

2010 Market Outlook

December 9, 2009

In retrospect, 2009 was a very impressive year for the commodity markets. For most of the year commodities were seen as “the” place to be, with many analysts touting them as a new and potentially sustainable investment class. Indeed, certain commodities forged very impressive rallies in the face of highly uncertain economic conditions, with the Continuous Commodity Index forging a gain of more than 30% from the end of 2008 to the October 2009 highs. If one also takes into consideration the low to high rally in crude oil prices of 74% and the 94% run-up in sugar prices, it would seem like certain commodities are well on their way to pricing in a recovery.

With the sharp, surprising run-up in equity prices of 67% off of the March 2009 low, there are a number of analysts who view the equity markets as pricing in positive growth for 2010. While the outlook for the economy remains very suspect as of this writing (and many traders might consider the commodity markets as overstating the recovery potential), a bit of historical perspective will lead one to conclude that many commodity markets still have significant upward potential.

In our opinion, a large portion of the commodity price gains that were forged in 2009 were simply a rejection of severely deflated pricing. In some cases markets fell to (and even below)



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the cost of production and did so off of sentiment that suggested demand was going to fall to depression type levels and not recover for years.

But as the situation was so extreme (interest rates approaching zero, widely accepted expectations for a continuous deflationary spiral and, for a while, little or no hope of an end to the crisis) the conditions that had sent prices to extreme lows in 2008 and early 2009 may not be repeated very soon. It could be very difficult for markets like natural gas, crude oil, sugar, cotton orange juice, copper, coffee and corn to return to the lows they have forged over the last 18 months. And while markets like cocoa, soybeans, soybean oil and wheat may seem to lack the fundamentals that would allow for strong upside price extensions again in 2010, against a backdrop of a falling Dollar, fairly consistent global demand growth and ongoing investment flows toward commodities, even those “weak horses” could catch some spillover support.

One could say that 2009 was a year to “close your eyes and buy everything physical.” In contrast, 2010 looks like a year to be more selective. To be sure the direction of most commodity prices will still be largely a function of the direction of the economy, but while we have to assume that the US will slowly claw its way out of the sub-prime disaster, we have to be aware that there will likely be periodic setbacks.

However, never in history has the US Federal Reserve been so forced into a position of erring to the side of inflation. Adding into the equation what appears to be a long term devaluation of the Dollar and unprecedented quantitative easing by the most of the world’s central banks, one is presented with a spectacular, classic inflationary setup for commodities.

Picking up Where We Left off Ahead of Sub-Prime

Certain players maintain that steep commodity price gains in the 2000 to 2008 time frame were artificial, or they maintain that many of the highs made during that time were irrational and not really a reflection of fundamental conditions. But even before the new millennium arrived The Hightower Report often warned of an impending wave of “Boom and Bust”

pricing in commodities, as we realized that decades of disinvestment would expose the world to periodic instances where demand would overrun supply.

On the other side of the coin, we also recognized that old ways and opinions die slowly and that many commodity producers, traders and even analysts would attempt to apply old, historical pricing to the new commodity era, which in turn would foster a movement to attempt to limit investment in commodities. Those in favor of regulation to limit such investment in commodities suggest that fund buying is exaggerating price levels in many commodities and must be stopped. If we could call an end to globalization, rising global standards of living and improved diets, it would make sense to limit investment toward commodities, but as it stands the markets need more investment and more supply.

Some players point to the late 2009 rally in soybeans as a rally that was unjustified by “the fundamentals” of the soybean market. Perhaps it should be said that soybeans were not following the old soybean market fundamentals but instead soybeans were following the new fundamentals of rampant Chinese demand, probably the biggest inflationary threat seen in the modern era. While soybean prices might be expensive relative to expectations for a big crop from South America, they might not be as expensive in the context of tight world corn supplies and in terms of the deflated Dollar.

Some players now want to call an end to the globalization wave despite, the fact that hundreds of millions of individuals in the developing world are poised to move into the middle class. The sub-prime disaster may have temporarily derailed the stellar growth in developed countries, but the rapid acceleration in standards of living in the rest of the world will not be easily denied. And while the recent price gains have come a long way towards repairing the lack of investment in mining and oil exploration and production, global commodity demand looks to continue to grow, right along with the biggest explosion of capitalism in the history of mankind.

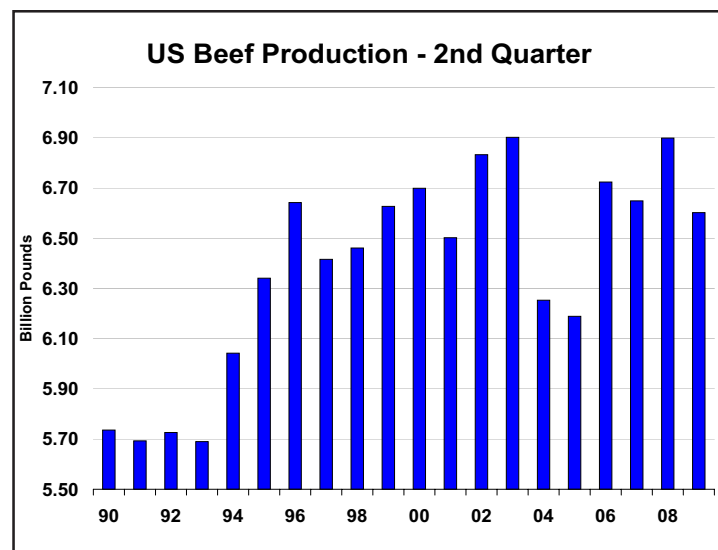
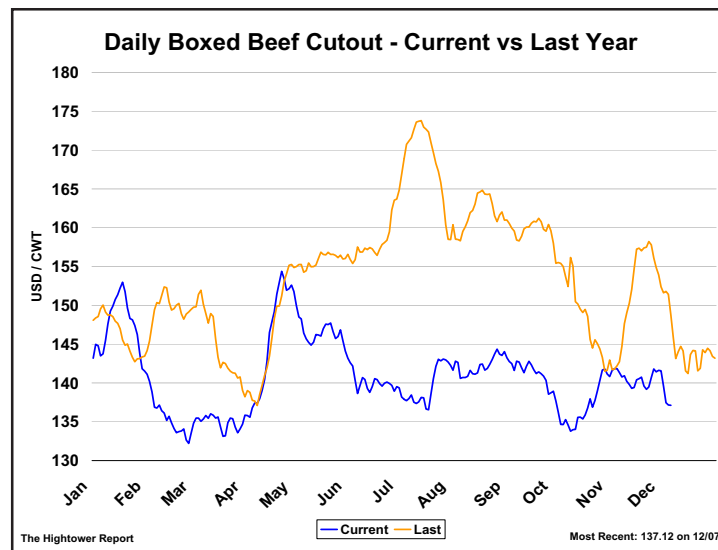
Selected Futures Contracts - Price Ranges for 2008 & 2009, Forecasts for 2010

	2008			2009 (As of 12/4/09)			2010 Forecast	
	High	Low	Range	High	Low	Range	Low	High
British Pound	2.0397	1.4329	0.6068	1.7043	1.3492	0.3551	1.6450	1.7010
Canadian Dollar	1.0298	0.7682	0.2616	0.9798	0.7666	0.2132	0.8700	0.9839
CCI	618	327.5	290.5	487	342	145	456	538
Cocoa	3,385	1,867	1,518	3,424	2,198	1,226	3,200	3,500
Coffee	169.60	101.60	68.00	145.40	104.35	41.05	138.00	179.00
Copper	427.00	124.75	302.25	327.50	137.15	190.35	292.00	350.50
Corn	765	290	475	450	302	148	356	545
Cotton	91.38	36.70	54.68	75.74	41.01	34.73	70.30	82.50
Crude Oil	147.27	32.40	114.87	82.00	33.55	48.45	64.50	102.50
Dow Jones	13,377	7,445	5,932	10,510	6,460	4,050	12,250	12,540
Ethanol	2.955	1.370	1.585	2.019	1.430	0.589	1.550	2.460
Euro	1.5964	1.2424	0.3540	1.5134	1.2470	0.2664	1.3550	1.5300
Feeder Cattle	116.50	85.45	31.05	104.925	87.60	17.325	88.80	102.40
Gold	1014.6	681.0	333.6	1227.5	801.5	426.0	1102.0	1400.0
Heating Oil	4.1586	1.1914	2.9672	2.1289	1.1252	1.0037	1.0250	1.3150
Japanese Yen	1.1492	0.9013	0.2479	1.1790	0.9867	0.1923	1.0590	1.1580
KC Wheat	1384 3/4	489 3/4	895	727 1/4	458 1/2	268 3/4	517	646
Lean Hogs	89.70	53.80	35.90	71.80	43.55	28.25	62.00	83.90
Live Cattle	107.05	80.625	26.425	89.50	79.20	10.30	82.00	91.95
Lumber	270.30	163.70	106.60	255.20	137.90	117.30	180.90	260.20
Milk	20.50	14.95	5.55	14.13	9.24	4.89	13.00	18.10
Minn Wheat	2500	561	1939	797 1/4	477	320 1/4	535	657
Natural Gas	13.694	5.210	8.484	6.240	2.409	3.831	4.300	7.300
Oats	458	184 1/2	273 1/2	274 3/4	162	112 3/4	221	311
Orange Juice	152.00	67.10	84.90	124.50	64.60	59.90	120.00	183.00
Palladium	595.1	160.0	435.1	194.3	185.2	9.1	349.2	475.9
Platinum	2308.8	761.8	1547.0	1119.9	908.0	211.9	1369.0	1635.0
Pork Bellies	100.225	60.70	39.525	92.60	51.75	40.85	72.00	93.70
RBOB Gas	3.6310	0.7850	2.8460	2.1124	0.9669	1.1455	1.6850	2.2520
S&P 500	1482.70	739.00	743.70	1119.00	665.70	453.30	1069.00	1202.00
Silver	21.185	8.40	12.785	19.50	10.32	9.18	16.50	21.00
Soybean Meal	456.8	233.3	223.5	433.4	258.3	175.1	325	275
Soybean Oil	71.26	27.90	43.36	41.40	29.57	11.83	31.00	43.00
Soybeans	1663	776 1/4	886 3/4	1291 1/4	838 1/4	453	855	1070
Sugar	15.07	9.44	5.63	25.43	11.32	14.11	17.40	31.50
Swiss Franc	1.0367	0.8134	0.2233	1.0090	0.8377	0.1713	0.9000	1.0070
US 30-Year Bond	142-30.5	112-14.5	30-16	139-18.5	111-21.5	27-29	109-00	124-20
US Dollar	89.25	70.805	18.445	89.97	74.27	15.70	73.40	78.00
Chi Wheat	1334 1/2	455	879 1/2	677	439	238	515	670

Cattle

While we have seen periods of a higher beef prices, not enough product has moved to hold prices firm, as consumers have quickly shied away from any minor rally. The market is in the process of finding a low enough price level to entice sustained demand. This has been a difficult task during a period of hefty supply of meat in general, as well as a shift towards lower-priced poultry and pork by consumers. In addition, restaurant demand is down, as corporate holiday parties are being cut back sharply and consumers are trimming budgets. These factors continue to keep demand slow, and this causes cattle marketings to slow and cattle to sit in feedlots for a little longer than expected. As a result, average weights have jumped to higher than normal levels. The decline in production into the 1st quarter is a little less than normal, which could mean that the seasonal support to prices will not be as strong as normal. The jump in production into the 2nd quarter is higher than normal. However, the USDA currently shows a decline in production from the 2nd to the 3rd quarter for the first time since 1996, so longer-term position traders might concentrate their buying on the August 2010 cattle contract, where support comes in down at 82.80. Don't rule out a recovery to the 90.00 area once the market finally bottoms.

