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C&S Grain Market Consulting
C&S Thoughts for Week 19
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1. I think I have "Spring Fever" today. My "Thought" for this week is I do not feel like thinking and writing! I think I am going for a bike ride and then for a walk in my Evergreen Trees and sit and listen to the birds sing. First, however, I will write a few things.
2. December Corn Futures (CZ) is resting, waiting for the May WASDE report, building energy to overcome to historical resistance that is always present at the 275 level. Next Friday the May WASDE Report will finally arrive. The May WASDE Report is always the first time USDA uses new production year numbers in its WASDE Report. Depending on what they use for acres and yield, along with exports and domestic demand, the Stocks-To-Use-Ratio (STUR) should be substantially lower than the 21.0% level reported in April. The STUR will probably be in the 13-15% area.
3. Have you been watching the price trends in the 2006, 2007 and 2008 December Corn Futures? The trend has been up in all 3 contracts. So far in 2006 we have traded 86 days and CZ 2006 has gained 15.75 cents, 248.25 to 264.00. CZ 2007 has gained 34.50 cents, 259.50 to 294.00. CZ 2008 has gained 45.00 cents, 260.00 to 305.00. In the last 86 trading days, CZ 2006 has closed above its open on 53 days, CZ 2007 has closed above its open on 67 days, and CZ 2008 has closed above its open on 77 days.
4. For those of you who just can't imagine how any more "Spec" money can come into the Corn market, think about these facts. The Large Specs are now net long 211,763 Corn Contracts out of a Total Open Interest of 1,189,657 contracts as of last Tuesday, or 17.80% of the Total O.I. in Corn. The largest net position they have ever held was 214,365 contracts on March 16, 2004, but the Total Open Interest in Corn was only 675,900 contracts at that time, so their net position was 31.72% of the Total O.I. in Corn. If the Large Specs were to increase their net position to 31.7%, they would have to buy another 250,000 contracts and Total Corn O.I. would swell to about 1,430,000 contracts. This would probably add another 25 cents to the price of Corn.
5. November Soybean Futures are defying gravity as price is headed north in the face of growing ending stocks. I wonder what the market knows that the rest of us don't know?
6. The S.A. Soybean crop is still trending smaller almost every week for various reasons, but we still have too many Soybeans, at least from an ending stocks and STUR point of view. In the meantime, the Brazilian Real has rallied to the highest Weekly Close since 2001 and is at 2.07 Real's per Dollar. This strength in the Real is killing the Soybean growers in Brazil. Recently I have read some analysts thinking that there will be a 20% reduction in acres in Brazil in 2007.
7. If the world wants a steady supply of Soybeans from Brazil, the price of Soybeans prior to their next planting season will have to rally enough to overcome their present dire economic situation that is being created by a strong Real and a weak dollar. I can't speak for the Real, but the Dollar is headed South and could be much weaker by October than what most of us imagine.
8. Have you noticed how the crush margins in 2006 have consistently been above last year's crush margins?

9. Many cycle analysts have been looking for a long-term Low to be confirmed around the end of March or early April. This is part of a 30-month cycle that is part of the 30-year cycle. Likewise, all of the potentially Bearish news that applies to the Soybean market is now pretty well known, and contrarian opinion is starting to flash warning signals about being too Bearish because so many traders and analysts are already Bearish. It is time for Soybeans to rally!
10. **Do you see what I see in the Weekly SX Chart? For three weeks in a row, SX has left a Weekly breakaway up gap between 596.75 and 600. Something is up!**
11. Another positive factor for Soybeans is the rising cost of energy, which makes the use of Biodiesel more attractive.
12. How many bushels of Soybeans might be used for Biodiesel in the years ahead? The current estimate is about 60 million bushels in 2006, 120 million bushels in 2007, and 158 million bushels in 2008. It ultimately will be determined by how fast America wants to move toward serious Biodiesel consumption and that will be decided by at least six things. 1) Cost advantage; 2) Availability; 3) Technology solving gelling problems in cold weather; 4) Developing Manufacturing Facilities; 5) "Green" Government regulations; 6) Government subsidies.
