THE HIGHTOWER REPORT

Futures Analysis & Forecasting

WEEKLY MARKET LETTER
HightowerReport.com

THIS ISSUE

Fundamental Trades:

Bullish:	Cocoa Palladium
Bearish:	Bonds Soybeans

Other:

Commodity Performances in 2015

MAJOR ECONOMIC EVENTS

January 4 - Personal Income
- Chinese Caixin PMI
- ISM Manufacturing Index
- Construction Spending

January 5 - Euro Zone CPI

January 6 - Factory Orders
- ADP Employment Survey
- International Trade Balance
- ISM Non-Manufacturing Index

January 7 - Jobless Claims
- Euro Zone Unemployment

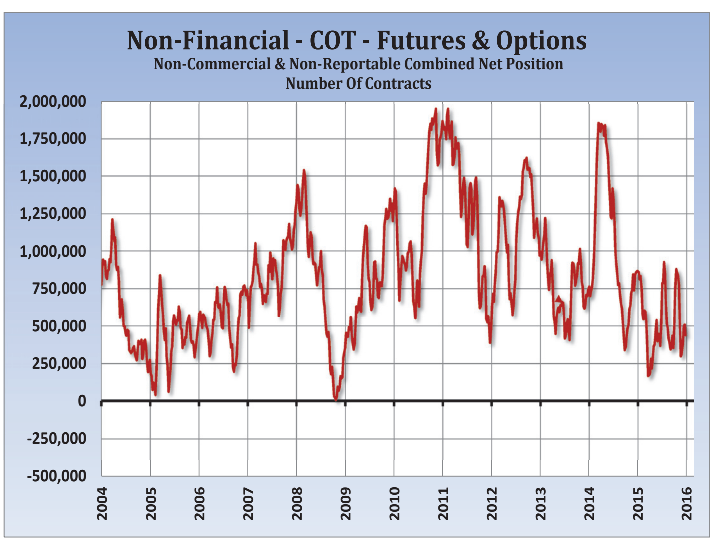
January 8
- Employment Situation
- Canadian Unemployment
- Consumer Credit

December 30, 2015

Next Week's Economic Focus

A 2015 market wrap-up suggests that broad-based deflationary sentiment has resulted from a "perfect storm" during the second half of the year. A rising dollar, slumping crude oil prices, anemic global growth, concerns over the status of the Chinese economy and the potential for building commodity stocks gave the bear camp almost all it could hope for. With the most recent composite non-financial Commitments of Traders reports highlighting the magnitude of bearishness toward all commodities, we have to think a large portion of the negatives are already baked into the cake. With many prices venturing near or below cost-of-production levels and the "one and done" US rate hike in place, we predict that downside action in most physical commodities will slow in the first quarter and then recover in the second quarter. With less economic anxiety and the benefit of sustained low energy prices finally filtering into the economy, the bear case ought to be less definitive, and that should bode well for modest forward motion in economies around the world. Markets thought to be below the cost of production are corn, copper, gold, platinum, palladium, crude oil and natural gas in some instances. Other markets like soybeans, sugar, cotton, coffee and silver might have further to fall before production is reduced. However, the ability to throw off the patently deflationary bias in commodities would clearly require economic gains outside of the US and some stability in crude oil prices. Seeing the US allow crude oil exports might begin to support the world's most oversupplied collection of oil and may allow for a quicker pass-through of low energy prices to the rest of the world.

