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Wheat Continues Directionless Trade

The battle between large supplies and a large net short fund position continues. Wheat appears to be searching for a direction. Wheat has not traded outside the range established on Monday. I had an upside objective of 517 in the May contract of Chicago wheat. That level has been tested a few times. The market just does not seem like it is ready to make a move in either direction right now. The fact that selling dries up on sharp moves lower gives the bulls some confidence.

What has to happen to establish direction in the wheat markets once again? Because I do not believe the wheat market is going to stay in the recent range for very long, here are the items you are going to want to pay attention to. These items have not changed a great deal in the past few months. Fund activity, typically trend following funds, will continue to be very influential. The trade activity generated by trend following funds is often based on market momentum and the development of trends. The recent trade has lacked a trend, which has resulted in sharply higher or lower moves that lack follow through. I am looking for a sharp move that is followed by a second day of similar price action. I am inclined to be short wheat and I continue to look for opportunities to establish short wheat positions. It appears the May contract in Chicago can be sold between 415 and 423, if given the opportunity. If the market establishes trade above the Feb 16 high of 423 ¼ and more importantly the 50 day moving average, which is currently 426 ½, expect buyers to become more aggressive. Therefore, traders looking to get short wheat can sell near the recent resistance levels, but should willing to limit losses if the market establishes trade above the 50 day moving average. If this situation develops, I believe the pace of short covering by trend following funds will increase considerably.

The lower trade experienced on Thursday could set up the wheat market for a sizeable break. May wheat in Chicago settled just above the 20 day moving average of 501 ½. Expect selling to increase, if trade is established below this level. The downside objective becomes 581 ½ in this situation. The 581 ½ level is a very key level. The bulls have reason to be optimistic as long a Chicago May wheat continues to trade above 581 ½. If that level is tested a couple times and holds, it looks like you have to own wheat.

Because the funds play such an influential role in day to day price action, I continue to base my decisions on what is happening in the Chicago contract. Of late, I have been trading the other wheat markets based on price action in the Chicago contract. Typically, the wheat markets move in conjunction with each other, but Chicago gains more on up days and loses more ground on down days. I do not believe KC or Mpls is ready to play a leadership role in these markets unless problems with hard wheat crop develop or planting delays in spring wheat plantings actually become an issue.

I continue to prefer the use of options or spreads in these markets. Aggressive traders can make futures work. However, the recent price action has made it very difficult on traders that are trying to hold net long or short positions. I like the idea of owning the hard wheat, while selling soft wheat. I believe you can buy KC May or July at a 2 to 3 cent premium to Chicago May or July. I believe you can risk the trade into Chicago being at a 2 cent premium to KC. If it gets through that level, wheat will most likely be on the rise and I do not believe you want to short Chicago in that situation.