The Soft Spot

March 4th 2011

Coffee

Life Time Trading Range 41.50 Cents - $337.50 per Pound

Trades on The ICE 2:30 AM – 1 PM CDT

Last season's production figures and next season's expectations are hitting the wire services daily. Luis Genaro Munoz, president of Colombia's Federation of Coffee Growers expects the countries production for 2011 to reach over nine million 60 kilogram bags. El Salvador's Coffee exports stood at 1.385 million 60 kilogram bags as of February 25th. This is more than double the same period of last year. According to Cameroon's Cocoa and Coffee Inter-Professional Board the country exported 66 tonnes of Arabica Coffee in the period between October and January. This is down 126 tonnes from the same period last year. The Coffee Institute of Costa Rica has released the following harvest results. Costa Rica produced 1.47 million 60 kilogram bags of Coffee through February 21st. Expectations are that total production will be close to 156 million 60 kilogram bags for the 2010-11 season. Costa Rica's production was above expectations and will provide supply relief amid disappointing harvests from larger producers like Mexico and Colombia. Coffee exports from the Indonesian island of Sumatra in February were 150 percent above the same time last year.

This forgoing is not trading decision material. We know how producers like to create favorable situations for themselves by massaging the facts. Coffee appears very much like many other markets. This market needs to make new highs and hold. Otherwise the market runs the risk of completing what could quickly become a top.

Last week's issue covered an agreement between Dunkin Donut's and Green Mountain Coffee Roasters. GMCR will roast and package Dunkin Donut's Coffee in K-Cups for it's Keurig single serving Coffee brewers. This week we have a situation that will put quite a few Coffee roasters on high alert. Retailer Starbuck's agreement with Kraft Foods to distribute it's Coffee to retail merchants is about to expire. This has major players licking their chops. Presently the market for packaged Coffee in the U.S. stands at $4.1 billion as measured by Nielson.

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Weekly Technical Indications 03/04/2011/Coffee made new contract highs again this week. At this time the week's trading range is 278.40 – 262.10, the last print is 267.80. The stochastic is about to issue a buy signal. R.S.I. at 80.01 is higher than last week's reading of 77.74. The M.A.C.D. histogram indication of 3.41 is higher than last week's 2.94. A weekly close at or below 262.70 in **March** Coffee will turn the weekly trend down.

Do not trade without the use of protective strategies such as stops and or options.

Cocoa

Life Time Trading Range $444 – $5379 per Tonne

Trades on The ICE 3 AM – 1 PM

Cocoa trading has been extremely volatile this week. On Tuesday Cocoa futures had a wild trading session. After posting a new contract high the market was slammed to the downside. The break was in excess of 400 points and took only seconds. The ICE tightened up the range by disallowing a sizable amount of the trading activity taking place during the break; readjusting the day's trading range to 312 points high to low. This market activity was brought about by high trading volume in an exchange traded note (ETN) directly related to Cocoa. This is just a hint of what could be in store for the Cocoa market when the embargo on exports from the Ivory Coast is lifted.

The international Cocoa Organization has forecast a production surplus of 119,000 tonnes for the 2010-11 crop marketing year. This is compared to a revised 66,000 tonne deficit in 2009-10. Ghana's Cocoa production was up 40 percent over last season. Early rainfall has created a positive outlook for the mid crop. Farmers and traders expect Cocoa production in central Cameroon to increase from two to six percent this year. Central Cameroon is the country's second largest Cocoa production area.

Until the political turmoil in the Ivory Coast recedes expect underlying strength to continue. If you trade this market be especially alert and by all means use a sound money management technique.

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Weekly Technical Indications Friday 03/04/2011/10: New contract highs for Cocoa again this week. At this time the week's trading range is 37.75 – 34.00, the last print is 37.50. The stochastic continues in buy mode. The R.S.I. at 74.98 is lower than last week's indication of 72.70. The M.A.C.D. histogram at 98.71 is higher than last week's reading of 86.96. A weekly close at or below 37.14 in **March** Cocoa will turn the weekly trend down. I reiterate from last week. Until the politically charged atmosphere in the Ivory Coast is at an end I recommend you do not place too much emphasis on Cocoa's technicals.

