Linn Group 2014 Technical Commodity Market Outlook

An introduction from CEO Gordon Linn:

One way to initiate the task of predicting market direction for the balance of the year is to look at market positions, in other words, look at the January commitments. Almost all pundits in early January predicted extending the upside move in the equity markets. Some focused on stimulus, some on the economy, some on interest rates or energy. However, the early trade has favored a retrenchment in the equities market mostly based on disappointing numbers from the economic sector. Weather isn't often blamed for influencing Dow or the S&P 500, but winter storms and unreasonably cold weather over the eastern 2/3 of our country have inhibited manufacturing-transportation-retail trade and much more, and in the process taken a bearish energy market and turned it upside down.

Weather also has impacted the entire agricultural spectrum. Grain movement gets all the headlines which certainly could alter seasonals and create basis distortions and double buying by users, but long term flat price impact should not be the result. For the first quarter, however, the big short markets at the first of the year, wheat and corn, could find more topside price movement than traders might like. In animals, it takes more feed to accomplish the same gains, and if cold weather is accompanied by significant moisture, look out. Fortunately in the larger cattle feedlot areas, moisture has been limited, but meat consumption can be dramatically impacted by consumers ability to access stores or to enjoy a restaurant and so can retail sales.

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An introduction from CEO Gordon Linn (continued):

The political posturing capped by the "State of the Union" speech is always a January highlight but this year seemed different somehow. The same stories – the same theme – the same promises were the feature, and the citizenry and the equity market didn't like it. We continue to be paralyzed in solving longer-term problems, so the political process is already starting in trying to find that "right person" who can ignite our souls once more. It seems "Obamacare" needs to be revamped for the Democrats and the Republicans must also seek a re-work and move on. But the big issue will be immigration reform, again another issue that has to be handled this year as we look at the election cycle. Where all this will lead us is debatable, but if we are looking for a silver lining, a "come to Jesus" period, I doubt that very much. I am not sure it matters for our markets except to say, paralysis does not a robust economy make.

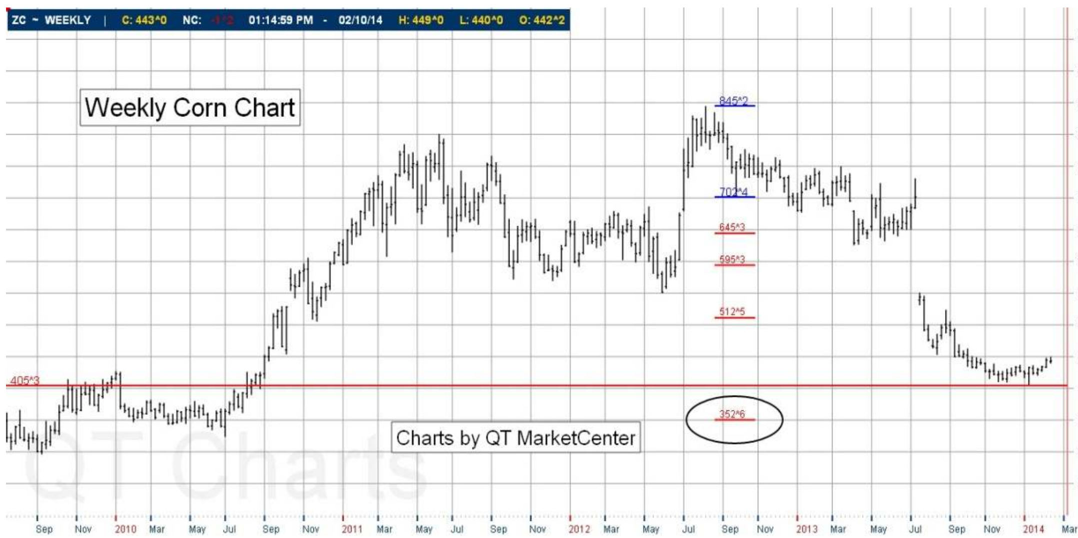
Weather is in the commodity world headlines in other areas too as coffee prices have shot up dramatically and far east palm oil production areas are experiencing dry weather and Great Britain is experiencing wet weather conditions not seen in centuries. Point being, we are in an ever-changing commodity world where food focus is becoming more and more critical. Speaking of weather that influences food prices, our Southwest drought can alter wheat prices, and the West Coast drought may have the biggest impact of all on consumer pocketbooks.

So we approach this year from an attitude that if –--- if the weather does not negatively impact crop production, and if the economy and consumers stay on track, and if the train moving toward socialism is stalled, and if the "demons of terror" are controlled, and if we all keep our wits about us….. maybe things will be just fine.

Brought to you by:

How Cheap is “Too Cheap” for Corn?

