Flash Report Corn

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"Quantitative approach for asymmetric results"

Corn: complex situation, especially for long positions

Figure 1: Corn monthly chart

On the above figure 1 you can see the Corn monthly chart in which it is shown the whole price action for the last 12 years. The overall trend is still a bullish one but going into shorter time frame, say in the next 12 months the possible price development seems to be complicated.

The recent bearish trend that started from the high of 2013 has been quite violent with the result that a substantial gap down has been also materialized. However it is interesting to note that the area between 44 and 56 USD is an area where Corn tended to go directly to the extremes of such channel. Quite the opposite compared to the lower channel, the one between 31 and 44 USD. In fact you can see that Corn spent most of the time between 2007 and 2010 inserted in this latter channel, with the exception of 2008 when Corn went straight up to the all time high of 2008.

Arrived at the current support it could be possible to expect some sort of upward reaction here, having in mind that it should be only a pull back.

Considering however the extreme weakness of the recent price action, witnessed by the downward spike of the Oscillator which is bigger today than the previous descent in 2008, it could be also safe to assume that the pull back could be literally minimal and for this reason I would not consider any long position at this time. This does not mean that long positions cannot be open, but at least be sure to have solid stops losses. I personally prefer look for other opportunites as this one looks pretty difficult. I am sure there are lots of low hanging fruits out there before considering doing something with Corn.

On Figure 1 you find my possible scenarios for the near future:

- A first pull back up until the static and dynamic resistances which follows a retest of the orange trendline before resuming a bullish trend towards the central dark blue line (which seems to be similar to a regression line of the overall movement);

- following a (probable) pull back the resuming of the bearish trend, violating recent lows to go into the lower channel in which Corn has been spending lot of time in the last few years;

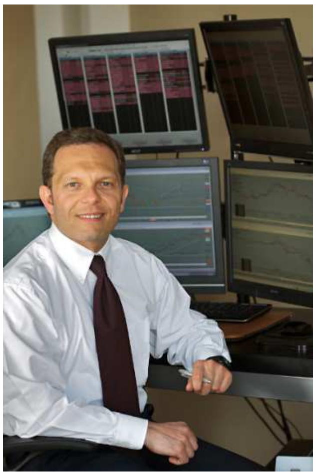
- the worst case scenario would see the Corn to directly break recent lows without even a pull back (very possible due to the such extreme weakness), break even the channel to enter the lower channel and arrive basically between the 20 and 30 USD or the lowest level in the last 15 years.

The reason why I am very skeptic about trusting that a new bullish trend will resume anytime soon is also due to the most recent situation on the Commitment of Traders (COT) that you can find at the next page, on Figure 2. Large Traders are indeed at their maximum long exposure which on one side works as a floor for Corn prices, but on the other may give an early indication of possible trend inversion in the future. This because when LT will start lowering their long exposure will result in selling pressure on this commodity and since they are the biggest players their selling pressure can be substantial, as happened at the beginning of 2013 (see Figure 2).

However differently from January 2013 this time the Small Speculators are at their maximum short exposure. Therefore before the inversion will materialize it is very possible that the Large Traders will drive Corn prices up, creating a short squeeze for Small Speculators, forcing the latter to close their short positions, meaning a strong buying pressure which can drive prices violently up.

As you can understand the situation is truly complex, my personal advice is to look for other opportunities in the markets but anyway keep Corn in your radar screen so that you can track it and learn from its future movements.

Figure 2: Commitment of Traders on Corn



Mr. Maggioni has been working in the financial markets for the last 15 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:	www.ecb.int
Bank for International Settlements:	www.bis.org
International Monetary Fund:	www.imf.org
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US CFTC	www.cftc.gov