

Cycle Projections - Commodities

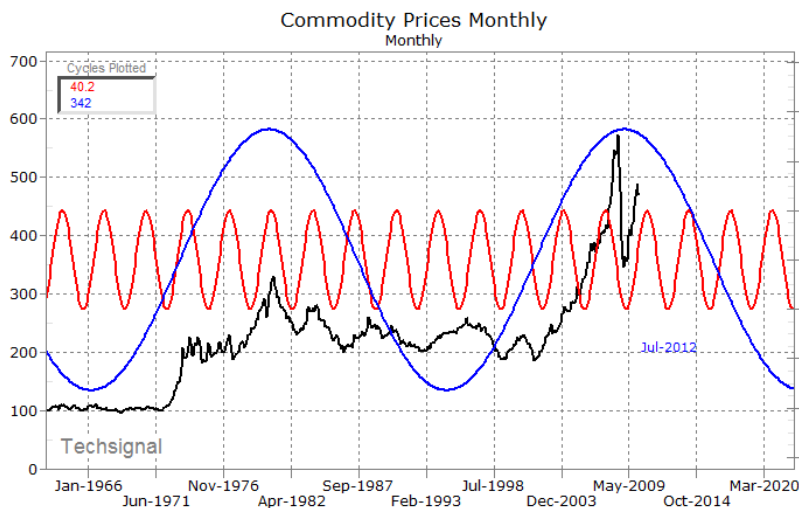
MAY-JUNE 2010

COMMODITIES : CRB, SOYBEANS, CORN, WHEAT, COTTON, MEATS, ETC.

Commodities, Energy, Gold and Inflation

One of the historical eccentricities of commodity price indices is that commodities of all sorts are included in the many indices such as the CRB, the typical benchmark. Over the years the CRB index weightings and components have changed significantly as well as the name. It is now the Thomson Reuters/ Jeffries CRB index. In the 1950s the CRB was an index of 28 commodities and was generally equally weighted. It currently includes, at the last major revision, 19 commodities and is heavily weighted on Agricultural (41%) and Energy (39%). Thus 80% of the index is essentially food and energy; so, of course, when economists calculate inflation they like to exclude the “volatile” food and energy

sectors. In addition, the precious metals, gold and silver, are 7% of the index with gold being only partially a commodity. It is clearly more a store of value, and consequently there is quite a divergence between the CRB index and gold itself. Furthermore, this is also the reason that we believe that the CRB index topped in 2008 with gold just now putting in a new high in 2010. Why is this significant? It is because it is harder and harder to unwind inflation trends with the standard CRB index. Inflation is not, however, the only cause of higher commodity prices, and this must be emphasized. In 2008 when the CRB was climbing it was heavily influenced by increased demand and speculation in energy and Agricultural. Thus significant trends in inflation and commodity prices should be carefully scrutinized. We



know that commodity prices can rise for reasons that are beyond inflation and that gold can rise without commodity prices rising as well. Then add to this world governments printing money and increasing debt and you get the situation in which we currently find ourselves. The bottom line is we need to look at commodity prices in parts and understand that the CRB will not necessarily give us insight into inflation. So why bother? The reason is that it gives us some insight into demand and hence the status of the economy. Prior to the break in 2008 in world economies there was a question about inflation as commodity price demand drove prices higher. Since that time, with the economies having had a deep recession and still struggling to recover, the question is not inflation, but solvency; and this state will keep a lid on demand for commodities, including the energy sector. This argues for limited growth in commodity prices. **Grains and Oil Seeds:** Agricultural should have one rally into June, but no new highs unless there are horrible growing conditions, which are not expected. **Energy:** Crude has had its correction and is still rising due to its annual cycle. We still feel there is a lid on this market, and unless it breaks \$92 it will remain in a trading range. **Metals:** The metals have made new highs but they should correct into the summer prior to their next assault on significantly higher prices. **Food and Fiber:** The food and fiber group will be under the same demand levels as all commodities. Us cycles of about 35-days for swings in these markets. **Meats:** We are bullish on the meats until the seasonal summer highs are put in.

