Since 1972

Jake Bernstein's Weekly Commodity Trading Letter

A Comprehensive Guide to Trends, Timing, Cycles & Seasonals in the Futures Markets

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Market Strategy - War Strategy

War and the Markets

Running a war is like trading the markets. While we may go into the war and the markets with a plan of attack, we must also have alternatives in the event of the unexpected. Gult War II is a television war. It is a war that has attracted more interest, more opinion, more criticism, more coverage, and more melodrama than any other conflict heretofore. The world is full of reporters, retired military, commentators, and protestors, all ready to tell the US powers that be how to run the program better.

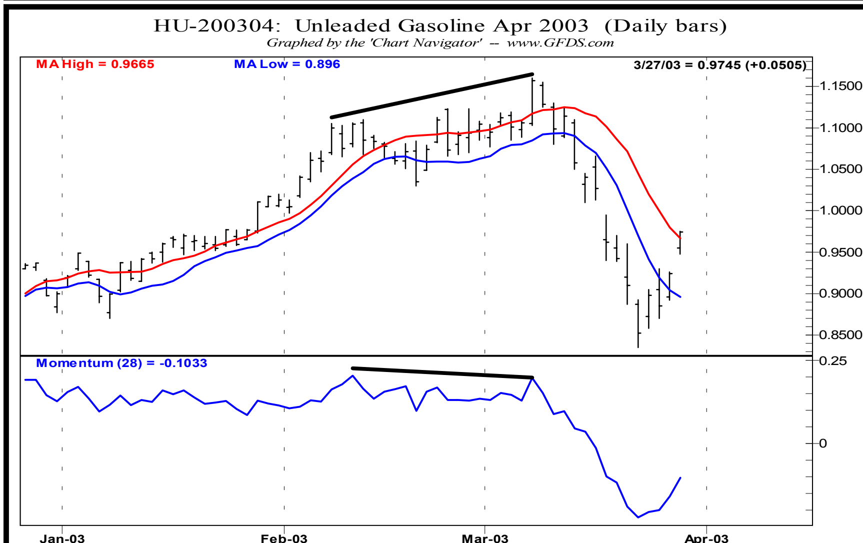
Did we send enough troops? Did we move too fast? Did we move to slowly? Were we prepared for the nasty tricks that Saddam has been playing? Are our supply lines stretched too thin? Should we have been prepared for a lengthy conflict? Was "shock and awe" a bad strategy? All of these are matters of opinion. Opinons are plentiful, cheap and available virtually anywhere and at any time. Trading the markets is like fighting Gulf War II. There are hundreds of opinions. News is plentiful. The news can dissaude you from making intelligent decisions. Trading the market is like fighting the war. You make your plans, you trade by your plans, you make adjustments as you go, your actions are EVENT DRIVEN rather than driven by the opinions of reporters, newscasters, other traders, or friends. Take a lesson from those who are waging this war. Ignore opinions and trade by the facts.

In this Issue...

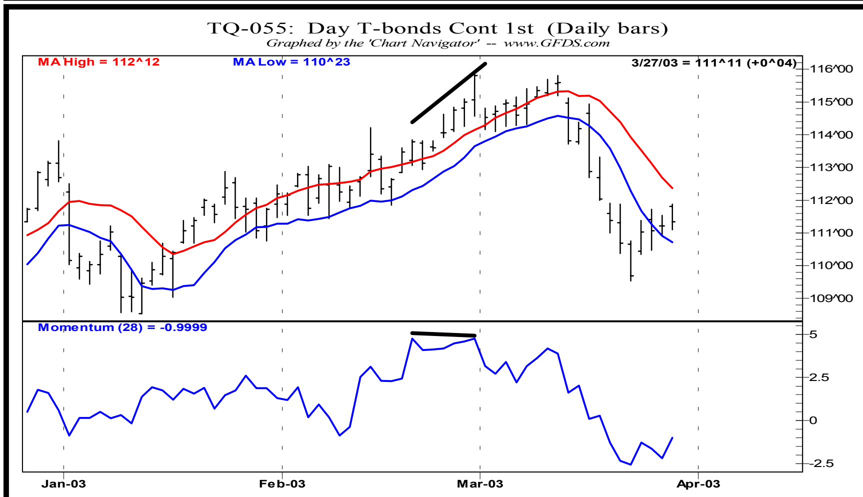
Dead Cat Bounces in Unleaded Gas & Bonds?

