TOOL #3 FOR CZ: WEEK 51-09 **C&S WEEKLY FOCUS FOR DECEMBER CORN** **12/12/09**

REVIEWING LAST WEEK: Week 50	**HIGH:**	**LOW:**	**RANGE:**	**USDA-WASDE WATCH:**	
Estimated Prices:	440.00	420.00	20.00	December 10th	High: $3.85
Actual Prices	439.50	417.00	22.50	December 10th	Low: $3.25
Amount of Last Weeks Miss:	+ 0.50	- 3.00	+ 2.50	**09/10 Ending Stocks: 1,675 Million BU**	

Weekly API Index is 60.1 Vs 62.6 Last Wk (Page 5). The Stocks-To-Use-Ratio (STUR) = 12.95% versus 12.10% a year ago.
CZ 2010 closed at 438.25, Up 15.50 cents for the week. Corn Open Interest went from 966,797 to 967,546 contracts, which is 100.1% of last week's OI and 116.8% of a year ago. Weekly Corn Volume was 81.1% of last week and 104.5% of a year ago.

LOOKING AT THE WEEK AHEAD: Week 51 ends on Friday, December 18, 2009.

*****FOR CZ 2010**	**ESTIMATED HIGH**	**ESTIMATED LOW**	**ESTIMATED RANGES**
With a normal range:	**445.00**	**430.00**	**15.00** cents;
With an expanded range:	**460.00**	**415.00**	**30.00 or 45.00** cents

Many times the range will not expand in both directions, but it can. Sometimes the estimated normal range High turns out to be near the actual Low and vice-versa. Other times, one of these 4 estimated numbers will be very near the actual High or Low, and one of the 3 potential ranges will follow from there. Past performance does not guarantee future performance.

10-Day Moving Ave=431.7; 20-DMA=435.5; 40-DMA=431.1; 50-DMA=426.2; 100-DMA=402.6; 200-DMA=415.3
Since 1970, the High is on Wed 33% and the Low is on Mon 45% of the time. The average range since 2000 is 10.00 cents.

FACTS & PERCEPTIONS	**PRICE IMPLICATIONS**
➢ Weekly corn export sales are now **109.3%** of last year versus the latest WASDE projection of **110.3%**.	-
➢ Corn export inspections are **+2.230** Mil. Bu above last year versus **-6.093** last week and are **100.5%** of last year.	+
➢ The CRB (CCI) Weekly Futures Index closed at **476.00** versus **477.00** last week, down 1.00 or 0.209%.	-
➢ Weekly Crude Oil Futures closed at **69.87** versus **75.47** last week, down 5.60 or 7.42%.	-
➢ The U.S. Dollar Cash Index closed at **76.573** versus **75.911** last week, up 0.662 or 0.872%.	-
➢ The SF10/CH10 price ratio ended the week at **2.56:1**, down from **2.68:1** last week.	-
➢ Daily Lead-Option Corn closed **+49.81** cents above the 100-Day Average versus +**37.24** last week.	+
➢ CZ 10 closed at **$4.3825** compared to CZ 09 at **$4.20** a year ago, which is +18.25 cents higher than last year.	+
➢ USDA Central Illinois Corn is **$3.605** versus **$3.40** a year ago. The basis is **-44.00** CH vs. **-33.50** CH last year.	+/-
➢ US Weekly Rail Traffic is **-5.40%** below last year, versus **-3.95%** below last year a week ago.	-

BOTTOM LINE:

1. **The Lead-Option Corn Contract is now the March Contract (CH). Lead-Option Corn closed the week at 404.50, versus 388.50 a week ago.** The Lead-Option Day-Chart left an up-gap on October 6th between 350.00 and 355.50. That gap was probably a Breakaway Gap and has not yet been tested. If it stays open, much higher prices lie ahead for the Corn market. The March Chart has a big Weekly down-gap between 508.50 and 524.00 that just might get filled before the end of February if we can keep the money flowing towards commodities. **Last week's low at 379 followed by a 27 cent rally may be the turning point towards more strength into January. A close next week above 413 will be encouraging!** <u>If the money flow remains fickle, the 450 area will likely stop rallies.</u>
2. Total commitments for export sales Vs the last WASDE estimates: Corn is 109.3% Vs 110.3% and Wheat is 73.7% Vs 86.2%.
3. **Since 1970, the Lead-Option Gold-Corn Futures Ratio has ranged from about 20 to a recent high of 301 and currently stands at 277. As Gold accelerates in the months ahead, the Ratio might get out to the 350 to 1 area but eventually I expect Corn to gain on Gold before the 2010 crop-marketing year is history!**
4. I am going to make a radical suggestion, based upon my belief that Hyperinflation is coming by 2012, and Corn will be King once again. <u>This is because of poor growing conditions that are going to continue developing from the Dalton Cold Cycle, the growing use of Ethanol, and an eventual narrowing of the Lead-Option Gold-Corn Ratio.</u> For long-term inflation protection, consider buying CZ2011 Futures below 440 on a scale down basis and be willing to margin it at 40%. **The Low last week was 429.50 and it closed at 450.75.**
5. **After making a new low for the move down from the early December High, CZ10 made a nice reversal last week and closed higher by 15.50 cents. In the process, the Weekly Chart printed a Bullish Piercing Pattern Candlestick, which should be followed by more upside strength next week if it is a valid reversal.**
6. Knowing the history of each week is important. For the week ahead, **Week 51**, the maximum rally in CZ from its Monday morning opening price has been **+15.50 cents in 2007**, and its maximum decline has been **-16.00 cents in 1981.**
7. **The US-Chinese Nominal Corn Futures Spread is about $2.58 per bushel.** Since December 4, 2008, the Weekly Closing of the US-Chinese Nominal Corn Futures Spread has ranged from a maximum of $3.27 per bushel, to a minimum of $1.17 per bushel, and has averaged $2.29 per bushel.
8. Right now the Corn market is caught by opposing forces, and may not do very much for awhile. **If you can handle the margin risks, you might want to consider selling March 350 Corn Puts on weakness, and selling March 450 Calls on strength and hope to keep all of the premium received by the end of February! The 350 Puts closed at 4.87 cents versus 9.25 cents last week. The 450 Calls closed at 10.00 cents versus 7.75 cents last week, for a total of 14.87 cents versus 17.00 cents last week. Don't risk more than 40% of your original premium credit.**
9. **C&S sales currently stand at 50% for the 2009 crop and 5% for the 2010 crop. Sell another 5% of the 2009 crop if CH10 trades at 424, and 5% of the 2010 crop if CZ10 trades at 455.**

