

RF Posson & Company

Annual Corn Report 12/22/07 for 2008

2007 Review

- The long term minimum objective for corn has been \$4.00 basis futures. The ideal price performance calls for a new record high price. During 2007 corn traded to \$4.37 spot futures and \$4.07 National Cash Corn Index.
- The forecast for drought for 2006-2008 to cause lower corn production did not come to fruition and remains intact.
- The long term forecast from 1993 called for a major bull market for wheat during years 2004-2008 with minimum target of \$5.00 with ideal as a new record high. There were (expected cyclical) crop problems for 2006-2007. During 2007 spot wheat traded to a new record high of \$9.61. Corn was due for a crop problem 2004 to 2008. And the ideal cyclical forecast has always called for a new record for corn.
- The L3AI algorithm designed to meet model L3 trends (a short term component of long term cyclical trends) but with capability to follow more important intermediate trends intra year finished with 78% buy side accuracy for DEC 07 market. The real time test is complete and will be used as backup information for the CSA models as well as a trend following alternative to model trading.

2008 Forecast

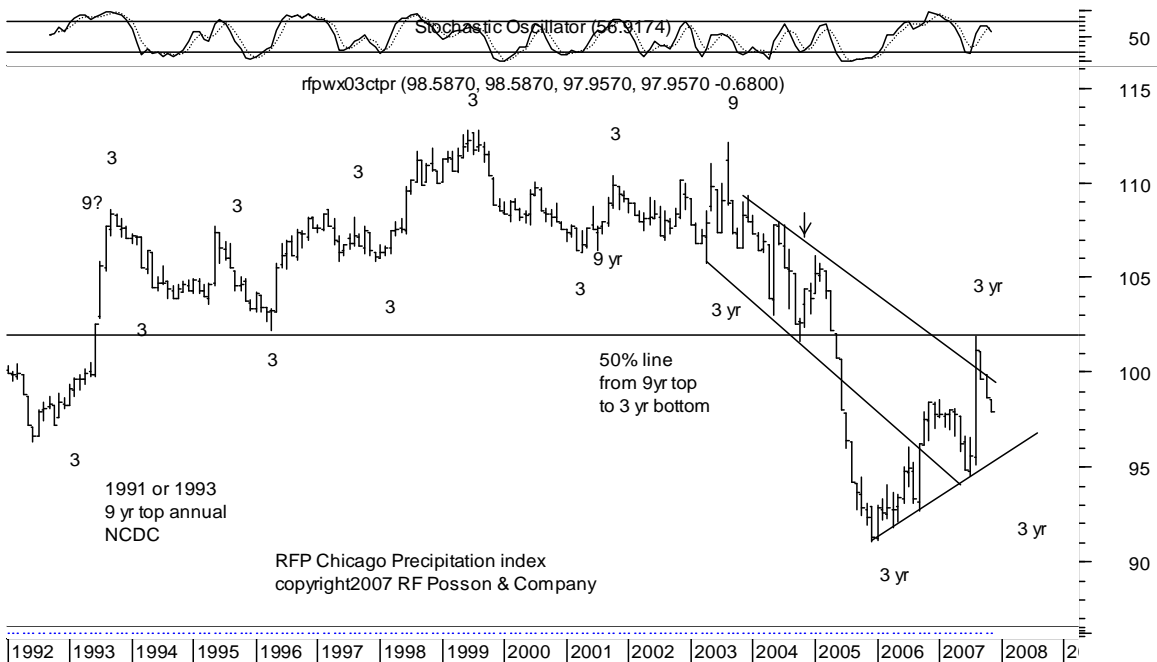
- Corn crop condition model favors slightly higher probability for lower condition for 2008.
- Weather and production of corn forecast remains with high probability for a crop reduction for 2008. Odds decline following 2008. The forecasts for this decade have always offered chance for a crop problem 2004 to 2008. So far there has not been a national nor corn-belt problem. There have been regional problems.
- Price forecast allows for the high of 2007 to hold as resistance for 2008 but there should be at least an attempt to violate that resistance. **The official forecast is bullish for corn with an objective range of \$4.40 to \$6.80.** CSA long term models suggest we should allow nature, man and the cycles one more year to achieve the ideal of a new record high. The current low of 2007 defines the decadal up trend.