The sensitivity of beef demand during a deep recession was certainly felt in early 2009, and the cattle market could not shake the weak demand setup for most of the year. Weak consumer demand is still the issue into mid-December. December is normally a strong demand period, but recently boxed beef cutout values were hovering around \$137.45, the lowest since October 21st. Traders had expected the export market to improve due to the weaker US dollar and an expanding world economy, but this did not happen in 2009. Cumulative sales for the year through early December reached 479,700 tonnes, down 6.5% from 2008. In 2003, before Mad Cow was discovered in a single US animal and sent US exports plummeting, cumulative sales as of this time of the year had reached 775,800 tonnes. While placements of cattle onto feedlots declined quickly in late 2008 to push feedlot supplies down 7% year-on-year to start 2009, feedlot supply was back above year-ago levels by October 1st. Placements were not the real issue; it was sluggish marketings that helped to boost supply on feedlots by late in the year. While cattle futures did not show much volatility or rally potential for most of the year, the market certainly caught the attention of money



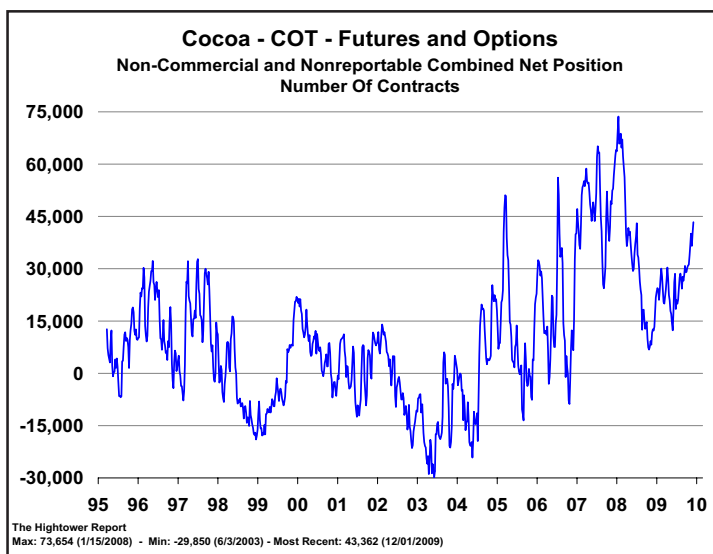
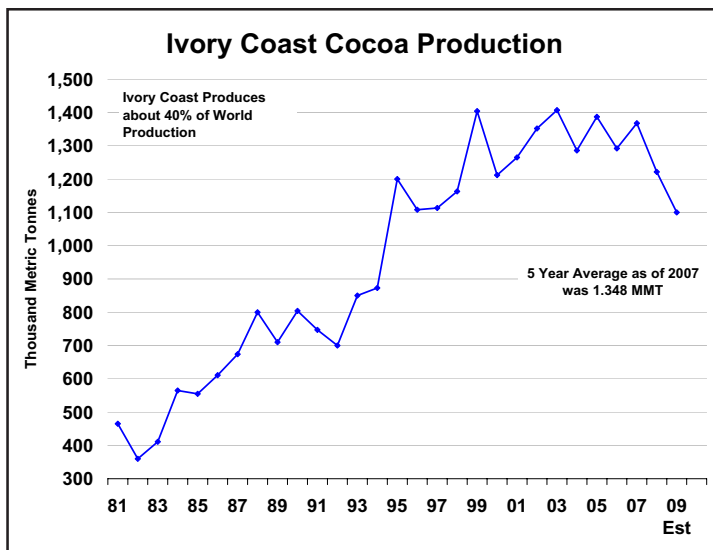
managers and fund traders who more than likely considered it undervalued and as a candidate for “buy and hold” strategies as the US and world economies recover. Open interest increased by 65,000 contracts from June through October, despite a choppy to lower trade for much of the period.

Most Important Swing Factor in 2010 – Shift from herd liquidation to herd rebuilding in 2010 could be a bullish force.

Cocoa

Although cocoa might appear on the surface to be one of the more expensive commodities as 2009 draws to a close, we see the potential for prices to move higher as the global recovery/re-inflation psychology takes hold. Even with the market's current fundamentals a bit suspect, seeing a move into a higher price range, above \$3,500 per ton, could be the litmus test for the next wave in physical commodity buying that we see coming over the next several years. In 2009 there were a number of factors that pushed cocoa prices to 30-year highs, including concerns over El Nino weather influences on Pacific crops, shortfalls in West African production, a weak Dollar, global equity market strength and some indication that cocoa grind demand was starting to improve over the course of the year. These same issues, especially if Ivory Coast production comes in below average again, could be setting the stage for cocoa to eventually trade back to price levels that were reached back in the mid to late 1970's. As we stand right now there doesn't appear to be a definitive cocoa supply threat, But cocoa being a small market in a big world, it certainly has the potential to be swept higher on what we predict will be more widespread investment demand for commodities to hedge against inflation risks that are being escalated due to the record amounts of global government stimulus and a low global interest rate environment. Cocoa could also see additional buying by funds needing to diversify in order to avoid hitting position limits in other commodity markets.

With cocoa prices recently rallying back to levels reached in mid 2008, which were also the highest in 30 years, one could be skeptical of the market's ability to trade measurably higher from here. Certainly from a fundamental standpoint the start of the 2009/10 harvest season has been nothing less than stellar, with Ivory Coast cocoa bean arrivals to ports coming in 57% higher than the previous year and above the 5 year average in the first two months of the 2009/10 marketing year. But there seems to be growing sentiment among industry analysts that Ivory Coast cocoa arrivals are set to peak in coming weeks, which would set the stage for supplies from the main crop to tail off in the New Year. Seeing another sub-par Ivory Coast crop totaling last season's 1.221 million tonnes or less, which was also about 10% below the previous 5-year average, could reignite the "tightening supply" view. If at the same time cocoa demand continues to recover in step with the global economy, the cocoa market could be facing global deficit for the fourth year running! But aside



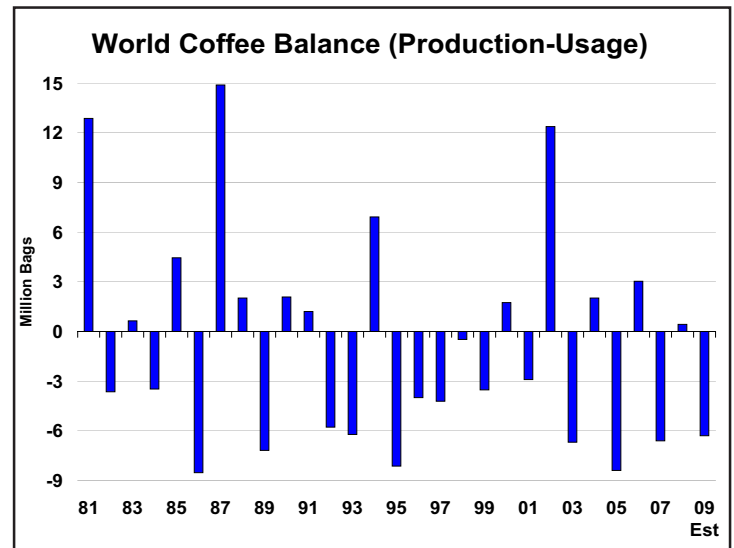
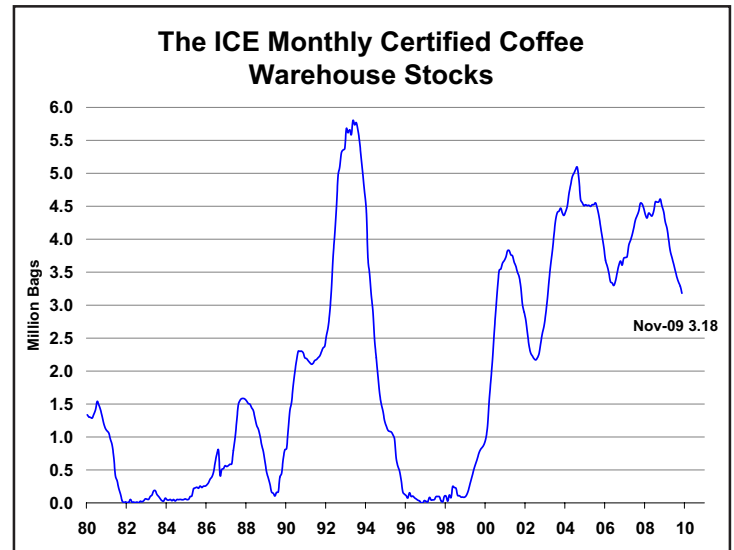
from potential for another tight supply situation, the recent history of fund participation has been a powerful bullish component in the cocoa market. As of November 24th, 2009, the Non-Commercial/Non-reportable combined net long position stood at 40,394 contracts, well below the record net long level of 73,654 reached in mid-January 2008. This suggests that cocoa may still have ample capacity to move beyond the 30-year price highs.

Most Important Swing Factor in 2010 – Ivory Coast production in 2009/10.

Coffee

The big picture fundamentals for 2010 are mostly supportive, and coffee seems to have the setup to move higher. Traders were concerned that 2010 production from Brazil, Colombia and Vietnam would be a bearish force, but this does not seem to be the case. Declining stocks at consuming countries, historically tight supply expected in Brazil ahead of their harvest and high premiums due to tight supply of higher quality coffee from Brazil and especially Colombia have set the stage for higher trade ahead. The longer-term consumption pattern appears supportive for coffee as well, with producers like Brazil and Mexico showing a significant advance in consumption in recent years. By the middle of 2010, there could be as many as 10 million bags of Brazil coffee in government owned storage due to programs designed to pull coffee off of the market in order to support price. Inflation, El Nino concerns in Indonesia and a continued decline in the US dollar are all potential supportive factors. Look for a continued uptrend into the first quarter with 157.00 as initial target, and if production problems develop, don't rule out a run to 179.75.

While the Brazil growing regions have seen regular and consistent rains during the flowering period of the past several months, the first official Brazilian crop estimate for the 2010/11 season came in at near 44 million bags, down from trade estimates that had been running from 45 million to as high as 55 million bags. The lack of a dry period to spark consistent flower leaves the crop vulnerable to quality issues at harvest. The USDA attaché in Brazil pegged ending stocks at 2.49 million bags, down 2.15 million from last year. Colombia's production has been hurt by poor weather and broca worms, and while the country was a fairly consistent producer of 12.0-12.5 million bags of higher-quality light acacia coffee in recent years, traders see production this year recovering just slightly from 9 million bags for the 2008/09 season. Traders remain concerned that tightness of available higher quality coffee may occur sooner than previously thought, as Brazilian producers are expected to turn near 3 million bags of coffee over to the government for storage by early 2010, which will pull the supply off of the free market. In addition, the government may buy additional supply on the free market to move to strategic storage as a price support mechanism. US ICE certified exchange stocks have declined in recent months to their lowest level since February of 2003 to reach just 3.18 million bags at the end of November.

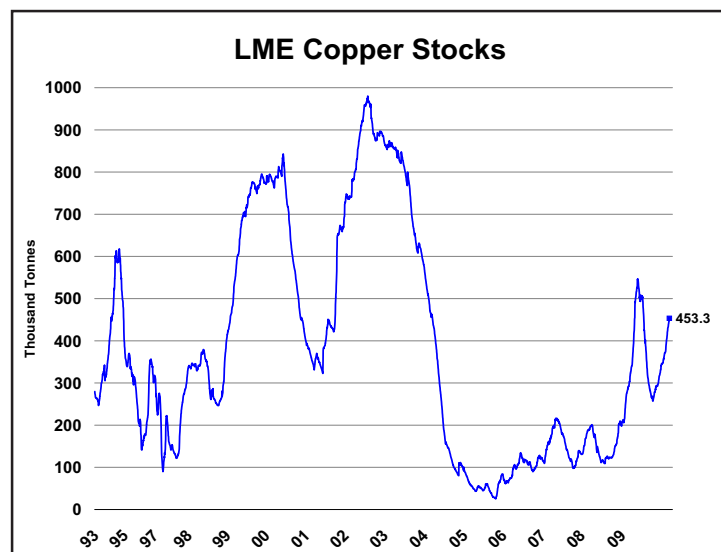
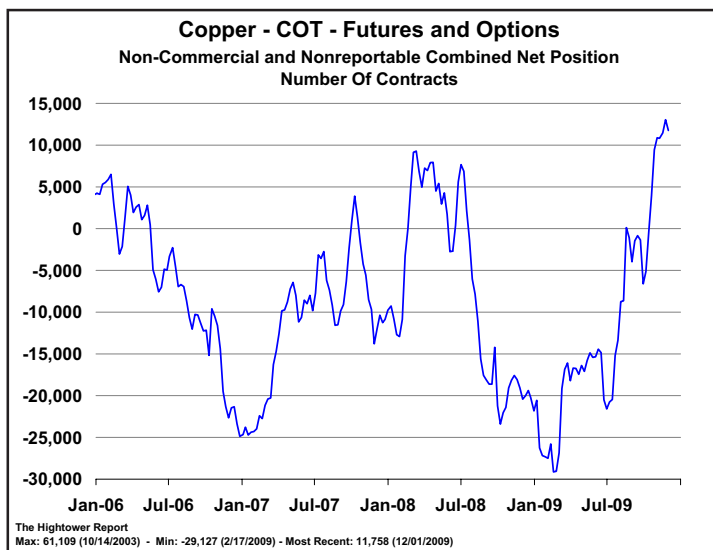


Most Important Swing Factor in 2010 – Brazil flowering period in late 2009 leaves a huge range in the production forecast.