Monthly Lead-Option Corn

The purpose of a Monthly Chart is for focusing on the big picture. The Lead-Option Contract ended the month of November at 417.50, versus the month of October at 366.00 versus the month of September at 344.00. The fact that we have seen 3 Higher Monthly Closes in a row is encouraging, but it may be time for a serious correction, depending on how the money flow wants to end the year. **The challenge for the Corn market right now, however, is the need to post a Weekly Close above the October High of 413. Until that happens, the Corn market will do a lot of churning but not accomplish very much.**

Last week I said that Lead-Option Corn should find support in the 375 area in the month of December, if the market is destined to be in strong hands. Last week's low at 379 followed by a 27 cent rally may be the turning point towards more strength into January. A close next week above 413 will be encouraging! The 1/2 Speedline will be in the 480 area in the month of December. A 38% correction of the decline from the 2008 Lead-Option Corn High of 776.00 to the 2009 Lead-Option Corn Low of 304.50 will be in the 484 area, a 50% correction will be in the 540 area, and a 62% correction will be in the 675 area.

The Open Interest (OI) in Corn Futures is now at 964,370 contracts through Friday's Preliminary Report that is issued by the CME. That is down 2,074 contracts in the last 5 trading days, which includes being down 3,176 contracts on Friday. The current trend of lower Open Interest is not bullish for prices! This compares with the June 4th peak of 993,296 contracts, and an all-time high of 1,546,255 contracts on 2/22/07.

Daily Lead-Option Corn prices correlate with Daily Crude Oil prices 81.8% of the time since January 2007, and Daily Lead-Option Corn prices inversely correlate with the Daily US $ Index 62.2% of the time since January 2007. Therefore, if the US$ Index is steady or declines, or if Crude Oil prices stabilize or rallies, both of these outside factors can help support Corn prices.

The average nominal price for Lead-Option Corn in the month of December is **405.38**. The CPI Inflation adjusted price of Lead-Option Corn in the month of December is **187.16**, versus the CPI Inflation adjusted high price of **753.55 in 1974**! Therefore, the CPI Inflation adjusted Corn price in the month of December is **only 24.8% of the 1974 High. Corn prices are very cheap relative to historical buying power.** At the present time, it will take a nominal price for Lead-Option Corn of about $16.32 per bushel for Lead-Option Corn to equal the CPI Inflation adjusted high price of 753.55 that was set in 1974.

The CFTC is still providing the Index Funds and normal data in addition to its new 4-category Disaggregated Report. In the latest CFTC Commitment Of Traders Report, that is issued on Fridays and reflects the previous Tuesday's positions, the Index Funds were net long 382,310 contracts, down from 385,957 contracts last week, which is 84.5% of their previous maximum. The Large Specs were net-long 194,766 contracts, down from 229,956 contracts last week, and are now at 51.4% of their previous maximum. The Corn market needs lots of new, stable money flow for serious higher price trends to develop.

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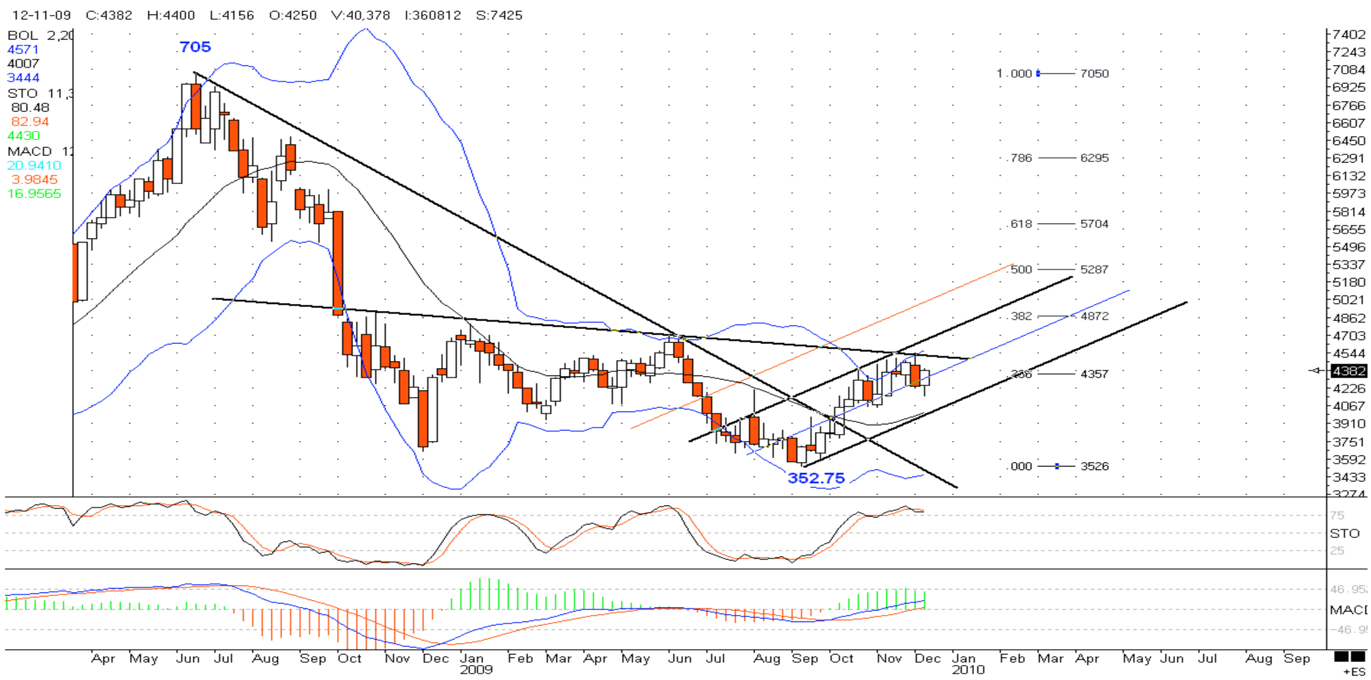
2010 Weekly December Corn (CZ)



This will be the third week for following the 2010 CZ Contract. CZ10 has been trading since February 06, 2007. So far to date, the CZ 2010 Contract has a Day-Time Life-Of-Contract High of 703.00 on 6/16/08 and a Day-Time Life-Of-Contract Low at 346.00 on 2/12/07. **The range since 12/01/09 has been from 452.00 on 12/01/09 to 415.75 on 12/09/09, or 36.25 cents.** The average annual trading range after the first trading day in December since 1970 for a CZ contract is 100.50 cents. The maximum annual trading range has been 458.50 cents in 2008.

