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Wheat Defies Logic as the Outside Markets Face Heavy Selling

The current wheat market is absolutely fascinating right now. It seems everything I have learned in my many years watching the wheat market can be thrown out. I like the wheat market from the perspective of the large net short fund position and the possibility of additional short covering. However, I cannot take my focus off the fundamental resistance in these markets.

From a technical standpoint, the resistance on the July contract in all three wheat markets is right here. All three wheat markets made a strong attempt at taking out the highs from the prior move established on April 26th of 514 ¾ in Chicago July, 525 ½ KC July and 545 in Mpls July. Additionally, KC and Mpls July have traded above their 100 day moving averages of 522 ¼ and 536 ¾, respectively. The July contract in Chicago has not tested the 100 day moving average of 517 ½, but the market has shown a lot of resilience. I cannot rule out a test of this level. If you did not sell the test of these key levels on Thursday, you want to take a look at selling the next test of these levels. I have been very impressed with the resiliency of these markets, but I have to question how many more times the wheat market is going to be able to bounce back.

Besides the weak fundamentals encompassing the wheat market, one has to be concerned about the action in the outside markets. The dollar index continues a very impressive rally. Equity markets and crude oil look like a complete disaster. Soybeans gave up today. So far corn and wheat have continued to show some support. The weakness in the outside markets seems to have caught up to the agriculture commodities on Thursday. I am looking for a downward correction in the wheat market of 20 to 25 cents. I believe one can expect the Chicago July contract to work down to the 485 to 483 level. Do not rule out the possibility of trading down to 473 on a correction. The fundamentals suggest a test of the old low. I will not commit to that yet.

Wheat exports continue to meet expectations, but expectations are low. US export sales for all wheat of 150,200 mt. old crop and 134,100 mt. new crop were within expectations. Crop year to date sales of 809 million bushels are running 158 million below last year's pace. The USDA is probably 10 million bushels too high on their 2009-10 export projection.

Reports from the hard red winter wheat tour indicate that the crop is currently showing the same potential yields as last year. The final report comes out this afternoon. However, reports from the first two days indicate a potential yield of 40.3 bushels per acre. Last year they projected a bushel per acre average of 40.6. Basically, this confirms ample supplies of hard red winter wheat unless the weather does not cooperate.

Given the weakness of the outside markets, and yes the worst took place after the grains closed, I believe wheat and corn are being held together by the prospects of freezing temperatures in the Midwest. Temperatures in the mid to upper 20s are expected in western Minn and eastern Dakotas. Temperatures in the mid to upper 20s for a duration of a couple of hours could cause some damage to recently emerged corn and spring wheat. Additionally, wheat in the boot stage could be susceptible to damage, if the cold weather reaches into Nebraska and northern Kansas.