Copper

The copper market was clearly one of the most impressive physical commodity markets in 2009, with nearby prices managing a startling rally of almost 62% from the 2008 low. With copper and other commodities facing what looked like a sustained economic contraction in the wake of the sub-prime threat, the 2009 rally seems to be a little out of character. Some players might even suggest that copper could find it very difficult to replicate the 2009 copper price strength in 2010. But we would suggest that traders take a step back and put copper prices in the context of the three previous years. In our opinion, when prices were down at \$1.25 in December 2008, they were bordering on a level that could have seriously reduced future copper production capacity. However, quick action by several large multinational copper producers to curtail physical production reduced the threat of a large build-up of supply in the wake of the global recession. According to some estimates as much as 20% of the world's copper production was idled in an attempt provide support to prices in the event of a sustained and unrelenting contraction in the economy. In retrospect, it would seem as if copper producers braced for the worst, but the worst never came.

While copper prices have already shrugged off the threat of crimped demand and the prospect of sharply rising supply, it should be noted supply levels at the LME copper warehouse did manage to rise sharply in the wake of the 2008-09 slowdown. From the late 2008 to mid-December 2009, daily LME copper stocks rose by 110,000 tons, a 32% increase. So despite efforts to aggressively idle a portion of global copper production, there was still some bleed-through from the sub-prime recession. Copper prices seemed to get slightly ahead of reality into the end of 2009 with the pulse-up rally to \$3.2750. As can be seen in the weekly Commitments of Traders reports, the copper market rushed to factor in the worst-case scenario in early 2009, but eventually the net short held by funds and small specs was reversed and small net long was built by year's end. Since the rally above the \$3.25 level put copper back above the start of the sub-prime panic zone, one can hardly expect a rally in 2010 based on the idea that prices are "too cheap." And with daily LME copper stocks showing a pattern of gains, we suggest that copper needs an economic recovery and the assurances of low interest rates to forge impressive gains in 2010. Nonetheless, with production still idled and the outlook for the global economy slowly improving, traders might view a correction back below the



\$2.90 level on the weekly charts as a long term re-entry point. However, without the benefit of some unforeseen supply side setback or a much stronger global recovery than what is currently expected, we seriously doubt that copper prices will be able to rise above the \$3.50 level.

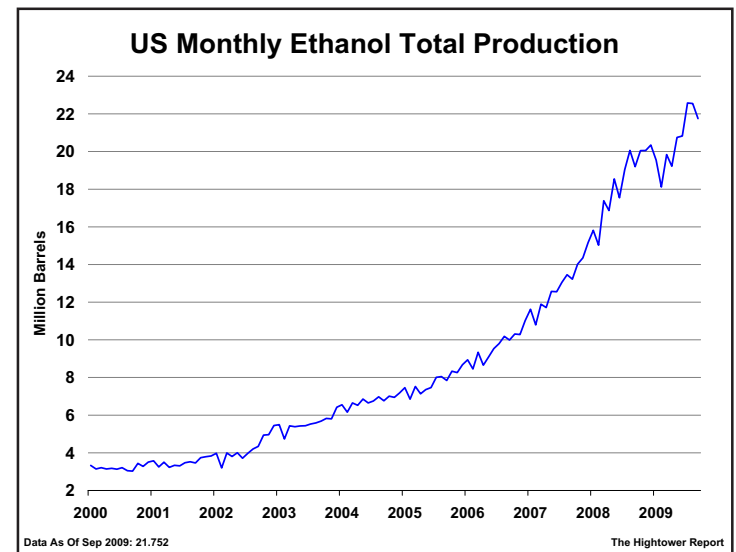
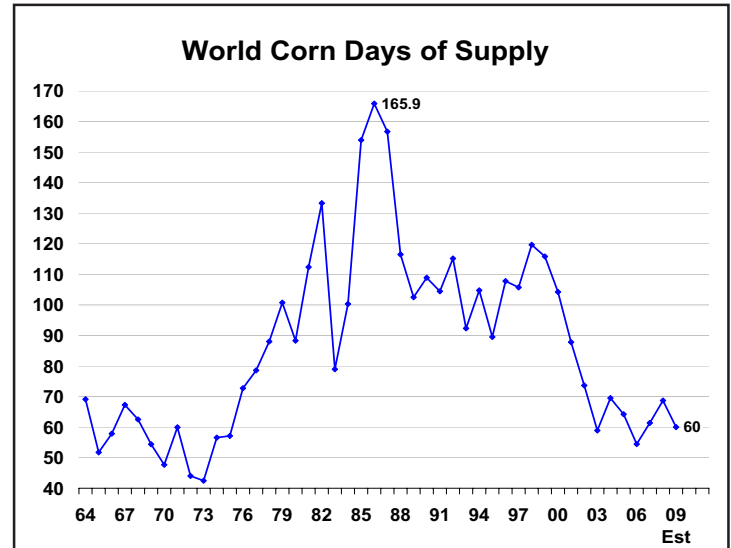
Most Important Swing Factor in 2010 – How long will production remain idled?

Corn

The fundamental outlook for corn is bullish through at least the spring 2010 planting season, at which time higher prices could result in a big jump in US corn acres, and normal planting weather would bring ideas of a new record high corn yield. If the global economy expands and the dollar remains weak, corn seems to be the key market in the grain and oilseed area to advance to a higher price level. Both US and world stocks are tightening and corn's use as an energy commodity continues to grow. Once the harvest is absorbed, May corn looks like the market could see solid gains into the end of the first quarter of 2010. Buying support emerges near 388 with 471 and maybe 519 as upside targets.

Several powerful bullish factors point to a recovery rally that can carry corn higher into 2010. Early ending stocks projections were as high as 2.1 billion bushels but were whittled down to 1.625 billion bushels by the November USDA report. It could fall even further due to freeze damage in early October and losses due to damage of crops not harvested before winter storms set in. World ending stocks are projected to be close to 40 year lows at 16.5% of usage. This is despite a record US crop yield! Weather-related production losses in China and India should be covered by existing national stocks, but any move to build existing stocks in those countries or in Mexico, Argentina or elsewhere could set off a pricing stampede. Low plantings in Argentina combined with export restrictions by the government should keep Argentina largely on the sidelines of the world export market in 2009/10. Trillions of dollars in future borrowing needs by the US government are eroding the value of the US currency, and this has already started a shift from dollars into commodities, Euros and Yen. This could accelerate at any time. Corn-for-ethanol usage continues to trend higher, so much so that processors were already using corn at the 2009/10 annual rate before the end of the 2008/09 marketing year. A continuation of the uptrend in usage could add 200-500 million bushels to the current projection.

Most Important Swing Factor in 2010 – How much production was lost on late harvest, and how fast will ethanol usage grow?

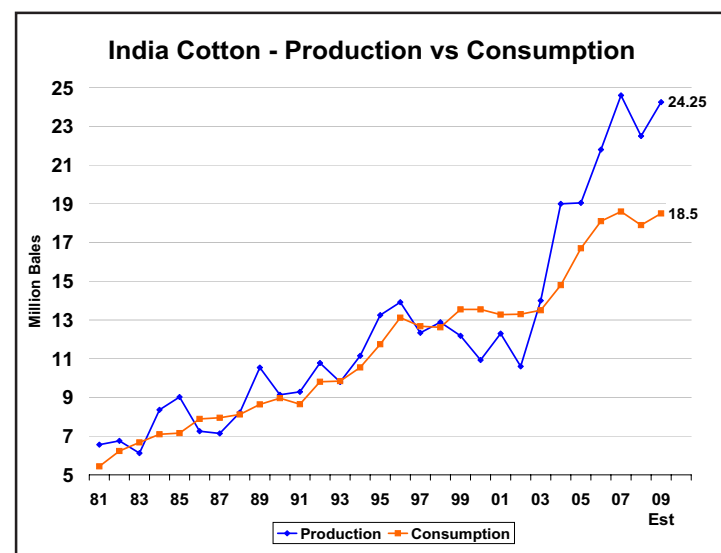
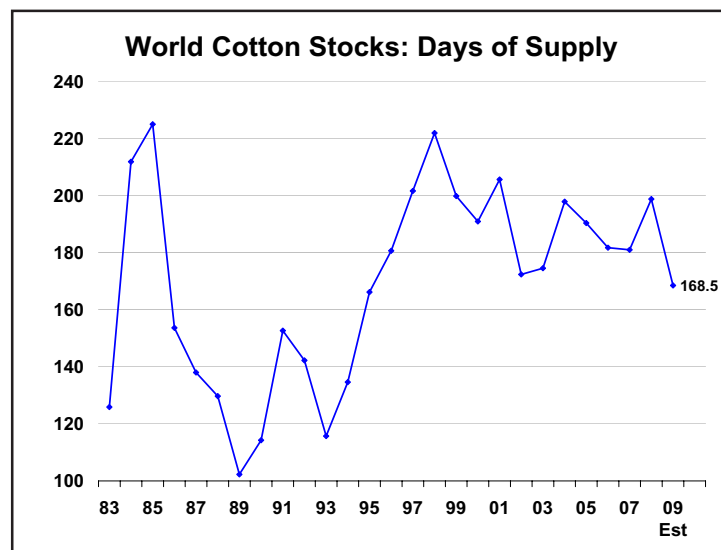


Cotton

The big picture fundamentals for 2010 look mostly supportive for the cotton market, but it will be very important to see an improving world demand outlook in order to rationalize a continued uptrend. Outside market forces like the declining value of the dollar will need to spark a significant improvement in demand for US cotton, or the US will end up holding a higher share of the world stocks at the end of the season. Cotton may be a good buy for 2010, but it is currently overbought and will need help from the global economy and a weakening US dollar to sustain an uptrend. For now, position traders may want to wait for a setback to near the 72.00-70.70 support zone to initiate longs, with 82.50 as a longer-term upside target.

World ending stocks for the 2009/10 season are projected at 53.7 million bales, down from 62 million the previous season and 62.7 for 2007/08, but this still represents nearly 47% of total world usage. US ending stocks are expected at 4.9 million bales, which is down from 6.34 million the previous season and down from 10.04 million for 2007/08. Stocks are coming down, but so is total usage. Improved production in India has helped to pull US exports down, and we continue to see a decline in domestic usage. As a result, the USDA's total cotton usage projection for the US is at a 24 year low. There may be some revisions lower in production due to poor harvest weather, but with ample supply, a minor revision lower should not be a significant factor. The declining US dollar and inflationary fears for the US economy along with a surge in buying from fund traders appear to be the primary forces for the bull trend in late 2009. Open interest jumped from 123,000 contracts at the end of August to near 194,000 by mid-November. Chinese imports are tied to world demand for textiles from the US, Europe and other high-consuming regions. As a result, it will be important to see continued economic growth for 2010. Once again, US exports of cotton will need to see growth for us to expect much tightness for this coming season, and the bar is set low with export projections at their lowest level in nine years. However, as of early December, cumulative cotton sales had reached just 47% of the USDA forecast for the entire 2009/10 marketing year versus a 5 year average of 51.7% for this time of the year.