13. This week's Energy Watch shows the U.S. using 20.500 Million Barrels Per Day (MB/D) versus 20.605 last week, versus 20.199 a year ago. (Each week these are 4-week averages.) The average retail price for Regular Gasoline is up 30.6% over a year ago, 291.9 this week versus 291.4 last week, versus 223.5 last year, according to the Weekly Petroleum Status Report. Including the Strategic Petroleum Reserve (SPR), We now have 82.5 days of energy stocks on hand versus 83.2 days a year ago, assuming no new production and no imports. The U.S. imported 57.86% of its energy needs last week versus 57.52% a week ago, versus 58.87% a year ago. Refinery capacity is at 87.2% versus 86.5% last week versus 92.5% a year ago. If America were to be cut off from all energy imports, we have enough energy stocks on hand to last for 142.6 days versus 142.5 days last week versus 141.0 days a year ago.
14. Crude Oil Futures continues to trade within a broad uptrend channel that is about \$23.00 wide and the center of that channel is currently around \$67.50. **Prices in the month of May could trade as low as \$57.00 or as High as \$80.00 and not be outside of this channel.** This channel is defined by the February 2003 High of \$39.99, the August 2005 High of \$70.85 on the topside, and a parallel line drawn from the December 04 Low of \$40.25. Until something happens to alter this channel, it will stay in place, rising at the rate of about \$1.00 per month. If the world holds together until 2012, just barely able to meet the daily energy demands, the center of that channel will be in the \$138.00 area in 2012. If one or more of the 5 unstable areas of the oil producing areas of the world, Iran, Iraq, Nigeria, Saudi Arabia, or Venezuela, has a serious interruption in production, expect much higher prices and the channel could roll up and double. **Don't be lulled into hoping Crude Oil prices are going to significantly decline like Natural Gas has declined. Natural Gas is a Domestic Market, and Crude Oil is a World Market.**
15. **Crude Oil enjoyed a nice correction last week going from a High of 75.35 down to 69.30. Lead-Option Crude Oil Futures should find good support in the 68.50 area.**
16. Recently I have started reading more and more analysts saying that energy prices have peaked. That is good, from a contrarian point of view, if you want higher energy prices. Now I know that I am about the only person that loves high-energy prices, because eventually it will be reflected in the price and profitability of Corn, but it takes a long time and a steady diet of high prices. Seeing the Bear is come out of hibernation is very good for higher energy prices down the road once the weak handed longs have been flushed out of the market. You should see how balanced the COT Open Interest is in Copper, and Copper is becoming more valuable all the time. Wheat penny's from the 40's and 50's are now worth about 2.5 cents for their copper!

17. The U.S. Dollar Index declined wonderfully again last week from 85.88 to 84.92 The \$ has declined from 90.03 to 84.82 in the last 4 weeks, so a rally might unfold at any time. The World doesn't want the \$ to get too sick too fast, but since the policies that dictate the strength of the \$ are very sick, one never knows! The Lead-Option U.S. \$ Index Monthly Chart is in a broad downward sloping channel that is about 22 cents wide. It is bounded by about 90.50 cents on the Topside and 68.50 cents on the Bottom side during the month of May. April ended the month below the last reaction low of 86.02, so the next serious support should be the 2004 Low of 80.48. Over time, unless the U.S. makes some drastic economic policy changes, the \$ is destined to go lower, much lower. **Remember, no trend lasts forever, but if the current Monthly Downtrend in the U.S.\$ were to last 6 more years, the lower edge of the downtrend channel will be in the 21 cent area. I wonder what the price of Crude Oil and Corn, Gold and Silver will be if the \$ goes to 21 cents in 2012?**
18. The CRB (CCI) Index, the Index that measures the value of a basket of commodities that are weighted at different percentages reached new all time highs last week at 391.25, and closed the week at 388.50 versus 384.50 last week. The CRB is likewise in a long-term uptrend channel, which started in November 2001 at 184.25.
19. The CRB uptrend channel, starting from November 2001, is bounded by 313 on the lower line of the uptrend and 398 on the upper line of the uptrend during the month of April. If all goes according to the schedule of commodity cycles, it should remain in a general uptrend for 6 more years towards the year 2012, reaching the 600 level by then if it stays in the same channel. I wonder if a new higher channel will roll up and unfold in the months ahead?
