

The May Wheat Rally Stumbles, Mpls Stays Firm

The May wheat rally took a breather on Wednesday, after 5 consecutive days of posting new highs for the rally. Buying by both large and small speculators has been prevalent on the recent rally as new investment capital has flowed back into commodities. Continued strength would trigger more fund buying, but longer term prospects remain negative.

As of May 5th, the Commitment of Traders report indicated that trend following funds in Chicago reduced their futures and options position by 13,800. At that point, they were net short about 40,000 contracts futures and options. They have continued to buy on modest breaks since that point. Trend following funds in KC had increased longs to about 2,300. Trend following funds in Mpls added about 900 contracts. They are net long about 6,400. The majority of this long position is in old crop contracts.

The USDA report released Tuesday morning projected a drop in 08/09 ending stocks to 669 million bushels. This decrease was larger than the trade expected, but not exactly a bullish figure. Additionally, world ending stocks for 08/09 were increased about 9 million metric tons to 167. Finally, world ending stocks for 09/10 were estimated to be 181 million metric tons. While these numbers may be in question, the fact that the world has ample supplies at this point is not. These factors will continue to weigh on wheat prices going forward.

USDA reduced expectations for 09/10 US wheat production. All wheat production was reduced by 70 million bushels to 2.026 billion bushels. US winter wheat production for 09/10 was pegged at 1.502 billion bushels. This is a reduction of 25 million bushels from the prior estimate. This estimate indicates a 20% reduction from last year. Credit these reductions to multiple factors including too much wet weather in some areas, dry weather in other areas and freeze damage.

The US dollar is trending lower, which helps the competitiveness of US wheat, even at higher prices. Pakistan has indicated that they do not plan to export any portion of their 2 million metric ton surplus. Concerns are growing in Egypt about the quality of some of the wheat that has been imported from Russia.

The wheat markets are overbought and due a correction. Spring wheat planting progress has been made, but dry weather is needed in many areas of North Dakota. Spring wheat will likely experience more support than the other wheat markets until the funds roll their large net long position to new crop.

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

This report includes information from sources believed to be reliable and accurate as of the date of this publication, but no independent verification has been made and we do not guarantee its accuracy or completeness. Opinions expressed are subject to change without notice. This report should not be construed as a request to engage in any transaction involving the purchase or sale of a futures contract and/or commodity option thereon. The risk of loss in trading contracts or commodity options can be substantial, and investors should carefully consider the inherent risks of such an investment in light of their financial condition. Any reproduction or retransmission of this report without the express written consent of AFS is strictly prohibited.

[Sign up now](#) to receive this article via email every Wednesday afternoon.