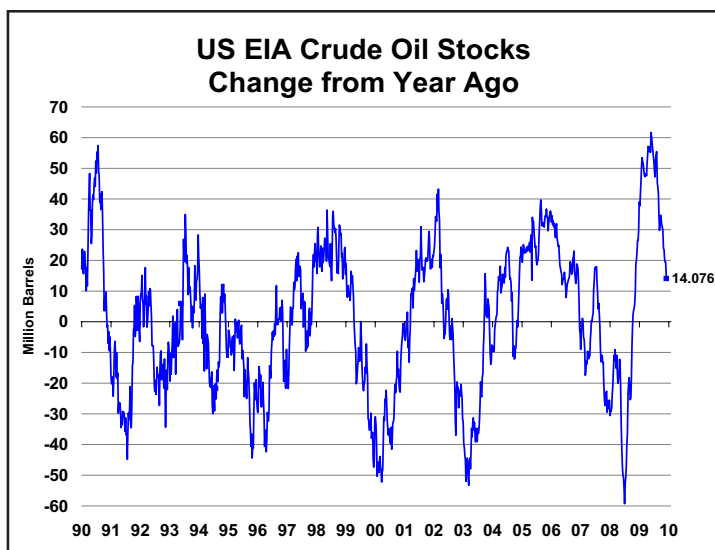
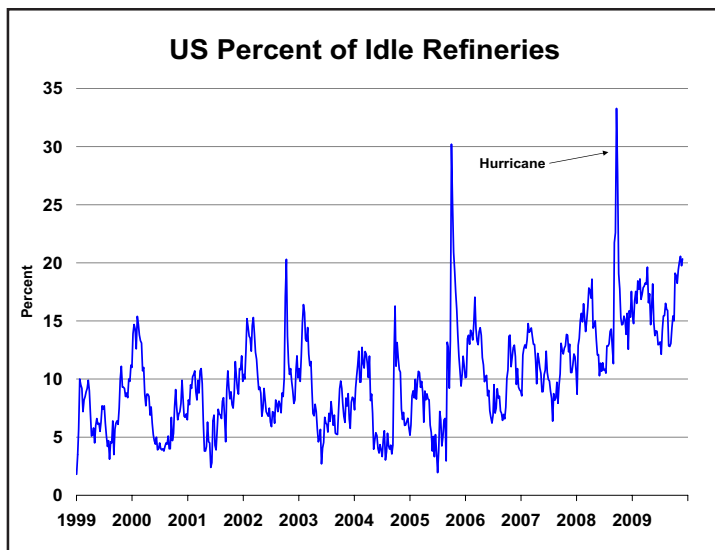
Most Important Swing Factor in 2010 – Will US, China and India shift even more acres to food and less for fiber?



Crude Oil

The 2010 crude oil market is likely to be fraught with volatility, but ultimately it is the excess supply overhang present in late 2009 and perhaps into the 1st quarter of 2010 that could set the stage for a significant recovery in refined product prices later in the year. The break in energy prices from the 2008 high was clearly a function of weakening global oil demand following the credit crisis. Therefore, it stands to reason that a good portion of that demand will start returning in 2010, and that return could provide a significant lift to fuel prices as global economic conditions improve. Already the US crude oil surplus has been cut dramatically, having fallen by almost two thirds between May and November of this year, even with a fairly suspect economy. Looking ahead, if we combine even a modest recovery in fuel demand with the structural changes that are occurring in the refining industry, we could see much higher gasoline prices by the summer. A look at the crack spread shows that refinery margins were weak throughout most of the sub-prime crisis and its aftermath. This led US refiners to completely curtail production and in some cases shut facilities, resulting in a declining operating rate through the 2nd half of 2009, which at times left more than 20% of capacity shut down. If the US refinery rate holds below 83% of capacity for the balance of 2009, it would be another clue that tightening is underway. This could lay the foundation for gasoline to lead a rally in the energy complex into the summer driving season of 2010.

In the short run, the fundamental situation could still get a bit worse, especially for crude oil. The widening discount of the nearby futures to the deferred contracts is certainly a reflection of the current oversupply, and the problem is compounded by a refinery operating rate dipping below 80% in late November and as much as 165 million barrels of oil being stored offshore. The November US employment report did hint that economic conditions are showing signs of improving, but a solid recovery in fuel demand still remains elusive. Other bearish influences are low refinery operations, the unlikelihood that OPEC will cut production at the December meeting and eroding cartel member compliance levels at a time when Russia is regaining its title at the world's largest oil producer. Therefore, front month crude oil may be pressured back into the \$60-\$70 per barrel price range, an area we would consider a "value" zone, before the economic recovery pace picks up and refinery cutbacks trim supplies enough to start tightening fuel supplies and laying the groundwork for a



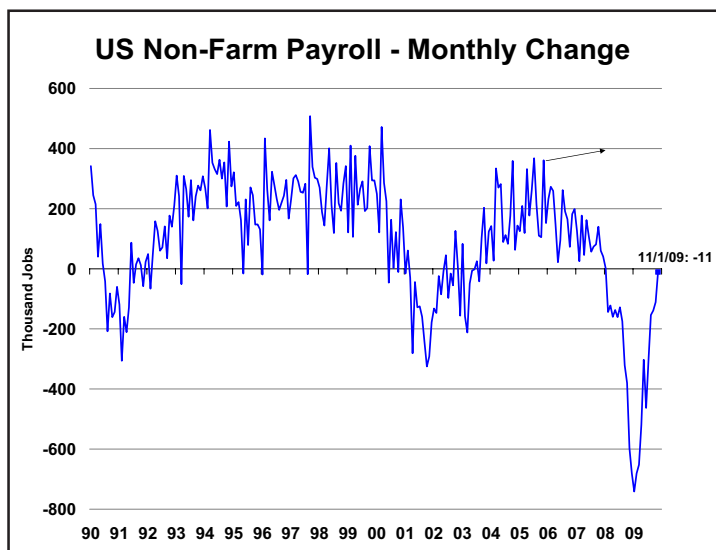
strong, product-led recovery. This suggests that the next wave higher in crude oil could start from a much lower level than where prices sit in early December 2009.

Most Important Swing Factor in 2010 – It's the economy!

Currencies

In late 2009 the currency trade was fairly convinced that the Dollar was in the midst of a long-term historic depreciation, and, in a major deviation from historical patterns, the US economy did not appear to be the forerunner in the global recovery. The trade appeared convinced that mounting US debt levels were destined to send the Dollar down further, perhaps 15% below the 2009 lows. Even the President appeared to facilitate the downward motion in the Dollar with a letter to the G-20 more or less calling for an end to world economic superpowers. With the US seemingly mired in a questionable, jobless recovery, the reduced flow of tax revenues versus the amount of spending might result in a slingshot expansion of the US deficit, well beyond trade expectations. With the US and UK facing the stiffest hangovers from financial/real estate debacle, it seems a good bet that the interest rate differential will leave the Dollar and Pound weak relative to a many other currencies.

In contrast, a number of commodity-based currencies were on fantastic upward slopes in 2009 and may continue to gain. With many nations already indicating their intention to fight inflation, it is possible that some of the “hard lifting” on the inflation front will be undertaken by someone other than the US Federal Reserve. As long as the trade thinks that the US Fed will be handcuffed and that interest rates are destined to rise faster in areas other than the US, the Dollar could remain out of favor. However, we think that a combination of bearish forces might have reached a zenith for the Dollar just ahead of the release of the November 2009 monthly non farm payroll report. Prior to the first “much better than expected” payroll reading of 2009, the trade was convinced that the US would be the last major economy to return to growth, that it might be one of the last to begin raising rates and that the US deficit was going to spin out of control. With the world not blinking an eye at the possibility that the US would take repaid TARP money and spend it on a jobs program, it would seem like the US mentality will demand a quick end to the jobless recovery and therefore the easy money in the Dollar has been made on the downside and a change of trend is in the offing. In looking back at long term historical charts, there is a tendency for currencies to establish new trends January. While this suggests that the downtrend in the Dollar has ended, about the most we might expect in the first quarter of 2010 is for a weak upward tilt on the charts. Likewise, the Yen and perhaps the Swiss might be the most overvalued



currencies for 2010, and that is where we would concentrate our short side interest moving forward.

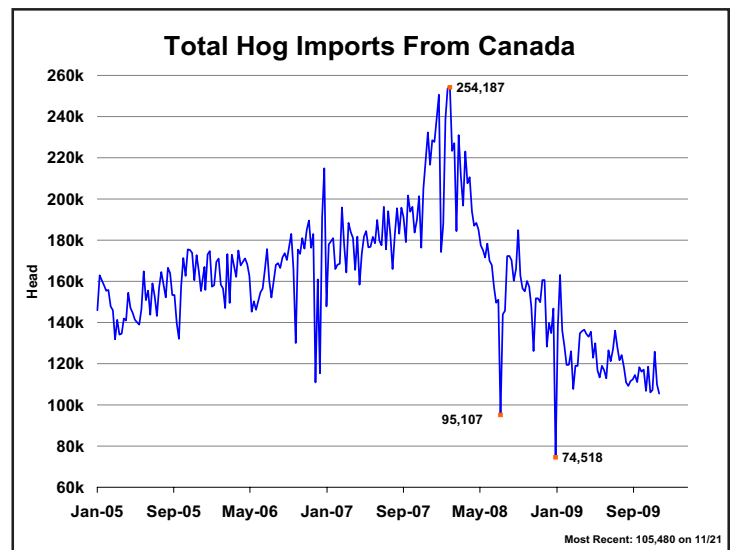
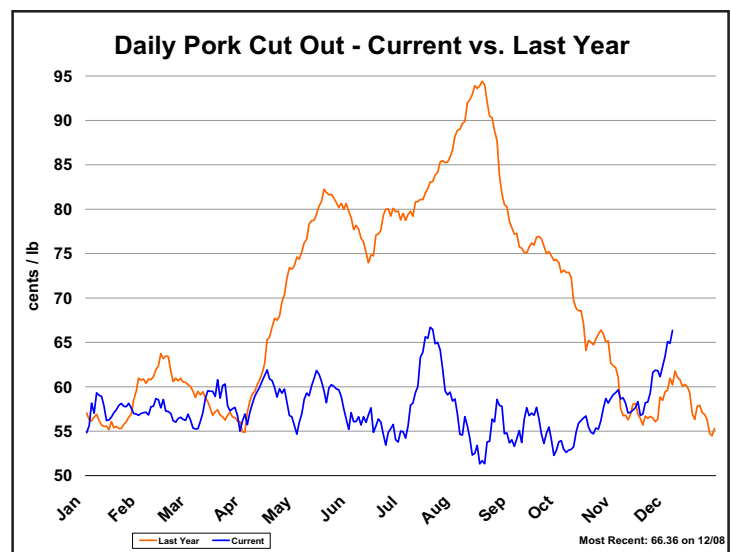
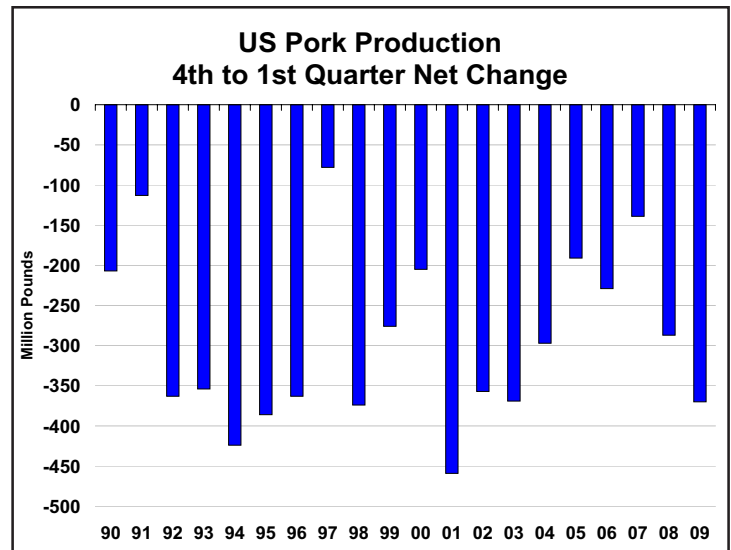
Most Important Swing Factor in 2010 – Concrete signs that a stronger economic recovery is taking hold.

