

November 10, 2007

### Potential "Death Star" Follow-Up

Just a follow-up, the May wheat probably made a significant low on Friday. More perfect would be to test the low on this coming Friday and make a 5 day double-bottom. A 30% retracement of a blow-off move in 30 days should generate some recovery it would seem. The \$2.15 decline is the largest decline since 1974 and is rather typical of markets breaking into new highs. \$7.45 to 7.50 was the old high so it should be support for the short-term.

After we publicly turned bearish wheat on 9/12 and called for a limit up/down day on 9/12, the market has fulfilled the expected decline and it is now time to look for a recovery. The 2 week over-run at the highs is not bad when you are looking at an 8 year time count. Wheat has now endured a very sharp decline, the 2nd sharpest in history. Despite what you have heard, what goes straight up still comes straight back down.

This puts the July in a real quandary. The "Death Star" has held but only by the smallest of margins. With the nearby making a potential low it seems unlikely the WN would collapse. We exited our short July wheat on the gap up last week, and would not resell until the market falls below this past week's lows.

IF you have new wheat sales on the books, cover those bushels with long WK and use Friday's low for a stop. Only buy 50% as many bushels as the volatility in the WK will be roughly 100% larger than the WN therefore 50% of the bushels will be a dollar for dollar spread.

(In my humble opinion)

ALSO, I went back and reviewed the "Death Star" pattern research. When it worked BIG TIME, the "star" occurred in the nearby option, NOT the deferred. Therefore, I think it wise to wait and resell the July when last week's low is broken.

FROM A TIMING PERSPECTIVE, the wheat bull market is EXTREMELY old in the tooth. The low and start of this rally was in December 1999, making the bull market now closing in on 8 years.  $8 \times 12 \text{ months} = 96$  and the high is 960. IF we get a 6 week year-end rally, IT WOULD BE PERFECT! Double Top in month 96, December. Since things are seldom perfect, I will stick with the high on 9/12/07 and view any rally back as a test that must be sold.

GENERAL PERSPECTIVE..... price has gone up 4.36 times its low price of 222. To argue that global production will not increase massively is PURE FOOL'S FOLLY.

ALSO, the past 18 months have witnessed just about every possible weather nightmare possible for wheat production. Odds are quite high that yields will be above average almost everywhere starting in May 2008.

Take Heed.

Ken