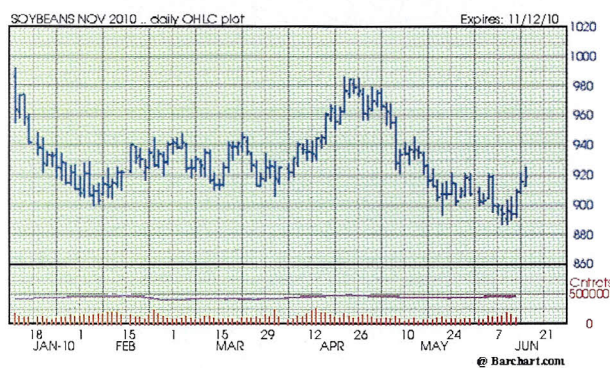




Will "El Nino" Drive Grain Prices Higher?

What do most people think when they hear the name El Nino? Unusual weather patterns, floods, droughts and volatile grain prices are some of the few thoughts shared by many investors I have spoken with over the years. For those who don't understand what El Nino is, it is a Pacific Ocean phenomenon that happens every 3 to 7 years in which the surface temperature of the Equatorial Pacific warms up quickly by two to five degrees. From a global standpoint, El Nino typically causes drought conditions in Australia (Wheat) and flooding in South America (Soybeans) while creating a stationary weather pattern over the U.S. This phenomenon holds the jet stream from central Canada down through the Grain Belt and out over the central Gulf. This brings months of excessive rain from Minnesota to Ohio down through Louisiana. Depending on the severity of this year's El Nino, the U.S. could see similar weather patterns that were experienced in 1993 & 1994. During the summer of 1993, the central U.S. was hit the hardest with nearly 15 million acres of farmland destroyed. Barge traffic was halted on the Mississippi and Missouri rivers for up to 2 months propelling grain prices to all time highs.



November 2010 Soybeans



September 2010 Corn

Grain prices are based on the condition of harvested and un-harvested crops. The spring 2010 crop has just been planted and will be at the mercy of any possible affects from this year's El Nino. In late March, the USDA announced both Soybean and Corn crops would exceed earlier estimates sending prices lower by 3% to 5%. Corn prices are presently at three year lows which may indicate very little premium has been built-in for any possible El Nino weather-related problems. Corn prices are 50% off the highs from 2008 and more than 28% off the high of 4.85/bu. hit in 2009. July Soybean prices touched 10.20/bu. in late April 2010 and have since pulled- back on recent Dollar strength. The US Dollar has gained 6% in value in less than 4 weeks due to the weakening Euro and economic turmoil in the EU. For now, the technical picture still looks good as Soybean prices remain above a key psychological support level of \$9/bu. Demand for Soybeans continues to increase as China and other Asian countries lead the world in economic recovery. As we enter into the summer months, Corn & Soybeans are most vulnerable to extreme weather so be sure to keep your eye on the grain belt!

TRADE RECOMMENDATIONS (6/17/2010)

Soybean Futures and Options:

Buy ZSX10 (November 2010 Soybeans) at 9.17 o/b with a GTC sell-stop at 8.70. If filled, exit position if November 2010 Soybeans rise above 9.75/bu. Buy SX10 (November 2010 Soybeans) 1100 Calls (expires 10/22/10) at 12.4 o/b (\$625). If filled, exit position if the option price trades above 22.0 (\$1100).

Corn Futures and Options:

Buy ZCU10 (September 2010 Corn) at 3.65 o/b with a GTC sell-stop at 3.34. If filled, exit position if September 2010 Corn rises above 4.08/bu. Buy CZ10 (December 2010 Corn) 450 Calls (expires 11/26/10) at 10.0 o/b (\$500). If filled, exit position if the option price trades above 21.0 (\$1050).