Hogs

Lean hogs were one of the few commodity markets to see weakness lasting until late summer 2009, as the unfortunate name chosen for the H1N1 virus made it difficult for demand to recover from the “Great Recession.” If the global economy continues to expand, the dollar stays weak and inflationary pressures continue, hogs are in a position to see significant gains into the first half of 2010. Recent Cold Storage reports have indicated that exports are running higher than expected, and the shift from a large production base to a smaller base into next year suggests the market will remain in an uptrend into mid-February, and we would not rule out an extended advance into May. April hogs could see a 68.00-76.00 range for Dec-April time frame.

On top of a collapse in pork exports due to the recession, the market also had to deal with the H1N1 virus outbreak in Mexico, which at the time was called the “Swine Flu.” While the industry preached that there was no correlation between the consumption of pork and catching the disease, consumer demand took a major hit. Monthly US pork exports peaked in mid-2008 at 481 million pounds, and by mid-2009 they were down to 300-350 million, causing a significant surge in per capita supply for the US. The jump in pork values into the late 2009 will help the market avoid a further depletion of the herd for the coming year. Producer profitability could return soon, and this will allow for a declining supply base into the first half of 2010 at the same time that per capita US production falls sharply as production is down 2-3% from the previous year and exports are up sharply. Canadian feeder pig imports for 2009 are down about 24% from last year, which will cause a dent in US production as well. Pork production from the 4th quarter of 2009 to the 1st quarter of 2010 is expected to show its steepest drop in six years. In addition, the decline in pork production from the 1st quarter to the 2nd quarter is expected to be near the second largest in history (2008 was the largest) and this is likely to be a positive force for June 2010 hogs. The larger than normal “shifts” in production into the first half of the year indicate that stronger than normal seasonal strength should be seen just ahead.

Most Important Swing Factor in 2010 – Dollar weakness could lead to a major jump in exports.

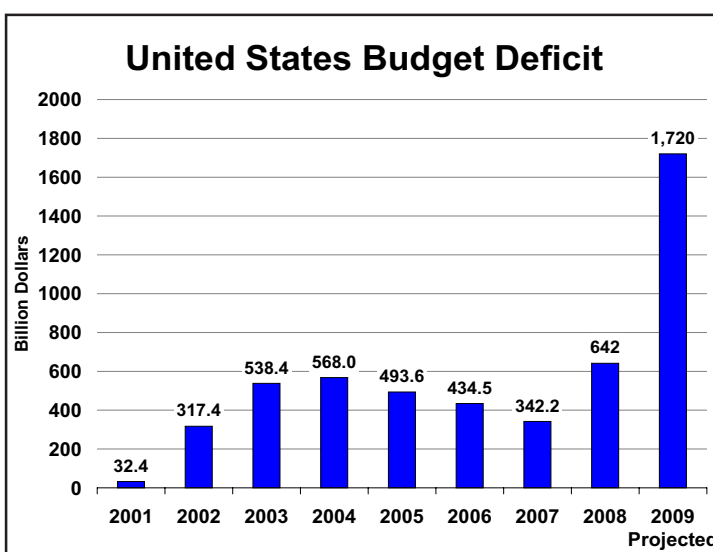
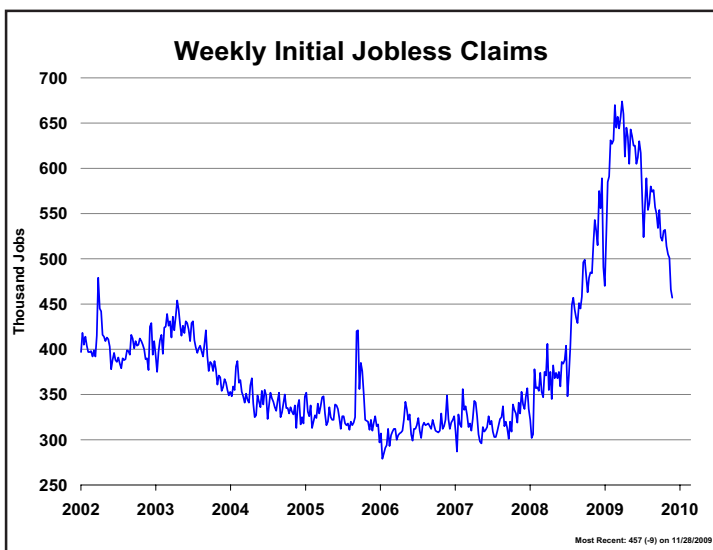


Interest Rates

While interest rates have shown a general decline into the end of 2009, the long term outlook is for higher rates. However, one might characterize the late 2009 price action as a period completely devoid of a specific trend. In almost any other junction in history Treasury yields would probably have already begun to factor in some form of economic recovery, but apparently the fear of sub-prime conditions returning won't be removed quickly. Likewise, in almost any other junction in history the Treasury market would also have begun to factor in the explosion of U.S. debt, but so far the threat from the Federal Reserve to hold interest rates down until recovery is assured not caused has prevented the market from anticipating an upward push in interest rates.

As of December 1st the markets were still fretting over residual financial concerns, and the fear of a jobless recovery was still dominating the marketplace. However, with a lengthening string of declines in US Ongoing Claims figures and a drop in Initial Claims to the vicinity of the potentially critical 425,000 growth/non growth level, it would seem like the U.S. economy is gradually moving toward a sustained recovery. Therefore, our outlook for interest rates closely resembles the outlook for a dam that is riddled with leaks. In other words, we see interest rates holding at relatively low levels until a definitive crack translates into a sudden bursting of the Fed's interest rate dam. Given that Treasury prices recently were sitting 12 full points above the June 2009 lows and that the US government continues to see its deficit explode, we think that traders have to approach the short side of the debt markets. In our opinion, the biggest difficulty of maintaining a short position in any debt market might be the lack of change in conditions directly ahead and not necessarily from the amount of price adversity that will be encountered. As in currency intervention efforts, the US Fed probably realizes that once its support is challenged and is unable to prop up prices there could be a very pronounced, across the board decline in debt markets.

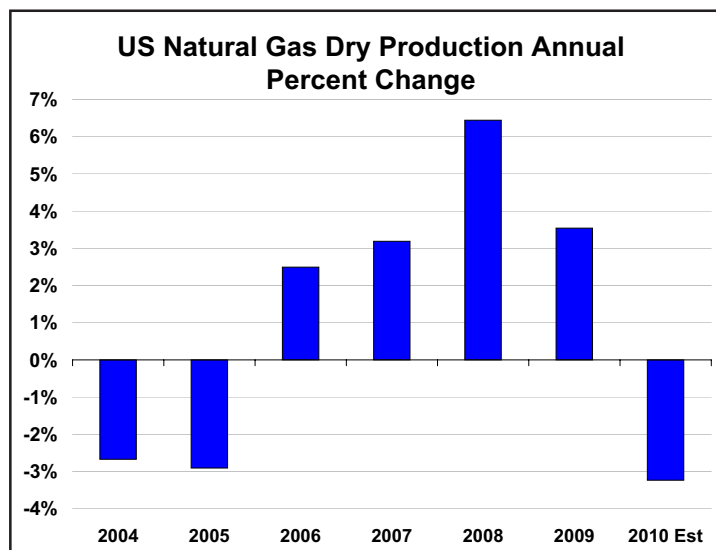
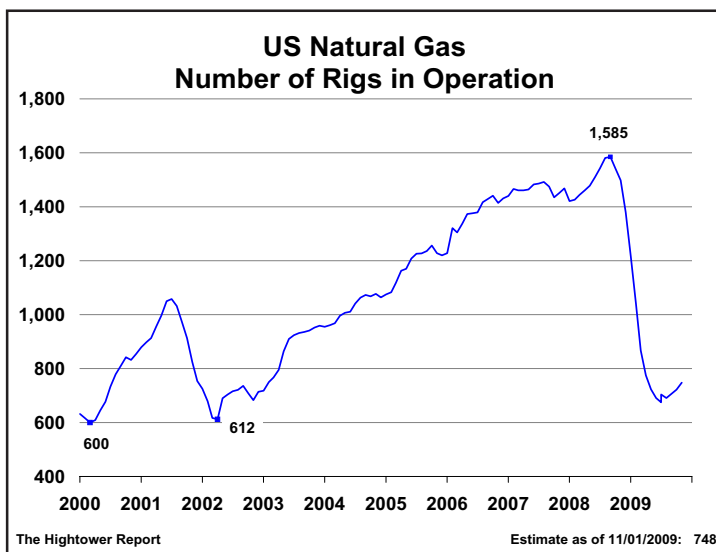
Most Important Swing Factor in 2010 – Economic recovery & mounting government debt.



Natural Gas

The natural gas market has, in our opinion, been one of the most deflated of all the commodity markets, but it could stage a “rubber band” recovery in the coming year as record storage is trimmed back by seasonal heating demand, industrial fuel usage recovers as economic conditions improve, and perhaps even climate legislation gives the demand outlook a boost. The steep decline in natural gas prices to or even below the cost of production in September of 2009 was at least partially justified by a combination of dismal industrial demand (down 11% in the year through October) and soaring storage levels. However, it would appear that the decline from \$6.00 per million BTUs to the low of \$2.49 (basis the weekly charts) was aggravated by traders using natural gas as a short play against long crude oil positions. Traders that were playing for a major bottom in crude oil in early 2009 were selling natural gas (which was clearly the weakest component of the energy complex) against long crude positions. The COT reports indicated small specs and funds were actually net long 27,641 contracts of natural gas at beginning of 2009, but by late September they were net short 40,509. The September lows were forged off a combination of extremely bearish fundamental and technical forces. The amount of natural gas in storage reached record levels this year, and many traders pegged them to be at full capacity. While we think that a host of physical commodity prices fell to difficult-to-replicate “deflated” prices with their 2008/09 sell-offs, the 2009 low in natural gas was exceptional.

In our view, the combination of sharply reduced drilling activity and a policy shift towards using more natural gas in the national supply chain will mean that natural gas prices will eventually outperform petroleum. The fact that the number of US natural gas rigs in operation began to fall off sharply after the September 2008 reading is very significant, especially since the operating rate in the fall of 2009 was half the level seen prior to the financial crisis. Natural gas also stands to benefit if a version of the Senate climate bill becomes law, as the emission reduction targets for coal-burning power plants would be easiest met with a switchover to natural gas. Furthermore, natural gas prices in the 4th quarter 2009 were still only 1/3 of what they were back in December 2005! In the past, a noted setback in the rig count seemed to provide support to prices within 6 months, the severity of the recession has extended that timing to nearly a full year. If the rig count remains down, demand recovers and anything in the form of



a policy shift comes out of Washington, natural gas prices could be set up for a multi-year rally.

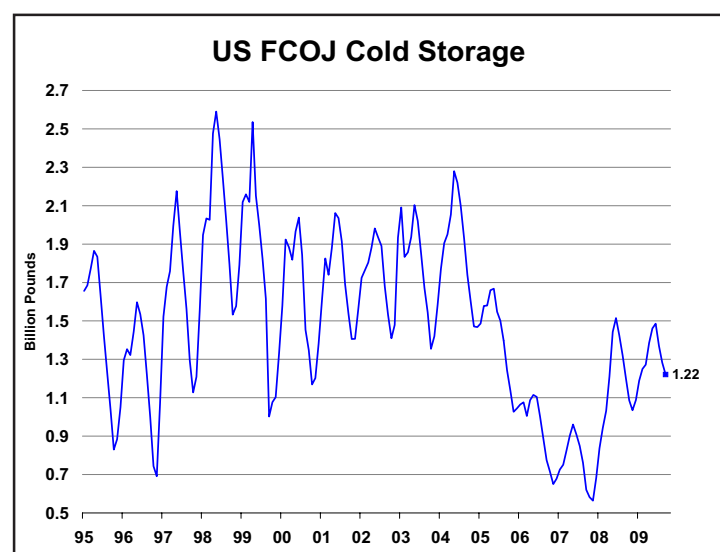
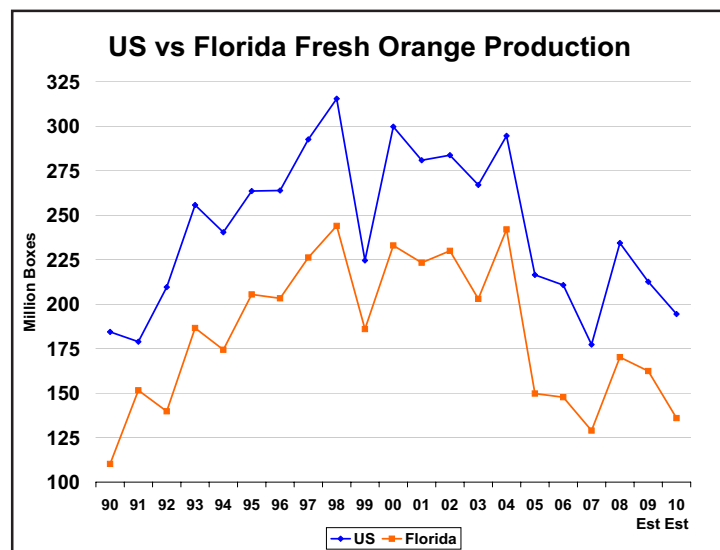
Most Important Swing Factor in 2010—A return of industrial fuel demand.