After making a new low for the move down from the early December High, CZ10 made a nice reversal last week and closed higher by 15.50 cents. In the process, the Weekly Chart printed a Bullish Piercing Pattern Candlestick, which should be followed by more upside strength next week if it is a valid reversal.

A Weekly Close above the downtrend line that is drawn across the October 2008 highs and the June 2009 Highs is needed to generate more upside momentum. That downtrend lie will be in the 452 area next week. For continued upside targets, a 38% correction of the decline from the 2008 High of 705.0 to the 2009 Low of 352.75 will be in the 487 area, and a 50% correction will be in the 529 area.

On Friday, 12-11-09, Japan Jan Corn futures closed at **$5.63** versus **$5.70** last week. China Jan Corn Futures closed at **$6.63** versus **$6.63** last week. The CBOT Lead-Option Corn Futures (CH10) closed at **$4.045** versus **$3.885** last week. The US $ Cash Adjusted value for CBOT CH10 is only **$3.10** per bushel to foreign buyers. **The US-Chinese Nominal Corn Futures Spread is about $2.58 per bushel. Since December 4, 2008, the Weekly Closing of the US-Chinese Nominal Corn Futures Spread has ranged from a maximum of $3.27 per bushel, to a minimum of $1.17 per bushel, and has averaged $2.29 per bushel.**

On Friday, 12-11-09, Lead-Option Futures prices on a cents per pound basis for grains and energies were as follows: **Corn = 7.22; Oats = 8.09;** CBOT Wheat = 8.96; KC Wheat = 8.79; MGEX Wheat = 9.04; Rice = 15.66; Soybeans = 17.25; Crude Oil = 23.14; Heating Oil = 24.36; and Gasoline = 30.00. All of these have been converted to a Cents Per Pound Value. Central Illinois DDGS are mostly **6.50** cents per pound according to the AMS USDA Weekly Ethanol Report. **Higher prices for the week are shown in Bold.**

Since 2007, CZ has a 59.1% daily inverse correlation with the Cash US$ Index. If the correlation was a negative 100%, CZ would be in the 480 trendline area when the Cash US$ Index is at 76.573.

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2010 Daily December Corn

Here are some possible scenarios for next week.

1) **The CZ10 Daily Chart above posted a strong reversal last week and should now be ready to post a rally towards the Upper Bollinger Band that will be in the 454 area next week.**
2) **I won't be surprised to see a mid-week correction of the recent rally, however, that should find support in the 430-425 areas.**
3) **Resistance next week will be in the 445-455 areas.**
4) **The CZ10 Day-Chart left an up gap on October 6th between 395.00 and 402.00. That gap has not yet been tested. If it stays open, it may have been a Breakaway Gap that projects much higher prices ahead for the Corn market.**
5) **A Daily Close below the 415 area will likely lead prices down the 400 area.**

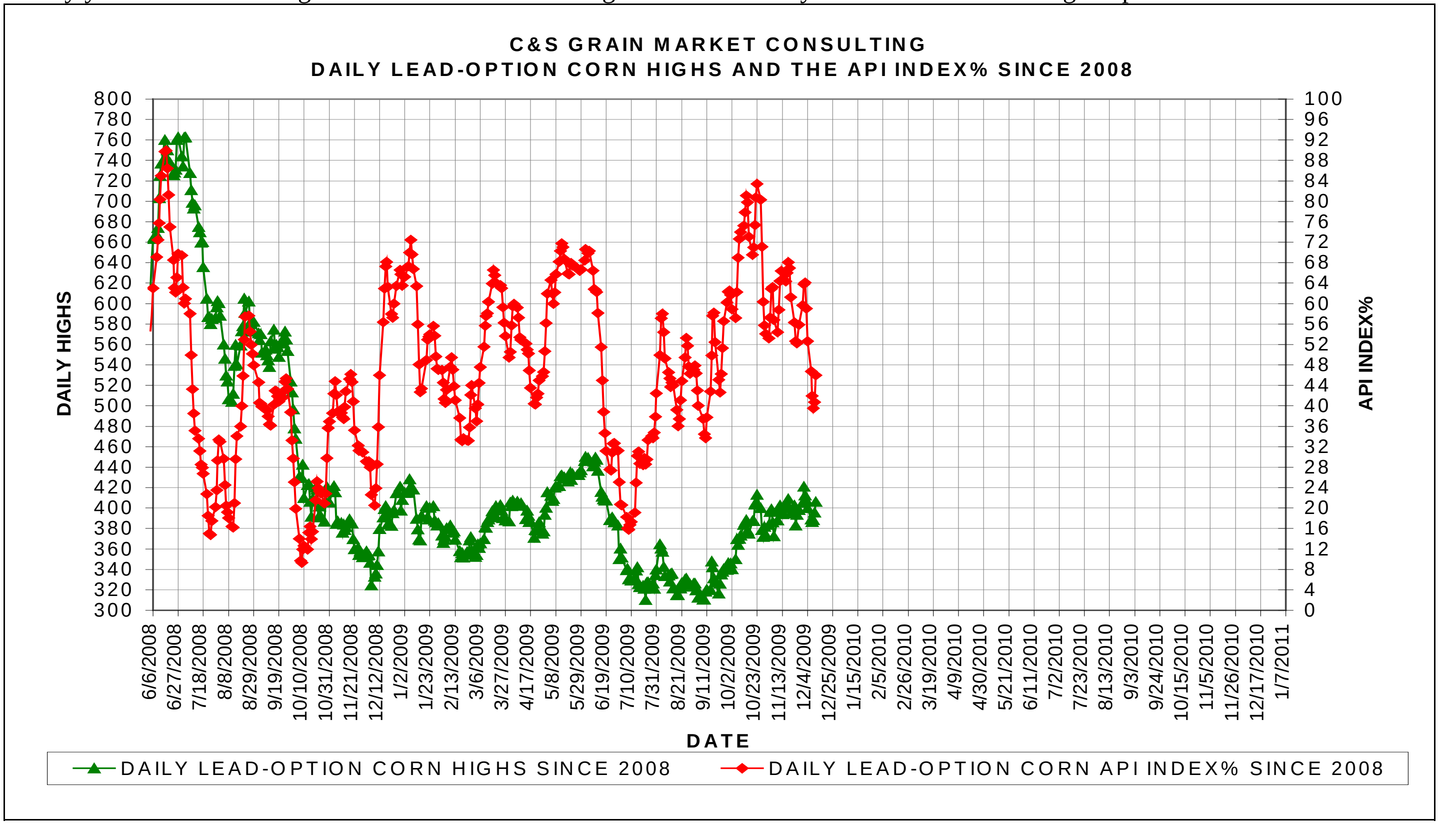
The December WASDE Report left production numbers the same as in November, but lowered exports by 50 million bushels, which resulted in an increase in ending stocks by a like amount. Depending on the area, planting date, and variety planted, Corn yields in 2009 are both above and below last year, but for the most part east of I-35, Corn yields are from 10-20 bushels less than last year. Whether the USDA will ever admit that or not is the question. As of last Monday there were still about 1.5 billion bushels of Corn still standing in the fields.