-David Hightower



OUR OPINION... MARKET BY MARKET

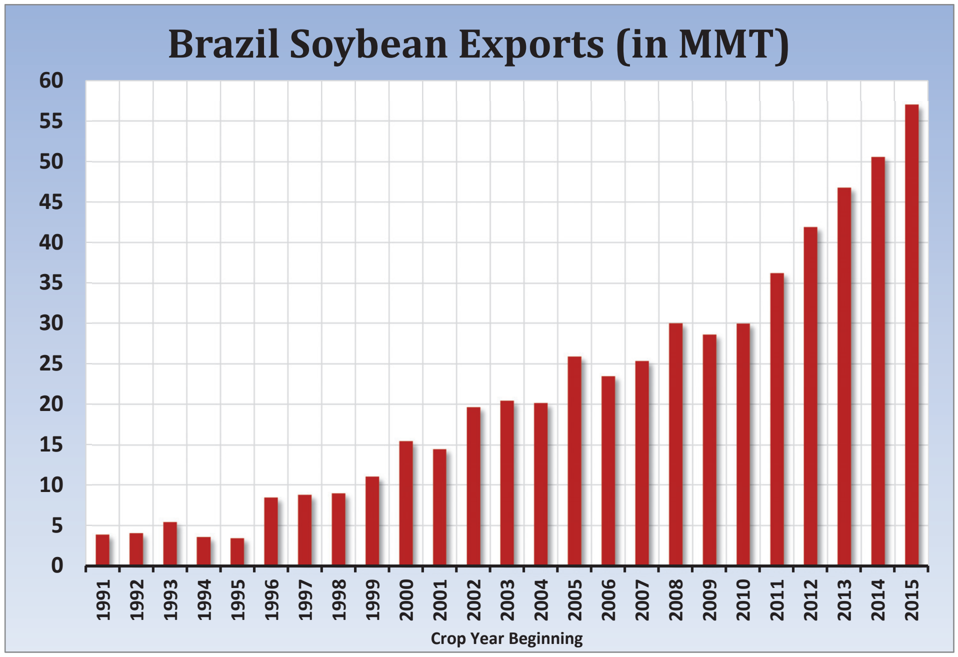
Market		*
Stocks	Return to the highs possible off of pension buying.	L
Bonds	Sell rallies to 157-16 basis the March contract.	S
Dollar	Less dominance over the Euro, Yen & Swiss.	S
Euro	Upside breakout hints at a developing uptrend.	L
Gold	More waffling; sell rallies back up to $1,093.	S
Silver	Retains downside bias; sell rallies up to $14.68.	S
Copper	More consolidation but $2.0750 is a buy.	L
Crude	Oversupply a concern into January; sell rallies.	S
Gasoline	Rally above $1.3165 needed for bull confirmation.	S
Nat Gas	Short-squeeze gains overdone; support at $2.079.	L
Soybeans	Normal Brazil weather points to a record crop.	S
Corn	Aggressive Argentine selling, even to N Carolina!	S
Wheat	Minor weather glitches with fund short near record.	L
Hogs	USDA report leaves positive tilt to cash for Jan.	L
L Cattle	Futures to consolidate & wait for beef, cash.	S
Sugar	Overbought COT, but most other forces point up.	L
Coffee	Brazil crop; shift from small deficit to big surplus.	S
Cocoa	Dec correction near complete; another leg higher.	L
Cotton	Sluggish global demand & cheaper synthetics.	S

* For traders/commercials who need to be in a market, L = Long, S=Short

141 West Jackson • Suite 4002 • Chicago, Illinois • 60604 • 800-662-9346 • 312-786-4450 • info@HightowerReport.com • @HightowerReport

SOYBEAN DOWNTREND COULD RESUME AS BRAZILIAN WEATHER IMPROVES

The soybean market looks vulnerable to a resumption of the downtrend, as the dry areas of Northern and Central Brazil are forecast to receive normal rainfall for the first half of January. The dryness in December had traders expecting as much as 20% of the Brazilian crop to be in poor condition, but if the weather turns normal, the crop could be back on track for record-high production. The USDA has pegged Brazilian production at a 100 million tonnes, but the less than ideal weather has most traders expecting a crop of 97-98 million. Production last year was also a record-high at 96.2 million tonnes, up from 86.7 million two years ago and only 65 million four years ago. In just five years, Brazil soybean exports have climbed from 30 million tonnes to 57 million expected for this year.



In addition to higher Brazilian exports, the market may also face increased exports from Argentina, as producers and exporters could be much more active after years of setting aside soybeans as a hedge against inflation. Fears of increased selling by Argentina for all grains and more specifically a "mixed feed" sale of mostly meal to the east coast of the US for hogs feeding operations are seen as a bearish force. If Argentina's feed grain exports remain cheap relative to domestic US feed, US corn ending stocks could rise. Soybean crush margins could get hit as will, which would add to soybean ending stocks. There are rumors that some 100,000

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TRADERS TOOLBOX

OVERVALUED/UNDERVALUED

Fundamental	Technical	COT
OVERVALUED		
Copper	Natural Gas	Cotton
Natural Gas	Eurocurrency	Sugar
Corn	Platinum	Oats
UNDERVALUED		
Palladium	Crude Oil	Soybean Meal
Soybean Oil	Soybean Meal	Hogs
Coffee	Canadian Dollar	Canadian Dollar

OPTIONS SCAN

Undervalued

- **Buy Feb Emini S&P 2100 call @ 17.00**
- **Buy Mar Crude Oil 40.00 call @ 95**
- **Buy Mar Sugar 15.50 call @ 41**

Overvalued

- **Sell Feb Cattle 142.00 call @ 152***
- **Sell Feb Natural Gas 2.40 call @ 0.115***
- **Sell Feb Bonds 157.00 call @ 1-06***

Trend Reversals

- **Buy Feb Canadian $ 73.00 call @ 42**
- **Buy Mar Coffee 120.00 put @ 345**

* When selling options, only risk to double the premium received.

