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The Rollercoaster Continues

Wheat posted a sharp rally after experiencing a very dramatic sell off on Wednesday. Wheat remains a follower to the upside and a leader on moves lower. The price action in wheat depends heavily on activity in the outside markets, while all commodity markets have a keen interest in the US dollar.

Wheat's reaction to the higher move in the US dollar on Wednesday highlights the weak short term and long term fundamentals surrounding wheat. Based on the fundamentals wheat is still overpriced. Any advantage US exporters may have gained by the recent weakness in the US dollar has been countered by higher futures prices. Demand remains weak and exports remain light. Buying or selling by trend following funds is going to be the determining factor in where the price of wheat goes from here. I estimate that trend following funds had reached a net even position in Chicago wheat prior to Wednesday's session. I believe they may be a very slight net short as of the end of the session on Thursday. Further weakness in the US dollar and possible support from the outside markets would result more buying. I do not believe funds are going to continue to carry a moderately short position as commodities "feel" bullish.

The fundamentals surrounding the KC and Mpls markets are more supportive than the fundamentals of the Chicago market. However, the hype surrounding the wet weather conditions in the northern plains has run its course. For all intensive purposes the spring wheat crop is planted. Crop progress reports as of May 31st indicates that spring wheat was 89 percent planted, which is a little behind schedule. There has been chatter about a possible loss of 2 to 3 million total tillable acres in North Dakota. While there have been losses, I do not believe the loss of spring wheat acres is going to be a major issue. Expect to see an increase of acres in western North Dakota and a decrease of acres in the valley. Normally an acre in the western part of the state does not produce as much as an acre in the eastern part of the state, however, the overall quality, especially the protein level of wheat produced in the western areas is usually a little better. I do not believe I'll be concerned about the supply of spring wheat unless central and western Dakota and eastern Montana dry out in June. Generally, these areas dry out. However, it is important that they do not dry out early in the growing season.

Although we are 30 to 40 cents off the high, I favor getting new crop wheat sold near these levels, if you have been hesitant to sell wheat so far. Put option ownership allows the producer to minimize downside risk, while allowing for gains if the market moves higher. Producers that are willing to hold and finance short positions can take a look at selling futures contracts. Unless you are willing to do this, I would not sell futures. Speculators of all sorts may continue to buy these markets for a variety of reasons including the possibility of inflation. If you are not interested in owning puts, I guess you are subject to taking your chances in the cash market. Do not expect the fundamentals to support the current prices.

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