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Wheat Remains on the Defensive as Winter Wheat Harvest Approaches

Wheat continues to trade lower as the market searches for a near term bottom. Regarding near term pricing the fundamentals have experienced little if any change. Going forward, there are a few items that merit attention. The primary item that needs attention right now is the extremely wet conditions and slow planting progress in Manitoba and Saskatchewan. Additionally, wet conditions in the northern plains of the US have resulted in some loss of acres.

Many key growing areas in Saskatchewan and Manitoba have been inundated with rain over the course of the last couple of weeks. Not only will this limit progress going forward, but established crop in many of these areas has been destroyed due to flooding. The obstacles ahead consist of trying to finish planting the land that has not been planted and the possibility of re-planting acres that have been damaged. The challenges are greater than they may seem. First of all, it has not stopped raining. Periods of showers are expected in many of these saturated areas for the balance of this week and into early next week. Additionally, Canadian producers are running out of calendar. Besides the prospects of freezing late in the season, Canadian producers are up against insurance deadlines. Worst case scenario puts the potential loss at 2 million wheat acres.

The reason this is not a major issue right now is the large supply of wheat available on the global market. This fact is going to continue to provide resistance to the wheat market going forward. However, the global market has experienced a reduction of planted acres. This combined with acres damaged by wet conditions may allow the trade to grind away at the large supplies available right now. If the US is expected to have an old crop carryout between 900 million and 950 million bushels and the new crop is in good shape as we approach winter wheat harvest, you have to start somewhere. The fewer acres and the potential damage to the new crop spring wheat in the US and Canada are the only ways to make a sizeable dent in the current supply of wheat. I do not believe the globe can increase wheat use enough to make a dent in the current supply.

These problems and the early stage of the spring wheat growing season should allow Mpls contracts to continue to hold a premium to the other markets. The long Mpls Dec and short Chicago Dec wheat spread has made a fairly steady climb since early March. From the perspective of the speculator, this spread has gotten too rich to enter at the current prices. Participants holding the spread can allow more time for this spread to play out. As the winter wheat harvest moves into full swing, hedge pressure will provide additional resistance to the winter wheat contracts. I am not concerned about trend following funds covering a large percentage of their current net short position, although trend following funds do hold a very large net short position in Chicago. From the current levels, the wheat market will need to see substantial upside momentum before the trend followers will begin to cover large portions of their current position.

Going forward the wheat market is oversold. Therefore, the market is susceptible to sharp short covering rallies. The fundamentals of the market have not changed. There is plenty of wheat available right now. While the market has gotten closer to bottoming out, there will be plenty of resistance in this market going forward.

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