The Gasoline/Ethanol Futures price structure is now back negative at -7.04 cents this week versus -0.80 cents last week. The RBOB Gasoline Futures are now at $1.8416 versus $1.9750 last week. Ethanol Futures are at $1.912 versus $1.983 last week. The other complicating factor on the profitability of Ethanol production, and therefore the demand for Corn to be used for Ethanol production, is the ongoing ratio between Corn and Ethanol Futures prices. Since 2005, the Corn/Ethanol Futures Price Ratio has ranged from a High 2.78 to 1 on June 08, 2008 to a Low of 0.60 to 1 on June 16, 2006, and has averaged 1.71 to 1. **The Current Ratio is 2.11 to 1**, versus 1.96 last week. **The higher the ratio the less profit there is in Ethanol production. The value of Ethanol and its products compared to the cost of the Corn is now at $3.21 per bushel versus $3.60 last week, versus $1.50 last year. Source**: http://www.ams.usda.gov/mnreports/gx_gr212.txt

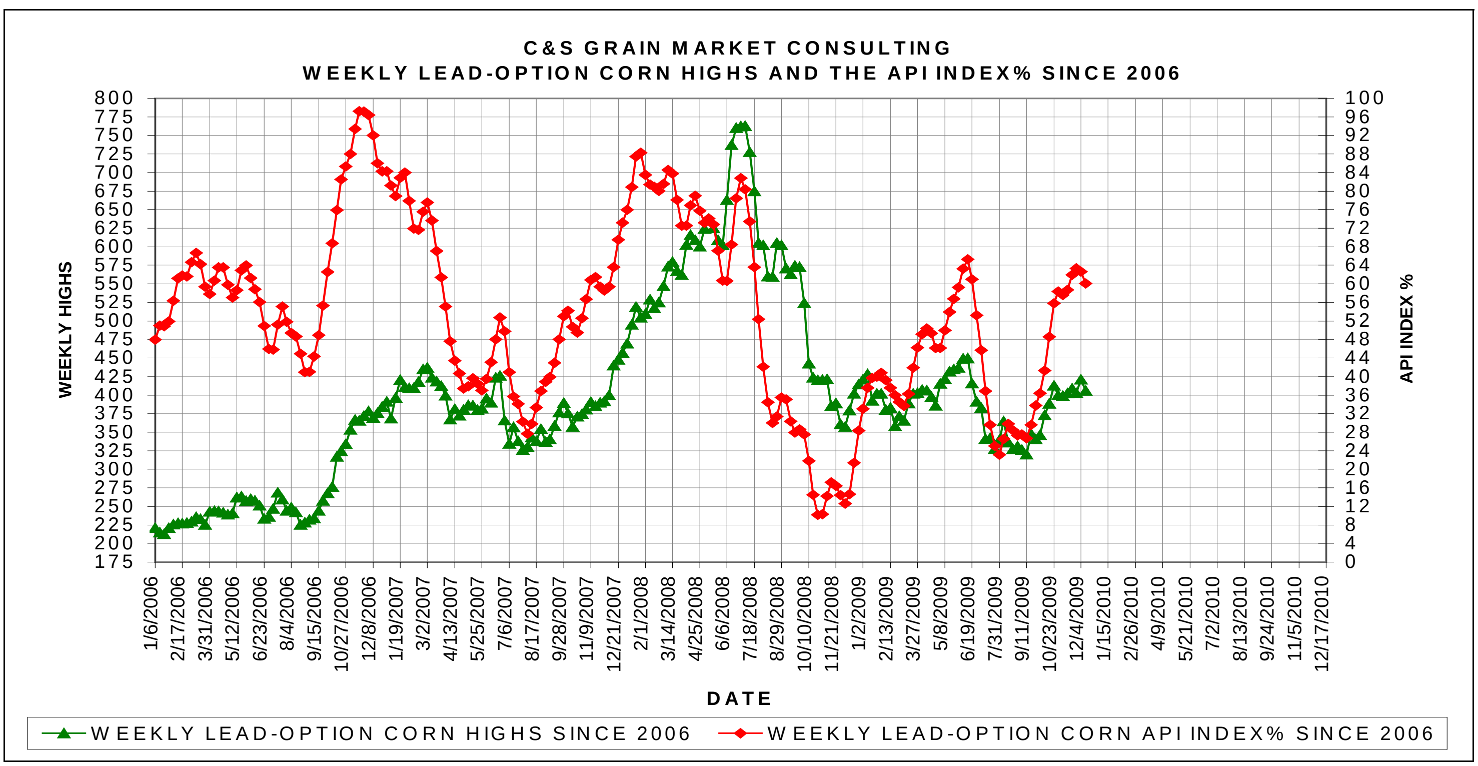
The Sept 25th Quarterly Hogs and Pig Report came in at 66.626 million head versus 68.196 million head a year ago. This indicates that the total U.S. Inventory is down 2.3 % from a year ago. The Nov Cattle On Feed report indicates that there are 11.134 million head on feed versus 10.972 million head last year, a 1.48% increase, versus a 1.06% increase last month. **The Weekly Broiler-Type Egg set is 100% of last year versus 98% last week. The Weekly Chick Set is 100% of last year versus 99% last week. The price of 40# Blocks of Cheese is $1.70 per pound this week versus $1.7175 last week, versus $1.5125 a year ago.**

THE C&S API INDEX % FOR DAILY AND WEEKLY LEAD-OPTION CORN

The **API Index %** incorporates **All Possible Information** that is reported for a Futures Market, which includes Volume, Open Interest, Prices, Relationships, and ongoing changes. It also includes the traditional **C&S Hi-Dex Percent** that I have been using for many years. Understanding Price and API Index Divergences hold the keys to better understandings of price movements in the future.