Written 5/12/10

All data used in *Cycle Projections* provided by Genesis Financial Technologies, Inc.
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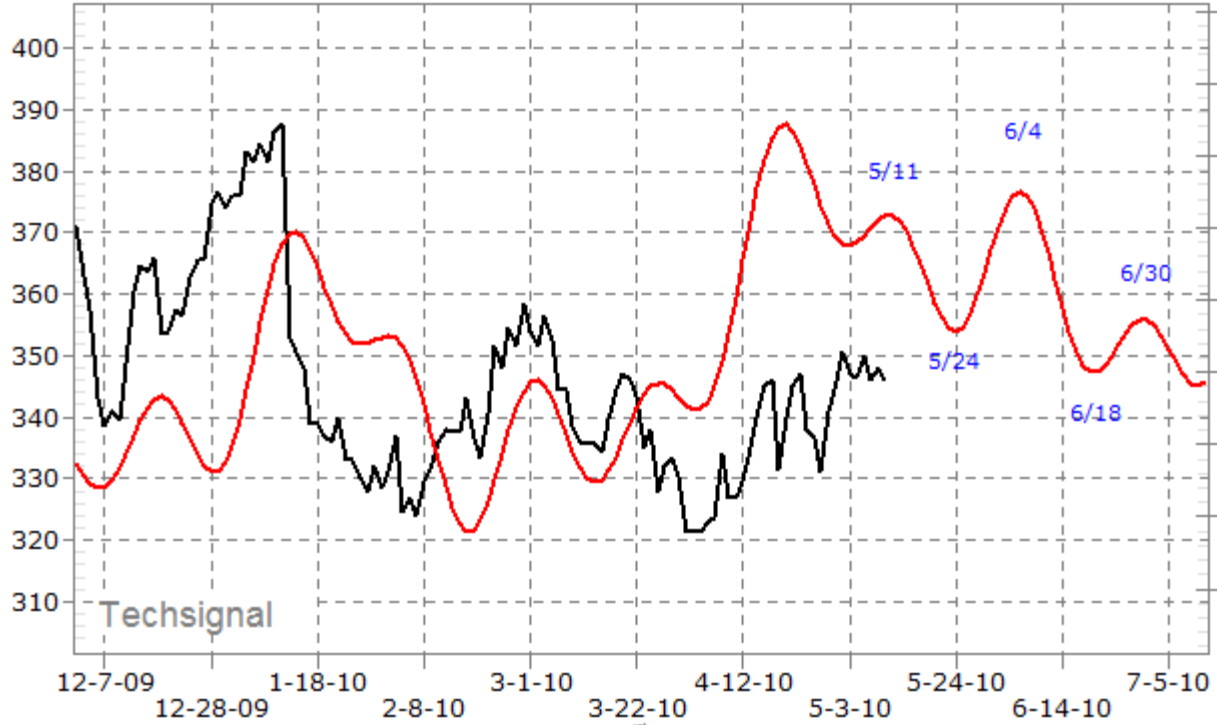
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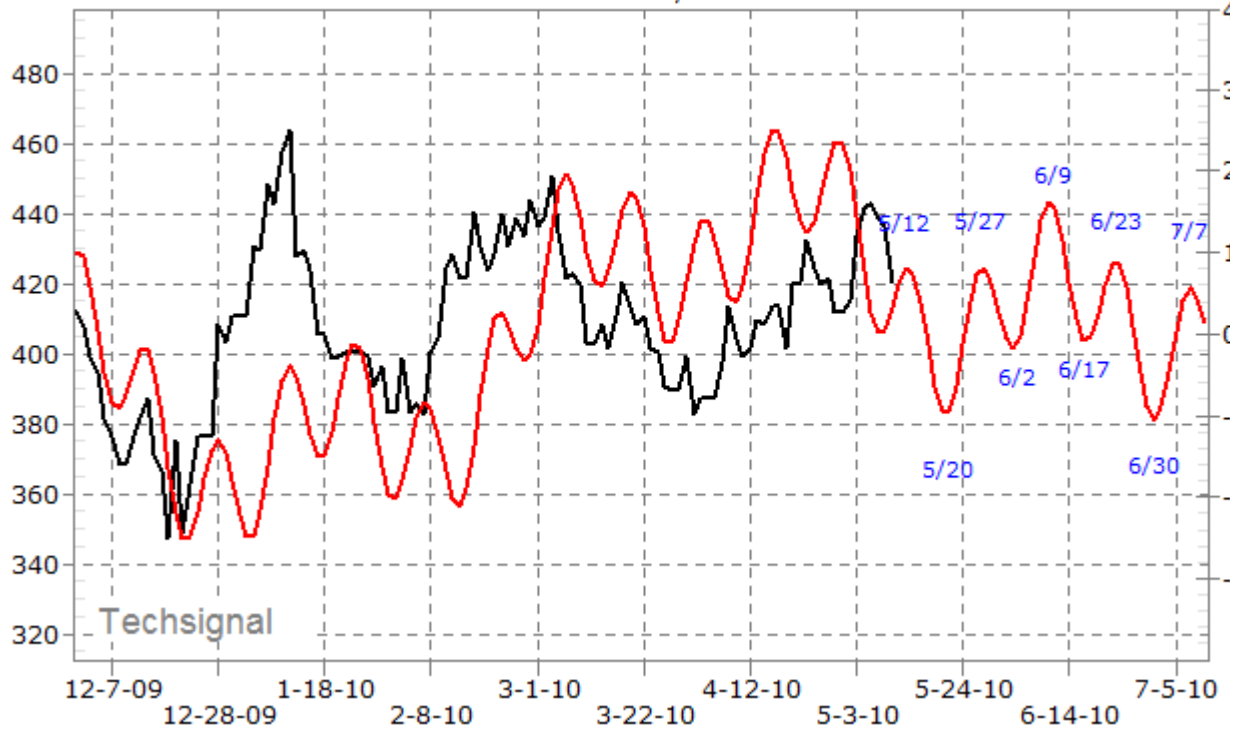
Daily Corn

