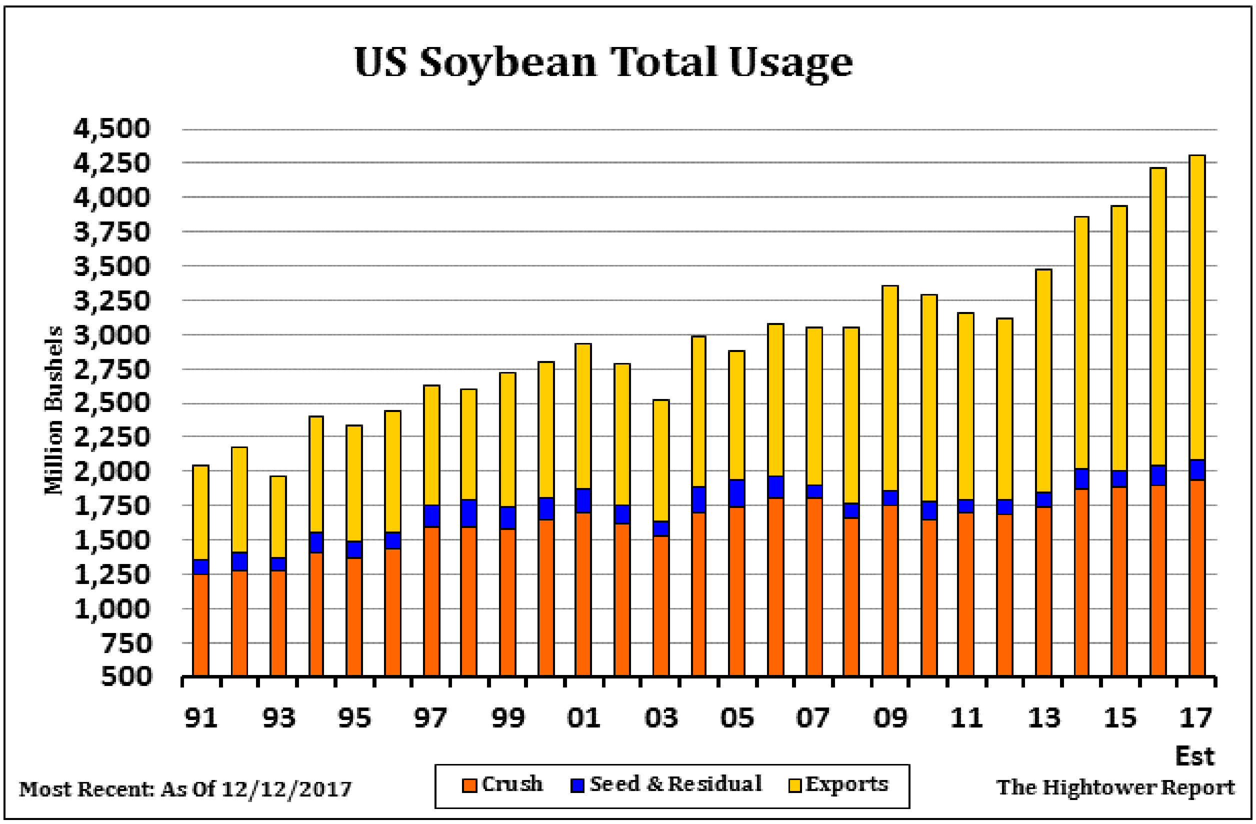
Archer Financial Services, Inc.

Soybean Meal Testing Support and Likely to Hold

By Dennis Smith (Jan 5)

Ending stock projections for both corn and soybeans are large and considered burdensome overall. However, as we've mentioned in the past, unlike corn, at least soybeans have a demand story. Corn demand still appears to be declining whereas soybean demand is currently projected to be just over 4.3 billion bushels, record large and compared to 4.2 billion for last year's crop (see the graph below). Corn demand is projected to be 14.4 billion bushels for the crop just harvested whereas demand for last year's crop was measured at 14.6 billion. So this is what I mean when stating that soybeans have a demand story whereas corn does not.



Animal numbers are increasing worldwide, which is bullish both for corn used for feed and for soybean meal usage. We are watching the March meal contract closely. Currently this contract is testing support, which I define as $315. If this support continues to hold, one can position in the soybeans from the bullish side. We're actually coming into a seasonal a bit early. There's a bullish seasonal to buy soybeans around January 28th.

We have encouraged our clients to move cash soybeans and thus reducing downward price exposure in an obviously bearish fundamental ending stocks situation, avoid storage costs and reduce interest expense. However, assuming a bullish position in the options market, for both the speculative player and the grain producer looking to "re-own" part of their crop is appropriate at this time.

The recent low (last week) in the March soybeans was $9.55 with the market currently just 5 cents above this level. If last week's low is penetrated, support will most likely develop rather quickly approaching $9.50. In other words, from $9.60 I consider the downside potential of this market to be rather limited.

Consider approaching the soybean market in a bullish fashion by purchasing the March $10.00 calls near 5 cents and by purchasing the February $9.70 calls near 6 cents. The trade-off here is that there is less time prior to expiration for the February calls, but your call strike price is 30 cents closer to being in the money. February soybean options expire on January 26th, or a full three weeks down the road. March soybean options expire February 23rd, or 50 days to expiration. The bullish seasonal calls for a peak in soybeans around February 19th, which would come in ahead of the March expiration, but obviously after the expiration of the February calls.

The beauty of these positions is that they are not marginable and totally risk defined.

Contact me at 312.242.7905 or via email at dennis.smith@archerfinancials.com for any questions you may have about these markets.

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