I advised you that a "strong recovery rally could develop soon" in the energies due to the steep selloff and the drop to long term support. That rally is in process. I hasten to add, however, that substantial damage has been done to the market and a major top may be in place. Similarly, it is possible that TBond futures have made a major top. The chart at the bottom of this page shows the market rallying to short term 10/8 MA Channel resistance after making a momentum divergence top in early March.

Unleaded Gas Rallies to First Resistance



TBonds Rallying to Resistance



Market Review & Analysis

General Comments: *The soybean complex markets remain bullish, consistent with its bullish 10 year cycles while wheat and corn continue to struggle, testing support and lows as they correct to the downside. I believe that new long term cycle bull markets have started and are currently being tested in wheat and corn. I continue to expect that a penetration of the January, February, or March highs on a weekly basis in any or all of these markets which would be very bullish, projecting seasonal rallies until July or later. The bean complex looks particularly bullish at this time.*

Soybean Complex: The developing rally in the soybean complex markets is likely to continue for several more years if the long term cash market cycle I follow is on course. The 10 year cycle, which I have discussed many times and which is featured in my research report **Futures Through 2010**, has been suggesting for many months now that a new bull market is clearly in process. I advised you on many occasions that this cycle has been one of the most reliable, predictable, and consistent long term cyclical patterns in the grain and soy complex markets. The December 2002, January 2003, February 2003 and March 2003, highs and lows are considered important in my work as support and resistance levels. If prices can close above these highs on a **weekly basis** then the bull markets could move rapidly higher. These levels have served well as support and resistance. Soybean oil appears to have made an important low and remains in a strong bull trend.

Corn: My analysis and study of the 5-6 year cycle patterns in corn, suggests that higher prices are likely. The current short term decline has resulted in a Daily sentiment Index reading in the 10% range. Low levels of daily sentiment tend to correlate closely with market bottoms. My work suggests that the outlook remains bullish in spite of the current bear trend. My recommended longs were stopped out, howeverm I believe that we must be patient as well as persistent in waiting for the bull market to begin. I will again recommend longs when the next short term buy signals develop.

Wheat: The 9-10 year cash market cycle in wheat had bottomed as predicted last year. The news lows for this move have created a condition of ver low sentiment. As of the last COT report, commercials remain net long which suggests to me that a rally is highly likely. The market should recover strongly and I will again give you buy recommendations once new timing signals have developed.

Outlook: *My long-term cyclical and technical studies remain bullish on the grain and soy complex markets. The markets have made long term cycle lows that I projected well before the bottoms were established. Short term lows were expected and were made in soybeans. Lows are being made in corn and wheat. Sentiment is low which, in my experience, suggests that bottoms are highly likely.*

Metals

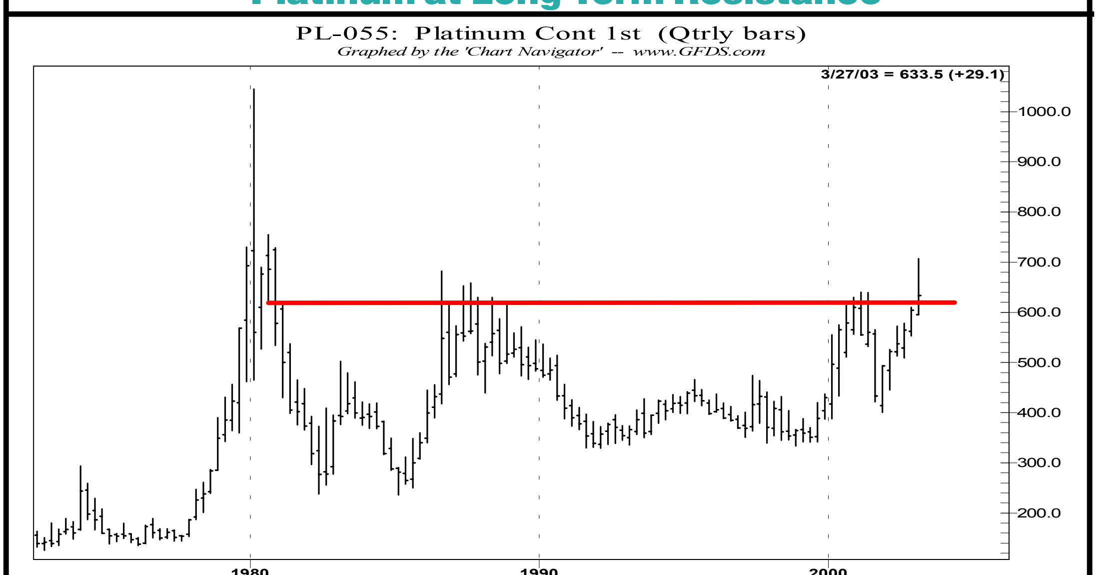
General Comments: *My long term forecast for precious metals and copper was bullish and it has been correct. Gold rallied, confirming my forecast, finding resistance in the 380 area, and now finding support. A continued near term decline was expected but the picture continues long term bullish.*

