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Is Wheat \$3.42 Higher and Counting?

As of the close of business on Thursday, the wheat market continues the rapid pace to higher levels. Support continues to come from concerns about coarse grain production in the Black Sea region and now the export ban implemented by the Russian government. However, the market has also reached levels that are forcing shorts and bear spreaders to liquidate losing positions. While the verdict on a top in the wheat market has not come in, I do believe the market is very close to making a near term top.

I am not discounting the problems being experienced in global wheat production. The problems are real and various countries that typically export wheat do need to evaluate supplies. That being said, the overall supply of wheat is not at a critical level. Based on estimates of the global wheat carry out coming into the current marketing year, the world had enough wheat to buffer a fairly large loss of production. While the loss of production this year is going to put more emphasis on growing a large crop next year, I believe the current global supplies would cover a loss of 28 to 30 million metric tons of 10/11 production. The loss of this production does merit higher futures prices. I am not sure I can get on board with a \$3.42 move higher in seven weeks.

The trade will continue to see and hear bullish news regarding the wheat market. The ban on Russian grain exports may be the first key to the puzzle. I would not be surprised to see similar action taken by the Ukraine and Kazakhstan. However, at the end of the day, the issues that are going to need to be taken care of may stem from the overall quality of the crop. Additionally, many countries that import wheat may have to turn to non-traditional providers. Freight costs and logistics are also likely to be an issue as millers secure supplies. Therefore, the costs of trading wheat from the standpoint of importers are likely to be higher than they are accustomed too.

Based on Thursday's close, it looks like the corn and soybean contracts have put on the brakes. The wheat market may be on the verge of doing the same thing. While the production problems merit higher prices, I have to wonder whether or not a \$3.50 move higher isn't enough for now. From the bullish standpoint, there is plenty of room for the fund community to do more buying if they so choose. Additionally, recent sellers are very skittish and seem to be waiting for any type of technical signal before stepping in front of this move for a third time in some cases. Finally, I am not sure how well domestic users and especially foreign entities are situated for coverage going forward. Wheat that the US could not sell at \$210.00 to \$220.00 mt is now being moved at considerably higher prices. From the bearish standpoint, the US has the supply to cover many of the current needs. Finally, the market is extremely overbought from a technical standpoint. The bullish factors seem to outweigh the bearish factor, but that can change quickly. Whether these markets rally to higher levels or not, this is not going to end well. Expect the wheat market to continue to be volatile.

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