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Wheat Rallies from Oversold Conditions on the Strength in the Corn Market

The wheat market has garnered support from a sharply higher corn market and weakness in the US dollar index. These factors will likely have to continue for the wheat market to establish trade above resistance levels. The Chicago contracts are gaining on KC and Mpls, which leads me to believe buying from trend following fund community has been the key factor the last couple of days.

All three wheat markets settled strong on Thursday. They have all reached key resistance levels. The December contract in Chicago settled near the 100 day moving average of 528 1/2. The December contract in KC settled near the 100 day moving average of 528 3/4. Finally, the December contract in Mpls settled near the 50 day moving average of 546 1/2 and the 100 day moving average of 549. Trade above these levels would likely trigger additional short covering. The futures contracts at the CBOT would reflect this type of action the most. This is important, because I feel the funds have to be the buyers on this move. It is also important because of the likelihood of the Chicago contracts gaining on the KC and Mpls contracts in this scenario. Mpls Dec vs. Chicago Dec settled inside of 19 cents (Mpls premium) on Thursday. That is an attractive level for spread traders. While I would like to put this spread back on, I am going to wait to see how these markets react near the current resistance levels. Additionally, the market has experienced a fair amount of beginning of the month fund buying on Thursday. I expect to see some additional fund buying early in the session on Friday. The fund community often uses a three day window to establish or cover positions. Friday will be the third day of fund buying generated by the bullish corn report and the second day of beginning of the month fund buying.

Fund buying or not, I would not be surprised to see some profit taking late in the session on Friday. Wheat has had a nice move higher and traders may be willing to take profits and square positions prior to the 3 day weekend. Producers should be looking for areas to sell into this rally.

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