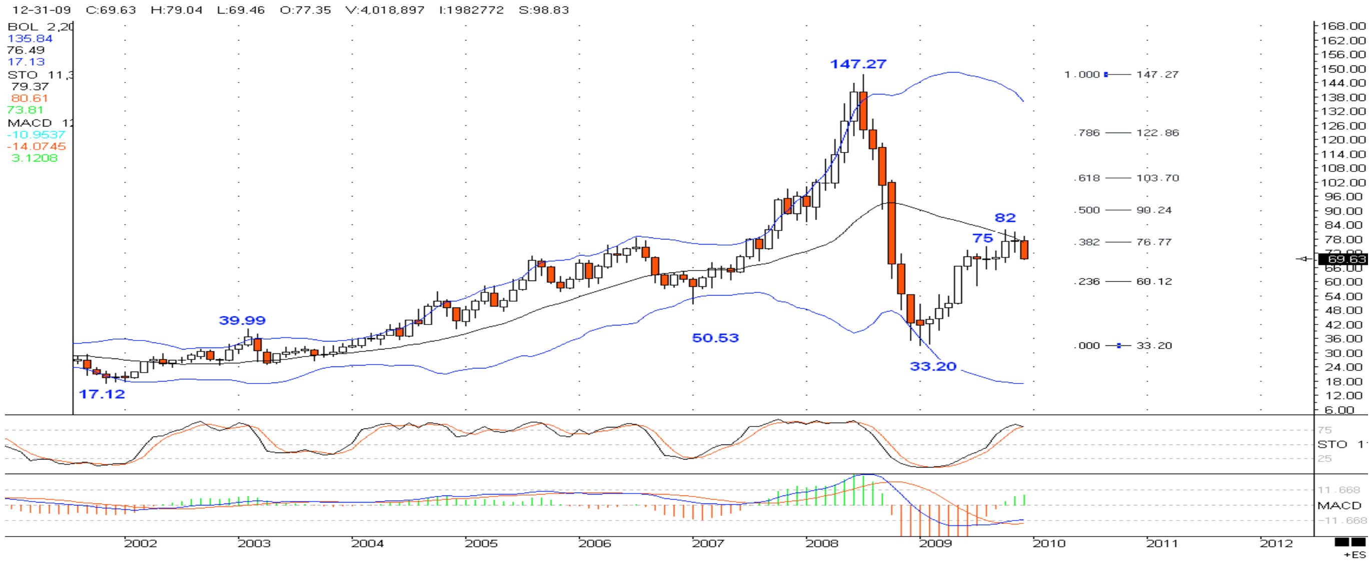


The Daily API Index % is now at **46.0%** versus 52.6% last week after bottoming at 15.1% on 7/08/09. **The Daily API Index % might have found a bottom with last week's reversal. Time will tell!**



The Weekly API Index % is now at **60.1%** versus 62.6% last week after bottoming at 7.8% the week of 10/24/08, which was the lowest ever since 1998. **The Weekly API Index % is either consolidating, or rolling over. The last time it rolled over from above the 60% level, Corn prices declined over a dollar per bushel!**

