

January 25, 2010

Friends:

It has been quite some time since I have sent you an email. Mostly this is because of being busy growing our farm and of course dealing with a fall that was challenging. As well, after establishing multi-year hedges (too early as you know but the prices look very good now) in 2008, we have been very reluctant to modify our position much.

However, that is not really an excuse for not taking a few moments to send thoughts along to you.

So, today, I observed something that is interesting and wanted to share it with you.

First, I just finished reading "Animal Farm" by Orwell. A simple book that just nails what the Soviets did after the revolution. Kind of amazingly easy to understand which is why it was a classic I suppose. Also, simply amazing how it fits into today's politics in the USA. "All animals are equal, some are just more equal than others." Rewritten for today it would be in terms of medicare subsidies, "some states are equal, just some are more equal than others", like NE, or LA, or MA. Or obviously, "all people are equal, just some are more equal than others." Such as how union members avoid the luxury tax while us mere small business owners don't. By the way, I am very sure that the ultimate end game to this is not apparent. It seems like the President and Congress are writing a bill that the courts will have to throw out, thus leaving a vacuum that will have to be filled with what they really want in the end.

Second, the point of the email, the Commitment of Traders report is interesting from 1/19/10, especially when compared with 1/05/10 before the report. Let's take Bean oil first, index funds were long 52k on 1/5, as of 1/22 they are long 65k. So, as predicted they did buy 13,000 contracts to rebalance their portfolio. Note however the price declined 41.50 to 37.50 despite their buying.

For beans, they increased net longs by 16,082 cars or 80 mil bushels, and the price declined from 10.60 to 9.60 sk option. The old trading funds sold 34,746 cars during this time. So, the rebalancing was indeed bid into the price before it actually happened. As well, it is interesting that in beans that the commercial short processor position is virtually unchanged, (meaning the smart money does not think a low is in yet) while the commercial long position is up 28,000 cars. (Allowing crushers, etc. to lock in better crush margins on the decline is how I would read that)

For corn, some amazing shifts created by the Jan report. The index funds bought 68,576 cars (343mil bu) just as forecasted. Again, however, the selling of 98,186 cars by the old trading funds overwhelmed the rebalancing buying. Also, interesting to note that after the report, the commercials have BOUGHT 68,497 cars to cover hedges or needs. However, with the trading funds still long 130,000 cars, and coms still short 385,000 cars, there is plenty of room for more selling if the players want to do so.

I guess in summary, the point I wanted to make was that the market does a great job discounting future news. There was a lot of talk about "rebalancing driving prices higher". This despite the fact the charts and timing triggers told us a high was being made. Following historical facts and tendency was again proven to be far more accurate than the news.

Take care,
Ken