

## Wheat Fundamentals Did Not Support Short Covering Rally

The bearish aspects of the wheat market have once again taken hold. Additionally, all three wheat markets look weak from the technical perspective.

Front month contracts in all three domestic wheat markets are trading below key moving averages. Additional weakness will result in additional selling by trend following funds and Index funds may also revert to liquidation mode. Trend following funds were active buyers on the rally as they covered short positions. The Commitment of Traders report for the week ending March 17, indicates they were net buyers of 8,400 contracts in Chicago, which took the net short position to about 34,486. They had been net short 44,000 contracts recently. Index funds were modest buyers of 784 contracts. Funds were buyers of 4,500 contracts in KC.

The recent sell off has not damaged the prospects of wheat putting in a major bottom near the lows of early March and early December. However, the wheat market is going to need support from outside markets similar to the support garnered last week from high stocks and crude oil. Many in the market are still concerned about the possibilities of inflation as the Fed and central bankers abroad continue to print money. Inflationary concerns seem a bit premature. I believe this is going to be an issue, but a rally of this nature is going to have to sustain itself, because the market is not concerned about supply.

Weather will continue to influence price action. Forecasts for beneficial rainfall in many of the dry Hard Red Winter wheat growing areas helped put a lid on the last rally. Most key Hard Red Winter wheat growing areas have or are expected to receive rains through the weekend. Forecasts are always subject to change, but there are strong indications that many growing areas will receive at least an inch of moisture. This would be greatly appreciated in southeast Colorado, central and western Kansas, central and western Oklahoma and Texas. Regardless of whether or not the US needs an average wheat crop, you do not want to be short if, these rains do not materialize.

The growing season in the northern plains is a long way off in terms of market influence. That being said, the current overland flooding combined with normal spring rain fall would put many acres in the eastern Dakotas and western Minnesota in jeopardy. How many acres are lost will be determined by spring weather patterns. It is too early to act on these problems at this time, but this issue is worth paying attention too.

Do you have a question about this article? For a personal response within 24 hours, please email [brian.henry@archerfinancials.com](mailto:brian.henry@archerfinancials.com).

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