Gold / Silver: I advised you that gold should rally and it did. My $380 target was hit and overcome! Prices have declined from resistance, also as expected. Silver dropped as well with sentiment now low, suggesting another rally. Both markets remain in intermediate term bull trends. Long term traders are advised to buy at long term support. Further rallies are likely following the current test of intermediate term support.

Platinum / Palladium: The major bullish trend in platinum continues per my forecast. the chart below shows prices declining from long term resistance. I believe that palladium could rally substantially over the next 2 years. Trading volume is thin in palladium futures.

Copper: I told you that this market could move lower since the period of prime seasonal strength was behind us. A test of intermediate term support was expected develop over the next few weeks, and it has!

Platinum at Long Term Resistance



Jake's Futures Fact

Inflation is Coming - Are You Ready?

This is not the first time I have written about the coming inflationary trend. I have warned you on many occasions over the last few years that inflation was coming and that we must prepare for it now BEFORE it's too late to jump on board with protective strategies. The seeds of inflation were set several years ago when many of the cycles in individual commodity markets bottomed. Now these bottoms are evident and events are beginning to confirm my expectations. Here is a synopsis of the unfolding events and their likely outcomes:

1. Gulf War II is very costly. It will continue to drain off millions of dollars every day. Sooner or later it will become evident to the existing economic powers that it is far better to pay off the debt with cheaper dollars than with expensive dollars. Therefore, inflating the dollar by printing more money is an easy way out of the huge debt that is being created.

2. Interest Rates have been very low for a long time. This has given home owners a major opportunity to refinance and take equity OUT of their homes. The amount of cash that has been drained out of our system is immense. Furthermore, the low cost of money has given first time home owners the opportunity to buy and pay reasonable low mortgages. This has also drained a huge amount of money from the system. The net result is to decrease the available amount of money which will, in the long run make money more costly or, in order words, it will lead to higher interest rates.

3. Higher interest rates will, in turn, cause the government to pay huge amounts of money to cover the borrowing costs on the money it owes. This will add to the incentive to print more money in order to pay down the debt with cheaper dollars.

4. Rising commodity prices across a broad front will likely exacerbate the situation. This rising trend in prices will be exacerbated by the huge amount of consumption that the war has created.

5. The strong initial rally in gold is, in my view, merely a harbinger of what is to come. I am frim and solid in my strategy and recommendation to own gold for the long term since it will likely rise in an inflationary economy. This also holds true for silver, though to a lesser extent. Platinum and palladium are also long term bullish in my view and should also provide a reasonablly solid hedge against the emerging inflationary trend.

6. I do not believe that the coming inflation will be limited only to the United States. I believe that it will be a virtually world wide inflation that could reach significant proportions if fiscal policies are not instituted early in the trend to combat the growing inflationary pressures.

7. Although the precious metals will likely be your best bet there are other ways in which you can protect your assests and, in fact, make them grow, during an inflationary trend.

8. The price of crude oil may have topped. As I stated last week, I expect Gulf War II to change the complexion and politics of oil and the Middle East substantially. This is the primary reason that most oil producing nations are opposed to the war while most oil consuming nations are in favor of the war. With the declining trend in crude oil people will be lulled into a false sense of security as they mistakenly believe that high crude oil prices are the only thing that can result in economic turmoil.

9. With the changing political climate in the Middle East new alliances will be formed between nations previous at odds with one another. While the coming peace will be a positive thing, it will also dramatically increase consumption of all commodities as nations rebuild and as third world nations begin to build. This will also be a long term inflationary pressure on commodity prices.

What to do?