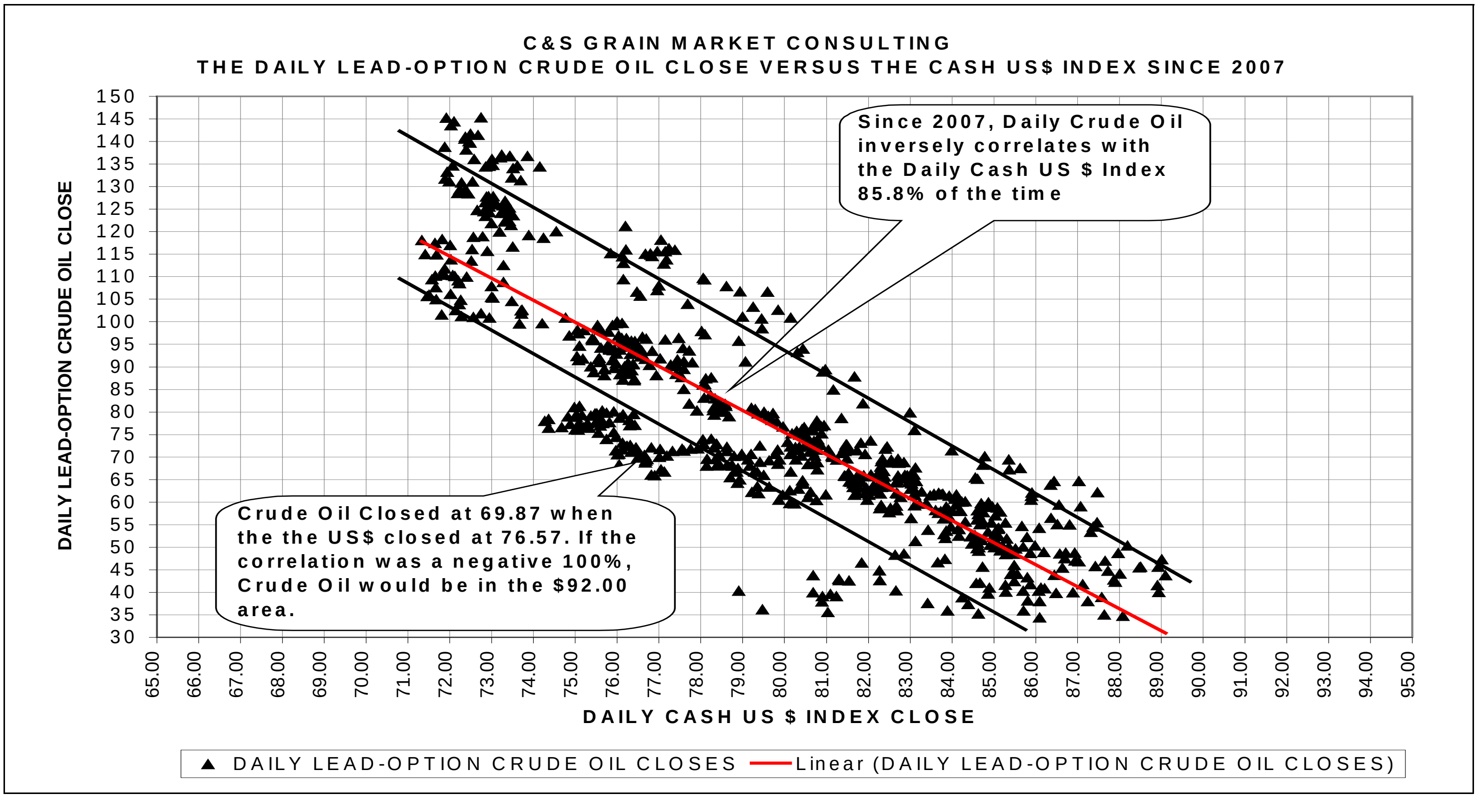
Monthly Crude Oil



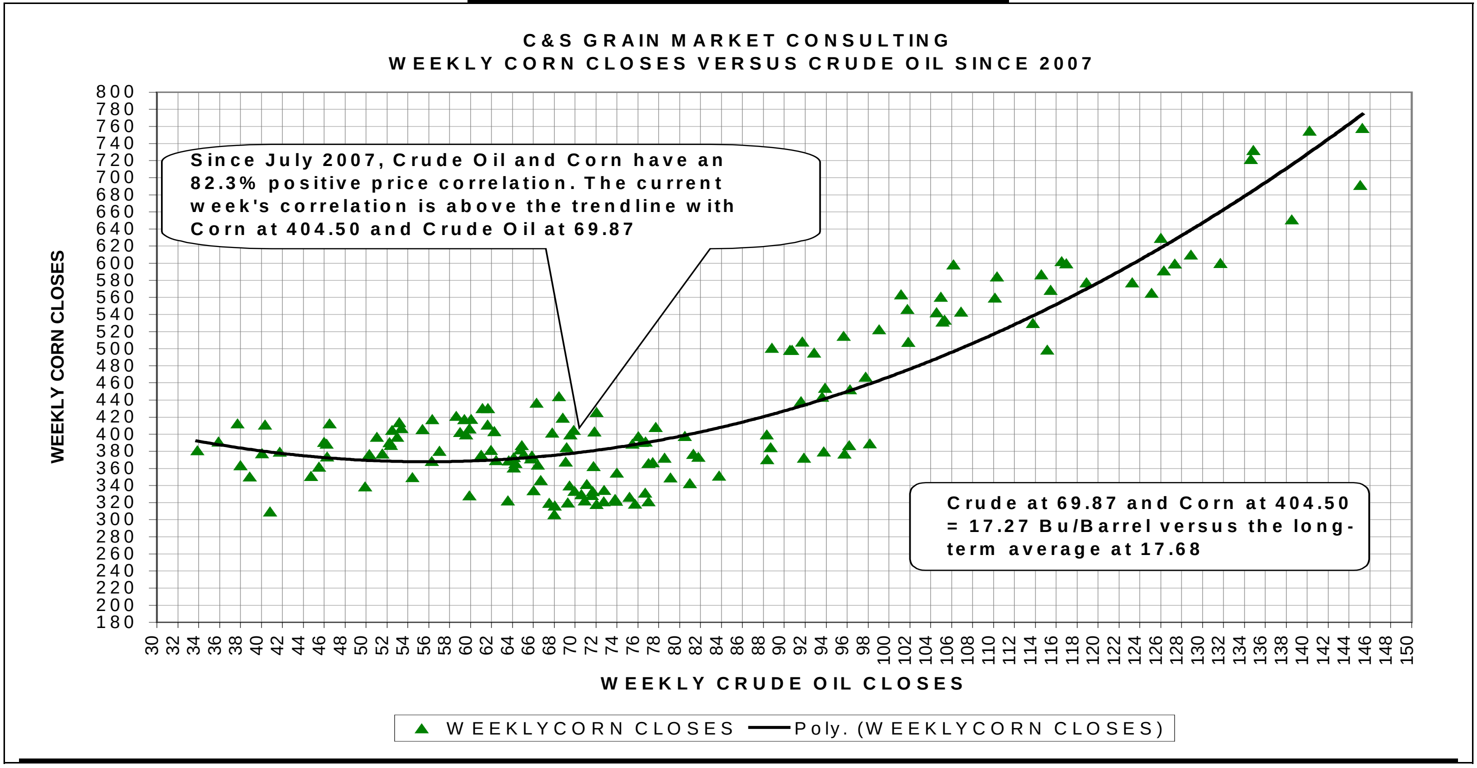
Crude Oil Futures have gone from 147.27 in July 2008 to 33.20 in January 2009 and then back up to the 82.00 level in October 2009. Lead-Option Crude Oil Futures closed the month of November at 77.28, versus the month of October at 77.00, versus the month of September at 70.40. **The Monthly Crude Oil Chart is has traded below the November Low of 72.39 but has not yet reached the October Low of 68.05.**

Last week's Close was at $69.87 versus $75.47 the week before. A 23.6% correction of the year's rally occurred at 70.48 and a 38% correction will be in the 63.36 area. **Total US energy demand is now 97.05% of a year ago versus 96.8% a week ago. Motor Gasoline usage is now 101.22% of a year ago, versus 100.68% a week ago. Distillate Fuel Oil usage is now 91.66% of a year ago, versus 92.4% a week ago. All Other Products are now 94.45% of a year ago, versus 96.8% a week ago. Total US energy usage is now 563 Thousand Barrels Per Day below a year ago versus being below 607 Thousand Barrels Per Day last week.**

Crude Oil prices have an 85.8% inverse correlation with the Cash US$ Index since 2007. This is good but not great. When the Cash US$ Index is at 76.57, the trendline for Crude Oil price is in the $92.00 area.

