



## The Line in the Sand

For June 28th - July 2nd 2010

Commodity Symbol	Month	Sentiment	Support	Resistance	Trend				
					short	medium	long		
<b>Energy</b>									
Crude oil	CL	Q	BULLISH	77.90, 76.50	79.50, 81.00	SIDEWAYS	UP	SIDEWAYS	
Heating oil	HO	Q	NEUTRAL	2.0850, 2.05	2.15, 2.1850	SIDEWAYS	UP	SIDEWAYS	
Gasoline	XRB	Q	BULLISH	2.09, 2.05	2.1750, 2.23	SIDEWAYS	UP	SIDEWAYS	
Natural gas	NG	Q	NEUTRAL	4.73, 4.50	5.05, 5.25	SIDEWAYS	UP	UP	
<b>Livestock</b>									
Live cattle	LC	Q	NEUTRAL	88.40, 87.20	90.00, 91.00	SIDEWAYS	SIDEWAYS	SIDEWAYS	
Feeder cattle	FC	Q	BULLISH	112.00, 110.75	114.00, 116.00	UP	UP	SIDEWAYS	
Lean hogs	LH	Q	NEUTRAL	82.90, 81.70	84.50 - 85.00	SIDEWAYS	SIDEWAYS	SIDEWAYS	
<b>Financials</b>									
Dow	DJ	U	BEARISH	10000, 9850	10200, 10350	DOWN	SIDEWAYS	DOWN	
S&P 500	SP	U	BEARISH	1060, 1045	1085, 1100	DOWN	SIDEWAYS	DOWN	
30-yr Bonds	US	U	BULLISH	124'6, 122'16	126'00, 127'00	UP	SIDEWAYS	UP	
10-yr Notes	TY	U	BULLISH	120'26, 119'26	121'27	UP	SIDEWAYS	UP	
Euro-dollars	ED	M 11'	BULLISH	98.92, 98.80	99.04	SIDEWAYS	UP	UP	
<b>Currencies</b>									
Euro	EC	U	NEUTRAL	1.2225, 1.21	1.2425, 1.26	SIDEWAYS	SIDEWAYS	DOWN	
Aussie	AD	U	NEUTRAL	.8500, .8375	.8740, .8900	SIDEWAYS	UP	SIDEWAYS	
Swissie	SF	U	BULLISH	.9040, .8970	.9200, .9300	UP	UP	SIDEWAYS	
Loonie	CD	U	NEUTRAL	.9540, .9440	.9720, .9840	DOWN	UP	SIDEWAYS	
Cable	BP	U	BULLISH	1.4830, 1.4700	1.5125, 1.5325	UP	UP	SIDEWAYS	
Yen	JY	U	BULLISH	1.1125, 1.1000	1.1270, 1.1375	UP	SIDEWAYS	SIDEWAYS	
Kiwi	NZ	U	BULLISH	.6960 - .7000	.7130, .7200	SIDEWAYS	UP	SIDEWAYS	
US Dollar	DX	U	BEARISH	85.30, 84.50	86.25, 87.00	SIDEWAYS	SIDEWAYS	UP	
<b>Grains</b>									
Corn	C	Z	BEARISH	3.59, 3.53	3.68, 3.78	DOWN	SIDEWAYS	SIDEWAYS	
Soybeans	S	X	BEARISH	9.05, 8.90	9.22, 9.35	DOWN	SIDEWAYS	SIDEWAYS	
Soybean oil	BO	Z	BEARISH	37.50 - 37.75	38.50, 39.00	DOWN	SIDEWAYS	SIDEWAYS	
Soybean meal	SM	Z	NEUTRAL	257, 249	265, 270	DOWN	UP	SIDEWAYS	
CBOT wheat	W	U	NEUTRAL	4.69, 4.52	4.80, 4.90	SIDEWAYS	SIDEWAYS	SIDEWAYS	
KC wheat	KW	U	NEUTRAL	4.90, 4.75	5.05, 5.15	DOWN	SIDEWAYS	SIDEWAYS	
Oats	O	Z	BULLISH	2.57, 2.39	2.72, 2.82	SIDEWAYS	UP	UP	
<b>Softs</b>									
Cocoa	CO	U	BULLISH	3050, 3010	3130, 3180	UP	SIDEWAYS	SIDEWAYS	
Sugar #11	SB	V	BULLISH	16.10, 15.60	16.75, 17.40	UP	UP	SIDEWAYS	
Cotton	CT	Z	NEUTRAL	77.75, 76.25	79.30, 80.00	SIDEWAYS	SIDEWAYS	SIDEWAYS	
Coffee	KC	U	BULLISH	1.63, 1.56	1.71, 1.7650	UP	UP	UP	
Orange Juice	OJ	U	NEUTRAL	1.40, 1.3750	1.44, 1.4650	SIDEWAYS	SIDEWAYS	SIDEWAYS	
Lumber	LB	U	NEUTRAL	189, 183	200, 210	DOWN	DOWN	DOWN	
<b>Metals</b>									
Gold	GC	Q	BULLISH	1240, 1225	1265, 1300	SIDEWAYS	UP	UP	
Silver	SI	N	NEUTRAL	18.50, 18.00	19.40, 20.00	SIDEWAYS	SIDEWAYS	SIDEWAYS	
Copper	HG	U	BULLISH	3.03, 2.90	3.15, 3.25	UP	SIDEWAYS	DOWN	