I will urge you once again that the best way to prepare is to hold positions in the precious metals in one form or another. Although the inflationary trend won;t begin overnight, time is of the essence in making adequate preparations. You have been forewarned!

Jake

Currencies

EuroCurrency: On a short term basis, I advised you that a top was overdue as a result of excessively high bullish sentiment. A bearish momentum divergence pattern caused me to forecast the decline. The market has plunged in a decline that was OVERDUE. A significant top may have developed, leading to a valid test of long term support. I advised you last week to "be prepared for a short term low VERY SOON". That low has been made with a test of resistance likely soon.

Swiss Franc: My long-term forecast for the Swiss Franc is bullish. A short term top was overdue and was made as predicted. I told you to watch for a significant top - it has come but a test of long term support was expected and it did indeed signal a buying opportunity as predicted.

British Pound: The market made a major low, as predicted, on the long-term pattern of 7-9 years (average length is 8.1). Seasonals are ideally bullish. The British pound has been one of the strongest currencies making new highs for the move. A decline developed as predicted but this drop does NOT change the long term bull trend. Be prepared to go long again at intermediate term or long term support. Support is being tested.

Japanese Yen: My short term and long term forecasts for the Yen have been bullish. And they have been correct. A sell signal has developed for the short term and the trend continues down as predicted.

Canadian Dollar: My **2003 Annual Forecast** indicated that I was long term bullish. The market has confirmed my forecast by moving significantly and persistently higher. The trend remains bullish for the short term. The Canadian dollar has not given up much ground during the recent wave of US dollar strength and was expected to make new highs for the move. My long range forecast has been and remains bullish.

Aussie Dollar: I advised you many weeks ago that the Aussie dollar had bottomed against the US dollar. Bearish momentum divergence developed causing me to advise you that a top was imminent. The top has come and the decline has been a significant one as predicted. The trend is now short term bullish.

Mexican Peso: I advised you that a bullish chart pattern was developing and the low had come. A major bottom COULD BE in place.

Conclusion: *A test of long term support is developing in the Euro, Swiss, Yen and BrPound. Long term traders use this opportunity to establish long positions. These major bull markets are not over as yet. Sentiment was very low. I told you to expect short term lows against the dollar. They have been made accordingly.*

Fibers/Wood

Cotton: The short term trend is now bearish but the intermediate term trends are bullish and are likely to remain so as long as the War continues.

Lumber: Due to the thin volume, I avoid giving specific recommendations. Seasonal trends are ideally bullish. A short term top has been made and the seasonal has taken over. New lows have been made for this move.

Tropicals

Cocoa: After correctly predicting the huge bull market, I also advised you that "the next move could be to lower levels" since the COT report showed commercials had decreased their net long positions. Significant bearish momentum divergence was cited as a cause for concern about the stability of the up trend. The market declined sharply and the big bear move continues as of this writing. There are only MINOR indications that a short term low is developing.

Coffee: I have been advising you to AVOID the short side since buy signals were likely based on the long term cycle of approximately 8 years, low to low. Daily sentiment is very low suggesting that a bottom could come at any time now. Seasonals are bullish. I expect a major turn in coffee futures but there are no buy signals as yet.

Sugar: The 7-8 year cycle is the major force behind this rally. On a long term basis I remain bullish on sugar, expecting a rally to the 12-14 level. Lows have been successfully tested several times. Several of my timing indicators have now turned bearish. I advised you to BE CAREFUL due to a significant change in the orientation of commercials as reported in the recent COT report. The market fell sharply as predicted and the trend is still short term bearish but a low is developing. The trend is lower but I urge you to AWAIT a short term bottom.

Orange Juice: The continued decline in OJ prices constitutes a test of long term support. OJ was expected to rally in 2002 based on the fact that its long term cycle bottomed. A base of support is building. Bullish momentum divergence is developing. The market is long term bullish based on my cyclical indicators despite declines in recent weeks.

Meat and Livestock

Outlook: *Based on my analysis and evaluation of the long term cycles and timing indicators, I have been bullish on the meats for many months. Cattle futures rallied to near all time highs but have fallen substantially from resistance in the last week. I do not believe that significant damage has been done to the long term up trend. I expect prices to bottom and recover strongly. Seasonals are now ideally bullish in hogs.*

Hogs: The intermediate term up trend has continued in both markets, consistent with my forecast that the 3-4 year cycles had made their lows. Key date seasonal buy signals are in effect for hogs and cattle. The current short term declines should end soon. Commercials are now net LONG hogs. I consider this to be an extremely bullish indication. Sentiment has dropped to very low levels which tells me that a low may be no more than a day or two away. The odds of a major rally in hogs are substantial based on my technical indicators.

