

## The Wheat Market May Be Poised for a Short Covering Rally

The wheat markets have once again tracked back into oversold conditions. These markets are prone to a sharp short covering rally. A rally of this nature could last a couple of days. If the dollar continues to weaken, the wheat market could rally back through the key moving averages on a correction.

### Mpls July Chart



I realize the fundamentals of the wheat market are weak. Given the global supplies of wheat and the relatively favorable weather in most key growing areas, the fundamental resistance is not going away soon. That being said, the recent strength in the US dollar and the overall bearish stance towards commodities are the primary factors behind the move lower over the course of the last week. Dollar strength and downward momentum have triggered large amounts of fund selling from time to time. The heaviest fund selling has been and will be experienced in the Chicago contracts. The same can be said for fund buying, when it occurs. Once the funds have completed the selling they need to do, the selling pools dry up in a hurry. The recent trade is eerily similar to the trade experienced from mid March to early April. Although the market was consistently working lower, the market had a tendency to rally late in the session. Many in the trade were at that time and still are concerned about the prospects of a short covering rally in which a relatively large percentage of the buying was done by weak shorts and trend following funds. This type of trade does not build confidence for the sellers.

I am inclined to believe that the wheat market is in a consolidation phase just above the lows experienced on April 5<sup>th</sup>. KC and Mpls have shown more support of late. I believe this is also a result of the large fund presence in Chicago. However, I cannot completely rule out the possibility of Mpls having some weather premium based on the early stages of the crop. Additionally, protein may become an issue. The HRW crop has not experienced a great deal of heat related stress. Typically some stress is beneficial to the hard wheat crops in terms of producing protein. We cannot know the quality of the crop until we get into the harvest. At this time, I am expecting to see a lower protein HRW crop. Overall, the winter wheat crop appears to be in good shape. A lack of moisture does not seem to be a problem. Some areas have experienced excess rains and damaging weather. Many producers in OK would gladly take a drier weather pattern and more heat. The crop is being watched closely for signs of excess moisture related diseases.

The northern plains are experiencing favorable weather. Domestic spring wheat plantings should be effectively completed this week, although it may not look that way on the progress report. I am willing to say it will be completed in timely fashion. The spring wheat crop should get off to a very good start. Many Canadian producers are now making progress. Some areas in Canada could use more moisture, but most producers would like to complete plantings. Forecasts call for frequent rain events over the course of the next couple weeks.

If the July contract in Chicago continues to trade above 460 ½ on Friday, all three wheat markets should trigger a short covering rally. There will be plenty of fundamental, resistance not to mention the possible resistance from weak outside markets or a stronger dollar. However, I like the prospects of a short covering rally from these levels.

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