Revision

- A pre annual report was published 11/17/07 for selected subscribers or by request of subscribers. This report was reviewed 12/22/07 and published as the annual forecast. **With spot futures price achieving the minimum target of \$4.40 (during December 2007) before the next major model trend top and before the expected long term cyclical top the target range has been revised to \$4.70 to \$6.80. A long term top should not occur until March to July. One should consider the resistance line from 2002 to current for the monthly spot chart. One should keep in mind the long term cycle does allow for a crop problem to extend the bull market into end of 2008.**

Weather

The Benner Drought cycle is said to forecast two events for the latter half of this decade. Although 2007 weather offered drought in Georgia and a majority of the US with dry to extreme drought conditions, drought did not occur in the corn-belt. From my understanding of the Benner cycle drought may occur anytime 2008 to 2011. A drought in 2008 could cause a final and major bull market for this decade's cyclical bull market. Whereas, a drought in 2009 to 2011 could work against standard decadal and multi decadal cyclical behavior with similar performance of the average of known cash 36 yr time cycles that suggest the trend from 2005 is to be higher into 2010 to 2011. (See A 36yr cycle Analog.) So far the Benner cycle has been a wheat bull market event and a non event for corn and soybeans. I believe Benner discovered the cycle in the 1800s from wheat prices.