Orange Juice

The orange juice market is in a position to see a significant decline in production in 2010 and has the potential for an increase in demand for the first time in many years. Reports from supermarkets continue to suggest stronger than normal demand for OJ this year due to the H1N1 virus and a shift in consumer preference to orange juice from other beverages as a way to help ward off illness. As we move closer to the end of the year, the market may also begin to build a weather premium against the possibility of frost or freeze in Florida during the winter months. A late season freeze last winter may not have impacted last year's crop much, but it appears to have caused much lower than expected production for the current crop. The price trend for orange juice is up, and we still look for a rally this coming year to at least 137.05 for the nearby futures (a 50% retracement of the February 2007 to February 2009 break). We would not rule out a run at the 154.00 level.

On top of the potential jump in demand, Florida production in October was pegged at just 136 million boxes, down from 162.4 million last year and 170.2 million two years ago. The cost of production has shot higher in the last few years, and this is an issue affecting Brazilian producers as well. New diseases like citrus greening disease are now a concern for producers there, and traders believe Brazil also lost close to 2 million trees from it. With increased fund trader interest in commodities, especially those that may show declining supply ahead, orange juice futures may begin to show increased interest from speculators. The recent COT reports showed large and small speculators together holding a net long position of 14,674 contracts. This was in contrast to a net short position earlier this year (prior to the onslaught of H1N1) but still well short of the record net long position of over 33,000 contracts. Two potential policy moves could turn demand up and into a sustainable long term trend: 1) The potential restriction or tax on the use of beverages containing high fructose corn syrup. 2) The onslaught of the H1N1 flu virus has also brought calls for increased consumption of juices. Given that per capita OJ consumption is only 5% or 10% of bottled water and soft drinks, even a marginal increase in consumption could have a dramatic effect on existing supplies.

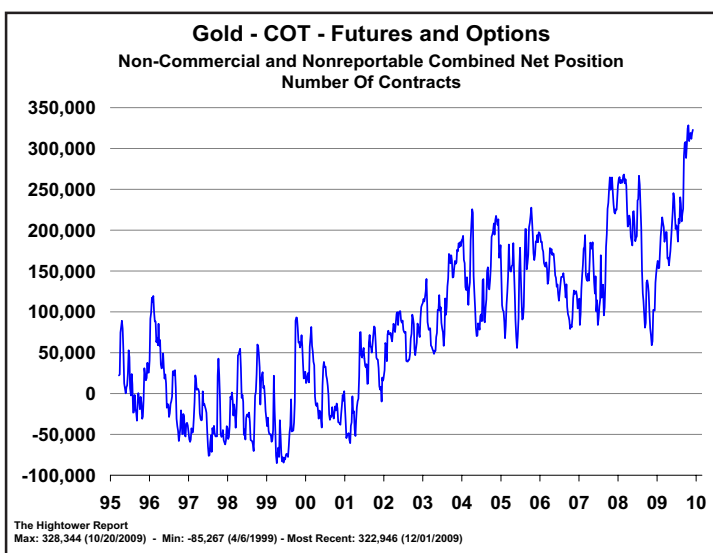
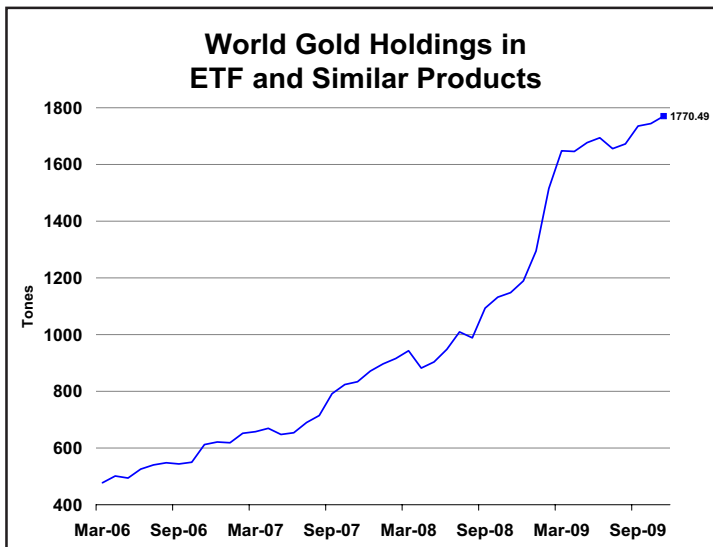
Most Important Swing Factor in 2010 – Demand should stay strong, but production from Brazil and Florida is not expected to keep pace.



Precious Metals

We might suggest that the gold and silver markets have already seen 75% of the bull market action that is due in this cycle, but considering the historic nature of conditions facing the markets, the remaining 25% of the move could still be quite surprising. Toward the end of 2009, the gold trade was encountering more frequent talk about the size of the “crowd” in the gold and silver inflation trade. To be sure, the series of record spec and fund long readings posted in gold futures in 2009 was startling, but when one considers the number and magnitude of major fundamental themes that are capable of driving gold prices even higher, it should be no surprise that periodic overbought conditions will be seen. Certainly, exploding investment demand as well as rampant speculation is present in the marketplace, but the classic supply data do not seem to indicate that the sharp price gains have served to markedly lift physical gold production. In our opinion, physical supply and demand issues are unlikely to be primary market forces in either the gold or silver markets in 2010, as the main event for precious metals prices will probably be the outcome of the growth/no growth and/or inflation/no inflation debate that seemed to be coming down in favor of inflation into the end of 2009.

In looking ahead to 2010, we think the most important forces for the metals prices will be ongoing foreign central bank purchases of gold and the ebb and flow of the inflation question. While the US Federal Reserve has suggested it would leave interest rates low until recovery is assured, the gold and silver trade will not be immune to the negative impact of premature rate hike speculation. In fact, while we see significantly higher gold and silver prices in 2010, we also think that the easy money has already been made and that it will probably require the use of options and futures combinations to be able to ride through the remaining 25% of the rally. While gold has been the tip of the sword in the metals complex this far, we would suggest that the beginning of the end of the historic run up in metals prices will initially be signaled by silver gaining consistently on gold. If gold prices are viewed as too expensive, it could result in a shift toward silver, and that would suggest to us that the bull market has entered its end game. The \$64 question is how high will gold prices go, and at this point our only answer is higher than current levels, as it is unclear how and when the US Fed will manage an exit from its ultra-loose monetary policy.



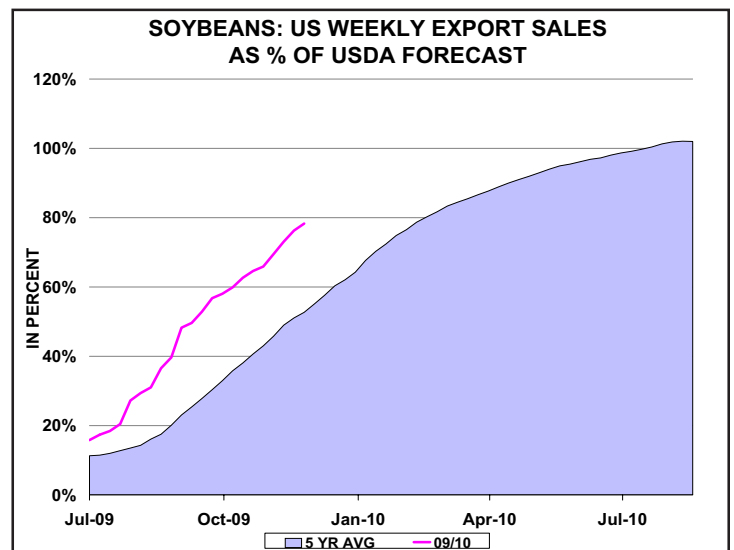
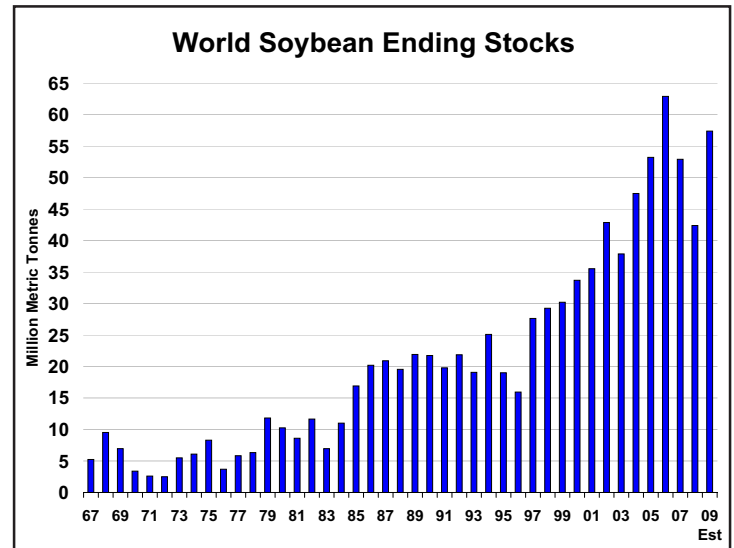
Most Important Swing Factors in 2010 – Economic recovery, escalating inflation expectations and the Dollar.

Soybeans

The big picture supply fundamentals for the 2009/10 season look bearish, with increasing ending stocks for the US and the world. Demand looks front-loaded, so look for broad, two-sided action as the market is buffeted by flows in fund investment, changes in crop weather and prospects for improvement or worsening in the US and world economies. The soybean market is transitioning from two straight crop years that saw tight ending stocks in the US. In 2008 and 2009, the tightness was made worse by late spring planting and a late fall harvest in the US. This is a scenario that is not likely to be repeated for a third straight year in 2010. If weather is favorable and China demand slows, look for nearby futures to drift back into the 963-1009 range, and do not rule out another test of 924 support for July soybeans into late spring or summer, depending on US weather in the critical May-June period.

Crop problems have actually been a recurring theme throughout the world over the past two years. Drought in Argentina and a weak monsoon season in India point to the global nature of variability in weather that may make it difficult to sustain a longer term buildup in world soybean stocks. In the meantime, however, stocks are on the rise. US ending stocks are expected to nearly double for 2009/10 versus 2008/09, and world stocks are expected to jump to their second highest level ever. On the plus side, bigger than expected Chinese imports and the possibility of lower than expected yields in Argentina, and even in southern Brazil, could hold world stocks below current projections. A near record soybean yield in 2009 is expected to leave the US with ending stocks of 270 million bushels, nearly double the year's very low levels. South America should truly tip the balance even further in favor of ample world supplies in 2010. Argentina shifted from severe drought during the growing season and harvest in early 2009 to near normal moisture conditions by the time planting commenced in fall, 2009. Planted area in Brazil and Paraguay is also expected to increase, which could boost production for the overall region to a record 125 million tonnes. World ending stocks are expected to jump a whopping 15 million tonnes to 57.4 million.

Most Important Swing Factor in 2010 – How soon will end users shift demand to South America surpluses?