Month - Jan F, Feb G, Mar H, Apr J, May K, June M, July N, Aug Q, Sept U, Oct V, Nov X, Dec Z

Trend - short 7 day, medium 30 day, long 90 day

**Risk Disclosure:** The risk of loss in trading commodity futures and options can be substantial.

Past performance is no guarantee of future trading results.

**Energies** Crude reversed direction last week closing near \$79/barrel and breaking out of the descending triangle that buoyed prices since the beginning of May. It could be on technical buying as the 20 day MA supported last week though tropical storms heading towards the gulf may also have contributed. Some of our clients got long options last week; purchasing September \$76/85 1:2 call spreads. As long as \$78 supports the August contract we will likely start working client's long futures. Our upside targets currently are \$80.30 and then \$82.80. Based on our projections in Crude we should see the distillates trade higher as well; we would expect RBOB to outpace heating oil though both could see 15-20 cents appreciation relatively easily. As long as \$4.70 continues to support August natural gas traders can lightly start working long. Examining the chart one can see since mid-May prices have been in a 50 cent trading channel and we are currently at the lower band. We suggest September or October 50-75 cent call spreads; September \$5/5.50 \$1660 settlement Friday, October \$5.50/6 \$1310 settlement Friday.

**Livestock** December live cattle have quietly advanced 2.7% off their lows 2 ½ weeks ago closing near their highs for the month. We continue to favor the risk: reward scenario scaling into longs in futures and options in this contract. We feel in the weeks to come we could see prices find their way back near 95/96. Feeder cattle too are making their way to higher ground closing out last week at their highest level since mid-May. Clients have no exposure however we feel prices will continue to grind higher. Fridays' hogs and pig report was viewed as neutral to mildly bullish. We are thinking lean hogs made an interim top last week and aggressive traders can be short with stops above the recent highs. Being demand for pork generally declines in the summer as consumption decreases lower trade is also supported by fundamentals. A 50% Fibonacci retracement off the most recent leg would drag prices in August back near 81.50.

### **Financials**

**Stocks:** Indices have traded lower five out of the last six sessions losing 3.3% in the S&P and 2.6% in the Dow. This move allowed clients to exit their ES puts at a 41% net profit. Clients now have more cash ready to sell on a dead cat bounce. We opted to book a profit ahead of the G-20 not because we think the downside is done but rather that we could get a bounce into next week. In this environment we've learned to book profits and cut losses as market sentiment can change with no notice. We would be looking to re-institute bearish plays for clients if the S&P was to trade near 1100 and the Dow near 10325. Most of the trades in the indices we do are speculative in nature but those investors with large stock portfolios should consider some sort of hedge being we do expect indices to make their way 10% lower in the coming months. Contact us for details on how to hedge your stock portfolio. We could have a volatile week depending on the reaction from the G-20 and the fact that Q2 ends this week. Our plan is to be defensive as we expect lower pricing in the weeks and months to come.

**Bonds:** Undoubtedly the trend has been higher in Treasuries for the last three months but for the last six weeks we've really had sloppy sideways action. Unless we get a mass exodus from securities we do not see much more upside in 30-yr bonds or 10-yr notes. That being said if we fail to trade above 126'00 in 30-yr bonds this week we may take a stab at our right shorts. Furthermore we may position clients in NOB spreads (short 30-yr bonds/ long 10-yr notes). Currently our only exposure with clients is August 122'00 bond puts; they are carrying a slight loss. Euro-dollars are at or near contract highs and though this should be on your radar based on the Fed's current outlook we do not feel we need to have anything more than very light exposure. We do expect this trade to be a huge trade but it may not come to fruition until 2011 or 2012.