SOYBEAN DOWNTREND COULD RESUME AS BRAZILIAN WEATHER IMPROVES

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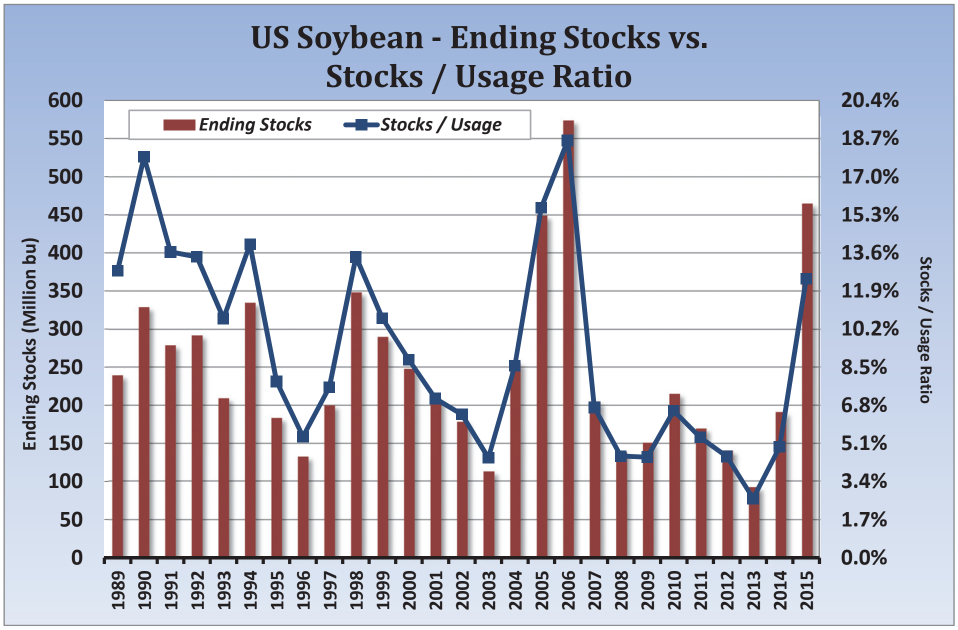
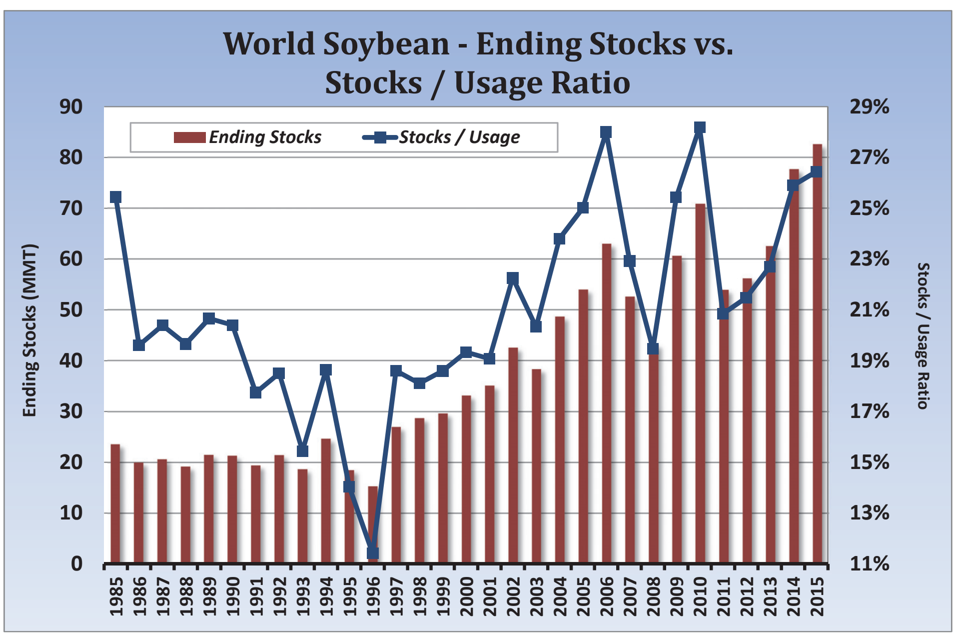
tonnes of mixed feed have been booked into North Carolina. "Mixed" feeds can enter the country at a reduced tariff, compared to meal and corn by themselves.