Corn CBT (Pit) Cash C
Daily



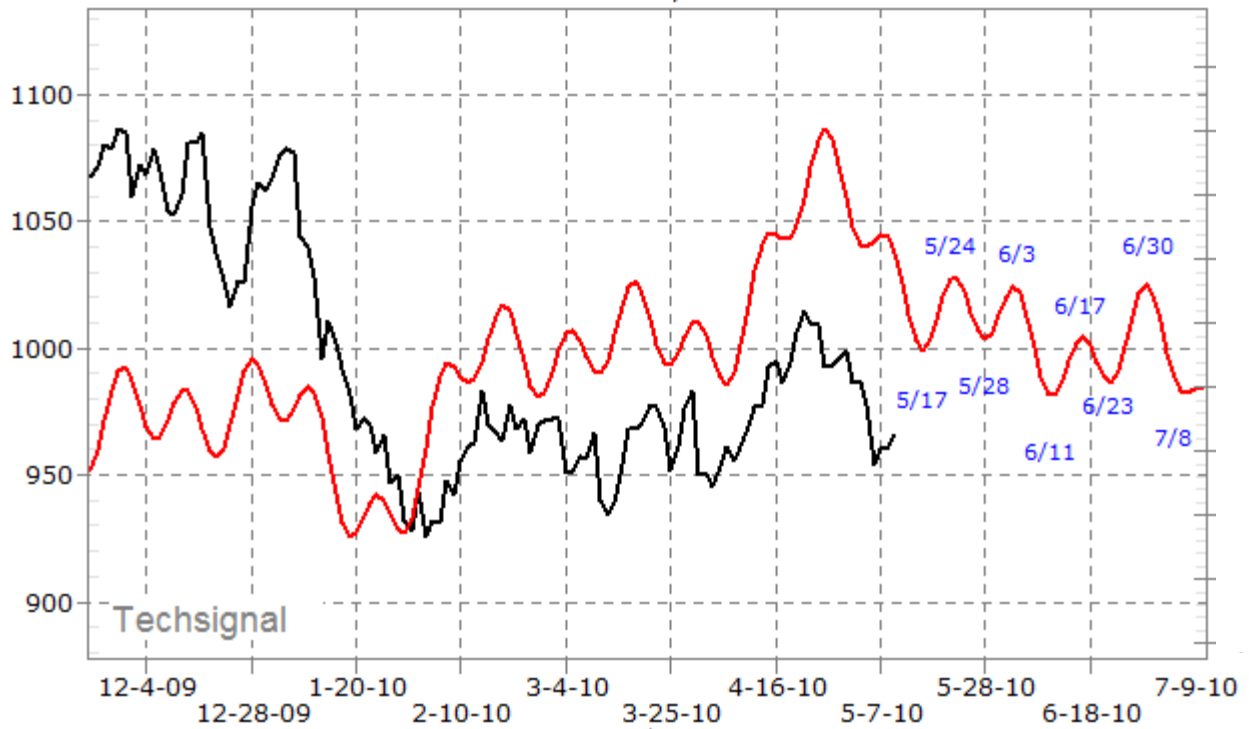
Daily Wheat

Wheat CBT (Pit) Cash W
Daily



Daily Soybeans

Soybeans CBT (Pit) C S
Daily



