The Hightower Report

Futures Analysis & Forecasting

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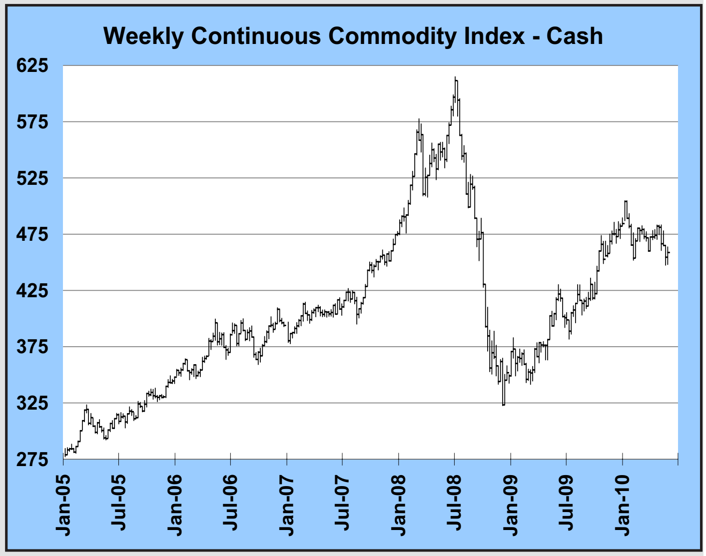
June 7, 2010 - Trades good through June 18, 2010 - Next Issue June 21, 2010

Commodity Outlook

An unfortunate thing happened on the way to the "recovery." The Euro zone crisis managed to entrench itself in the headlines, and that in turn kept consumer and investor sentiment off balance. While many economists had predicted a long, slow recovery process in the wake of the sub-prime mess, events like the early-May US equity market debacle could string the recovery process out even further. About the only positive from the May event was a sharp decline in energy prices. But under the current set of conditions, a little extra disposable income is hardly going to be the spark that reignites the recovery fire.

In our opinion, the market still needs to see a massive, coordinated intervention by the G20 in favor of the Euro to keep negative speculation about the Euro zone in check and, hopefully, allow for a gradual recovery in confidence. We suspect that some central bankers have already come to the conclusion that the only way out of the crisis is to foster inflation by firing up the printing presses. But since so many countries are dominated by leadership that wants to rely solely on government spending, it could be a while before the right steps are taken. Apparently the US still has borrowing capacity, as Washington is tossing around the idea of another stimulus package. But it is likely that only a small measure of that funding will be channeled toward job creation, as the political preference might be to extend unemployment insurance again.

In the meantime traders should be on the lookout for commodity and financial instruments that move to factor in a sustained slowing of the economy, as those markets might be the place to look for value after the full negative influence off the May debacle has been registered in the scheduled data flow. Unfortunately, the ill effects of the event might not pass until the last of the May readings have been seen, which would be into the end of June. In the meantime, we suspect that the commodity markets will encounter bouts of deflationary liquidation. We think that eventually the Euro zone story will lose its importance and the resiliency of the US and Chinese powerhouses will be cause for a mid-summer rally in equities. While we leave the near term edge with the bear camp, we will be watching the Canadian Dollar, RBOB, corn and platinum for significant bottoming action. Markets like crude oil, soybeans, cotton, sugar, livestock and gold could be set to deflate in the coming two weeks, as the prospect of a double dip recession looks to catch those markets in a vulnerable condition.



Best Near Term Uptrending Markets
Hogs
T - Bonds
US Dollar

Best Near Term Downtrending Markets
Soybeans
Coffee
Euro

Corn and Soybeans

In our last issue we laid out a strategy to trade the soybean market from the short side until the weather turns more threatening in the US Midwest, at which point traders can shift gears and trade the corn market from the long side. So far, the weather and crop outlook is nearly ideal and we will need to stay in the bear camp. If we see good weather continue through the month of June, the soybean outlook will remain bearish.

On June 1st November soybeans saw their lowest close since October 5th, as traders became convinced that growing conditions were really good. As of Sunday May 30th, the weekly crop progress report showed 74% of the crop had been planted, up from 53% the previous week and 63% last year. The 10 year average for this time of year is 74%. Illinois was 73% planted compared with 31% last year at this time. More plantings were accomplished ahead of a heavy rain system that fell across the heart of the Midwest on June 2nd, so the crop has likely gotten off to a fast start. As of this writing