World soybean stocks are at record highs, and if Argentine producers turn more active and the Brazilian crop stabilizes, it may be difficult for sellers to find new buyers at current prices. Argentine officials want to see more aggressive grain selling because they need to bring in more US dollars soon.





Beginning stocks for Argentina for the 2015/16 season are at a record-high 31.66 million tonnes, up from 26 million last year and 20.9 million two years ago.

Weekly export inspections for soybeans as of December 24th came in at 1.403 million tonnes. Cumulative soybean export inspections for the 2015/16 marketing year have reached 52.0% of the USDA forecast, versus a 5-year average of 52.8% for this that time of year. Shipments so far this marketing year have totaled 26.1 million tonnes, down from 29.4 million last year by this date.

Weekly export sales for soybeans as of December 17th came in at 2.069 million tonnes, which was well above trade expectations calling for 900,000 to 1.1 million tonnes. Cumulative soybean sales stand at 79.7% of the USDA forecast for the 2015/16 marketing year versus a 5-year average of 81.4% for that date. Even though that week's export sales were better than expected, traders still expect to see lower exports and higher ending stock projections for future USDA supply/demand updates. In general, traders are looking for ending stocks to climb above 500 million bushels. Without a turn for the worse in the weather, the market looks vulnerable to a resumption of the downtrend.

Suggested Trading Strategies

1) **SELL** March Soybeans at $8.79 ¼ with downside targets of $8.32 ½ and possibly $8.22 ½. Risk the trade to $8.93.

2) **BUY** March Soybean $8.60 puts at 14 cents with an objective of 41 cents. Risk a total of 6 ½ cents from entry.

-Terry Roggensack

SELL A BOUNCE IN MARCH 30-YEAR BONDS

The mid-December rally in March Bonds fell short of its contract high at 158-28, and the market has since turned lower. The rejection marks a second failed attempt to hold a trade above 157-00.

The price pattern in March Bonds has taken the shape of a head and shoulders top with a neckline at 153-19. The market closed below that that level on December 29th, setting the stage for a slide down to 149-21. Consistent with the topping action is a drop-off in trading volume and open interest. This points to distribution and is a bearish force.

There is potential for larger downside in March Bonds on a move below trendline support drawn from the June contract low. This comes in at 152-04 for the coming week, the first week of the New Year. A third downside price target based off the early October break from the contract high comes in at 148-31.