“Last years’ corn market defied logic – basis levels out-of-sight as were inverses, and then finally the price adjustment: a 50% retracement on the weekly chart. It is not often you get to be challenged by this type of volatility as registered by the dynamically bearish weekly chart. After trading mountains of cash corn in the $7.50-8.00 range, farmer bids are now mostly below $4.00. That is pain. Of the moment we have found reversal price action off the January report, so the magic $4 price level is still intact. This $3.80-4.00 zone may hold, given the right type of spring and summer weather. However, the final downside price projections are $3.60. Rallies for new crop December corn will have difficulty moving above the $4.80-5.00 resistance zone this year, when and if challenged. After this type of retracement and with stat trader, tech trader, and fund trader, all in the same boat with record shorts, the journey lower may feature rough seas. Heaven help us if the boat turns over. Not likely, but then again...?”



The Leader of the Ag Bear Markets - Wheat

"We are all getting a lesson in trading a big bear market in wheat. It has been the leader of the bear markets, attaining final counts on the weekly charts at 5.60. Bounces have been and continue to be anemic, suggesting systemic issues. New lows on the weekly chart will activate selling on strength and create $5.00-$5.20 buzz as projections. Wheat typically bottoms with extended sideways trading ranges so we may have the top of that trading range with this week's highs near 5.80, now what is the bottom-side? Once we find a bottom, the range trading approach of selling strength and buying weakness should grab this market. Prospects for significant wheat rallies are poor, maybe very poor, even with this hugely oversold market. World competitors have expanded their production in the elevated price structures of the last few years. We are now paying the price and are more of a residual supplier than ever."

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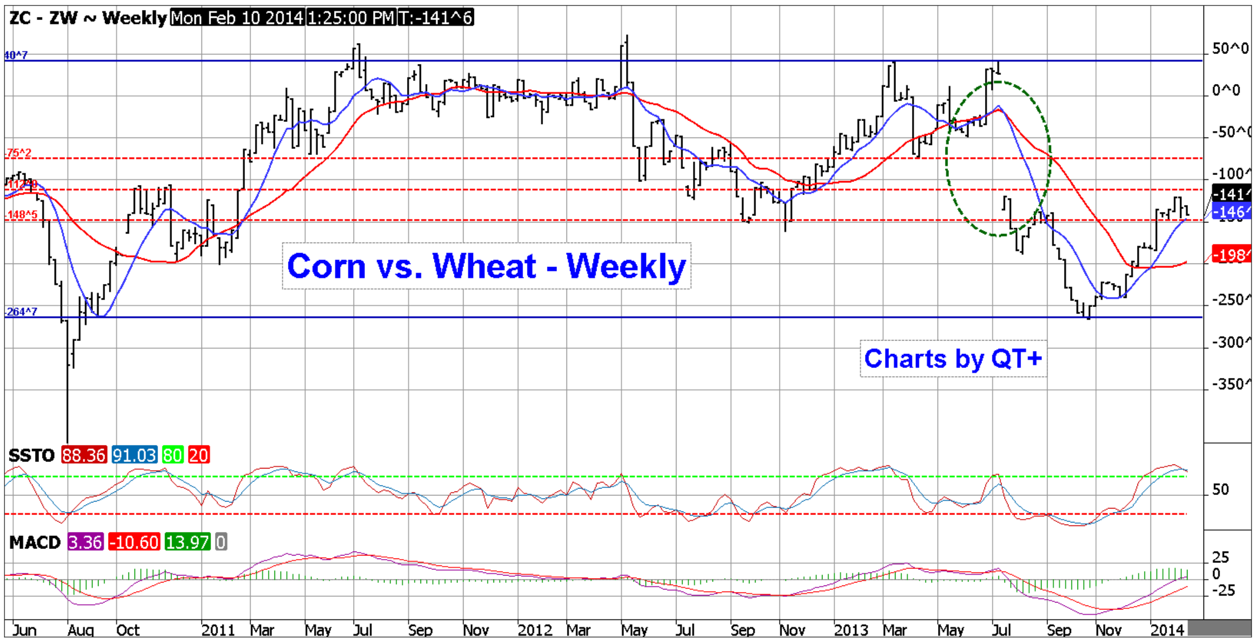
"Long Corn, Short Wheat" May Still be a Feature

"The 'long corn, short wheat' spread proved to be the trade of the last six months. That may continue, if world wheat crops come home anything close to potential. For the moment, we have stalled this spread amidst a recovery in wheat demand, but techs suggest this spread is again a candidate for trade of the year. Not a low risk trade as weather can get you early and can get you late, but certainly a theme that can be utilized to structure a long term option trade in Long CN, short WN.



With Soybeans, Timing is Everything!

"It has been a long ride in this bearish weekly bean chart, but there should be another wave. Price counts have been excellent on this chart, and timings suggest one more downside move that should respect the December highs and take out the November lows -- but when? Remember, this is a weekly chart, and we have inverses, so it could be slow to happen - Feb-March should be the timeframe with $11 lows on the weekly chart the target. Short November Beans maybe safer, but also more rocky. Take the current quiet market to set your bearish strategy and execute."

