tour could have slowed the selling. All of these factors are seen as supportive. In the last 2 sessions we may have turned the corner as November beans just like December corn had 2 consecutive closes above the 200 day moving average at \$12.70. We have yet to get long but we have an itchy trigger finger and we will be pricing out bullish strategies for our customers in options and futures on November beans in coming sessions. We are currently just over \$1 from the recent lows and it is too early to call a pre-harvest low. Keep soybeans on your radar because with late planting we could see an early frost and if we see funds come back as buyers we could see prices back above \$15 relatively rapidly. The US soybean crop is normally made the first half of August. Prices have tended to decline into the first or second week in anticipation and then to enjoy a recovery rally into September. In bullish environments, this pre-harvest low can become an early seasonal low.

Wheat: The USDA projected last week that US farmers will harvest 2.46 billion bushels of wheat, up 19% from last year and also a higher carryout estimate. This was largely in line with expectations and should not have an impact on prices. Wheat continues to look for guidance from the other grains. As we have been saying for the last 2 weeks we expect KCBOT to gain on CBOT. We recommended this spread at 22 cents and it closed as of today at 35 cents premium to the KCBOT. We are looking for a trade above 50 in coming weeks. On an out right long look to buy December 08'CBOT closer to \$8.25 with a stop below \$8.00 with a target of \$10. On December KCBOT buy closer to \$8.50 with stops below \$8.20 with a target of \$10.50.



Poor distribution of pesticides has left swathes of cocoa farms in Ivory Coast's centre-west heartland untreated and may reduce output in the upcoming 08-09 season, farmers and exporters said last week. That may be friendly in the longer term but the immediate trend will be determined by funds and the direction in the dollar. Last week December was down \$126 which built upon the weakness we saw the week prior when prices lost \$318. Support comes in at 2570 with resistance at 2630, on the next leg up look for 2750 to be reached. When the dollar starts to roll over look for a long entry but until then stay on the sidelines.

OJ prices were higher last week by 3.75 cents on November on short-covering. The November fcoj bounced off the contract low made last week at 99.65. Prices have dropped significantly over the last month due to long liquidation and the lack of any weather news but at these levels we have started to bottom fish for clients buying November and January call options. The chance for a hurricane/tropical storm heightens during the August/September time frame. Support for November is at 102 with resistance is at 112.

Brazil harvests their coffee crop June-August. Even though Brazilian coffee is not deliverable against ICE futures, production is so large as to affect world prices. Thus, deliveries begin against September futures just as the Brazilian supplies are at their peak, which tends to pressure prices lower into First Notice Day (this year on August 21). We are still looking for prices to track lower; last week September coffee lost 3.15 cents to close at 1.3285. On a break of 130 look for prices to find their way to 125 in a hurry. Resistance comes in at 136.70 at the 20 day moving average.

March sugar has been resilient of late even in the face of weakening oil and a strengthening dollar. Last week with prices of most commodities losing appreciably March sugar only lost 18 ticks. For the last 2 weeks the 50 day moving average has acted as support and we will be looking to re-establish longs via futures and options this week. 14.50 should support with resistance at 15.20, on a close above that level we expect to see a new contract high which takes prices above 15.80.

Cotton continues to follow outside markets but if and when cotton was to trade its own fundamentals being that we will most likely have the smallest crop in 20 years we are buyers at these deflated levels. December cotton lost just over 2 cents last week and is trading at prices not seen since August of last year. Within 6 months from the bottom reached last August we saw cotton advance 30 cents. Could this be possible again? We gave clients positioned long futures as well as call spreads and have also sold puts under the market to help finance the cost of the call spread.



We are hearing rumors of fund liquidation and looking at the COT report from last Friday it is evident that we had longs taking money off the table and shifting money elsewhere. Last week September silver lost \$2.50 or 16% closing below \$13 for the first time since August of 07'. On a positive note on average we have been doing 35,000 contracts in volume on a daily basis and on Friday we did over 60,000 so although it is too early to call a reversal you typically see a spike in volume at extremes. We are currently long December mini-futures and own \$1.50 and \$2 bull call spreads convinced that we will get back to at least \$18 by years end. Although it is extremely tough separating yourself from the crowd at times as traders we want to be buying when everyone else is selling and that is certainly the case in silver at present.

Start to track pricing in December as opposed to October because of the volume and open interest. Last week December gold was down \$71.30 or 8% to \$792.10 closing below \$800 for the first time since last October. Much like oil gold price has been hit hard within the last month on fund liquidation, position squaring and dollar strength. We have seen prices fall 20% in the last month and for now the trend remains down and we cannot rule out a trade down to \$750. We expect to start seeing some sideways consolidation as we think the dollar advance has gotten ahead of itself and the high overall level of

inflation worldwide should start to lend support. If you are looking at gold as a long term trade over the next few years we could argue starting to scale into longs but we have yet to get long with clients as we have exposure to silver and they seem to be trading with one another. We will continue to wait for signs of a bottom and look to be long December via options and futures depending on the account size and risk tolerance. Support comes in at Friday's low of \$777 with resistance at \$825.

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.