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C&S Grain Market Consulting
C&S Thoughts for Week 20
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1. The "Spring Fever" I had last week is back to March weather. The bright hope of this fact is that I will have an opportunity to experience "Spring Fever" once again in a couple of weeks.
2. December Corn Futures (CZ) are no longer resting! Friday's May WASDE report, brought the Stocks-To-Use-Ratio (STUR) down below the 10% area. This opens the door for a very exciting summer!
3. Last week I said the STUR would probably be in the 13-15% area in the May WASDE report. Boy was I wrong! Instead it is at 9.8%. A Stocks-To-Use-Ratio (STUR) below 10% should allow Lead-Option Corn Futures to trade into the 270-285 areas, and December Futures to trade into the 295-310 areas sometime this summer with buying surges inspired by weather scares.
4. The May WASDE Report will likely provide the lowest number of acres that we will see this year as no allowance was made for any switching that might have taken place since the March Planting Intentions Report was issued.
5. The trade will wrestle with questions about acres for harvest, final yields, Ethanol use, exports, feed use, inflation, outside money flow, energy values, dollar weakness and the China factor for months. It is going to be an exciting year. The higher prices rally, the greater the swings of the corrections will become.
6. 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 91 days and CZ06 has gained 33.50 cents from 248.25 to 281.75. CZ07 has gained 53.25 cents from 259.50 to 312.75. CZ08 has gained 68.50 cents from 260.00 to 328.50. In the last 91 trading days, CZ 2006 has closed above its open on 57 days, CZ 2007 has closed above its open on 71 days, and CZ 2008 has closed above its open on 82 days.
7. The Large Specs are now net long 194,416 Corn Contracts out of a Total Open Interest of 1,242,361 contracts as of last Tuesday, or 15.65% 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, or more and Total Corn O.I. would swell to about 1,450,000 contracts, or more. This would probably add another 25 cents to the price of Corn. There is plenty of room for more Large Spec money to buy more Corn, if they want to.
8. **The December 06 Weekly Corn Chart above provides several price targets based upon Fibonacci and Elliott Wave Theory as measured from the Contract Low at 237.50, and each of the price swings in the Weekly Chart. The next clusters of price targets are in the 290-296 areas. Beyond those areas, the next clusters of price targets are in the 300-310 areas. One step at a time!**
9. 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?

10. 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 2.14 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.
11. Have you noticed how the crush margins in 2006 have consistently been above last year's crush margins? There isn't much incentive for downtime.
12. Friday's WASDE Report was Bearish in that the estimated ending stocks of 650 million bushels is the largest ending stocks ever reported in a May WASDE report. The STUR at 21.7% is not the biggest, however. The STUR in the 1986 May WASDE Report was 24.5%, in 1987 it was 27.4% and in 1999 it was 21.9%. In those previous years with high STUR values in Soybeans, the world was not experiencing inflationary fears and commodity bull markets like it is now. In the long run, the buying pressure from the outside factors will continue to support Soybean prices at levels higher than what the fundamentals would call for.
13. 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. I think May 07 Futures may have to be in the 700-750 area next October to generate more Brazil Soybean plantings.
14. **Do you see what I see in the Weekly Chart above? For Four weeks in a row, SX has left a Weekly breakaway up gap between 596.75 and 600. Historically, when SX leaves a Weekly Gap for more than 3 weeks in a row, the rally often exceeds a dollar. Hang on because something is up!**
15. Another positive factor for Soybeans is the rising cost of energy, which makes the use of Biodiesel more attractive. **Soybean Oil is starting to rally because of energy values, and may rally more than what most of us can imagine. The Lead-Option Contract Closed the month of April at 25.54, the highest close since August 2004. A Weekly Close above 26.18 (it closed at 29.19 on Friday) should open the door for a run at the 35-cent level later on this year.**
16. 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.
17. **All of the Bearish news is known for the Soybean market, and the gap that was created on Monday April 17th probably assures us that the 30-month Price Cycle has bottomed. A Rust premium will likely not be removed until later in the growing season. If Energy prices and diesel fuel prices remain strong, and if Silver starts trending higher beyond \$15.00, Soybean prices may rally more than what most of us now believe.**
18. **Many analysts, traders and writers are beginning to talk about how volatile commodity prices are becoming. It took Copper 111 weeks to move from \$0.60 cents to \$1.00 per pound. It took another 102 weeks to move to \$2.00 per pound. Then it took just 20 weeks to move to \$3.00 per pound and only 3 weeks to move to \$4.00 per pound! Anybody want to guess how many weeks to \$5.00? At the present rate, 1 more week. A serious correction is due.**