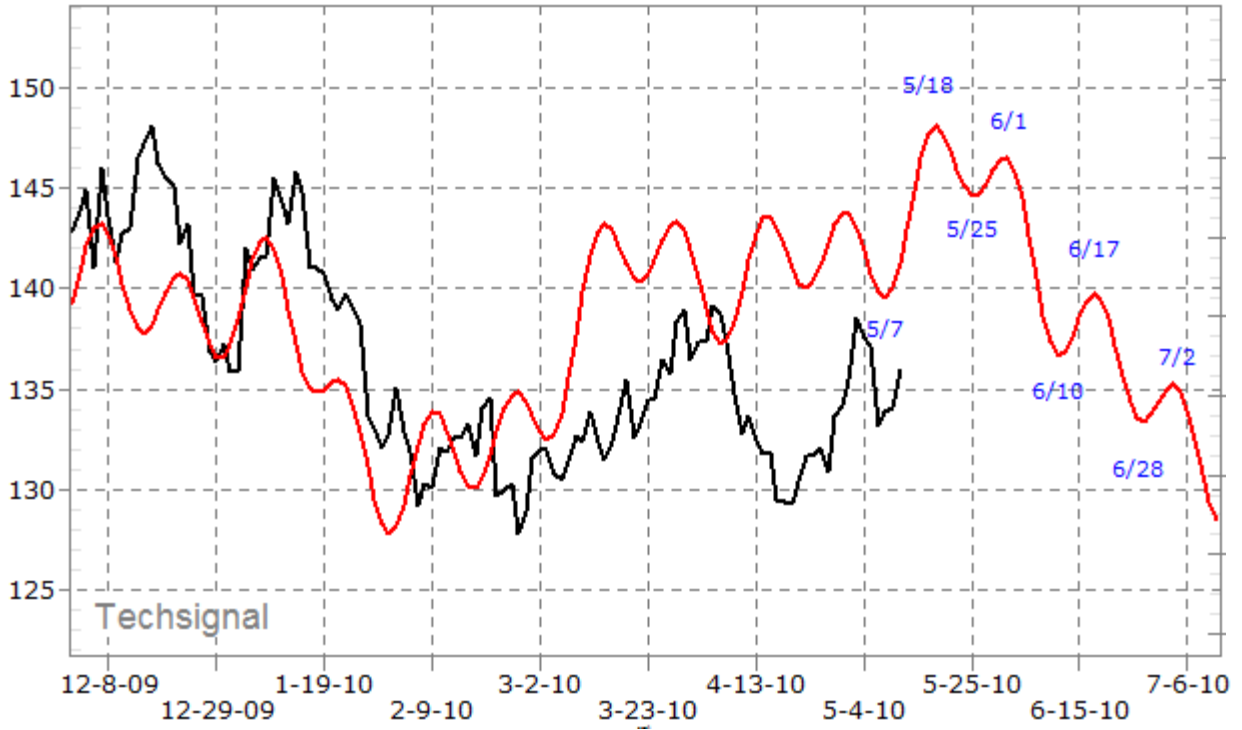
Daily Soybean Oil

Soybean Oil (Pit) Co
Daily



Daily Coffee

Coffee (Elec) Cont 1 KC
Daily



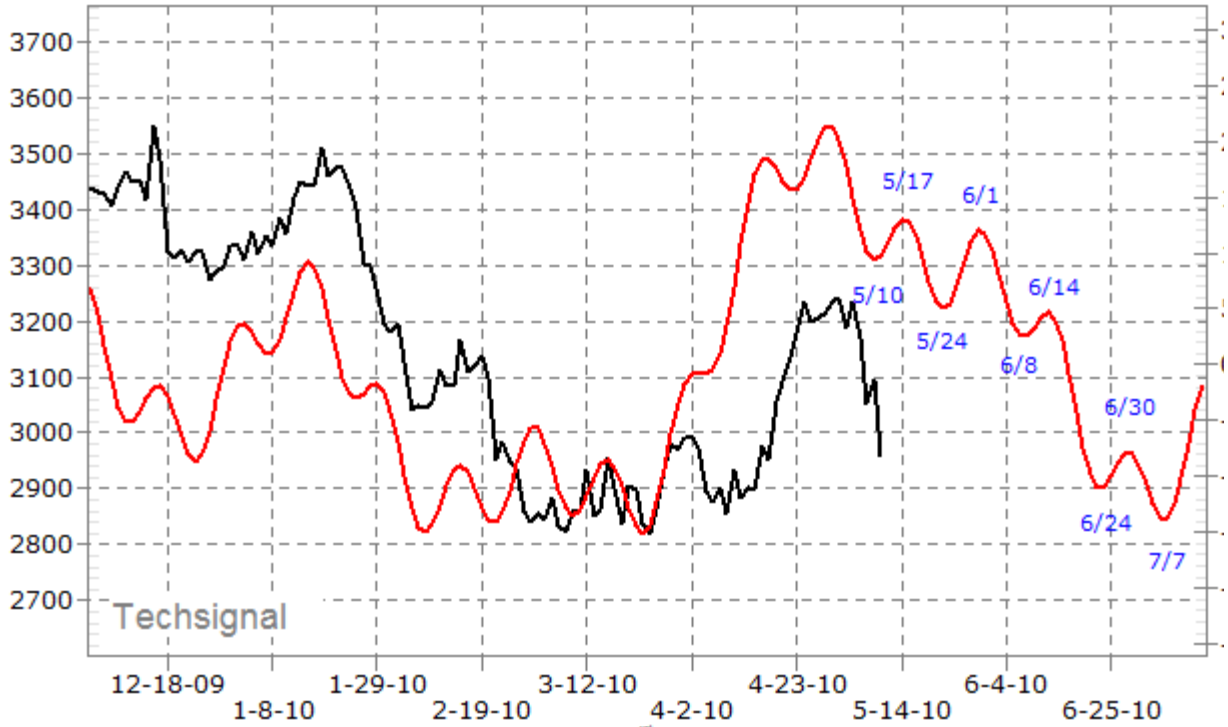