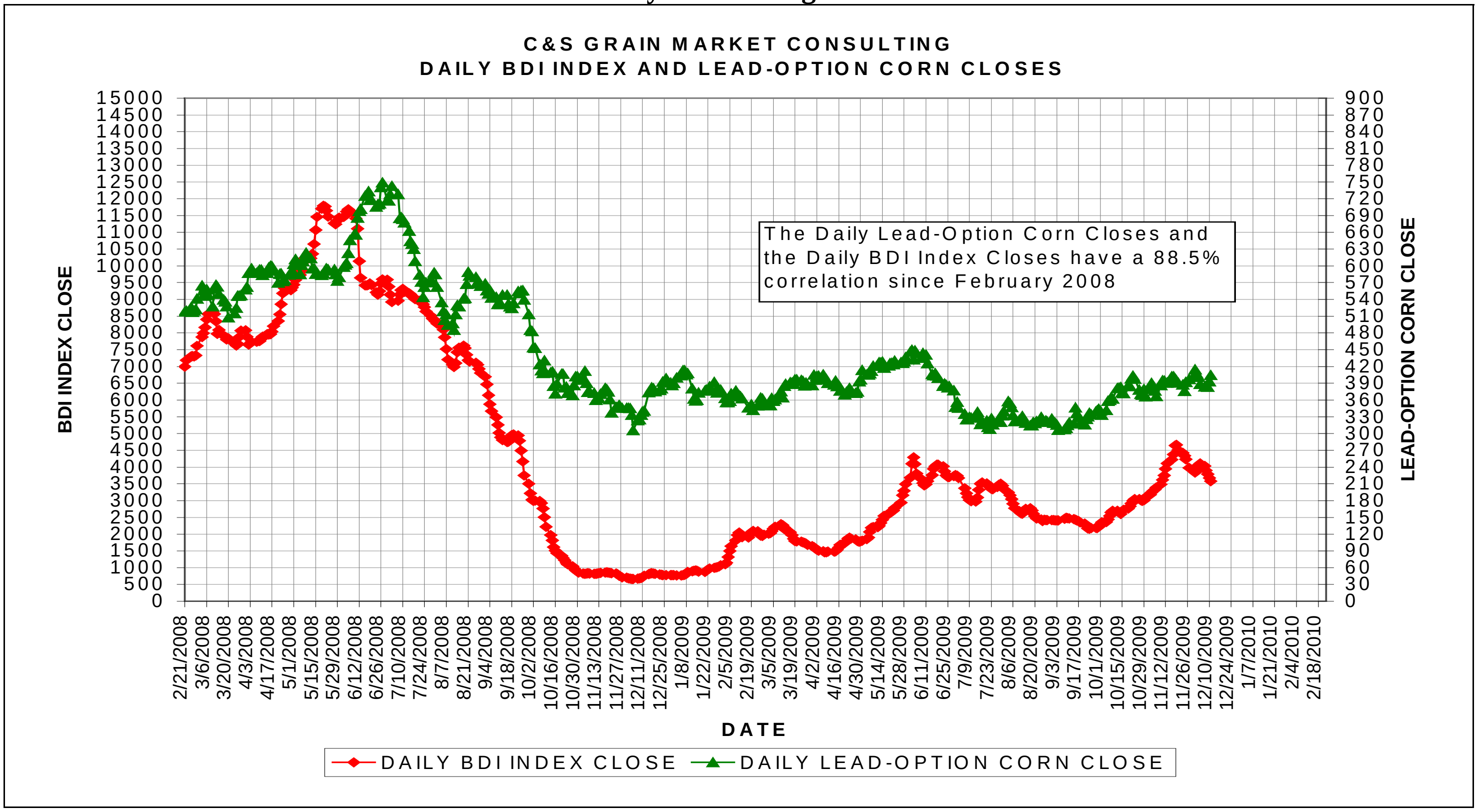


Weekly Corn Versus Weekly Crude Oil



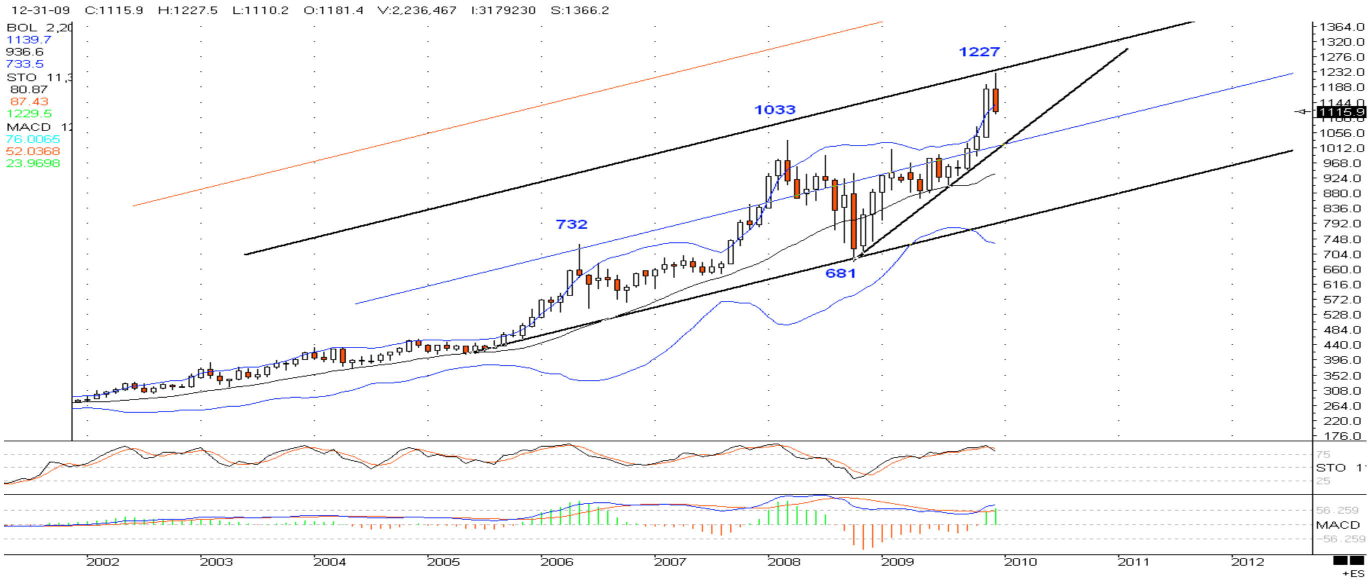
The Corn and Crude Oil Ratio is currently at 17.3 to 1 versus 19.4 last week. In other words, it takes 17.3 bushels of Corn to buy a barrel of Crude Oil. The correlation between the Weekly Corn Closes and the Weekly Crude Oil Closes has been about 80% since 1999 and 82% since July 2007. Since 1999, the average ratio has been 17.6 to 1 while the maximum has been 33.4 and the minimum has been 8.8.