- 19. In June 1973, Daily trading ranges in July Soybeans went as high as 17.73% of the Daily Closing price. Hang on, as we haven't seen anything yet. There is about 346 weeks until the end of 2012.**
20. This week's Energy Watch shows the U.S. using 20.615 Million Barrels Per Day (MB/D) versus 20.500 last week, versus 20.173 a year ago. (Each week these are 4-week averages.) The average retail price for Regular Gasoline is up 33.1% over a year ago, 290.9 this week versus 291.9 last week, versus 218.6 last year, according to the Weekly Petroleum Status Report. Including the Strategic Petroleum Reserve (SPR), We now have 82.4 days of energy stocks on hand versus 83.7 days a year ago, assuming no new production and no imports. The U.S. imported 57.36% of its energy needs last week versus 57.86% a week ago, versus 58.16% a year ago. Refinery capacity is at 88.4% versus 87.2% last week versus 92.8% a year ago.
21. 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.
22. 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 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.
23. If we want to keep the Bull market in commodities going for years, we need corrections that will inspire the Bears to put up a fight. This keeps the boat balanced. If everyone is all on the Bull side, the market will run out of buyers and the boat will be ready to capsize. Likewise, we need a steady diet of lower U.S. \$ values.
24. The U.S. Dollar Index declined wonderfully again last week from 84.92 to 83.83 The \$ has declined from 90.03 to 83.41 in the last 5 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 by 2012?**
25. 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 403.00, and closed the week at 399.50 versus 388.50 last week. The CRB is likewise in a long-term uptrend channel, which started in November 2001 at 184.25. Unless the CRB is ready to roll up and start into a new higher channel, it is ready for a rest, as it has reached the top of its channel for the month of May.

26. Starting from November 2001, the CRB uptrend channel is bounded by 313 on the lower line of the uptrend and 401 on the upper line of the uptrend during the month of May. 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?
27. **Here are a series of inputs as they have entered my world this past week.**
28. Most of the new press about the future of Ethanol Production focuses on how investors, like Bill Gates and Vinod Khosla are hoping to use cellulose conversion to Ethanol as a feedstock rather than Corn. I see both tracks developing in somewhat of a parallel course over the long-term of 10-20 years. In the short-term of 3-5 years, however, Corn based Ethanol will be where the action is, but the cellulose research will rapidly advance at the same time.
29. In my opinion, the Midwest will never leave Corn for switchgrass. What I believe will happen, assuming that the cost of Crude Oil stays above a quarter a quart (\$42 per barrel), is the advancement of cellulose feedstock's production in other areas of the nation that are not in the heart of the corn growing areas.
30. Unless Washington makes some major economic and political changes, Hyperinflation is coming to America over the next few years and we haven't seen anything yet in terms of high commodity prices and extremely high volatility! Daily trading ranges of 10 to 20% of contract value may become common as we move forward and higher in prices.
31. The annual rate of inflation in Zimbabwe is reported to have reached 1000% in the month of April. What would we do here in America if that kind of inflation were to develop? I think the worst inflation I have personally witnessed reached about 20% in 1973.
32. First Iran and Dubai wanted to start trading Oil in Euros as an alternative to Dollars. Now Russia wants to begin one in Rubles. I wonder if anyone in Washington is paying attention?
33. There is growing resistance to stopping, or at least delaying the Pentagon's plans for "Divine Strake". Yellowstone probably doesn't care when mankind wants to shake the earth, it will just wait until the right forces are released that will allow it to erupt. We can all hope, however, that those forces are not augmented by our stupidity!
34. What most of us do not understand is how for years Japan created Yen out of thin air with an electronic transaction and then directed those Yen to New York to purchase U.S. Government Bonds. I never understood it until I started reading Jim Sinclair. If you really want to stay informed about what is going on in the world and with Gold, it is imperative that you read Jim Sinclair every day. You may find him at <http://www.jsmineset.com/home.asp>
35. 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!**
36. 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.