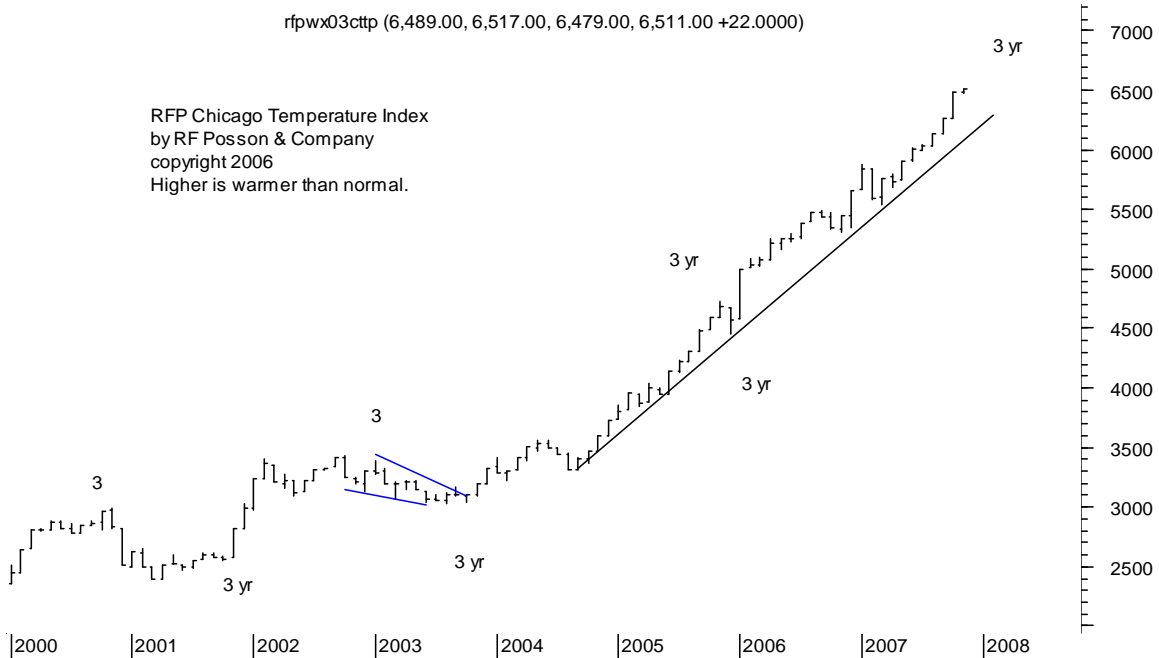


Proprietary weather research suggests precipitation trends in 3yr cycles similar to price but with a complication that allows for a combination of two 3yr cycles. A combination of this sort creates a 5 to 7 yr cycle which may relate to a cycle that was offered by climate versus man research by Raymond Wheeler. This cycle was mentioned in a cyclical catalog written by Edward Dewey (Foundation of the Study of Cycles). A cycle such as this has been discussed since biblical times. Drought and economic impact have been related to this cycle. Cyclical model research (CSA mostly) suggests that the cycle for precipitation (3 yr) did not work in 2004-2006 and trend of precipitation is trending toward a 5 to 7 yr cycle top. I assume a non event 3yr cycle trend reversal to occur only 10% of the time for price but for fundamental data this statistic may be closer to 20%.

With the next precipitation top (3yr and 5 to 7yr) due 2007 to 2009 there is potential for a correlation with a late Benner cycle. There is potential for a decline in precipitation from the 2007 top into a bottom due December 2007 into August 2008. Until the 2007 high of Chicago precipitation is breached research opinion is that the trend is down. A down trend of this index implies less rain if not dry conditions.

Global Warming

From the 2006 report-- A 1,000 year cycle of warmer than normal temperature peaked in the years of 1,000 and is due to peak this century. Research shows that this cycle can run a wide range of time to peak or that there is a tendency toward after shocks or secondary tops in that important temperature peaks can be found as late as years of 1300. The trend from the top was first for not so above temperature and then cooler than normal temperature climaxing with the Mini Ice Age of the 1600s. Trend has been warmer since then with corrections during the 1700s and 1800s followed by acceleration from shorter term cyclical turns during the 1930s, 1980s and 1990s. Use of the shorter cycles suggests timing of the 1,000 cyclical warm trend is not due for a top (hottest) until the 2030s the earliest. With this cyclical trend there are phases of wet versus dry conditions as well as corrections of short term periods of cooler temperature. This decade could be a transition from a wet period (1950s to 2000s) to a dry or less wet period into the 2030s. Research such as this does correlate with bullish cyclical price possibilities into the 2030s.



The intense 4 year trend of the Chicago Temperature index is nothing less than extreme. With use of 6,000 years of weather data I find the current trend as an anomaly. I believe the global warming trend is a reflection of weather on steroids. (A sign of the influence of man?) The model forecast is for warmer temperature for 2008 but the models suggest a normal decadal cyclical cooling trend is due now into 2011. With global warming I do not expect to learn the use of normal as correct. Within global warming trends, cooling trends can create a shock to man, beast and crops and end with sharp reversal to support

