

7/22/10

## Wheat Continues Torrid Pace Higher

Wheat continues a torrid pace higher, as concerns about yield potential in the EU and Black Sea regions mount. Forgotten is the extremely large global carryout and the excessively high expectations for US domestic carryout. What started out as correction of oversold conditions has resulted in a \$1.50 plus move to higher levels. This move has traders of all sorts asking how much is enough for now?

The problems with the crop in the EU and Black Sea region are not going to go away anytime soon. That EU crop is maturing quickly and receiving moisture now may do more damage by hindering harvest progress than it could help by relieving very dry conditions. The Black Sea region is in very similar shape, except this region continues to deal with very hot temperatures with little hope for rain over the course of the next week. Yield potential will be reduced from the standpoint of poor plant development, but light test weights are also a real possibility in many regions. That being said, quality should not be an issue until a larger percentage of the foreign wheat crop is harvested and the trade gets a better handle on the overall state of the crop. Basically, the production problems are going to allow the global wheat trade to make a significant dent in the global supply of wheat. It should result in the US becoming more involved in the export market, which would be great as the 10/11 wheat carryout is expected to be well above 950 million bushels. However, that is all in the future. Right now the wheat market is trading on the likelihood of future reductions in production. As that is happening, the bears are moving to the sidelines as selling futures is not working.

I would also be very careful selling futures into this market. I love the idea of being short the market for the impending correction. The market has not given many signs that it is ready to give up just yet. On Wednesday and Thursday of this week, the highs were experienced very early in the session. The market then proceeded to sell off into the close. The bears need to see reversal type action, which usually consists of higher highs followed by a lower settlement. The market has not experienced this yet. Until it does, it is going to be very difficult to sell from the speculative standpoint.

Producers, on the other hand, have to take advantage of this rally. This is a great opportunity that seemed unlikely only a month ago. Selling futures to hedge wheat production may be difficult as the rally proceeds. Buying puts outright will also be difficult as the volatility has resulted in high put premiums. I prefer buying puts or put spreads to protect to the downside. This alleviates potential margin requirements, if the rally continues and allows the producer to take advantage of the upside in this event. It cannot be done for free, however. You want to be establishing these positions as the market rallies. Once this market breaks (could be tomorrow; could be a month from now) it is going to experience a very sharp selloff eventually. While I do not believe the old lows will be tested anytime soon, there will most likely be a day where the market is going to be down 20 to 30 cents. You are not going to feel like doing any selling when that occurs.

Regarding how the US crop harvest is progressing, South Dakota is a little wet. I do not expect many problems to develop from this. The spring wheat crop is progressing nicely, as it should be almost entirely headed out by the end of this week. Harvest will begin soon and the crop looks to be in great shape in most areas.

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