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Sell July Meal, Risk a Close above $412

"Protein prices and the spread between meal and oil values climbed and climbed and climbed again last year, impacted by weather and world availability of cash proteins. Being short the oil share of product value was the trade of the year. But at the beginning of 2014, we face elevated prices and nearly ridiculous relationships between the per pound cost of soybean meal and other feed sources. Prices eventually dictate and in this case, we will encourage production and the usage of alternatives, ultimately undermining prices once weather fears for the southern hemisphere have subsided.

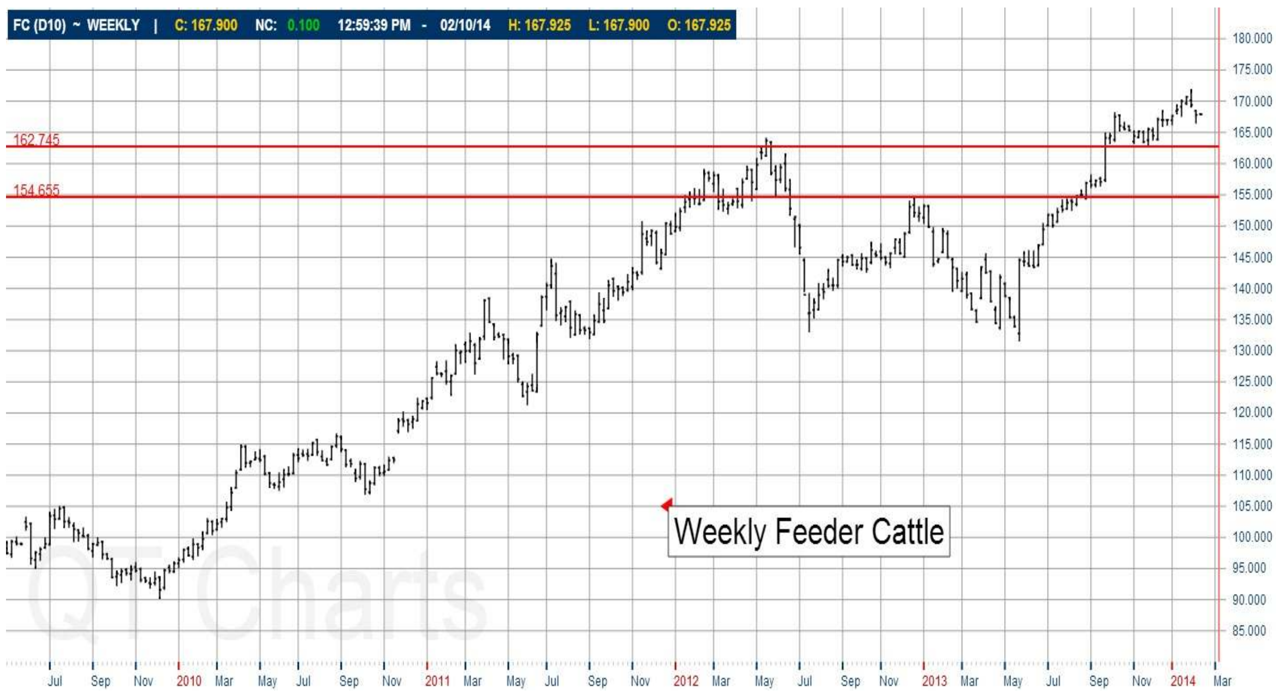
March Meal is still struggling with too much demand, but July Meal has a tech top and should not close above the $419 recent highs. So ultimately we should see the $390 support shelf collapse and start talking about $370 and then $355 July meal. New crop December has price counts of $325 and maybe even $304. If Dec Meal breaks $20 a ton from today's close, that is nearly 50 cents per bushel in beans, and if oil continues to erode to 32 cents as we have suggested, that would be another 60 cents in soybean equivalent. So all of this might suggest November beans $0.80 to $1.00 lower ---$10.00-10.50 SX? Possible, with big crops looming everywhere."

Bean Oil Slide Likely to Continue

"Bearish bean oil was one of the great trades of 2013. Oil is a good technical market from the standpoint of percentages as it relates to counts. The relationship to meal is always key in this trade, but the world veg oil market also weighs negatively, as there is competition everywhere. Picking a bottom on this type of l/t bear formation is dangerous and yet that is where the market is today at 38 cents a pound, which has been a magical target for this downside move. Recent new lows in the weekly chart are placing this market squarely in never-never land or the area of maximum price counts. Given continued weakness, 32 cents will start to be the price area capable of chasing the blues away from this bear market. We see that as probable, and suggest users continue to be short-bought and that traders fade any rallies above 39 cents in July oil until the summer weather markets start to be a stronger focus."