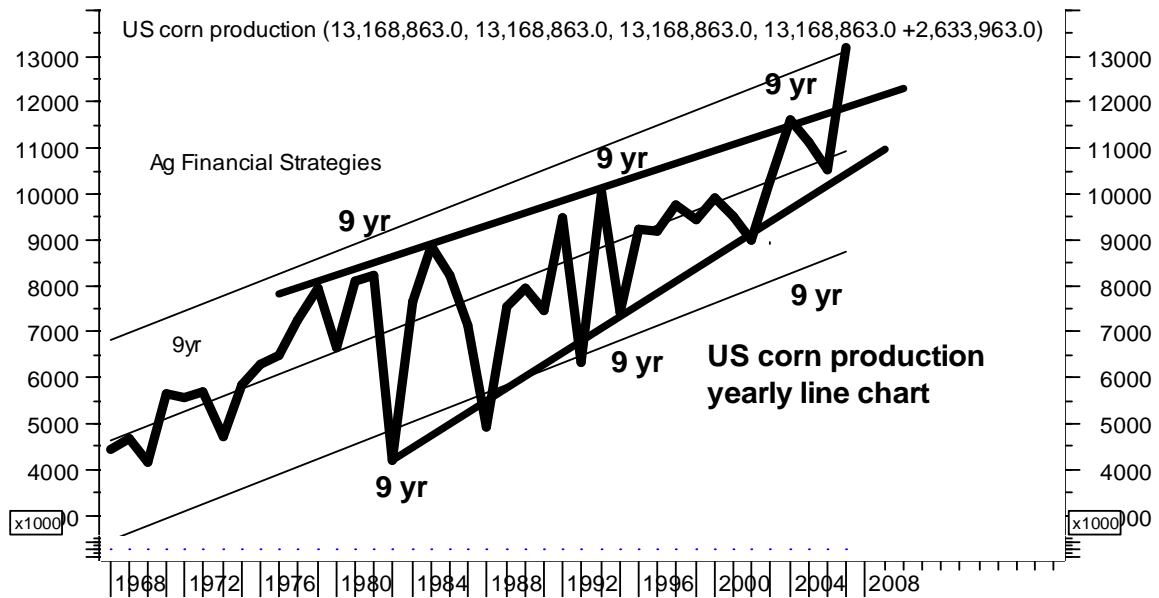
the larger warm trend. It seems technical analysis is not bound to price only. (See support trend line.)

The Southern Drought Trail

It is my understanding that a southern US drought can preclude a northern (corn-belt?) drought. In 2007 Georgia was struck by drought with some lakes at extreme low levels. Water rationing has been prevalent in Georgia. The governor of that state conducted a prayer for rain and made a request to withhold water from systems that flow into Florida. If drought occurs in the corn-belt in 2008 then we will learn that history repeated itself with the southern drought of 2007 as a set up.

- Some weather researchers state the US is within a La Nina climate year. La Nina has been known to create drier conditions. If it will persist into the next growing season it seems unlikely to see high yield of corn. In addition a La Nina may increase the potential for the Southern Drought Trail to occur.

The goal has been to assume 80% probability of some sort of US corn crop impact for the period of 2004 to 2008. There is one year to go and I do not see a reason to alter this opinion. Weather can be vicious within a short period of time. In August of 2007 some growers began the month with dreams of record setting yield. Following a superb pollination some growers assumed “it was in the bin”. By end of August the yield had declined to standard trend.



Production

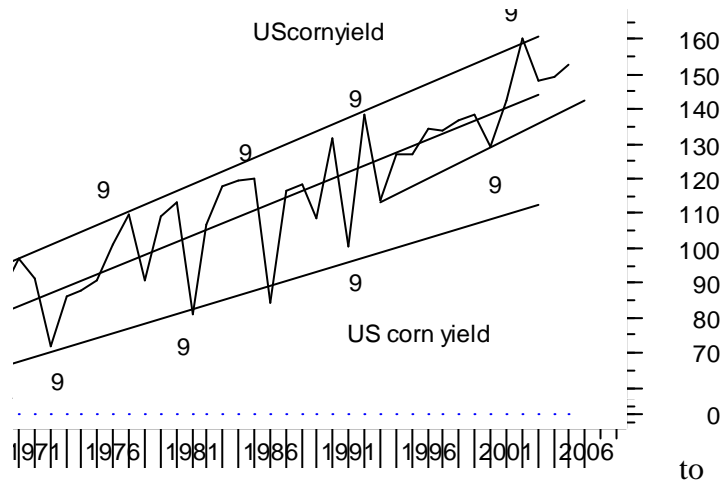
Estimated production of corn for 2007 was much higher than the 2004 actual production. The year of 2004 should have been a decadal cyclical top. Apparently the trend of production since the 1983 drought is intact. The large rate of change of production for 2007 was caused by an emotional expansion of acreage that related to the Big Bang price increase of late 2006. The 3yr cycle of production has occurred 80% of the time. The 3yr

cycle spans three to four years leaving 2007 as the final year for a top in production if the 80% statistic is still valid. With corn growers in need to rotate some acres and my guess of the national rotation cycle I assume lower acres to be planted for the 2008 crop.

