Ag Financial Strategies ag-financial.com 1-877-580-AGFS

Market Commentary 1/19/10

- Weather- RFP Chicago Precip index model allows for less wet to dry conditions for 2010. Chicago Temp index model shows decadal cool trend still intact and still due for a long term trend turn to warmer than normal.
- Trade- Improving global economies versus US debt concern, post USDA report shock for the grains.
- Model summary- Bullish commodities 2010.

Economy and other markets-

The BC3 Dow stock index program (long term) has been long stocks since November 2008 and March 2009. The BC1 program's (intermediate trend) last trade was a purchase in July 2009. The models are bullish stocks into February for the first opportunity for a 3yr business cycle top and with best forecast not calling for a top until May to July. The forecast offers objectives from 10,900 to 12,300 DOW index. The long term model approach has been bullish stock markets of Russia, Brazil and China (amongst others) since November 2008.

Dollar- A retracement is to occur for early 2010 and for first chance for a 3yr business cycle bottom that does not have to occur until summer to fall months. The models are bullish for 2011 and bearish for 2012 with that year the earliest allowed for a major bottom. And so near time for a significant correction higher but the decadal and larger business cycle trends are to remain bearish for some time. Recent research offers an alternative view for long term commodity bulls, who may be concerned of talk of a bull market for the dollar. It seems for the history of this nation the trend for commodities, stocks, inflation and the dollar have been up and by propreitary trend observation commodities have been of positive correlation to the dollar 53% to 66% of the years since 1700s. Commodity and stock correlation has been as high as 76% positive correlation observations and with spreadsheet correlation function applied to annual close of corn and DOW stock index since 1885 was of positive .64 correlation. In short, higher commodities is not always reflective of negative higher inflation but of positive inflation and the better of economies are of a combination of higher commodity and stock prices. Inflation was also of positive trend correlation to the dollar and the trend of inflation has always been up for the US although swing volatility was reduced from early 1900s to current.

Agriculture Energy Markets-

Corn- Models warned the range for spot corn during November and December was due for a break down and the post USDA report trade proved the model conern correct, although price declined more than expected. The models now show a major intermediate trend bottom due for corn (L1) and which occurs just two to three times per year. The trend should turn up and now offer counter seasonal strength through February into a top due March, although a still larger trend should remain up into summer months. Research suggests USDA crop estimate was too high and the corn remaining in the field is probably losing yield and quality. In addition, resources suggest light to very light test weight and nutritional quality low enough to consider the equivalent of 10% less corn than believed by the trade. Expect future revisions or more likely an increase of the demand side of the balance sheet or revision of both supply and demand ledgers. Corn continues to shift from weak hands to strong hands, the farmer has had an opportunity to create cash flow but now has less need to sell and the consumer has just seen the best opportunity to protect from summer weather market high prices. A perfect bear storm has occurred and more so from out side influence but the models suggest just a strike from the storm and a bottom is due now.

Wheat- The models assume the seasonal bearish February influence arrived early with the USDA report blow out and wheat is extremely under valued for short to intermediate trends and like corn is due for a sizable up trend.

Soyoil- Soyoil is under valued per intermediate trends within a long term bull market that should last into summer months. The global economies improve and so also for demand of soyoil. Soyoil is due for an intermediate trend bottom.

Agriculture Protein Markets-
Soybeans- The models show L2 minor intermediate trend top ahead of the January USDA report and the trend is down into a major L1 intermediate trend bottom due now to end of month and beans are under valued for this trend and extremely under valued for shorter trends. The forecast suggests an up trend into March and still larger trends are up into summer months. Best down side objectives were met from the post report fallout. Global demand remains large and some seasonal traders claim a Brazil crop bearish influence has not been as important some traders think. Up side objectives for the intermediate trend are over 1100 while long term objectives can be said to much higher.

Soymeal- The models show the intermediate trend is down into a bottom due now into end of month and best guess is the lowest price will be seen this week even if the model bottom arrives later. Meal is extremely short term under valued and for intermediate trends meal is under valued. The forecast calls for higher price into March relative the major L1 intermediate trend and still higher into summer months relative the long term trend. Global demand appears to still be strong while winter weather increases animal nutrition requirements for the domestic market place. The 2010 consumer has been given a golden opportunity to protect from chance for 360 meal in July to August.

Milk- The intermediate trend turned up this month for milk and cheese and the minor version of this trend is bullish well into February and larger version is bullish into April to May and the long term trend is bullish at least into September. For milk, there is potential for 18.00 to 21.00 during 2010 as this market was left behind in 2009 relative economic and commodity recovery. Under valued still.