Cattle/Feeder Cattle: The intermediate term trend remains very bullish based on most of my short term timing indicators. I believe that cattle futures can test or make all time highs following the next short term low. Although the long position I recommended was stopped out I will recommend longs again as soon as a new short term buy signal has developed.

Interest Rate Futures

My work projected a major top in interest rate futures. The top may have been made. The decline has been large and persistent and short term support has been found (See chart on page 1). Trail a close stop loss if you are short this market. A test of contract highs is possible but I consider it unlikely unless technical conditions change.

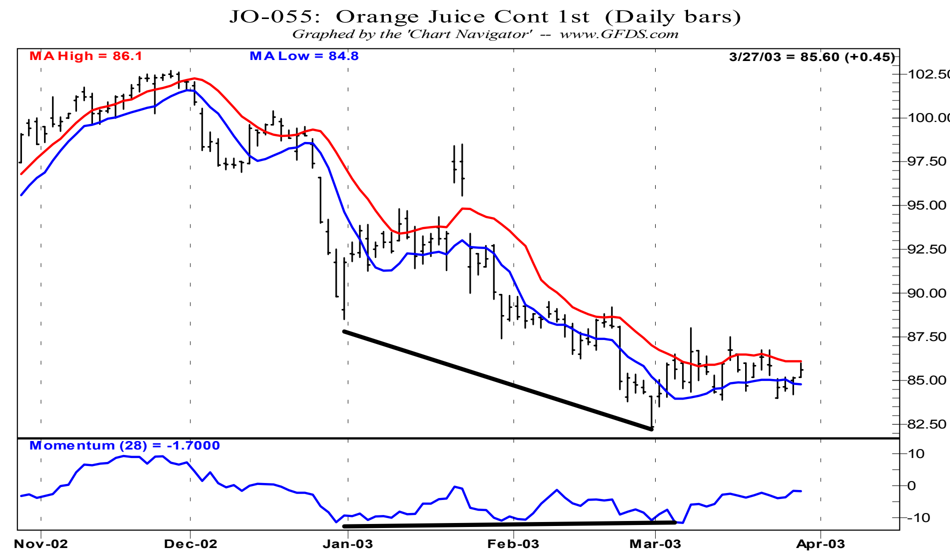
Gold

My work in the gold market remains bullish for the long term. Before the market topped I advised you that resistance was likely.

I have also been telling you that if you missed your first chance to buy gold, this is your second chance now developing.

As the chart at right shows, the market has declined to an area of intermediste term support on the weekly MAC chart. See my chart analysis above the chart at right. The decline from highs has been substantial and a low is likely to develop soon in futures as well as in stocks.

Bottom Developing in OJ



Is OJ About to Bottom?

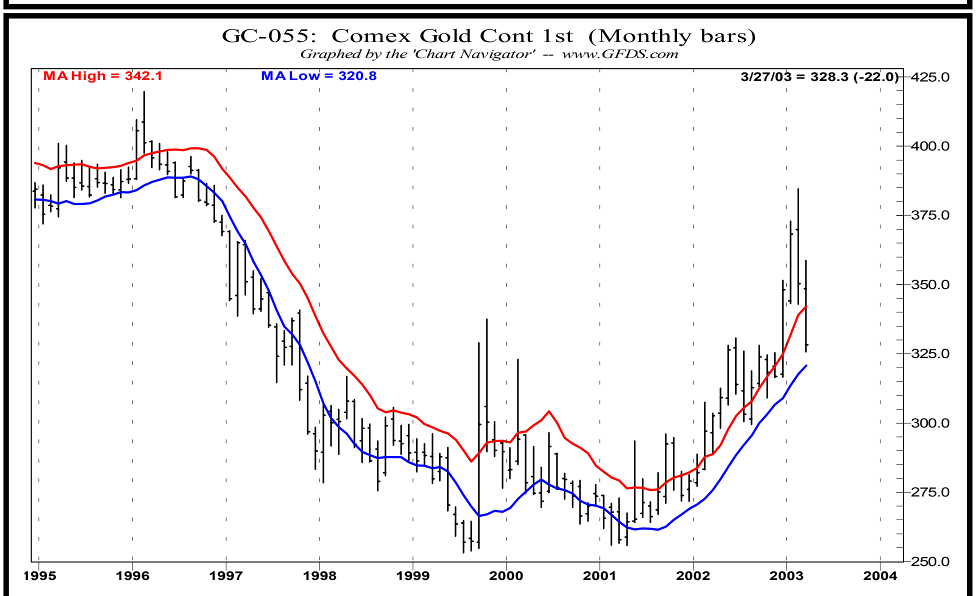
The chart above shows that the OJ market has been trending lower in price but flat to higher in momentum. This sets up a classical bullish divergence pattern that could easily be resolved to the upside in the next few days or weeks.