**Currencies** The US dollar has lost ground for the last three weeks and is back below the 31 day EMA. We think the path of least resistance is down but would not rule out one last gasp at the 20 day MA; which in September comes in just above 87.00. Our downside objectives would be 84.75 followed by 83.75. In the last three weeks the Euro has appreciated five cents but we've gone from an oversold market to an overbought market on the daily chart. While Europe is far from out of the woods cleaning up their financial mess the sentiment in the Euro has shifted and we think there is more upside. The talk of the Euro going to parity is slowing and we think you could see 1.28 in the coming weeks. Last week the Pound closed at a seven week high back over 1.5000. This move has been impressive and unexpected at least by me but the bottom line is we've completed a 61.8% Fibonacci retracement and we expect very little appreciation from here. We should have some bearish suggestions this week. Just in the month of June the Swissie has appreciated 6.5% taking it to levels not seen in two months. The easy money has been made on longs though we think we could see continued upside. Aggressive traders could buy dips as long as prices hold .9000. The three commodity currencies; Aussie, Loonie and Kiwi will follow commodities higher or lower. We have no long or short suggestions at the moment. If we were to see prices 2-3% higher we would likely be looking for short plays for clients. The Yen has been on a tear lately, appreciating nearly 4% in the last three weeks. Longer term we expect more upside in the immediate future we expect prices to come back and test the 20 day MA; in September at 1.1000.

**Grains** *USDA quarterly grain stocks report out Wednesday* What looked like the beginning of trade higher in corn two weeks ago was largely erased last week as December corn lost 5.8% taking prices back within a dime of the 3 ½ year low. Clients are advised to use the current set back in corn to buy September call options and December futures. We are not smart enough to predict the future but any of these possible outcomes would be bullish for corn; a smaller carry over, a lower yield, increased ethanol usage, weather problems, increased exports to China, or a weakening dollar. We think several of these scenarios are likely do you? Clients have no exposure in soybeans or soy meal but would be willing to re-examine longs from lower levels; under \$9 in November soybeans and closer to 250 in December soy meal. We wish not to take out right positions in wheat though prices look like they could re-test the lows from early June. We will continue to work the order in September CBOT/KCBOT wheat spread for clients at 30 cent premium to KCBOT. Our clients July oat put options went off worthless last Friday; a loss of \$225/per. We feel prices can back off they just ran out of time; those willing to stay with the trade could look at September options. You should be able to buy the September \$2.50 for under \$400/per.

**Softs** September cocoa broke above the trend line we had mentioned in recent posts closing higher by 5% last week. Continue to use the Pound and dollar to help navigate you in this market. We see no reason to be long or short currently with support at 3035 and resistance between 3160-3190. Our upside objective at 16.50 in October sugar was nearly realized as prices traded within 2 ticks last Friday. Sugar closed at the highest levels we've seen since late April though we feel we need to see new developments to see higher ground as outside markets can only lift sugar so far in our opinion. Those still in sugar should use 15.50-16 as support with no significant resistance until 17.25-17.50. As long as December cotton stays below 80 cents we've suggested clients to have short futures in addition to purchasing put options. Unless we get a surprise from the USDA this week we expect prices to drift below 75 cents in the coming weeks. OJ could go either way and until we get a better feel we recommend the sidelines. Coffee has appreciated 25% in the last two weeks lifting prices to twelve year highs but even if prices move another 25% it will be without our clients. This moved happened too quickly and unfortunately the train has clearly left the station we do not want to jump on at this juncture. Last week we saw the worse housing numbers in multiple decades but that is in the past and we trade futures. Aggressive traders could scale into longs in lumber as we're getting preliminary signs that we may have bottomed after a 45% route in the last three months. On futures we would recommend a stop below the most recent low. As for options this market is extremely illiquid so be cautious. You could buy an at the money September call for \$1400/per.

**Metals** As most followers and clients know I utilize charts to aid in my trading decisions and rather you agree or not one must be impressed how prices in August gold have not been unable to penetrate the trend line that has held in gold since the March lows. While it is a challenge to get overly bullish a market near its all-time high I remember when Crude punched thru \$100 a few years ago and how it was tough to be bullish and we all know how that story played out. I will voice to you what my manager told me at the time; "suspend your disbelief...this is a new market." Clients have no exposure but a new record high looks like it could happen at any moment. We just do not feel comfortable having clients in both gold and silver at the same time and most of our clients have bullish exposure in silver currently. Buyers should emerge in August gold between \$1235-1240 and on a trade above \$1265 we could see \$1300 soon thereafter. July silver ended last week virtually unchanged but what we took away from the price action was bullish. The fact that prices could not break the 20 and 50 day MA's we like being long with clients. Some clients have worked back into September futures while others have December options exposure. We suggest buying out of the money call spreads in December. Last week some clients bought \$20/25 1:4 call spreads in December silver. *(They were sellers of the \$20 call and bought 4 \$25 calls /cost \$600 plus fees)*. In the last three weeks September copper has bounced 13% reclaiming the \$3 level and getting back within 4 cents of the 50 day MA. Prices have not been above the 50 day MA since late April when prices were trading near \$3.50 on this contract. Though we expect the pace to abate we do expect higher ground; resistance is seen at \$3.21 then \$3.32. It would take a settlement below \$2.90 to believe we are headed south again.

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