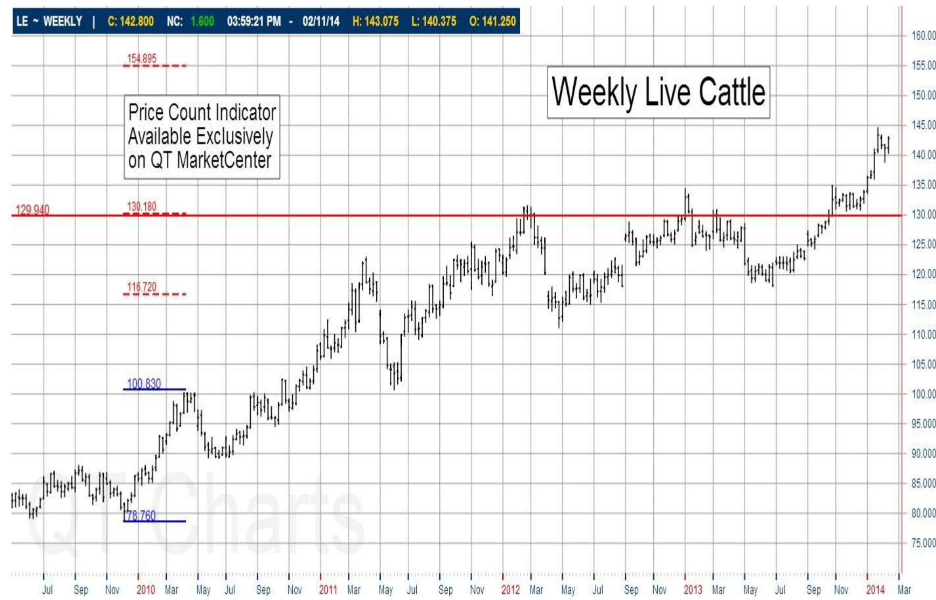
Strong Feeder Prices for Foreseeable Future

"Feeder cattle futures were the darling of the markets of in the last half of 2013 attaining long-term price projections. However, we should continue to see feeders maintain these prices or slightly higher as profitability in the cattle feeding business remains robust even in the deferred months. No need to pick a top in this market, as even a change in the drought scene in the west would allow a recharge of feeders on grass, reducing non fed kill. Prices are high enough that we are setting into motion stronger cow-calf inventories and expansion that has been overdue. Almost with any scenario you can build, however, feeders will enjoy high prices for 2014."



Beware of a Bull Stampede in Cattle

"The cattle and beef markets may have the highest risk and highest profile in the commodities markets of 2014. We already have record high beef prices and are experiencing winter weather that is causing conversion issues reducing beef tonnage and changing the timing of market supplies. Prime cuts are already experiencing reduced demands due to high prices but hamburger demand runs the show. Long term charts have cautioned about the possibility of $150 live cattle and that looks like a possible reality in cash circles right in front of us. The next question might be, "How long will these elevated prices last?" With cheaper feed inputs getting the headlines traders are cautious, but that is only part of the story. $175 feeder cattle are now the norm and yet the ability to lock in good margins is there, but feed lots are reluctant to hedge. Reason being – making $50 or even $100 on an animal worth $2000 dollars isn't a lot of money when a basis that might be 50 or 80 dollars against you at marketing time or a banker that might not have enough money for your hedges in a blow-off bull market is considered. The first half of 2014 will provide lots of thrills in this market and the potential for a lot of cattle to be marketed at $150 or higher – stay the course."