Two days before USDA's Keith Collins estimated corn acres for 2008 at 87 million, I told subscribers that 86.9 was a possibility. I feel price has not been high enough to state otherwise but there is sufficient time to planting for a revision.

Yield of corn also exhibits a 3 yr cyclical pattern a majority of the time. If the 3 yr cycle will continue to fluctuate then the year 2007 was year number four which is the final year allowed for a 3yr cycle top.

In addition the year 2008 becomes the final year for a 3yr cycle bottom. Failure of a 3yr cycle down turn will lead the next larger but less dominant cyclical trend of 5 to 7 years.



A crop condition model and related research of trends of crop condition numbers offers a pattern that suggests 2007 closing value was an extreme. Since 1987 the pattern used with the quantitative model has occurred 100% of the time. This pattern also suggests a decline in crop condition is due for 2008. A regression trend since 2002 has been up. Is this amount of time an extreme based on decadal performance? If crop condition for corn is over 73% good to excellent odds increase for a normal to above normal yield and model forecast should be incorrect. A crop condition rating below 60% increases odds the trend of higher lows from 2002 (technical support) is breaking down. And should be referred to as a warning the regression trend has come to an end. A rating under 50% and the crop should be well on its way toward a poor crop.

- **A forecast is made for 2008 yield of 143 and production near 13% lower than 2007. Subject to revision within a range of 163 to 127 yield and 88 to 85 million acres.**

Demand—the Illusive One of the supply and demand equation.

It seems to me that market analysts, economists and traders incorrectly dial in the importance of supply. I believe supply information makes more of an impact on the business and thought process of the demand side than it does for the supply side itself. This may help to explain the down fall of standard economics.

- **It is easier to count the number of bushels of corn down on the farm or in the elevator than it is to assess the need versus desire of the processor and consumer. And most analysts seek the easier path of data mining.**

Behavioral finance offers greater understanding of markets than standard economics. It includes human error and intelligence, emotion and mood and therefore more insight into the demand side brought forth by the consumer. Behavioral finance includes price only behavioral studies. **And technical analysis and quantitative price analysis are behavioral finance techniques of price trend assessment.**

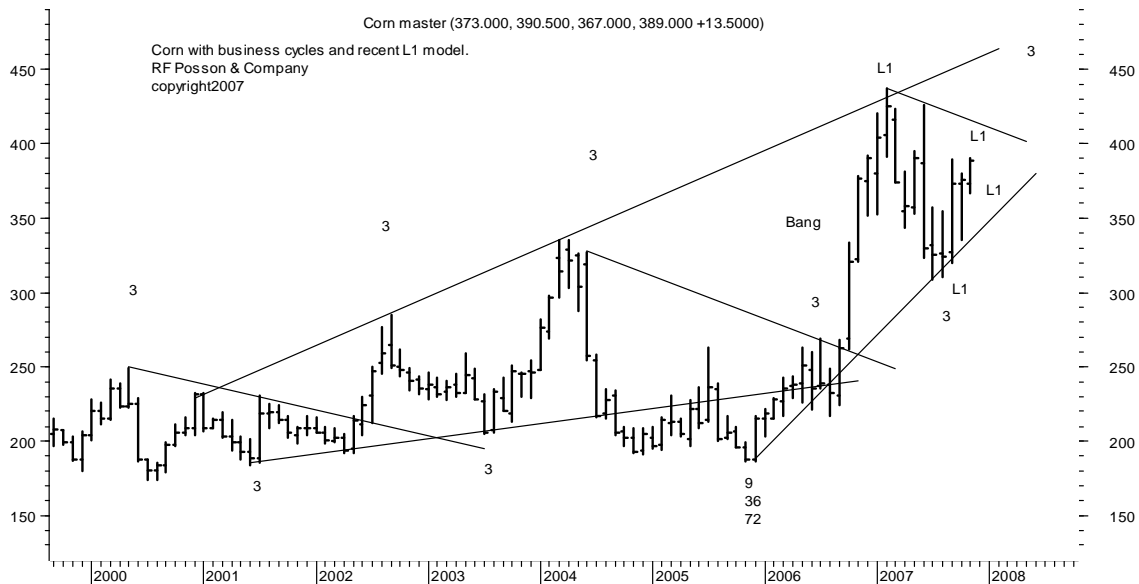
- **A price chart is an ideogram of the consensus of demand.**
- **Trend followers (price) may have a better understanding of demand than any other type of trader or analyst.**