Should a bullish divergence buy signal develop along with a buy signal on the 10/8 moving average channel, I will give you a buy recommendation. But I will do so with the caveat that this is a thinly traded market in which price fills can (and most likely will) be very poor.

Gold at Intermediate Term Support

The chart below shows weekly gold futures. As you can see, the market has been persistently above the 10/8 channel or has traded within the channel. Overall, the trend is still strong and the current decline appears to be nothing more than a test of intermediate term support on the weekly chart. I consider this to be a buying opportunity and I look for the market to make new highs for this move.

Intermediate Term Support in Gold



Coffee Bottom Brewing

The coffee market shown in chart form at right, shows a pattern of developing bullish divergence while at the same time, commercials on the latest COT report show a new long position. This is a very bullish combination in my view, suggesting that the coffee market could easily move much higher over the next few weeks. I suggest watching coffee closely since the market is on the verge of what could be a major rally.

Hogs Bottoming

I expect a major low to develop in hogs at any time now. Several factors are now coming into play. They are as follows: 1) a Seasonal key date buy date is now upon us. It suggests a rally lasting as much as 2 weeks.

2) The COT report shows commercials now net long the market and increasing their long positions.

3) A developing bullish momentum divergence pattern is developing, and

4) Daily sentiment reads very low, suggesting that a bottom is well overdue.

Watch this one closely for a significant bottom at any time now.

Dollar Testing Support

The indicators as shown on the chart at right strongly suggested that a low was likely in the US dollar.

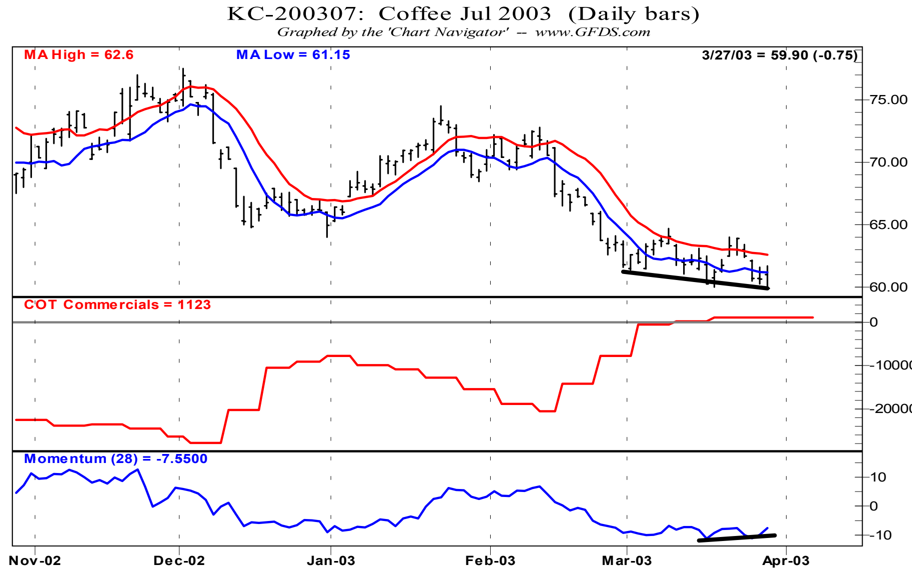
This was a classic case of daily bullish divergence as I pointed out to you.

A low was made based on my indicators. I alerted you to this bottom for several weeks before it happened.

