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## Wheat Looks to be Consolidating, Support from Corn Helps

Given the current fundamental resistance to higher prices in wheat, the wheat trade remains constructive. Barring any major change in the outside markets, wheat should continue to work higher over the near term. Traders looking at fundamentals are poised to sell these markets on any sign of weakness; however the market has proven to be very resilient.

The bulls in the wheat market continue to focus on the size of the net position held by trend following funds in the Chicago contract and to some extent the KC contract. At times, this position has pushed would be sellers to the sidelines. The most recent Commitments of Traders Report, as of April 20<sup>th</sup>, indicated that trend following funds were net short 61,500 contracts. We should see another slight reduction, as of April 23<sup>rd</sup>, once the report is released on Friday afternoon. Basically, we are looking at a reduction of 17,000 to 18,000 net short positions over the course of the corrective rally that began on April 5<sup>th</sup>. More momentum is needed to consider this a fundamental shift in how this short position is going to be handled going forward.

The bulls will be looking for the Chicago July contract to take out the 515 level in the next couple of days. Failing to reach 515 on Friday or Monday should bring the sellers back into the wheat market. If the 515 level is breached, the next resistance level is 520 ½, which is the 100 day moving average. A failure at anytime near the current or higher levels takes the Chicago July wheat contract back to 482 and eventually, to the 472 level. The unfortunate part about putting positions on in the current market, is the fact that from a technical standpoint, the potential for a bullish move remains intact unless the market trades below 460 ½. I would look at making cash sales in new crop wheat, when the market tests resistance and fails. I would also look at selling futures or buying put spreads or buying puts outright on a failure at these key resistance levels. Traders willing to take on more risk can look at selling calls and buying puts. Like the rest of the trade, I am concerned about being on the wrong side, if the funds cover shorts. If you are looking to sell futures or calls, one has to set risk parameters.

My focus on the Chicago contract stems primarily from the fund activity and to some extent the large volumes traded in Chicago. I guess both items go hand in hand. It will not be this way forever. Given the overall good condition of the winter crop wheat and the rapid spring wheat planting progress, there just is not much of a story in the other markets. The winter wheat crop continues to register a 69% good/excellent rating. Spring wheat plantings were estimated to be well ahead of schedule at 43% planted, as of Sunday the 25<sup>th</sup>. Besides some wet conditions in soft red winter wheat growing areas, which could result in disease problems, the weather remains favorable for development of winter wheat and spring planted crops. Additionally, the export pace remains sluggish at best. As a result of the previously mentioned items, KC and Mpls are along for the ride. Mpls and KC may be able to gain more premium, if the market turns lower. I expect both KC and Mpls to lose ground to Chicago on a rally.

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