2014 LG Outlook

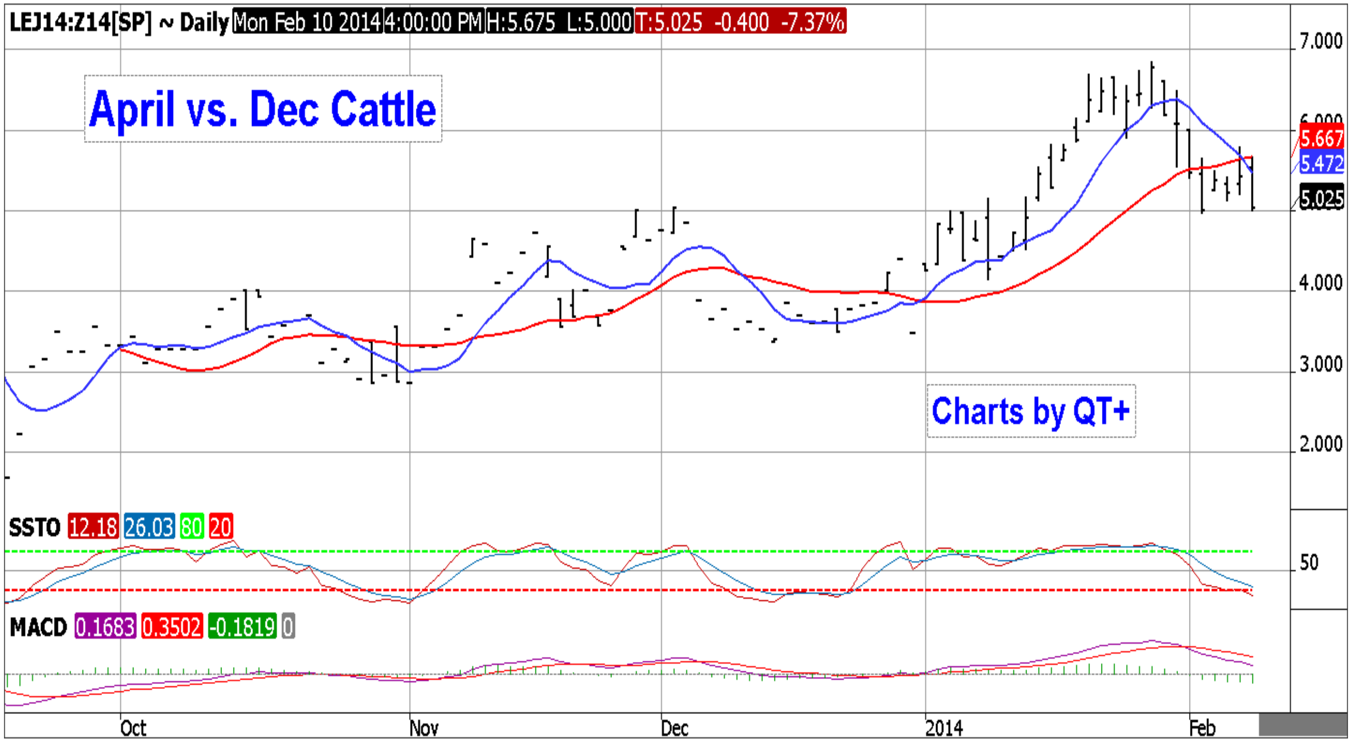
Hogs Should See Additional Upside

"The demand market for hogs is always thought to be in early summer, but this year could be different as the beef market and or blow-off ahead could influence those timings. The tech side of April hogs is supportive, as we could not get to our price counts on the weekly chart on the last break in December and we have upside weekly counts that can carry to $97 and maybe $105. Not yet time to put the hog market away because corn is going to be $3 and something. Yes, we should make highs for a long time this year in hogs, but that is not the right stance to take at this timing or for the next few months."

2014 LG Outlook

Bull Spread Live Cattle: Buy April, Sell Dec

"The cattle spreads have been dynamic lately with a $3 move in the April-Dec. The demand period this year in April could feature a dynamic blow off trade and the bull spreads are the place to be. You have to take $1.50 risk on the entry but the upside target would be $10.50 which makes the risk reward just fine. We closed at $5.50 on a 3 day break, a good entry level."



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Gold Bulls on Precarious Footing

"The gold market finds itself at a very precarious point at the beginning of the year. Trade over the last six months has fully challenged last year's lows and we are trying to make a bottom. Until we trade above $1350, it is technically a bear long-term weekly chart with a full challenge of $1000 as a target. Given the volatile nature of the financial markets lately and a total lack of confidence among financial traders, we would side with the bears. Gold always gives big retracements and is either a darling of the long side or a dog. This is not the investment of the moment, even though on a long-term basis $1000 is a value area in our best technical opinion."

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Cover Silver Shorts on the Next Good Break

"The silver chart is just like gold, only weaker. We are trying to hold a key support area at $18. Unlike gold, though, we probably won't break down much farther, even if we make a new low. We have nearly exhausted the price counts and timings to extend this bear market. Time to come away from the bear side on weakness and say, 'Thank you.'."

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Copper Struggling to Rally on Good News

"Copper futures have closed each month for the last 11 months in a confined range - $3.10 to $3.40. That creates a somewhat dangerous situation where sharp price movement can have an awakening of the market and extend more easily. Housing starts have been stronger and the economy is breezing along, and yet copper is unable to show signs of life. For that reason we would favor a bear stance, suggesting users can maintain more of a limited inventory than normal. If we do start to see price weakness, down-side technical counts will surface at about $2.50."

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Cocoa Set to Complete Rally Phase

"In last year's outlook, we suggested extending pricing or coverage in the 20.00-22.00 price area, and once in the spring, and then again in July, you could have accomplished that. A 35% rally low to high was the end result. We fell barely short of the 29.00 topside goal, but we could still see a surge topside in summer months. However, that should be tough resistance on any rally, so we expect a 27.50-29.00 topside range and a 22.00-23.00 bottom side range for 2014. One of the better seasonals in commodities is the summer rally cocoa gets as we prepare for the high demand market in Nov-Dec-Jan."

