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### More Bearish News for the Wheat Market

The wheat market has few friends as the Northern Hemisphere harvest proceeds. Wheat fundamentals are stacked against an extremely oversold futures market. While this market is going to have difficulty sustaining even a modest rally, a short covering rally is likely. However, a 45 cent rally in soybeans could not trigger a buying spree in wheat on Wednesday. At this point, I would not expect much more than a 25 to 30 cent rally. Any rally of this nature is most likely going to be the result of a slowdown in technical selling.

The USDA estimated 09/10 spring wheat plantings at 13.772 million acres. While this figure is 363,000 acres smaller than last year, it was much higher than the most analysts were expecting. The average analysts' guess was 13.102 million acres. Domestic plantings estimates of all wheat varieties were also raised to 59.775 million acres from the March estimate of 58.638 million acres. These estimates add additional resistance to a market that is already falling under the weight of adequate domestic and global supplies, harvest selling and weak global demand. Additionally, wheat is not likely to gain much support from corn as that market will have to fight the resistance of an 87 million acre crop. Corn, like wheat, is due for a corrective rally after selling off sharply during the month June.

Trend following funds were sellers of 5,500 Chicago wheat contracts last week. They continue to build their net short position as weakness results in additional selling. I estimate the current trend following fund position at over 31,000 contracts net short. The recent high water mark for fund short positions was about 44,000 experienced this spring just prior to the May rally. The wheat market has not been reacting positively to a weaker dollar trade of late. It appears the funds could continue to build short positions in Chicago. It appears the funds may continue to reduce a modest net long positions in KC and Mpls. While the market is struggling to handle the current selling, net short positions will have to be covered at some point.

Global demand remains weak. Expect global demand to remain weak as local areas buy harvested production. Egypt did buy 90,000 mt from the US and France this morning. Japan remains a decent buyer of wheat from the US, but the US is going to have to be a much bigger player to reduce the expected 09/10 carry out of 667 million bushels.

Trying to come up with a bullish scenario is difficult. Global think tanks have made some reductions to the expected global production. Based on the current supply, I am not sure any of this information is noteworthy at this point. Plantings in Argentina may be down as much as 40% due to dry weather and poor planting conditions. Argentina was not a major exporter this year and will most likely have to remain on the sidelines. This opens up the possibility of increased exports for US and Canada.

Expect wheat to struggle to find higher prices as users remain patient. Demand will likely remain weak at least until the market is able to break this current down trend. The funds hold the key to a move higher. Without the funds on the buy side, the market is going to have trouble holding these levels.

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