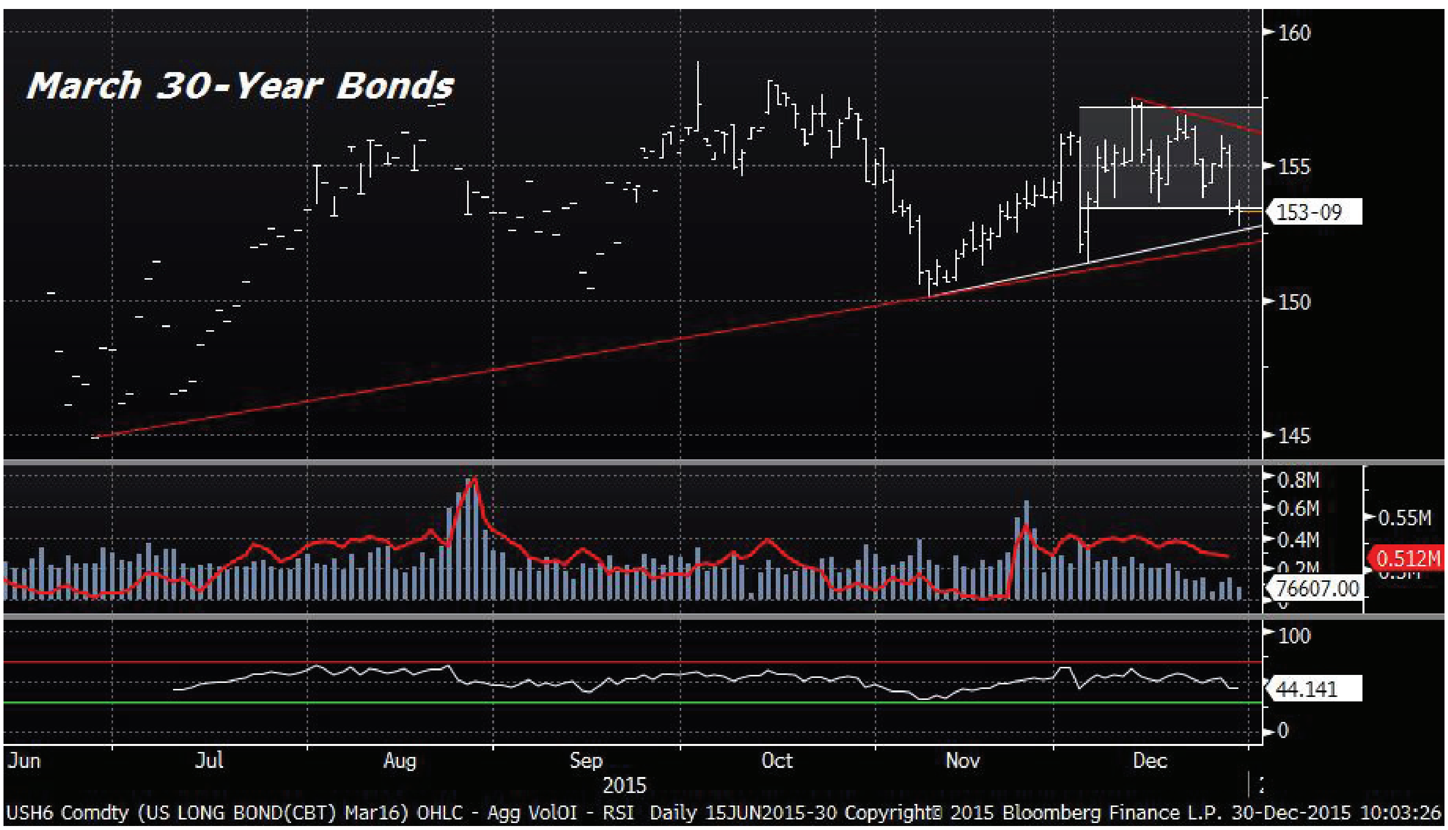
Over the near term, the more than 3-point decline in March Bonds during the past week and the oversold technical conditions favor a corrective bounce. Given this setup, such a bounce back toward 154-26 would offer an opportunity to sell on strength.

Suggested Trading Strategies

1) **SELL** March Bonds at 155-12 with an objective of 149-23. Risk a close on the trade above 149-23.

2) **BUY** a March Bond 152-00 put at 1-22 with an objective of 3-01. Risk a close on the option below 0-41.

-John Isaacson



PALLADIUM - GLOBAL CLEAN AIR PLAY FOR 2016

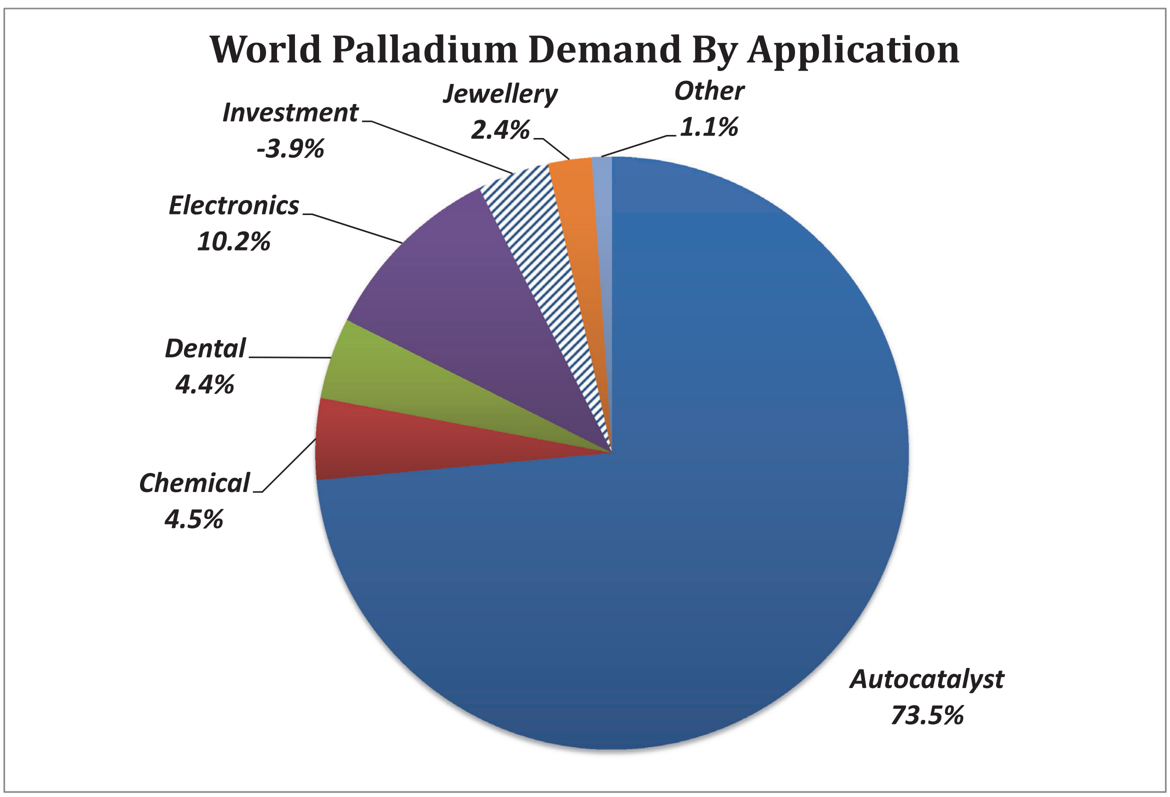
Severe, crippling air pollution in Beijing, Delhi, Milan, Ulan Bator, Singapore, London and Kuala Lumpur suggest that there will be increased auto-catalyst requirements and rising international ethanol demand in 2016. While the Platinum Group Metals (PGM) are seeing rather impressive international auto sales and prices are thought to be below the cost of production for up to 50% of the active mines in the world, the PGM complex has been held down by unrelenting deflationary fears and more importantly, a lack of investor interest. For investors to resume ntheir focus on these markets, it would probably require a headline story or evidence of idled production.