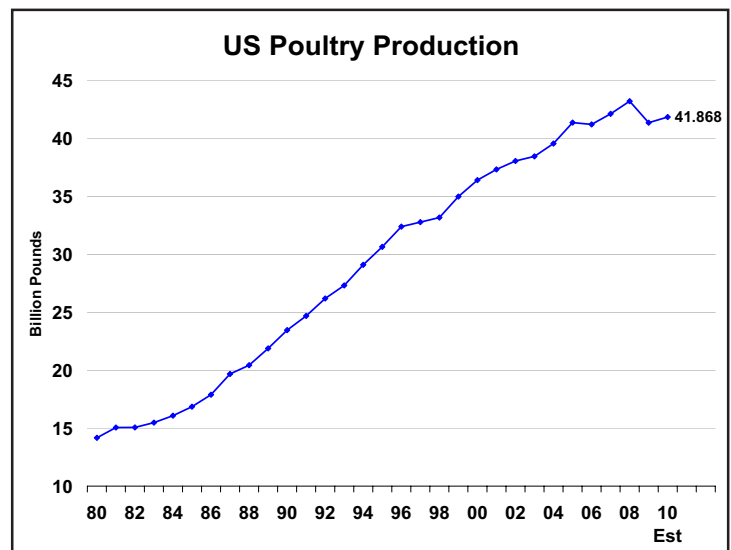
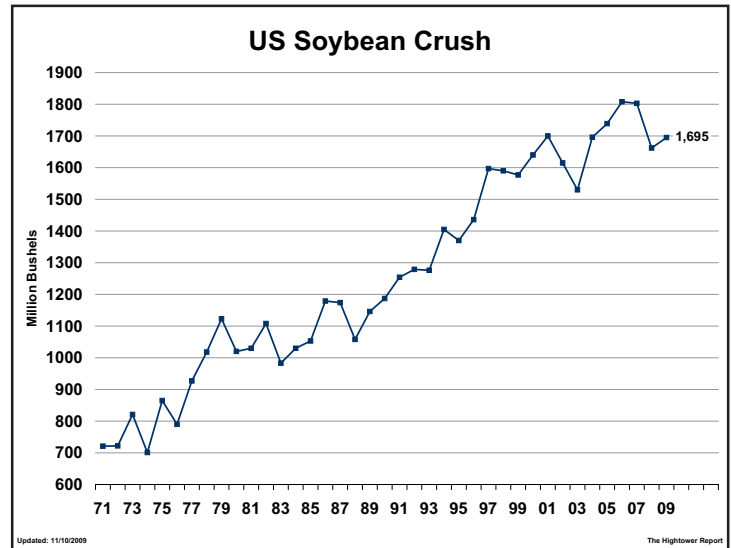


Soybean Meal

The meal market is in the midst of a major transition that started in October 2009 and which should be largely complete by late spring 2010. This transition is from two straight years of very tight ending stocks, a situation that was made even more pronounced by a drought in Argentina in early 2009 which diverted export demand away from South America and to the United States during mid-to-late 2009. A big upswing in the US crush rate in late 2009 and into 2010 should end the period of tight stocks by spring 2010. However, the demand side also seems to be changing with an apparent worldwide economic recovery bringing, among other things, a recovery in demand for US poultry exports. This plus the increased availability of US soybeans suggests that the crush rate could rise to near record levels by early 2010. This in turn suggests that the price of meal could try to stay near 300.00 or possibly a bit higher prior to the South American harvest. By May, however, this relatively high price should be in the rearview mirror.

Several key questions remain, however, starting with how long the accelerated crush rate will need to last. If the US economy recovers in concert with improved meat demand on the world front, the US crush might need to expand back to the record pace seen in 2006/07 and 2007/08 and remain at a high rate until spring, or even summer. If not, the US crush rate is likely to contract by mid-to-late winter. Barring major weather-related problems, the period of relative tightness should end with the arrival of a record soybean crop in South America. US crushers need to be prepared to adjust to this transition from relative tightness to potential abundance in the meal supply. If the crush rate does not adjust quickly enough to this scenario, or if demand for oil remains strong, overproduction in meal could be an ongoing problem into the second half of 2010. In the meantime, US export sales in soybeans and meal remain strong and the fact that meal sales have been widely disbursed across the globe suggests that meal export demand is less dependent on China than soybeans.

Most Important Swing Factor in 2010 – Will economic recovery in the US boost job growth and demand for meat in mid-to-late 2010?

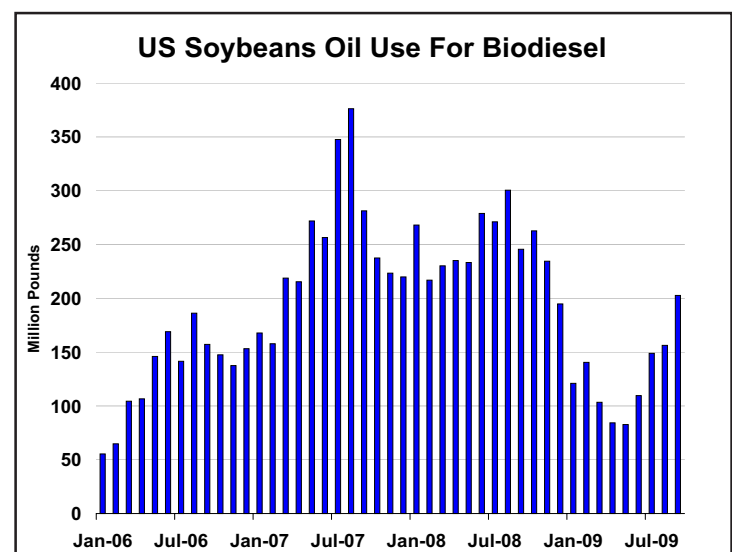
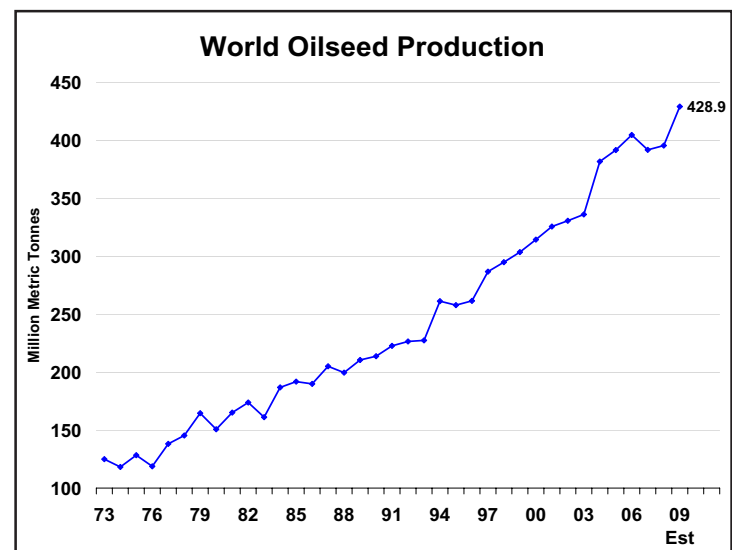
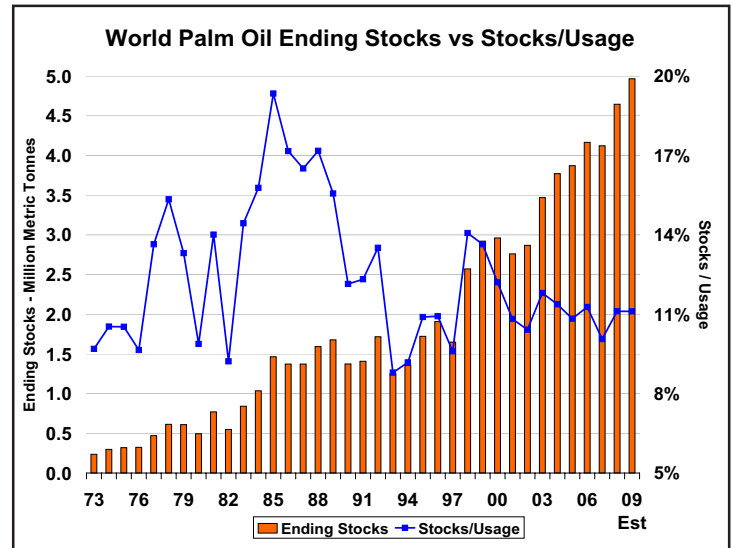


Soybean Oil

At first glance the supply and demand outlook for soy oil and world oilseeds in general seems mixed to bearish. On the negative side, a number of key production and stocks numbers are in the upper end of their recent historic ranges, and soy oil prices have already traded as much as 185% off the lows established early in the decade in recent weeks. This may keep a lid on prices during the first half of 2010. However, a few key numbers could override these negative price factors and point to higher prices for soy oil by late 2010. Underlying the positive factors is increasing demand for edible oils, which puts projected stocks-to-usage ratios closer to the low end of their historic ranges. This is most notable in palm oil, which is the biggest competitor to soy oil on the world market.

Soybean oil remains near the mid point of its historic range in terms of the spread versus meal. While this spread could see sharp swings in both directions into early 2010, by later in the year oil is likely to be the big gainer. Meal posted big gains over oil in 2008 and early 2009 due in large part to the fact that soybean ending stocks were tight for two straight crop years. This plus the economic slowdown kept the US crush rate at moderate to low levels, which in turn kept meal stocks very tight through the end of two straight crop years. The drought in Argentina, Paraguay and parts of southern Brazil that lasted into early 2009 then diverted European meal buyers to the US, which further tightened available supplies of US meal. Crushers processed more soybeans than they otherwise would have in response to the added demand for meal, but this meant that some unneeded oil was created. This is a classic disequilibrium that occurs every few years. Of course, market disequilibria tend to sew the seeds for their own reversals. When this happens within the meal/oil relationship, the spread reverses and then often moves to an extreme in the opposite direction. So while continued South American scarcity could generate gains by meal into March-April 2010, oil should maintain a consistent advantage over meal from that point forward. This may leave oil prices on the depressed side into the May-June period, with the highs coming closer to the end of the year.

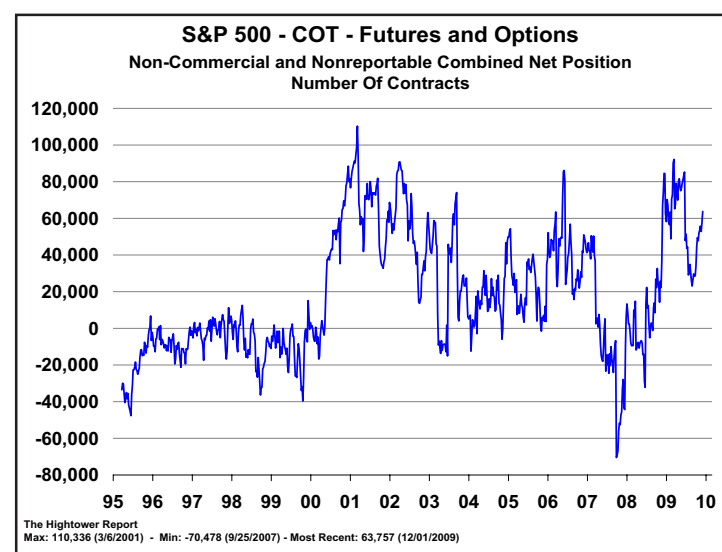
Most Important Swing Factor in 2010 – Will South America produce 125 million tonnes of soybeans this year, or will drought in Argentina wipe out 10-12 million tonnes of production?



Stocks

In our opinion, the run-up in stock prices from the early 2009 lows was not about the market's improving assessment of the magnitude of the impending global economic recovery, but instead it was the result of a simple return of scared money that simply panicked in the face of the sub-prime disaster. With a generational type money exodus taking place, the stock market saw wholesale liquidation of a type not seen since the 1930's. The panic of 2008-09 resulted in a large measure of very sound investments being liquidated in the rush to avoid a total disaster. Therefore, much of the buying seen from March through November of 2009 was simply a return of very long-term investment capital back into what we would call base-line investments. Certainly the US stock market began to show signs of fresh macroeconomic-related buying off the hope for a return to growth in the September through December 2009 time frame, as favorable earnings and revenue patterns in the tech sector began to return the market to a more normal focus. In our opinion, the level of the real hard-core panic, which some people call the "Lehman Gap" took place at 10,371 in the Dow, 1110.30 in the nearby S&P and at 1700 in the nearby Nasdaq. Those levels could be viewed as the growth/no growth valuation line for equities going forward.

