

1/28/10

Wheat Struggles to Find Support

The wheat market remains under pressure, but the market appears to be running out of fresh sellers. The fundamentals surrounding these markets remain bearish. From a technical standpoint, the market is oversold and overdue for a bounce.

While trend following funds continue to sell, the daily quantities have not been large. Any additional fund selling could trigger one last good selloff in the wheat markets. Do not expect the wheat to score even a short term bottom on modest moves lower. It will take a hard sell off to trigger a reversal action. Based on oversold conditions, I expect to see reversal action followed by a modest upside move, as the market corrects oversold conditions. Existing short futures positions should be accompanied by stop orders placed slightly above the market. I believe one should be pretty aggressive in placing these stops. I am also in the process of liquidating short call options, long put options and bear put spreads. While I am not certain the wheat market is ready to put in a major long term bottom, I do believe the market can post a modest rally from these levels. The bearish option strategies we have in place are profitable and taking profits is never a bad idea. I am not as big a proponent of establishing long positions in these markets at this time, unless you are a user of wheat and have immediate needs. My concerns stem from the ample supplies of wheat, a competitive export market and general concerns about the domestic and global economies.

The export pace of wheat has increased on this price break, however, the pace of soft red wheat sales remains slow as US soft wheat remains overpriced into the Mediterranean. Russia has done the bulk of the business into Egypt of late. This includes 180,000 mt that traded yesterday. Weekly net sales totaled 660,700 mt for the 09/10 crop year. While this total is down from the prior week total of 825,000 mt, it above the 273,000 mt average needed each week to reach the current USDA export projections.

Cold weather in the soft and hard winter wheat belts has raised some concerns and may be providing some support to the respective wheat markets. While cold temperatures can cause some damage, this does not appear to be a market moving issue at this point. Most areas have plenty of protective snow cover.

I expect wheat market volatility to increase from that experienced over the last few sessions and I believe these markets will experience a modest short term correction to the upside. This belief is based primarily on oversold conditions. Demand has been better of late, but buyers would likely back off if the market rallied 30 to 40 cents.

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