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Can Wheat Work Higher From These Levels?

The wheat sell off experienced on Wednesday may have exhausted the heavy selling for the time being. The front month contracts in all three wheat markets had basically posted new four month lows prior to a modest short covering rally. From a technical stand point, these markets remain oversold. The short covering rallies of late have been minor and usually fail late in the session. Today the short covering rally remained intact late in the session.

For the time being, the market looks poised to develop a rather broad trading range. With a little help from the outside markets, crude not down \$4.50 and the dollar not being up .500, a short covering rally in wheat should be able to build some momentum. Expect rallies in the wheat market to be limited by the massive global supply of wheat.

I expect to see the short covering rally continue from these levels. I, also expect to see the Mar contract in Chicago test the \$5.00 to \$5.05 level on a short covering rally. A rally of this nature is going to be based entirely on the technical aspects of the market and the large net short position held by large speculative traders in the Chicago wheat contract. Large specs are net short over 60,000 contracts. That is not a record large net short position, but it is a large net short position none the less. From the bull's perspective, the market is going to have to perform from these levels. Breaking through the lows of late September and early October will result in an increase of selling. Price action in the outside markets is going to play a large role in the price of wheat futures. The recent commodity sell off may be overdone. If the commodity market selloff is not overdone, wheat has little hope.

While weekly export sales of 418,200 mt were not all that impressive, the lower prices have triggered some recent purchases and tender activity. Iraq made a purchase of 700,000 mt. It appears the US suppliers sold 100,000 mt on this tender. Japan made a routine purchase. Morocco tendered for 103,000 mt of US soft wheat. The possibility of increased export activity will help support these markets, but it will not be enough to rally the market. If the markets are going to rally from these levels, it is going to be based on short covering.

Last week I started getting out of short positions in the wheat market. Most of these positions were put spreads or outright ownership of puts. I did have a few short futures positions and was short some calls. I have taken profits or liquidated all of the positions. While I believe the market is going to correct to the upside, spec traders have to be careful buying futures near these levels. I believe it takes a pretty aggressive trader to put on long positions in these markets at this point. If you are aggressive and looking to catch a modest short covering rally, I suggest calls or call spreads. These instruments define one's risk and allow one to ride out the massive swings in these markets. Personally, I am looking for a rally to sell once again.

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