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Right or Wrong, The Wheat Focus is Shifting to Production Next Year

The wheat market has been a live wire of late. Wheat is attempting a 50% retracement of the late July/early August rally. Demand continues to remain strong as many foreign countries look to make up the short comings resulting from the limits put on Russian exports. Additionally, many countries and end users are using the recent slide as a great opportunity to secure supplies.

While demand remains strong, the trade is also keeping a watchful eye on the progress of winter wheat plantings. Obviously, the conditions in the Black Sea region have the potential to limit winter wheat plantings. These concerns are real and merited, as the current global supply of wheat is dwindling. However, global supplies at the beginning of the marketing year provided enough of a buffer to offset considerable losses. Perhaps from that standpoint, much of the focus should fall on next year's production. That is a very tricky proposition as assumptions will need to be made in a very dynamic situation. I can understand being long the wheat market on the premise of good demand and the likelihood of a substantial reduction of US wheat supplies. However, I am very hesitant to get long the wheat market with the premise of dry conditions continuing in drought stricken areas of the black Sea region. The dry conditions may continue or they may not, but this region can be afforded some time to see if the weather pattern changes and conditions get better. If the weather pattern does not change in the next month, I will become increasingly more concerned about the prospects of global winter wheat planting. There is talk of some minor relief forecast for portions of this region. Minor relief is not going to fix the problem. The trade is going to have to see a considerable shift in the weather pattern. I am not saying it will happen, but it is possible, as many of these areas can and do plant winter wheat into mid October. The final out may be planting spring wheat after winter weather replenishes soil moisture. As I write this in mid August, I have to consider that a very extreme measure.

Regarding the US winter wheat crop, the recent price rally has gotten the attention of wheat producers. Planted acres for all wheat in the US are estimated to be down 5 million acres from the prior year. The recent price rally in wheat will increase US winter wheat plantings. Perhaps acres could increase to the 59.1 million acre level of 09/10. Price action in corn and soybeans over the course of the next month is going to have a say in how this plays out. New crop wheat at the highs recently established is very attractive. New crop wheat at \$7.00 vs. new crop corn at \$4.30 is not quite as attractive for producers that typically plant corn and soybeans. Recently publicized ideas that Canadian producers are going to increase winter wheat acres are a non starter for me. Besides the fact that winter wheat plantings would be most likely stealing acres from spring wheat plantings, many of the excessively wet areas do not seem to be in adequate shape to plant winter wheat.

Egypt continues the process of securing supplies once expected to be Russian origination. Weekly wheat exports sales indicated there were 1,412,500 mt of net sales. Egypt made up about 594,000 mt of these sales. The bulk of their buying was HRW. The majority of the business was for September delivery. The process of moving this wheat, as wheat futures prices remain near these levels, will likely provide some support to the basis levels. Going forward, the bulls are going to need to see strong demand continue, I expect strong demand to continue. However, there will come a point when the bulls will need to see the managed money community shift to a long position in the Chicago contract. As of August 10th, they continued to hold a miniscule net short position of less than 5,000 contracts.

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