

# FUTURESCOM

## The Back End of the Summer of Pain

Issue 298

Saturday, July 26, 2008

4:00 AM South Florida Beach Time

"The hardest thing to understand in the world is the income tax."

-- Albert Einstein--

### Equity Indices

Stock Indices generally are lower on the year and more importantly year over year. The Panic lows last August at the onset of the mess remain above the mkt, the Dow August low was 12,455, NASDAQ 2386, SP500 Futures Nearby contract was 1375, The Transports was 4486.. it is above that level.. The Russell 2000 Futures Nearby was 737.7 it remains under .. ... One would prefer to be above, near. or grinding into the previous summer highs not under its lows. **No change in posture.** The 30 Year Bond high was 110-30 for the nearby contract.. Ben needs to print more money.. rates need to come down and let GROWTH slay inflation .. Fiscal policy needs to Cut taxes and wasteful spending.

Foreclosures have exploded.. next month brings a whole new slew of Adjustable rate re-sets .. Will the housing bill be enough.. ? only time will tell.. but it is getting very dicey on main street .. Perhaps that is why the markets closed relatively mixed Friday after a firm open on good news...



**The Dollar** while lower on the year has been firm lately. As it should be into the mid to late July period and early August..

Seasonally over the last 20 years the dollar typically shows strength into late July.

Traders should look for this to abate as we move into the month end .. Consider the Dollar as a trading affair.

Actually if this is the best the dollar can do during the firm period of the year. I hate to see what ugly is.. Perhaps that will change with the next administration .. whom ever that may be..

All Eyes have been focused on the decline in **Energy** markets.. Many expect the torrid decline to continue .. The collapse of Natural Gas appears to be way overdone and a trading range between 830 and 1030 is now likely.. Unleaded Gas is sitting on top of the 2005 Spike high of 292 . If that holds we may very well see a much higher market over the next two months on purely technical reasons. Crude Oil tends to be higher in August and September than in July.. Look for a rebound and expect noise from the unstable producers like Tehran.. Will the US Drill for more oil and get things going.. I certainly hope so.. the only question I have is , if congress was going to vote for more drilling and they really cared about anything other than getting elected or re-elected., why would they even consider raising the Federal Tax on Gasoline as some recent news suggested.. These guys need to get a handle on things.

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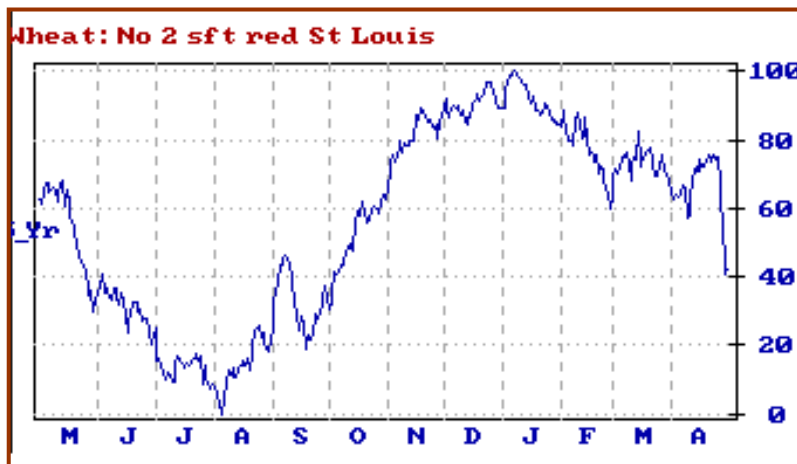
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**Gold** and Silver have come under pressure , Friday's close was friendly and indicates a higher market .. Gold is over the June close and higher on the year and more importantly on top of the highs decades ago..

**Grains...** Price action stinks.. However , U.S. export sales of **Soybeans** almost tripled last week, consider beans a trading market now.. August is typically better than July , but usually lows are set into harvest in the fall Generally demand appears robust even though looming large over the some grains are signs of price rejection from buyers. Korea expects to import less corn this year because of price gains. Demand is also a factor for Korea.. The US is resuming Beef exports to South Korea and some farm groups are debating replacing corn with wheat as a feed grain .



This is good news for **Wheat** . The US is expected to produce a bumper crop. On Friday Wheat had a nice rally, traders should buy dips.. Wheat tends to make its lows in July , when harvest occurs,, and normally tends to show a better , shall we say 'structure ' as the calendar progresses fall and winter... Lower prices relative to last winter and a soft dollar will help demand. No matter what World Leaders do to broadside their growth with cheap fuel subsidies and higher interest rates people still have to eat.. Sales up 8 percent versus a year ago.