20. **Here are a series of inputs as they have entered my world this past week.**
21. According to WorldNetDaily, "Tehran has recruited and funded eight Islamic fundamentalist organizations to undertake retaliatory strikes against U.S. and British military and economic interest across the Middle East - and perhaps in the U.S. and Europe - in the event Iran's facilities are attacked, reports a London Arab daily, Asharq Al-Awsat." Truth is hard to discern these days, and bluffing is common, but I hope our Politicians in Washington pay attention.
22. "No one can prevent cooperation between Iran and China." These are the words of Chinese Ambassador to Tehran, Lio G. Tan. China will not allow their economic development and energy investments to be dictated by Washington. You have to wonder if our leaders are able to use common sense?
23. India will probably be in the world market for a lot more wheat than what they have originally said. They are said to be fussing over the quality of the Aussie wheat, and this is an old ploy from their trade handbook, according to some old time grain analysts.
24. DuPont Co. is ready to capitalize on its almost sole leadership in industrial biotechnology in the years ahead, starting in 2006, which includes BioFuels and medical products. DuPont has more patents in industrial biotechnology than any other company, according to its Chief Financial Officer, Gary Pfeiffer.
25. Water is becoming a very precious and rare commodity, especially in many areas in China. Word last week indicates Shenzhen, a coastal city in South China's Guangdong Province, will begin a pilot project that will use seawater to flush toilets. Likewise, seawater will be used to cool power and chemical plants.
26. Northern China is in the midst of serious drought, but the markets don't seem to care. The Corn market might care by October, as China will likely begin importing Corn this fall. The FAS at <http://www.fas.usda.gov/> issued an audio report about that on Friday.

27. For those of you who think it would be a good idea for the U.S. to lift its 54-cent per gallon tariff on imported Ethanol, think about this. It is a fact that the 51-cent "blenders credit" is a tax incentive all blenders of Ethanol receives, regardless of its point of origin. If the U.S. lifts the import tariff, we will be giving Brazil a 54-cent per gallon subsidy, along with 51-cents per gallon to the blenders (Big Oil)!
28. How many of you know what an ACU is? ACU stands for Asian Currency Unit! Keep your eye on this in the years ahead. China, Japan and Korea are initiating joint research at the government level to introduce an ACU single currency comparable to the Euro. By the end of the year, the finance ministers hope to begin the process, starting at an ASEAN Finance meeting later this year. **GO GOLD! GO CORN!**
29. Here is a unique investment idea for you to consider. Buy all of the new "Forever" U.S. Postal Stamps you can afford and are allowed to buy, once they are issued. That way, you will never have to worry about inflation and postage rates. They might be ready next Spring.
30. Just when you thought it couldn't get any worse for Israel, what are they going to do? Name a former mayor and ex-union leader by the name of Amir Peretz as its new Defense Minister, a defense amateur and a politician. Anybody want to buy insurance against more Gaza source missiles and terrorists attacks?
31. When it comes to the kettle calling the stove black, Vice President Cheney's rebukes on Russian democracy takes the cake. I'm certain Mr. Putin just enjoyed that immensely, smiling all the way back to his former KGB days. Cold war again? Remember in Ezekiel 38 that God says that He will put hooks into Gog's (Russia) jaw, and will bring them forth, along with Persia (Iran) and others with all their army against Israel.
32. What do you suppose the hook or hooks might be? Could it be Washington's Politicians spouting off their mouths and invading Iran? Stay tuned, and by the way, for those of you who think peace will break forth in the Middle East and we will have lasting lower gasoline and Crude Oils prices, you are in for a long wait.
- 33. I believe the World will continue to move toward One World Currency, One World Government, One World Religion and One World Ruler. Why? Because mankind, through the influence of Satan has continually striven to reverse the dispersing and judgement of God that was sent against them at the Tower of Babel, and because Satan desires to Rule the World.**
34. More and more writers and people claim to be "seeing" and "hearing" messages, supposedly from God warning about impending judgements to the earth and mankind. Is it a sign of the times? In Matthew 24:24, Jesus told us, "For false christs and false prophets will rise and show great signs and wonders to deceive, if possible, even the elect". We all need to be alert and ready, but we need not live in fear. Just keep on keeping on, being faithful to God, your country, your family and yourself and seek out God's Wisdom, Discernment and Protection. Proverbs 3:5-6 and Psalms 91.