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Cotton

Life Time Trading Range $26.84 – $207.60 per Pound

Trades on The ICE 8 PM – 1:30 PM CDT (Next Day)

The U.S. has exported 97 percent of the U.S.D.A. forecast for the 2010-11 marketing year. The five year average at this time of year is closer to 71 percent. There is much concern that U.S. Cotton ending stocks will tighten and users will be as we say, "up the creek without a paddle".

U.S. Cotton farmers have been accused of holding back Cotton while awaiting higher prices. Cotton merchants have said they are receiving less Cotton than they had contracted for. Allenberg Cotton, a unit of commodities merchant Louis Dreyfus is investigating the situation. Although it is believed there has been deliberate under delivery, the company cannot yet prove that this is the case. Plains Cotton Growers, an industry group that represents West Texas Cotton farmers said that a dry period in October that was followed by severe hailstorms may have reduced the harvest by as much as 10 percent.

Export sales for the week ending February 24th, 2011 were 153,300 running bales. Up noticeably from the previous week and up 50 percent from the prior 4-week average. Tight ending stocks have now taken center stage. There is much concern that there will not be enough Cotton to supply worldwide demand.

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Weekly Technical Indications Friday 03/04/2011/10: Cotton futures visit to the rarified air above 2.00 was fleeting. At this time the week's trading range is 212.70 – 187.21, the last print is 212.70. The stochastic is in sell mode. The R.S.I. reads 77.83, higher than last week's reading of 71.64. The M.A.C.D. histogram reads 5.82 and is higher than last week's indication of 4.48. A weekly close at or above 197.88 in **May** Cotton will turn the weekly trend up.

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Sugar

Life Time Trading Range 2.30 Cents – 66.00 Cents per Pound

Trades on The ICE 2:30 AM – 1 PM CDT

The International Sugar Organization has reduced it's 2010-11 Sugar surplus estimate to 196,000 tonnes from the 1.29 million tonnes estimated in November. Lower production from Australia and other generally large producers are the root cause of the large drop. This news promptly reversed the market and sent it on a corrective journey to the upside. Vessels awaiting the loading of Sugar are backing up at Brazilian ports again. The count moved up by four to 22 this week. The high price of crude oil will see more Sugar diverted to ethanol production than had been expected. This is of course another drain on available supply. Index funds have again begun to buy Sugar. They are long more than 166,000 contracts. Keep in mind that in May of 1988 they held more than double that amount. The point is that they have the ability to purchase many more contracts. The question is whether or not the Sugar market stays healthy.

If energy prices were to reverse it would provide overhead resistance to the Sugar market. However, if the U.S. dollar continues to weaken and equity markets recover from what I believe to be corrective action the Sugar market should continue to be strong. Though I expect world Sugar production to increase this coming growing season we will continue in a tight supply situation until the 2011-12 harvest arrives. With dry weather conditions prevailing, Brazil is off to a good start. The kicker is that there are weather guru's pointing out that the dryness, which is due to the La Nina event in the Equatorial Pacific Ocean, may last until June. If that is the case, damage to the Sugar crop would be unavoidable. It seems as if the perfect storm is brewing. If that is the case Sugar should remain in an uptrend.

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Weekly Technical Indications Friday 03/04/2011/10: At this time the week's trading range was 30.76 – 28.58, the last print is 30.30. The stochastic remains in a sell signal. R.S.I. reads 54.99, higher than last week's reading of 51.36. The M.A.C.D. histogram reads -0.81, pretty basically unchanged from last week's indication of -0.80. A weekly close at or above 31.74 in **July** Sugar will turn the weekly trend up. I continue to feel that Sugar is working on a top. Stay alert and swivel your head like a fighter pilot.

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