While the implementation of more stringent auto-catalyst requirements could take some time, we think a push toward more aggressive auto-catalyst targets could be enough to "make a bottom" in this severely beat-up sector. With the December 22nd COT reports in palladium showing the large and small speculator net long position falling to just 7,944 contracts and the market showing the capacity to respect a significant double low at $525, we would suggest that it is one of the markets most likely to bottom in 2016. If there are a few positive fundamental developments, Palladium could become one of the strongest performing commodities.

Suggesting Trading Strategy

BUY March Palladium on a decline to $537. Use an initial objective of $580 and an ultimate objective of $620. Risk the trade to a close below $521.

- David Hightower



MARCH COCOA - BUYING A CORRECTION

The latest decline in March cocoa appears to be a correction within a prevailing uptrend pattern, as it has been accompanied by a 10% drop in open interest and below-average trading volumes.

On its recent break below the $3,200 level, the RSI indicator dipped below 30 into oversold territory. There are a number of longer-term support levels just below there, including a 38.2% Fibonacci retracement of the 2015 rally that comes at $3,131, which is just above the October 23rd swing low at $3,113. An uptrend line connecting the March and October swing lows comes in at $3,192 as of January 4th.

Cocoa prices continue to find support from a bullish longer-term supply outlook that helped it to be the best performing commodity of 2015. Several top cocoa-producing nations are facing severe weather issues due to recent dry weather and the current El Nino weather event. Ivory Coast port arrivals have already fallen more than 3% behind last season's pace even with a large amount of carryover cocoa beans. With a sharp drop in overall West African output expected early in 2016, this season's global cocoa supply deficit in expected to be well above 100,000 tonnes.

A change in market control is taking place, as the recent price weakness appears to be stabilizing. A lack of downside follow-through below uptrend line support and above-average trading volume up days are supportive factors. A third upside price target based on the early February rally from the contract low at $2,050 favors another leg higher to $3,676.

Suggested Trading Strategies

1) **BUY** March Cocoa at $3,138 with an objective of $3,665. Risk the trade to a close below $2,990.

2) **BUY** a March Cocoa $3,200 call at 65 with an objective of 410. Risk the entire premium paid on the option.

-John Isaacson

Commodity Price Fallout May Bring Lower Supply and Stronger Demand

About the best thing that could be said for commodity prices during 2015 is that the year is now in the market's rear-view mirror! While the Thomson Reuters/ Jefferies CRB Index was on-pace for a 24% decline, the more energy-weighted S&P GSCI Index was down more than 32% for the year.

There were some commodities that were able to post positive results for the year. Cocoa prices continued to be supported by production issues in West Africa and Indonesia due to dry weather and El Nino and were able to post gains of more than 8% during 2015. Although Chinese demand concerns weighed on the market for much of the year, adverse weather in Texas and the southeastern US helped to lift cotton prices up to a modest annual gain late in the year.