The Dry Baltic Freight Index



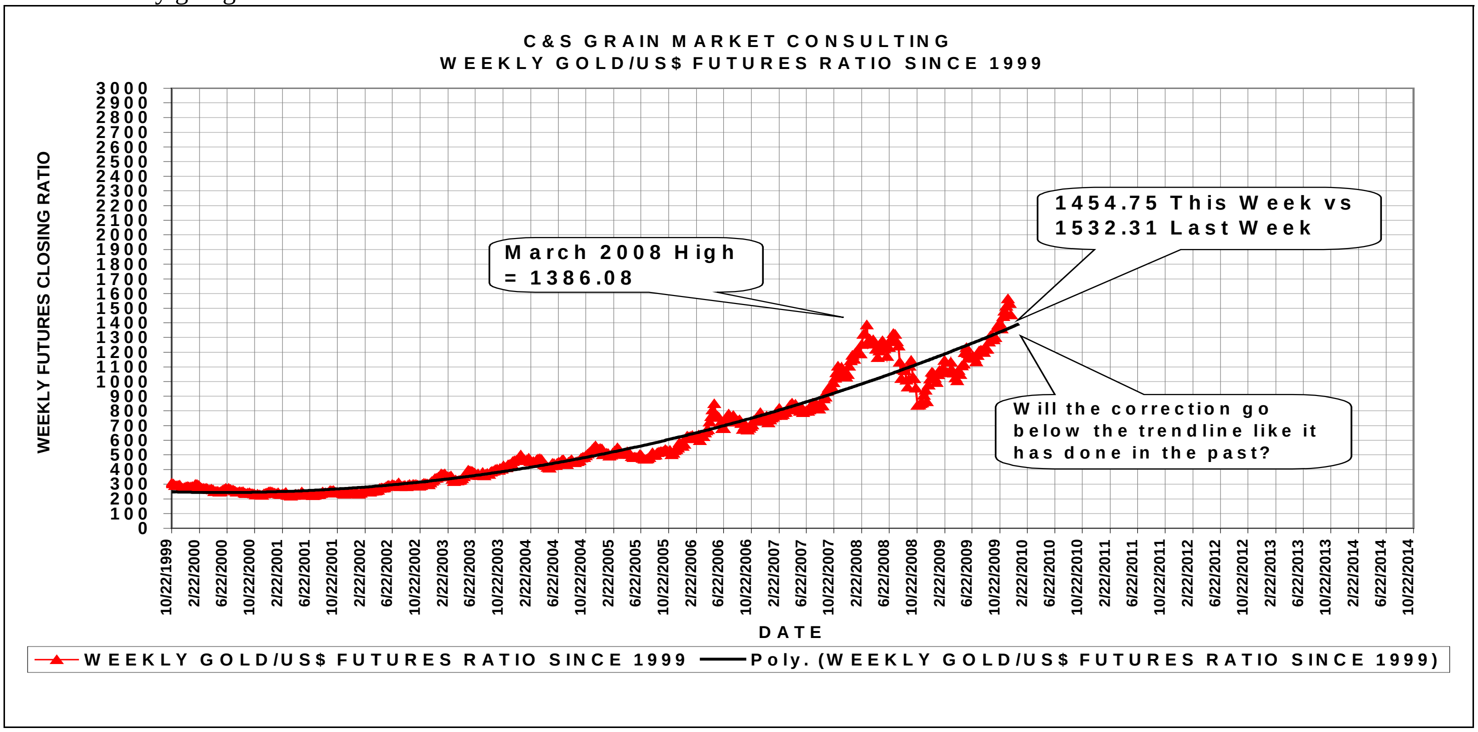
The Dry Baltic Freight Index is important for the prices of commodities. The biggest influence on the BDI Index is China's demand for Iron Ore and Coal, but grain flows can be a factor to a lessor degree. It is currently at 3,579 versus 4,107 last week, down 12.9% for the week, but up 440% from its low of 663 last December. Also shown in the chart above is Lead-Option Corn, which has an 88.5% correlation with the BDI Index since February 2008.

Monthly Gold



NYMEX Gold Futures finished the month of November at 1182.3, versus the month of October at 1039.70, versus the month of September at 1,008.90. This is the highest Monthly Close in history. Since Lead-Option Gold Futures first closed above the $1,000 level on a Weekly basis on 9/11/09, there has only been one Weekly Close below that level. Some analysts are now saying that Gold will never go below the $1,000 level again. I'm not that bold, but if it doesn't post a Weekly Close below $1,000 by the end of February, it may be many years before it does. Things are now changing in the world! Why? China, and India, and other Central Banks! They are actively buying Gold. When Countries do battle with COMEX and COT in the Gold markets, the Countries will win! Wealthy entities in Asia are demanding physical delivery of their Gold, and the LGE in London and the COMEX in New York are having trouble balancing their published warehouse inventory numbers with reality delivery demand. Stayed tuned, because this is going to get nasty next year by June.

Gold Futures (Paper Gold) finished the week at 1,119.50 versus 1,169.00 the week before. The Gold Futures market is really starting to come alive. Even though a correction is taking place, it is not all that overbought on a macro scale. Between now and 2012, just about anything may happen. The latest calculation for Gold to balance the US Debts is about $6,300.00 per ounce, but the debts are only going to increase!



The best technical guide for confirmation of significant Inflation unfolding in the world can be found in the Gold/US$ Futures Ratio. It is now at 1,455 (1,119.5/0.76955) versus 1,532 last week. If the Ratio fails to correct back to the old High of 1386, it will be a sign of internal strength in the Gold market and the coming Inflation.