I believe the rate of change of demand of corn may decline for next two years but demand in terms of bushels will increase for the next two years. I believe we have seen the surge in demand for this decade but the trend is to remain strong.

- I believe corn trends with low correlation to U.S. macro economic conditions. Hedge funds to continue increase in corn.
- \$4 corn with US dollar index at .75 equates to \$3 corn for the exporter. World still has a thirst for grain.

Posson Disaster Price Index

I have not updated the Posson Disaster Price index that correctly offered indication that my model Big Bang price forecast would be correct. The index had suggested that the 2005 price low was lower than the 1930s Depression low when adjusted for inflation. Price was extremely undervalued and so under valued to offer a long and robust recovery. Since the index uses a long term inflation number (since 1700s) and the corn market is experiencing a rapid increase in cost of production I feel it best to put the index on the shelf for a few years. It was met for mega long term trend assessment. Bottom line is there is not as much profit for the grower as implied by the index versus today's price plus today's inflation rate.



The 3yr business cycle may be similar to economist Schumpeter's use of the Kitchin cycle for economic business analysis. It is prevalent in all active free market commodities and some stocks. Performance of this cycle can make or break a year of business performance. Trends have been known to last 5 months to 25 months and price can increase by as little as 20% to over 100%. Price has been known to decline more than 60% for markets during a 3yr cycle down swing –bear market. In my opinion 3yr cycle trends were tradable (correct) near 90% of the time for most markets. The 3yr cycle will relate to annual or seasonal trends, supply and demand. I have discovered 3yr cycle trends in weather and US economic indicators.

For corn 3yr cycle tops occurred in 2000 (drought concern that was later proven incorrect), 2002, 2004 (concern of tight carryout plus major bull market for soybeans) and 2006. Note that there was little evidence a top occurred in 2006. Either this was one of the 10% of the time as a non event or corn peaked in 2007. (12/22/07 revision states corn could not have peaked in 2007 due to the price of December 2007 and model trend structure.) Best model forecast states it was a non event top and trend is up into a peak due in 2008. Best forecast suggest a 3yr business cycle peak will not occur until May 2008 the earliest. The 9yr cycle suggests a peak should not occur later than end of 2008.

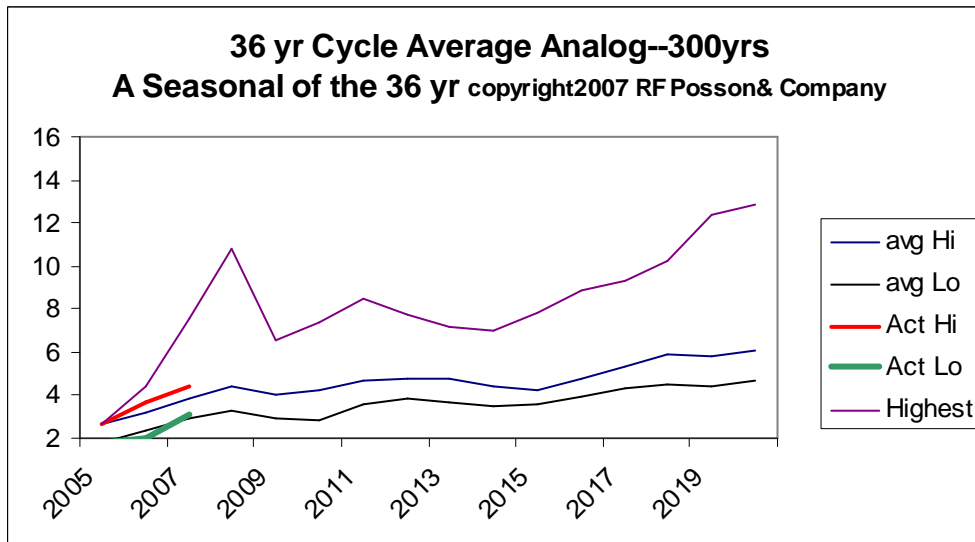
The timeband (period of time for cyclical or model trend reversal) for a long term top in 2008 favors a reoccurrence of the seasonal trend that peaks in July and allows for crop concern. With strong demand, the commodity bull market revolution, US weather with La Nina potential and price within an arm's reach of 2007 high it is hard for me to imagine a market without at least one weather scare that will breach the 2007 high.