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Coffee Destined for Range Bound Trade

"A year ago, we felt December of 2013 lows could bring an end to the serious slide in coffee prices, but not to be! Although we did spend five months at or above that price level, ultimately coffee broke down stair stepping lower and kissing $100.00 cwt near year end – incredible! Recently we have rallied $20 off lows, but without volatility, suggesting we are going to trace out a range of trade. Arguing against this would be a cost of production analysis. This is the first and only market in 2013 to trade for any significant time below the "Cost of Production". The monthly charts indicate we can spend a lot of time in a confined range so we will take that lead and project a $100 to $140 range for the year as this market tries to adapt to a new price structure."

Cotton Forming an Extended Base of Trade

"Cotton is one of the more difficult technical studies of the moment. Looking at a long term weekly chart we are mired in an extended trading range on the weekly chart. We are currently on a nice rally and for the third time in 10 months challenging $90-94 overhead resistance. Cotton should be one of the first markets to break out of the bear doldrums, but when? How? Even if we come to the topside, $100-102 should hold that advance at least the first time we give it a try. On the flip side, expect strong support in the $81 - $84 on a price break."

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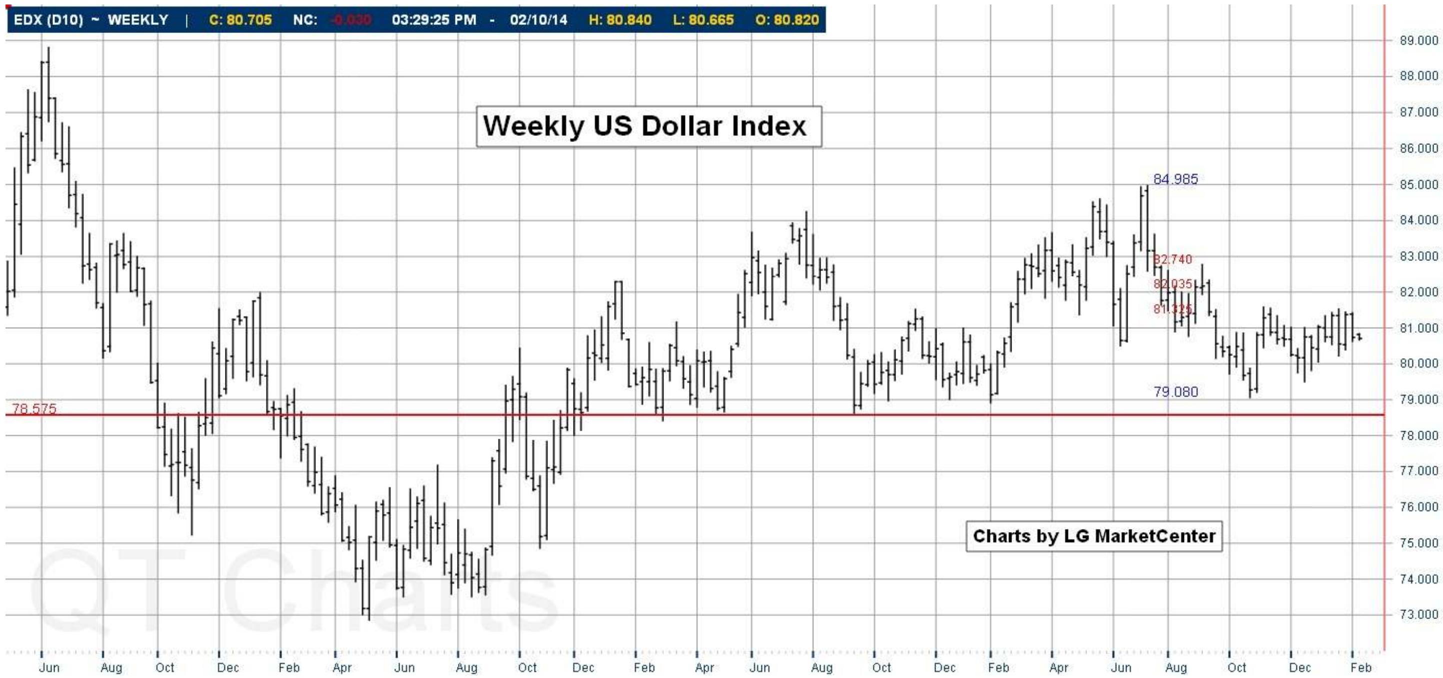
Sugar Near Value Area after Protracted Slide

"The market of the moment is sugar. We have been on a 90 day slide in price starting from $20 cwt and erased weekly lows, and will close this week meeting all downside price counts. Time to take coverage if you are a user, and as a trader to look at a first step to the long side in some long call positions. The first leg topside may not be that big as erasing the October highs could be very difficult. However, this is the value area for the foreseeable future from a technical perspective."