37. According to the Renewable Fuels Association at <http://www.ethanolrfa.org/> there are currently 97 Ethanol Plants online with a combined capacity of 4.486 billion gallons per year, and 35 plants under construction, along with 9 plant expansions taking place. The new construction will have a capacity of 2.230 billion gallons per year. Therefore, the plants now on line are using about 1.6 billion bushels of Corn per year, and the ones under construction will use another 794 million bushels per year for a total of about 2.394 billion bushels per year by early next year. That however is not the end of the line. By the time those 35 plants are online, there will probably be another 30 to 50 more new plants under construction. Until Crude Oil declines and stays below \$42.00 per barrel and until Corn stays above \$4.00 per bushel, the money will just keep flowing into Ethanol.
38. Last week I said, "Cold war again?" It seems that Mr. Putin was not amused by Vice Presidents Cheney's remarks. Russia is not going to roll over and disappear, no matter how much our Washington Politicians think they are. 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.
39. What do you suppose the hook or hooks might be? Could it be Washington's Politicians spouting off their mouths and/or invading Iran? Stay tuned, and by the way, for those of you who think peace will break forth in the Middle East and that we will have lasting lower gasoline and Crude Oil prices, you are in for a long wait.
40. I am not well read on Islam. Having said that, I have read enough to understand it is not uncommon for those of the Islam faith to try and convert heathens before they attack and kill them. Western news media and politicians have probably not understood the true meaning of the letter to President Bush from Iran.
41. The Sunni-Shia rift in the Middle East is not going away anytime soon. According to Monty Guild, <http://www.guildinvestment.com/> "Most of the Mid East oil is on Shia occupied land, in countries where Sunnis are in control." Mr. Guild thanks Larry Jeddelloh of The Institutional Strategist <http://www.tisgroup.net/> for this insight. What a wonderful party they all must have in the Middle East!
42. Again quoting Monty Guild, "Gold will rise because three global trends will continue. One, global inflation will continue. Two, Middle Eastern military conflicts will continue. Finally, wealth will continue to be accrued in countries like China and India, where investors and hoarders want gold as a form of security and savings."
43. Quoting Bill Gary of Commodity Information Systems, Inc, who has been in business since 1968 <http://www.cis-okc.com/>, "Until our government and/or the Federal Reserve have the courage to halt money printing and make the dollar worth something, commodity markets will continue in bullish price trends."
44. My quote is "Because of the differences created by Globalism and Corporate Greed, along with a weakening economic and political American Empire, Inflation in the 21st Century will likely make the Inflation of the Seventies look like Kindergarten".
45. In the Seventies, America had a strong manufacturing and job base, and was not saddled with massive Budget Deficits, Trade Deficits and Current Account Deficits, and the American homeowner wasn't using their home as an ATM cash machine.
46. Many Americans will need good old Yankee ingenuity before we get through this next commodity boom cycle. By the same token, however, it will create many opportunities for the brave at heart and those willing to think outside of the box.

47. 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 that 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.
48. 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.
49. **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.
50. 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.
51. We live in very exciting and challenging times. They can be times of fear, or times of hope and opportunity. Read Psalms 91 in the week ahead, Read it every day. It contains wonderful promises from God.

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