The models offer first but ideal opportunity for a 3yr business cycle bottom arrived in July or August of 2007. The previous bottom was the low of 2005. The 3yr cycle bottom for 2007 was near minimum of time allowed but met ideal model components such as L1 trends. And at least one long term indicator was almost as oversold as the 2005 bottom

when it turned bullish as of September 2007. This trend pattern increases confidence that the larger trend is up at least into early 2008 if not into the growing season.

One should note the major resistance trend line of 2000 to 2007 which called three important tops (trend reversals) of which two were 3yr business cycle tops. This line of resistance for summer 2008 offers resistance around \$4.50 to \$4.60 per bushel spot price. During the seasonal and cyclical rally for 2008 there will be minor and major intermediate trend fluctuation. The models refer to these trends as L1 and L2. Within the intermediate trends there are short term trends referred to as L3.

The annual cycle trend which I believe is the true seasonal trend that is not restrained by the use of the calendar year bottomed in July 2007 and should not peak until May 2008 the earliest. This forecast was made from July 2007 and July 2006 tops. The annual cycle is not part of the CSA model. It is used as background information.



A 36 Year Cycle Analog

The low and high for 2007 (Act Hi/Act Lo -see chart) followed the average of annual low and high price of corn for eight 36 yr cycle trends of the past 287 years. The line labeled the Highest which is the highest line shown on the chart exhibits the highest price achieved by any of the eight 36 yr cycles. Each point on the line was created by a specific cycle during the time of 1720 to 2005. The line in its entirety has never been achieved. It offers insight of the possibilities for the duration shown. Price of the line was calculated with use of a rate of change study for each cyclical year of each cycle for 1720 to 2005. And this statistic was applied to the 2005 actual price low which was a 36 yr cycle low. The 36 yr cycle analog comprised from average performance suggests 2008 should be a higher price year than the average. And that a price of \$10.84 per bushel would not be a new statistic in terms of rate of change in terms of phase of cycle and with today's dollars. With the ethanol boom, the global economic expansion and the crude oil bull

market I would expect 2008 price performance to out perform the average shown on the chart.

A 1973-1974 bull market analog?

There was extreme high correlation (.90) of weekly close of spot corn from 1971 to 1973 compared to 2005 to 2007. If this analog were to continue into 2008 a record price for corn is at hand.

Analytical Ramblings

Since 1804 election year performance of corn offers 60% of the time the year's close was lower than the previous year's close. 39% of the time the close was higher. Price ranged from +82% to -49% and average of -3% . From previous year close to high of the election year the high was higher 88% of the time. Range of price change was +92% to -17%. The average was +22%. From close to low of election year the low was lower 78% of the time. Range of price change was -49% to +7% with average of -16%. When election year followed a two term president performance was of 62% of the time the close was higher than previous close with price change of -16% to +42% with average of +4%. Close to high was 75% of the time the high was higher with average of 18%.