1st Quarter High Likely for US Dollar Index

"Last year saw a February dollar low, a summer high, and again a full test of the Feb low in November. The end of the year brought a rally in both equities and the dollar, and this could extend in the first quarter to a challenge of the 82.50-83.00 area. But we expect the first quarter dollar highs to be the highs for the year. When 2014 lows are erased, longer term counts will surface with 75 being the downside projection. Finding reasons for a weak dollar can be tricky, particularly when the equities market may be signaling new highs, but whatever reason appears on the horizon, the dollar should be the indicator that all is not well on the home front."



Stock Market Bulls Should Stay the Course

"The equity markets often dance to a different drummer. This past year almost all bulls, maybe with the exception of the Nasdaq, underestimated where this market was headed. $16,500 on the Dow was not on the radar. Stimulus monies have changed the landscape and had a gargantuan influence on many markets including commodities. The technical picture a year ago indicated equity strength so our 15,000 to 15,500 Dow projection caught people's attention amidst mostly un-optimistic projections from the pros. This year is more difficult but long range technical indicators are into overdrive, even though a break of 10-15% is probable during a clean-up phase mid-year. But we see no reason why the next 24-36 months is not friendly to equity index investments, even though an end to the stimulus will shake the markets and any acceleration of terrorism events could be disarming on a short-term basis. 17,500-18,500 is our Dow target top for this years' trade. Stay the course."

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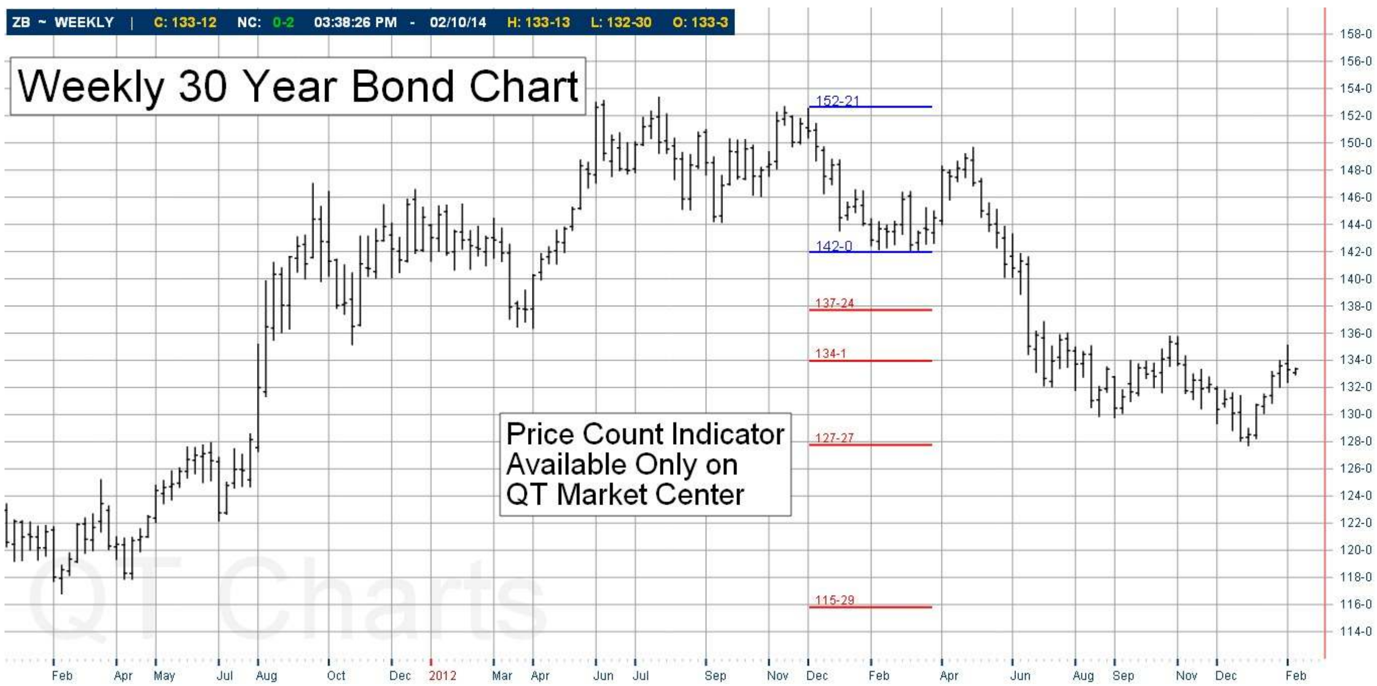
Bonds Signaling Higher Interest Rate by Years' End

"A year ago, our comments in the outlook suggested bonds were a controlled market, and to be careful trying to pick a top on charts (a bottom on interest rates). However, when the Feb-March shelf broke down on the weekly charts in June, the game changed into a long-term bear futures market – a stronger long-term rate environment. Because of government stimulus, it may take a while to move to the next support area at 115-118 on this chart, but that is the goal. Currently we are trying to rally futures and may carry into a lower rate environment in the first six months of 2014, but will place us squarely in the camp of higher mortgage rates by the end of 2014."