Technically speaking , the large decline from the record highs earlier this year enabled wheat to test the previous spike highs in 1996..

**Corn** Prices collapsed as U.S. crop conditions improved and everyone ran at once.. About 65 percent of the corn crop was in good or excellent condition as of July 20, compared with 64 percent a week before and 62 percent a year earlier Nearly 34 percent of the corn crop was in the ``silking" stage, under the 72 percent from last year and below its five year average of 60 percent. Some of the crop may not be harvested until the middle of October and lose yield from frost. The normal first frost date in the Midwest is Sept. 15 to Oct. 10. (another thing that can hurt silking is extreme heat.. which no one is expecting) However with global warming going on , maybe there will be no frost..

Wait a minute., the Global Warming people are now suggesting the event will be delayed due to the Fires that occurred on west Coast this year.. Funny how things work., 25 years ago we told we had an ice age coming.

Consider "Corn a trading market now.. Something to note.. Guess where the low was during it's meltdown ?

Yes, Just on top of the previous spike high in 1995. Only time will tell if that holds..

All the flooding and mess in the major heartland of the US was only 6 weeks ago.. Traders should keep an eye on corn.. We may be looking at a market that makes Harvest highs , not lows. In addition traders still must keep an eye on weather. If there are unusually hot and dry days over the next six weeks , grains could explode.

**Coffee** paints a nice picture here , Brazil, the world's biggest coffee grower is expected to produce 51.1 million bags this year , higher than last years 37.6 million bags as the biennial crop cycle is in on the better side. Global coffee production for 2008/2009 should be 127 to 128 million bags Global demand stands at 125 million bags and is expected to rise. World production for 2007/08 was 118 million bags compared to 125.5 million bags in



2006/07...Coffee is riding a fine line of balanced Demand and supply..

Costs to the growers are rising.. Energy costs are particularly troublesome and maintaining the operations are becoming costlier. Coffee is one of the very few world commodities that has not hit a 15 year high.. Weather is not an issue now , but can become a factor and needs to be watched .

Typically during the 3<sup>rd</sup> and 4<sup>th</sup> quarter of the year coffee prices begin to firm.. Coffee is sitting just over the year end close of 13620 for the front end. and has remained generally at near the 2005 highs

Another market recently ignored is **Cotton**, demand is fairly in balance with supply .. However into the 2009-2010 marketing season , it looks interesting as India's crop may not be as good as expected and could help US cotton exports. The US is the worlds biggest exporter of Cotton , and without any significant increase in price over the last few years farmers are switching to more profitable crops. India produces the second biggest crop in the world. Some planting delays have occurred as dry weather last month delayed planting , a reduction of 5% to 10 % in output is possible. Technically if cotton remains above 6900 to 6700 (and it looks like it will) it maintains higher on the year and year over year. Traders should stay tuned for updates as we wade thru the Dog Days of Summer

*- A Ship in Harbor is Safe...But that is not what ships are built for --*

Happy Trading !

Bill

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FuturesCom is devoted to providing readers with exceptional market analysis . Company President Bill Chippas, has enjoyed a distinguished and diverse career spanning four decades in investment markets. He founded [FuturesCom](#) in 1996; FuturesCom Investment publications are utilized by individuals, institutions and professionals globally and are among the longest published investment newsletters on the Web.

Along Florida's Treasure Coast listeners have been tuning to 'WPSL 1590 AM' at 6:00 PM on Thursdays to ear Bill's clear concise investment ideas and witty comments on the [Bill Chippas Show](#). Guests from a wide range of global business join in weekly. In 2002, he co-hosted the nationally broadcast business radio show "Not for Widows and Orphans" on 'WSBR 740 AM 'from Boca Raton Florida.

Bill began his career on the floor of the Chicago Mercantile Exchange. He was sponsored by a former CME Chairman for membership to the International Monetary Market (IMM) division of the Chicago Mercantile Exchange, now known as the CME Group. He has traded proprietary funds on the Cash Interbank Foreign Exchange and Futures markets. Bill has been a speaker at seminars and a precious metal arbitrageur.

He organized one of the first five S&P500 Futures arbitrage companies and co-developed the institutional and retail Forex and Stock Index futures trading desk for the worlds oldest bullion firm Mocatta Metals. In the past he assisted two former Chicago Board of Trade Chairman servicing retail and institutional clients. He had an office located in the heart of Chicago's meat packing district where he developed an extensive knowledge of livestock and agricultural futures while tutoring local newcomers to the industry as well as those from overseas.