

# Flash report WHEAT

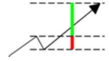


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*“Quantitative approach for asymmetric results”*



## Wheat future: waiting to detonate an explosive situation

Classic Disaggregated TIFF CIT

1M 3M 6M 1Y 2Y 3Y 5Y

Wheat (Chicago) As of 12/06/2013

source: cotbase.com



COT Net Positions Commercials Large Speculators Small Speculators

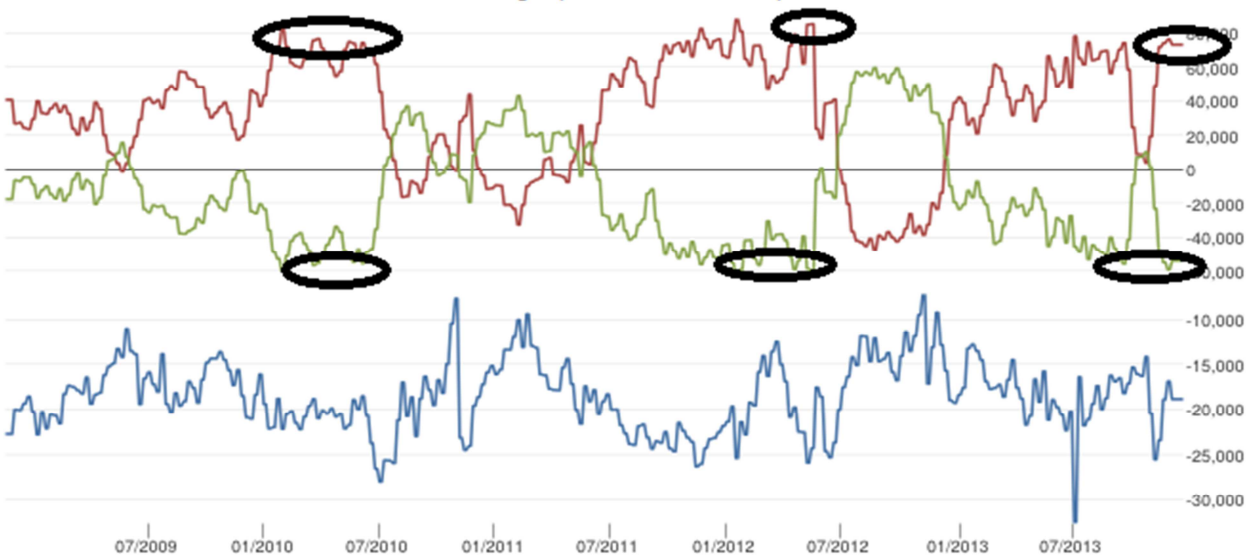


Figure 1: 5 yr chart of Wheat future

The above chart is a daily chart of the Wheat future for a maximum period of five years with at the bottom the Commitment of Traders analysis (COT): both the chart and the COT report are from the website: [www.cotbase.com](http://www.cotbase.com) which I strongly suggest you to get familiar with and learn what the COT is and how can be used at your advantage.

The chart shows in the last five years each time that the private investors and in particular **Large Traders** (the “insiders” with the green line) have been at their maximum short exposure. At the same time that highest exposure also correlated with the highest long exposure for **Commercials** (red line), in other words the providers of the futures contracts. **Small speculators** are the blue line but those tend to follow the market, while I focus on who makes the market.

Such highest exposure for both Large Traders and Commercials happened only three times, of which for the last two we can clearly see what price action followed after that.

Reverse huge positions brought the price of wheat to a +100% in the space of a couple of months, from July 2010 to January 2011 and +45% from July 2012 to September 2012. It is a matter of reversing positions because both Large Traders and Commercials (the latter as a consequence of the former) moved from being highest short exposed to actually being long.

In addition another evidence of the possible trend inversion in action already now is the fact the Wheat did higher lows since January 2012, and more importantly, a higher low just recently.

However right now there is no sign of trend inversion and it could be that before inverting Large Traders will try a last move downwards to hit all stop losses placed by Small Speculators (who went recently long) below recent lows at around 600 usd and only then, decide that an inversion has to take place: that is similar to what happened in July 2010, you can see the chart.

Or similar instead of what happened with the second reverse Large Traders weren't able to push the price below the low because Small Speculators didn't allow that. In fact you can see that in July 2012 the blue line had two spikes showing the sudden decrease of short position (transalte in plain buying activity) for Small Speculators.

Looking at the chart, I would opt for the second scenario as Small Speculators have already a substantial long positions which for Large Traders may result very difficult to break: if that is the situaion, I would open long positions on Wheat above recent highs, at 720 usd in order to be sure that a potential upward trend is in fact in progress.

Multiple targets are highlighted in the chart, so the 800 usd area first and 900 usd secondly. In the likely even that both targets will be violated, expect new all time high for the this grain.

**Imperative stop loss is below recent low at 630 usd.**



Mr. Maggioni has been working in the financial markets for the last 11 years covering different roles and working in tier 1 consulting companies and banks worldwide.

In recent years his studies have been focused on the psycho-emotional aspects of trading and how those aspects have an impact on traders' behavior.

Before starting this venture, he was head of a hedge fund desk at HSBC Private Bank in Monaco and before that he was employed at Credit Suisse Asset Management (CSAM) in Zurich covering the in-house single manager hedge funds.

Most of his experience in hedge funds was gained while working in a Swiss family office where he was in charge of the research and analysis as well as due diligence for US and European hedge funds. He also performed quantitative analysis and portfolio construction for several funds advised by the family office.

Prior to that he worked as an external consultant for KPMG Financial Services in the Milan office. In 2002 he has been hired by Ernst & Young LLP, San Francisco as auditor for hedge funds, auditing large single funds and fund of funds. In 2000 he joined Ernst & Young in Milan as an auditor for mid-sized companies.

Mr. Maggioni holds an MBA from IUM and a Portfolio Management degree from the University of Chicago GSB.

#### **Useful Links:**

European Central Bank:	<a href="http://www.ecb.int">www.ecb.int</a>
Bank for International Settlements:	<a href="http://www.bis.org">www.bis.org</a>
International Monetary Fund:	<a href="http://www.imf.org">www.imf.org</a>
Federal Reserve:	<a href="http://www.federalreserve.gov">www.federalreserve.gov</a>
US CFTC	<a href="http://www.cftc.gov">www.cftc.gov</a>

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