The market rally up to the end of October 2009 probably was not factoring in a recovery as much as it was discounting the potential for an all-out failure of the US economic system. However, mounting US debt and historically low interest rates suggest that a 1970's style inflationary rally in the equity markets could still be coming, but only if the Federal Reserve is true to its promise to leave interest rates at low levels until well into the recovery. Unfortunately, the stock market will be confronted with a series of interest rate hike threats that could result in corrections similar in scope to the mid-December washout, but we still think that in the end the US Fed will be one of the last major central banks to hike rates, and that should mean that the best time for the bull camp will be the beginning of 2010. In addition, one shouldn't rule out the prospect of a surprising run-up in equity prices in the early part of 2010, as the US Government, despite some signs of improvement in the jobs sector, seems to be planning additional stimulus efforts under the guise of a jobs program. All things considered, we suspect that stock prices are ultimately destined return to the price levels that were seen just prior to the early stages of the sub-prime panic. Therefore



our 2010 projections call for the nearby S&P contract to return to the 1200 level, with similar recovery targets in the Dow seen at 12,500 and an early 2010 target in the NASDAQ up at the 1950 level.

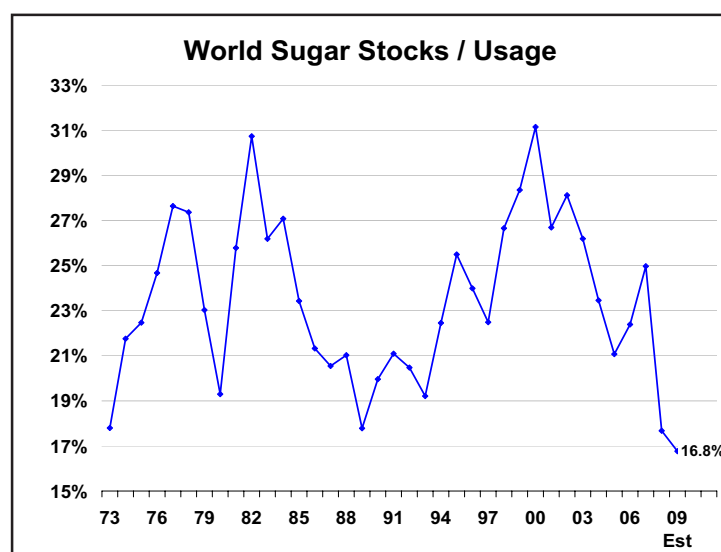
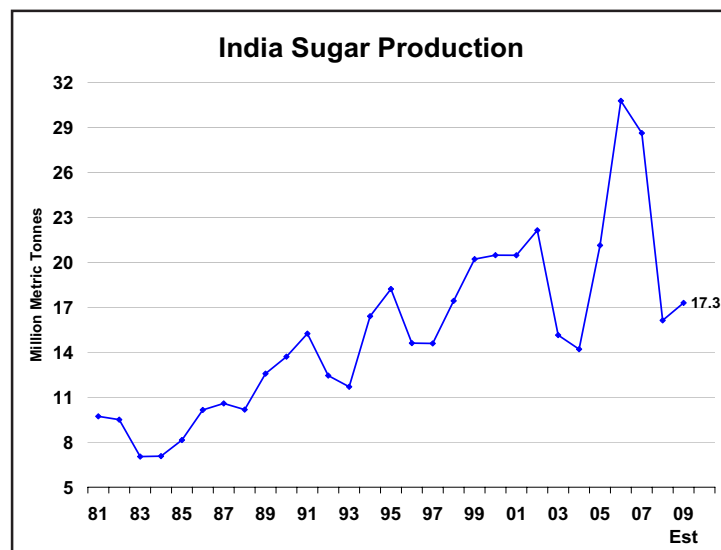
Most Important Swing Factor in 2010 – Extended period of low US rates & more government stimulus.

Sugar

The sugar market has a mixed outlook for 2010: the continued tightening of supply will be seen for the first half of the year, but there are continued concerns that the 2010/11 crops from Brazil, India and other nations will be much higher than recent years as the market responds to higher prices this past season. Into the first quarter of 2010, a tightening world supply and the presence of active near-term demand from India, Pakistan, Indonesia and maybe China and Russia should help provide underlying support. With two years in a row of major shortfalls in India production and a drawdown in world stocks, the world stocks/usage ratio is expected to come in near 15.8%, which would be the lowest in at least 26 years. At this point, we believe the market has the fundamentals to see another leg higher into the spring with 28.20 and then 31.50 as potential targets.

In May 2009 traders had anticipated some supply tightness, but they were also looking ahead to a possible surge in production from Brazil and also a strong recovery in sugar production from India. However, the monsoon rains in India did not materialize in time, and key areas saw a collapse in production. In addition, persistent rains in Brazil (even during the dry season) caused lower than expected production as well. These two countries, the largest single producers in the world, are expected expand output for the 2010/11 season. Nearby futures posted a 28 1/2 year high last summer and then saw some consolidation during the August to December time frame. Brazil is attempting to shift more cane to sugar production and less to ethanol. This could help provide a little more sugar on the world market for the first half of 2010, but the market still faces one of the tightest supply/demand situations on record. The “tightness” issue now is similar to the early 1980s and the “energy and inflation” issues are similar now to the setup in the mid 1970s. In November 1980 nearby futures put in a peak near 45 cents, and in November 1974 nearby futures posted an all-time high near 60 cents.

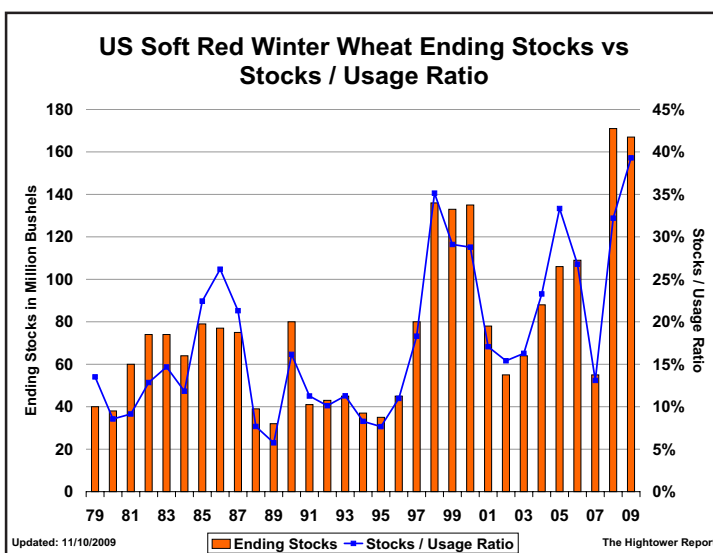
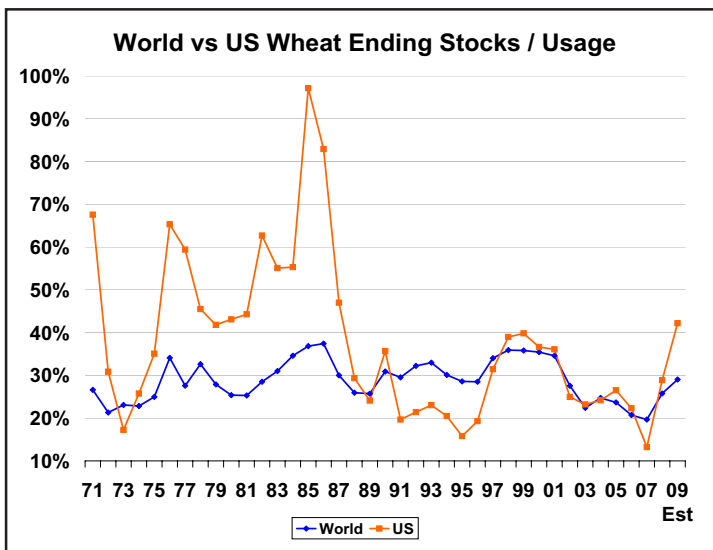
Most Important Swing Factor in 2010 – How much demand can be pushed into the 2nd half of 2010?



Wheat

More than any other grain market, price direction in wheat should be determined by the direction in the dollar into 2010. However, wherever the price range ultimately falls for wheat in 2010, it is likely to fall below soybeans and possibly corn as well. This may give wheat the best chance of all of the grain and oilseed markets of gravitating a bit closer to the lows of the past decade, rather than moving back near the middle of the range seen over the past two years. (We would note that there would likely need to be a powerful combination of negative factors to take the wheat market substantially below the lows of late 2009.) One reason for the weak outlook in wheat is that large exportable wheat surpluses in Western Europe and in the Black Sea basin will continue to make for stiff competition for the US in the vital Mediterranean and Middle Eastern markets if the dollar does not continue to move lower. This has been an especially big problem for soft red winter wheat – the variety traded in Chicago – since European production predominates in soft wheat, as does demand from the Middle East and North Africa. The 2009 harvest across the Northern Hemisphere helped push world stocks forecasts higher in 2009, and a bumper harvest in Australia into the end of the year is helping to lock in the nearly 2-year trend of higher and higher world ending stocks estimates on monthly reports issued by the USDA.

Wheat prices surged in the September-November timeframe on a weaker dollar and a modest bump upward in the pace of US export sales. The lower dollar also brought expectations that trend-following funds would switch to the long side in Chicago wheat after having a record net short position as recently as early September. In fact, they did reduce their net short position from over 69,000 contracts to just over 15,000 contracts from early September to early December. Dollar weakness also generated steady increases in long open interest held by index funds since December 2008, with many traders expecting that trend to continue based on continued weakness in the dollar and rebalancing by index funds into January 2010. This is because wheat has lost ground on a relative basis to other commodities over the course of 2009. Analysts calculate that index funds need to buy tens of thousands of additional contracts of wheat into January to rebalance their positions. If this is true, it would certainly be supportive, but ongoing support from funds is not a given, and a steady to firmer dollar might result in the rebuilding of a large net short position held by trend-following funds, just the opposite of current expectations.



Most Important Swing Factor in 2010 – The dollar. A sharply lower dollar would attract more net buying by trend-following funds and a sharp inflow of index fund buying. A steady to higher dollar would push wheat lower.

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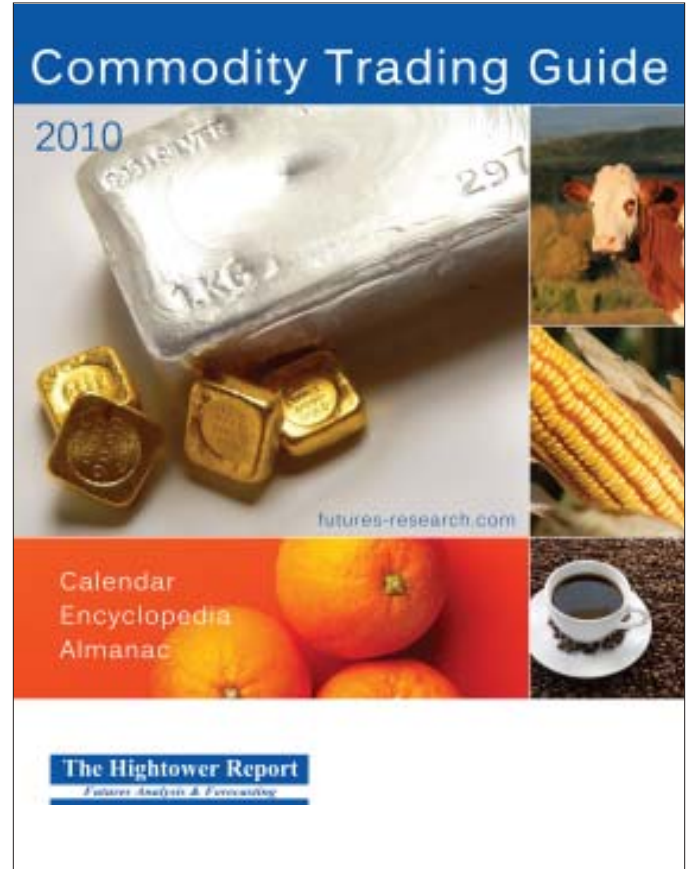
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