However, there were many more commodities that saw annual declines this year. One was crude oil, with overproduction in the US and OPEC driving crude oil down 29%. Heating oil fell 37%, and natural gas fell 18%. The outlook for large production from Brazil, Vietnam and Colombia helped to drive coffee prices down more than 27% for the year. Hogs fell 27%, copper was down 24%, and wheat was down 19-20%.

Many of these markets may have fallen below or are at least approaching their cost of production. This could put many of the worst performing markets in a position to rally in 2016. Palladium had one of biggest percentage declines, but with pollution quickly becoming a dire concern in many developing nations, auto-catalysts such as palladium may see a significant turnaround in demand.

- Stephen Maass

Commodity Performance for 2015

Nearby Futures	2014 Close	As Of 12/29/2015	Actual Change	Percent Change
Cocoa	2910	3211	+301	10%
US Dollar	90.647	98.173	+7.526	8%
Orange Juilce	139.8	151.05	+11.25	8%
Bonds	144-18	153-09	+8-23	6%
Cotton	60.27	63.87	+3.6	6%
Sugar	14.52	14.78	+0.26	2%
S&P 500	2052.4	2072.8	+20.4	1%
Swiss Franc	1.0074	1.0126	+0.0052	1%
Japanese Yen	0.8349	0.8321	-0.0028	0%
Beanoil	32.14	30.77	-1.37	-4%
British Pound	1.5570	1.4831	-0.0739	-5%
Corn	397	362 1/2	-34.5	-9%
Gold	1184.1	1068.0	-116.1	-10%
Australian Dollar	0.8122	0.7275	-0.0847	-10%
Silver	1559.9	1392.8	-167.1	-11%
RBOB Gas	1.4721	1.2853	-0.1868	-13%
Soybeans	1023 1/2	865 3/4	-157.75	-15%
Canadian Dollar	0.8597	0.7238	-0.1359	-16%
Cattle	163.55	135.50	-28.05	-17%
Natural Gas	2.8890	2.3700	-0.519	-18%
Milk	17.82	14.47	-3.35	-19%
Wheat	589 3/4	475 3/4	-114	-19%
Minn. Wheat	622	497 1/2	-124.5	-20%
Soymeal	347.6	270.0	-77.6	-22%
Lumber	331.10	256.50	-74.6	-23%
Copper	282.55	213.65	-68.9	-24%
KC Wheat	626.50	473.25	-153.25	-24%
Feeder Cattle	219.45	162.47	-56.98	-26%
Platinum	1209.50	892.20	-317.3	-26%
Coffee	166.60	121.45	-45.15	-27%
Hogs	81.20	59.15	-22.05	-27%
Oats	303 3/4	220 1/2	-83.25	-27%
Crude Oil	53.27	37.87	-15.4	-29%
Palladium	798.40	556.35	-242.05	-30%
Heating Oil	1.8336	1.1587	-0.6749	-37%

Big Leverage Trades

UPDATES TO PRIOR BIG LEVERAGE TRADE STRATEGIES

Original Trade Date	Trade	Action
Sugar 6/26/15	Long 10 March Sugar 17.25 calls at 16 each and Short 1 March Sugar futures from 12.94. Previously short March futures at 13.70, which we covered at 13.29 for a gain of 0.41.	**BUY BACK the short March Sugar futures position at 14.77, and SELL 2 of the March Sugar 17.25 calls at 23 or better.**
Soybean Oil 7/2/15	Long 5 May Soybean Oil 38.00 calls for 92.5 each, Short 1 May Soybean Oil futures at 30.92, **and LONG a May Soybean Oil 32.00 call at 110.** Previously short 1 May Soybean Oil at 33.46 which we covered at 31.39 for a gain of 2.07, and previously short 1 May Soybean Oil from 29.70 which reached its objective of 29.02 for a profit of 0.68.	**BUY BACK the May Soybean Oil futures at 30.12.** Risk the combination to a net loss of $1,900.
Soybean Oil 10/23/15	Long 3 July Soybean Oil 32.50 calls for 0.87 for a total cost of $1,566. Previously short 1 July Soybean Oil futures at 29.00 which reached its profit stop at 28.58 for a net gain of 0.42.	SELL a July Soybean Oil futures at 32.29. Use a July Soybean Oil futures price of 35.00 as an initial objective for the calls. Risk the position to a net loss on a closing basis of $2,250.

