

Short Term and Long Term Fundamentals Weigh on Wheat Market

The wheat market continues to come under pressure as the US dollar has bounced off its recent lows. The May rally came to an abrupt end once the dollar found support. However, dollar weakness on Thursday did not generate heavy buying of wheat. Fundamentals also remain weak as most estimates on the recently released USDA report were bearish. Expect these fundamentals to continue to weigh on these markets.

The May rally was primarily supported by trend following funds being caught short and concerns about planting delays in northern plains. Trend following funds have reduced their net short position to a very manageable 6,800 contract in Chicago. Trend following funds continue to hold net long positions in KC and Mpls. The market will try to rally on further dollar weakness. However, I question whether or not the funds will be comfortable with their current position. I am not sold on the fact that funds will increase buying activity substantially, if the dollar continues to move lower. The Chicago July 200 day moving average of 606 will likely provide resistance. I believe the market is going to have establish trade above the 20 day moving average, which currently sits at 614, in the Chicago July contract to entice fund buying. I do not believe trend following funds will be inclined to build a long position unless the market is able to rally back to the recent highs.

The recently released USDA reports were considered bearish and should provide additional resistance to the wheat markets. Estimates for domestic and global wheat stocks continue to increase. US ending stocks for 09/10 were pegged at 647 million bushels, up from an estimate of 637 million bushels in May. The average analyst estimate was 606 million bushels. Production was pegged at 2.016 billion bushels, a slight reduction from the May estimate of 2.021 billion bushels. Stocks increased on lowered feed usage. World ending stocks for 09/10 crop were increased to 182.7 mmt from 181.9 mmt the prior month. Canadian ending stocks estimates were lowered to 25 mmt from 26 mmt the prior month due to poor planting conditions and persistent cool weather. Further deterioration of this crop would put the focus back on Mpls as the majority of wheat raised in Canada is spring wheat.

I expect the price of wheat to work lower as harvest approaches and demand remains weak. I would be surprised to see the funds build their net short position, if the dollar continues to weaken. However, there are few reasons to buy this market at this time and the path of least resistance is lower.

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