- 35. How will America pay for its wars? Historically, the classic method of war finance is Inflation! It started with the Romans when they destroyed the intrinsic value of their coinage with lead. Now we have the luxury of electronic keyboard printing presses, and Ben Bernanke.**
36. We like to think that the U.S. is a Superpower. Paul Craig Roberts states 7 reasons why we are no longer a Superpower. 1) "A country whose financial affairs are in the hands of foreigners is not a superpower." 2) "A country dependent on foreigners for manufacturing and advanced technology products is not a super power." 3) "A country that cannot create jobs for its native born population is not a superpower." 4) "A county whose business class has no sense of the nation is not a superpower." 5) "An isolated country is not a superpower." 6) A country that fears small, distant countries to such an extent that it utilizes military in place of diplomatic means is not a superpower". **Why do I list all of these things that are wrong with our country, at least in Mr. Roberts opinion? Read on.**

37. Who is Paul Craig Roberts? Amongst other things, he was Assistant Secretary of the Treasury in the Reagan Administration. He was also an Associate Editor of the Wall Street Journal editorial page and Contributing Editor of National Review.
38. **I list these things to show you that it is not just myself that believes America has serious problems, and unless our elected officials make some drastic changes very soon, we are destined to a changing geopolitical and economic scene.**
39. Have you ever considered how much energy and propaganda and spin is put forth propping up our economy in the eyes of Wall Street to keep the Stock Market from falling? It does not matter what the news or government economic reports or business reports show all reports and data are spun into being bullish for Wall Street. **Well, at least for a few years, even though the spin will never end, the days of Commodities and Hard Assets are going to prevail over the days of paper. If you do not understand what is going on in the metals market by now, you never will!**
40. Something important to remember in the Commodity Futures markets; Vertical price rises always lead to Vertical price declines, often at a time rate of about 5 or 10 to 1, meaning that it takes 5 or 10 times longer for prices to rise than it does for them to fall. The fall doesn't mean the trend is over. It just means that the market became overextended, and it was time to clean out the weak handed Longs! Expect increased volatility in the days, weeks and months ahead. The higher commodity prices rise, the greater the potential volatility will become.
41. I keep repeating this because it is so good. For those of you who like to read what really brilliant business minds have to offer, I urge you to sign up for John Mauldin's "Thoughts from the Frontline Weekly Newsletter". It is free. To subscribe to John Mauldin's E-Letter please click here:
<http://www.frontlinethoughts.com/subscribe.asp>
42. I have a good quote from John Mauldin this week. **"Insanity is doing the same thing over and over and expecting a different result."**
43. By now you know I try and cover the geopolitical situation with these Weekly Thoughts, and those things that impact our lives and many of the markets we are interested in, especially the commodity markets. I do not intend to be presenting doom and gloom. I just want you to be prepared. Most of these things we can not change or stop, but we can be forewarned. Being forewarned helps us make better decisions in faith, investing, life, thinking, and reactions. We all need Hope and Psalms 27:14 is an excellent source for words of hope and courage.
44. **Once again, it is time for some good news again. Remember that God can thwart the plans of the nations, mankind, and evil.** Often it appears that the forces of evil and stupidity surround us. Often we fear that they are getting the upper hand. **The good news is that evil is not sovereign. Only God, (Elohim, Jehovah, Yahweh) is Sovereign. This is a very important Biblical fact that we need to understand.** If you choose to not believe this, that is your privilege. Personally, I prefer to believe and live in faith and not fear, but we are all free to choose.
45. You have my encouragement and permission to forward my Weekly Thoughts to your friends if I ever say anything that blesses you. Likewise you have my permission to hit the "Delete" button if I waste your time.
46. Read Psalms 91 in the week ahead, Read it every day. It contains wonderful promises from God.