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Longer-Term Investment Trades

UPDATES TO PRIOR LONGER-TERM TRADE STRATEGIES

Original Trade Date	Trade	Action
Soybean Oil 6/12/15	Long 4 March Soybean Oil 37.50 calls at 67 points each. Previously short 1 March Soybean Oil at 32.94 that was covered at 31.18 for a profit of 1.76, **and previously short 1 March Soybean Oil futures at 30.82 that was BOUGHT BACK at 30.75 for a profit of 0.07.**	**SELL 1 March Soybean Oil 37.50 call at 28 or better, and hold onto the remaining 3 March Soybean Oil 37.50 calls for now. Risk $500 on the entire strategy.**
Soybean Meal/Soybean Oil 9/11/15	Long 2 July 2016 Soybean Oil 30.50 calls for an average of 113.50 points. Previously long 1 July 2016 Soybean Oil 30.50 call from 113 which was sold at 324 for a profit of 211 points, **and previously long a July 2016 Soybean Meal 280.00 put from 10.35 that was SOLD at 15.05 for a profit of 4.70.**	**SELL 1 July Soybean Oil 33.50 call at 112 or better, and hold onto the 2 July 2016 Soybean Oil 30.50 calls for prices to be determined later.**
Soybeans 9/25/15	Long 2 July Soybean $8.40 puts for 29 cents. Previously long 1 July Soybean futures at $8.96 1/2 that reached its objective of $9.25, previously long 1 July Soybean futures from $8.93 that reached its profit stop of $9.06, **and previously long 1 July Soybean $8.40 put from 29 cents that was SOLD at 25 cents.**	**SELL 1 July Soybean $8.20 put at 21 cents or better, and plan to hold onto the long 2 July Soybean $8.40 puts for the long-term.**
Soybean Oil 10/23/15	Long 1 July Soybean Oil 36.00 call at 35 points. Previously long another July Soybean Oil 36.00 call that was sold at 70 points for a profit of 35 points.	Exit the remaining call at 395.
KC Wheat 11/20/15	Long 1 July KC Wheat 540 call at 17 7/8 cents.	Use an objective of 49 cents, and risk the trade to 8 7/8 cents.
Copper 12/18/15	BUY March Copper futures on a decline to $2.0290.	Use an objective of $2.35, and risk the trade to a close below $1.9690.
Sugar 12/18/15	**SELL a July Sugar 16.00 call at 85. Already long a July Sugar 14.25 put at 110 and long a July Sugar futures at 14.34.**	Risk $1,500 on the entire strategy.

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COMMITMENTS OF TRADERS

Data As of December 22, 2015
Non-Commercial & Non-Reportable
Combined Futures & Options

Market	Net Position	Net Change	4-Wk Net Change	52-Wk Ranking
Grains				
CBOT Grains	-154,197	-55,813	6,704	20
Corn	-33,915	-40,385	7,778	20
KC Wheat	-29,819	162	10,688	7
Minn Wheat	-3,020	-2,711	-260	28
Oats	1,919	85	1,106	52
Rice	-2,000	-155	-1,113	30
Soybeans	-38,710	1,428	-3,458	29
Soyoil	91,741	-12,347	27,621	48
Soymeal	-16,794	1,395	-16,469	2
Wheat	-81,572	-16,856	2,384	6
Livestock				
Cattle	-12,718	-2,298	6,816	13
Feeder Cattle	-4,634	-1,439	653	28
Hogs	-10,941	-2,258	-3,419	1
Metals				
Copper	-36,147	-549	1,187	15
Gold	28,581	12,812	21,531	10
Platinum	26,957	1,968	3,650	29
Silver	30,445	7,838	1,054	22
Softs				
Cocoa	67,518	-7,010	-7,990	36
Coffee	-10,065	-5,483	4,553	17
Cotton	68,872	-5,368	12,708	47
Lumber	233	274	714	50
Milk	-371	-171	-581	3
OJ	5,254	64	-209	48
Sugar	277,964	20,234	-5,706	50
Currencies				
Canadian	-79,353	-4,396	-19,149	6
Dollar	41,118	-4,572	-17,801	2
Euro	-173,996	5,274	43,268	31
Energies				
Crude Oil	232,653	-12,477	-17,522	1
Gas (RBOB)	67,107	-3,506	-8,550	35
Heating Oil	-11,646	-1,778	8,477	20
Natural Gas	-176,047	-1,111	9,210	49
Financials				
Bonds	6,846	6,332	22,362	39
E-Mini S&P	32,716	95,337	168,855	23
Dow Jones $5	19,928	-4,850	3,654	39
S&P 500	-10,966	-29,450	-23,851	23
T-Notes	-165,568	-289	-10,933	30

Extreme
5% of Extreme

Ranking 1 = Shortest Short
52 = Longest Long