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Crude Oil Should Struggle in 2014

“As we write these energy comments, we have recently faltered in price from a close four days ago of $100 to a current trade today below $92. Thus, it is dangerous to be too aggressive in promoting a long term major bearish move. However, it does not change the chart picture; we have formations that should limit rallies and test $84 and maybe ultimately $76 in 2014. But for the very short term we could see some stability and a good opportunity to fade strength or create a bearish long term option position. This market always has an issue with Mideast instability, making an option trade more attractive than a flat price trade.”

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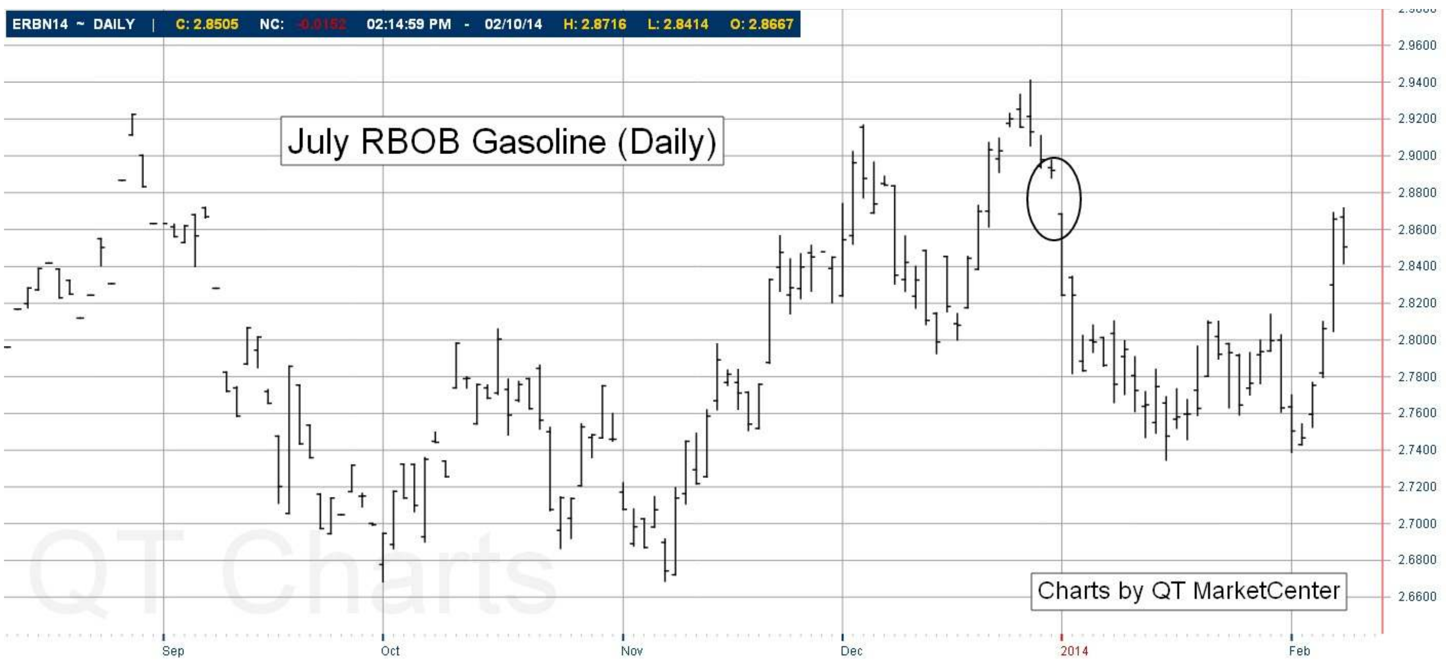
Stage Set for Lower Gasoline Prices in 2014

"Gasoline has been in the press's doghouse this past year as more and more talk has surfaced about increased energy production, fuel efficiency of the new automobile offerings, and the compelling economic comparison to natural gas. However, price has not reacted much, even though we are currently on a downswing. Summer may provide a typical price bounce but the stage seems set for cheaper gas prices. ERBN14 could see a challenge of $2.50 even before we get to the driving season this summer. Whether this is a statement on the economy or a reaction to an overall weak commodity environment doesn't matter, the price of travel should be headed lower."



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Fade Strength in Heating Oil

"When you look at the energy product monthly charts you realize how range bound we have been over the last few years. That range is a wide one but for the most part the heating oil/diesel market has been controlled. The issue is this – the timing is now such that we can break down this market and if it happens it could be a sizeable downswing. \$2.80 price projections on a front month EHOH14 and maybe \$2.60 would be the objectives. Regardless of how deep we retrench this market, selling strength as the market tries to challenge \$3.00 should be the way to line up."

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