Daily Sugar

Sugar #11 Cont 1st
Daily



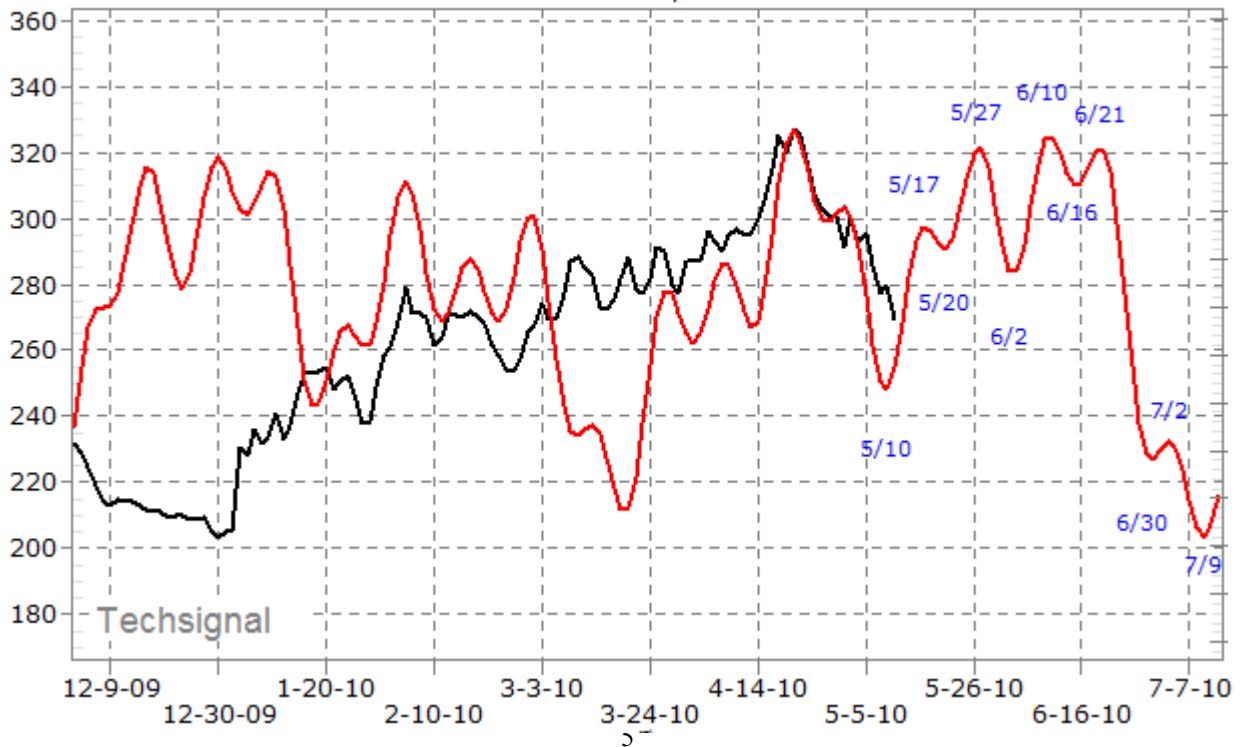
Daily Cocoa

Cocoa NYBT (Elec) CA CC
Daily



