

May 16, 2008

Friends:

Today's action in corn is a potential major sell signal in my view. We tested the gap lower and have failed miserably SO FAR. If it reverses and closes strong we would be stopped out of some of the hedges. If beans close lower for the day it is a disaster for them. Wheat is obviously bottoming but may take some time.

PLAN IMP:

CORN: We're going to 100% hedged the 2009 corn today in short CZ09 futures. Also, going to 50% hedged 2010 corn. As you know we are already 100% hedged in 2008 corn with Pacer Ultra's at Cargill. Sure the crop is off to a shaky start. If you look at corn historically, this type of rally MUST be sold into and in a big way. The CZ09 hedge is very nicely set up.

BEANS: We are going to 100% hedged 2008 beans using short SX. Got in at 13.40 and will use a stop to exit at 13.66 GTC. The seasonals are so easy to forget in emotional times. Seasonal high for beans is 5/10. Today is just a touch late.

WHEAT: Bottoming right at perfect support \$7.50, the old highs, the low in October, and a perfect retracement on the monthly charts. If corn and beans have not topped, then wheat will rocket back to the upside. If they have topped, you can see why we want to be so short on the corn and soy. They will retrace like wheat at least back to the breakouts which would be 10.60 beans and 5.46 corn, but more likely 4.30 corn in the cz.

I was just told today why no farmer should have more than 20% of the 2008 corn crop sold. Why? IT MIGHT go higher in a drought.

Well, friends, that is just pure hogwash. We are running businesses creating and selling a product whose value has increased 350% in a mere 30 months or so. My position would be that with corn prices so far above the spring insurance price fix that no farmer should have MORE than 20% left to sell.

By the way, the guys who told me that one above had 100% of their insured bushels sold in May of 2006 and 2007. I was kind enough not to bring that up. :-) Why you would change your plan now is just beyond my capacity to comprehend...

Protective stop losses in the CZ09 are located at 6.06 cz9 GTC, and 6.13 in the cz10.

I will grant you that we have sold too early. If you will consider things rationally and in historical context, that fact in no way lessens the value of this sell signal. Rather it increases its likelihood of success. We have never been wrong forever. Plus I am only risking a few cents but trading a mountain of contracts. Yes, margin is not easy, but the market will not reward inaction forever.

STRATEGY: We intend to lift all of these hedges sometime in June. These are not planned to be long term positions. That info would follow but in the big picture corn will definitely test these highs again and probably in July which would be final high for many years. This high could be a lower high, a double top, or a new high. Regardless it will need to be sold harshly. We chose to take the protection and now and then respond to what the market does.

The tremendous differences in corn should at least be respected. Also, a planting delay rally has NEVER (in my database) been followed by a drought rally. It has always been followed by a 4 to 8 week selloff and then the weather event is traded, up or down.

Good Luck, everyone,  
Ken