Conclusion is that there may be a slight bullish bias with election year following a two term president but over all the statistics offer evidence of robust seasonal trend and a market that has paid little attention to election year political development. I find that statistics for the presidential term as more interesting.

Forecast

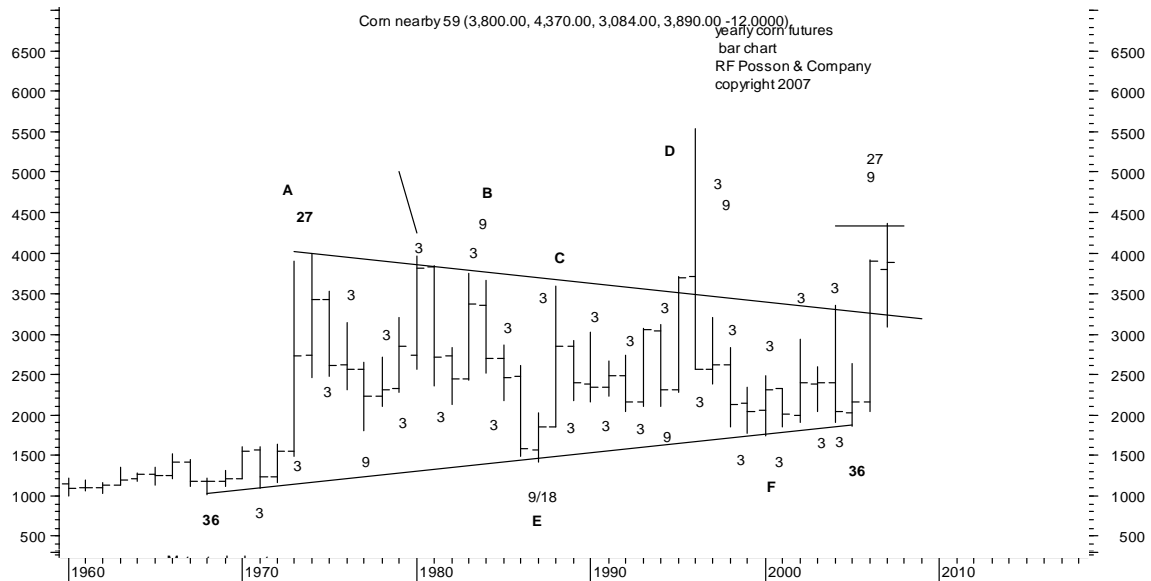
Corn

From the 2006 annual report--The preferred forecast is for higher spot futures price to \$4.30-4.50 early 2007. **The price high for 2007 for my charts was \$4.37.**

The forecast for 2008 is for spot price to rally to \$4.40 to \$4.76. If crop damage were to occur, the forecast objective range may increase to as high as \$6.80 dependent upon amount of damage and emotion of the traders. The down trend from a 3yr cycle top that should also trigger 9yr and 27yr cycle tops could return price to \$3.25 to \$3.00 if \$4.40 is not achieved. The higher price rallies over \$4.40 the more likely support will increase to \$3.50 to \$3.25 or higher. These bearish price levels would relate to a good crop of corn.

The annual bar chart showing price from 1800 offers an interesting but tentative trend line drawn from the 1917 and 1974 tops. Those tops were 27yr and Kondratieff cycle tops. The Kondratieff cycle is a cycle that spans 50 to 60 years. I find this cycle comprises two 27yr model cycle tops and I find little evidence of a Kondratieff cycle bottom. I do not use the Kondratieff cycle bottom as a component of the CSA model. This trend line when extended into 2008 offers resistance around **\$4.70**. When using trend lines by themselves one should not assume the price level of the trend line to be an

objective. Trend lines are more of a potential point to put an end to a trend –a reversal of trend.



Spot futures price annual bar chart. The timeband for the top this decade was drawn in 2005. Interesting that the high of 2007 struck the timeband. Normally, I do not draw timebands to forecast a price target. This timeband just happened to be within the range for the 2007 forecast.

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