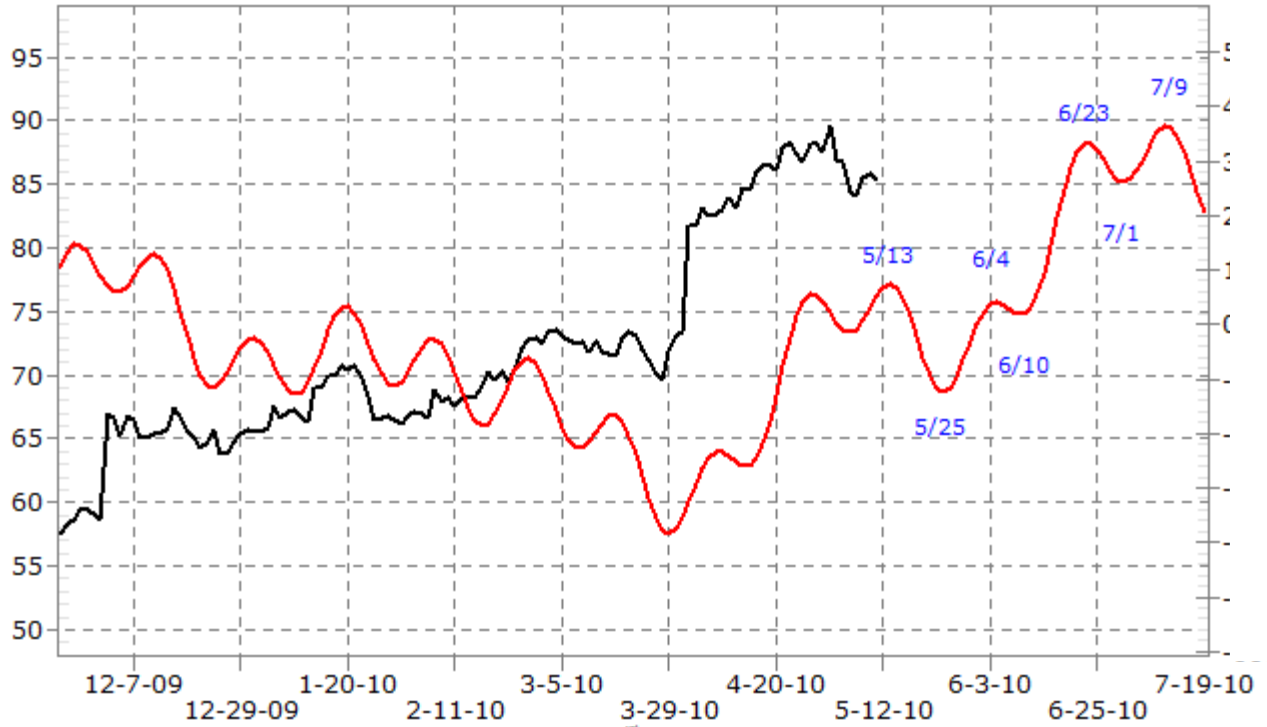
Daily Lumber

Lumber Cont 1st LB
Daily



Daily Lean Hogs

Lean Hogs (Pit) Cont
Daily



Daily Live Cattle

Live Cattle Cash LC
Daily