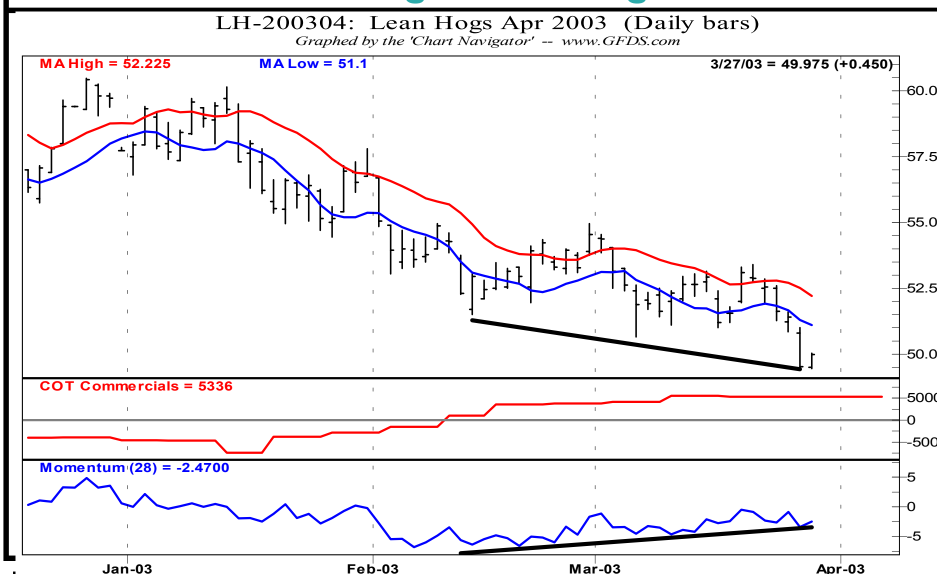
I advised you that "when the up turn comes, it could be large and dramatic". The chart clearly shows what happened. In recent days, however, the market has pulled back to short term support which is now bwing tested.

This is completely normal and does not, in my view, post a significant threat to the low that has developed. I believe that the dollar will rise again from current short term support.

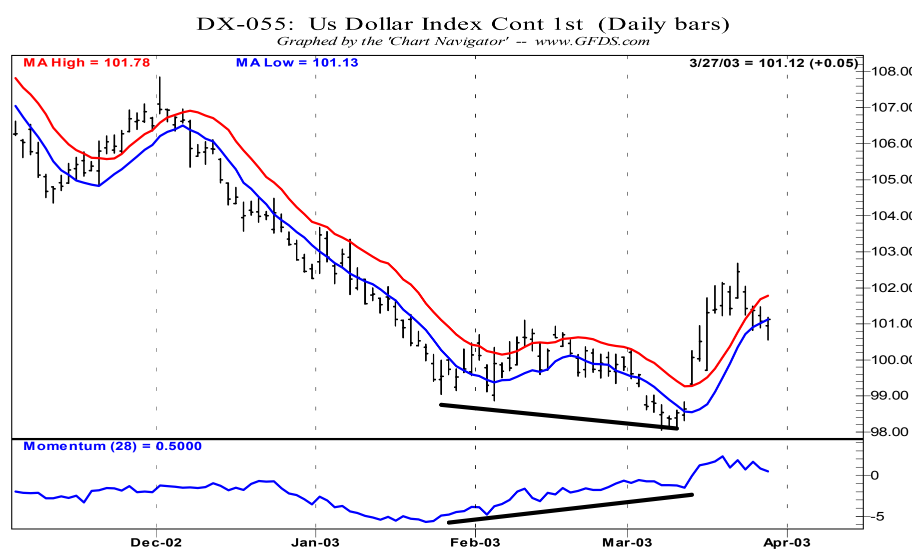
Coffee Bottom Brewing



Hogs Bottoming



Dollar Index Surges



W-055: Cbt Wheat Cont 1st (Monthly bars)

Graphed by the 'Chart Navigator' -- www.GFDS.com

Wheat At Long Term Support and Cycle Lows

If you have been reading my reports for even a few weeks then you know that I am long term bullish on wheat prices. There are many patterns that are now developing in wheat, all of which point to the possible start of a major new bull market. They are as follows:

1) Trader sentiment is very low

2) A cycle low of approximately 10 years has been made

3) A long term rounding bottom has developed

4) Prices have long term support at the "spike support" levels shown in chart form above

5) An initial rally has been made with prices now retreating from resistance. The support lines indicated above are likely to hold and support a major rally over the next few years.

There is a risk of loss in futures trading

Comments in this letter are subject to change as a function of market conditions.
Recommendations are given via hotline, fax, e-mail, Internet or tape updates.

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