It’s All About The Dollar

Volatile trade continues, as the wheat market and frankly all commodity markets continue to be heavily influenced by the dollar. While funds of all types always play a significant role in these markets, their trade activity over the last two weeks has also been a big influence on these markets. Much of this trade activity is predicated on strength or weakness in the dollar. Additionally, the wheat, corn and soybean markets have been trading at, near and through many of the key moving averages, which generally increases fund trade activity.

Recent dollar weakness has been a very supportive influence to the wheat markets. Dollar weakness increases the prospects for export activity. To a large extent this has been offset by higher futures prices. However, a US company was able to sell 100,000 mt to Iraq overnight. Given current supplies, any opportunity to move wheat is a good. Weekly export sales were 347,000 mt, which is down considerably from the prior week and the prior 4 week average. Exports would likely remain weak at current prices. However, further dollar weakness would likely result in higher futures prices as trend following funds continue to cover a sizeable short position.

As of Tuesday, Oct 20th, the most recent Commitment of Traders submission, showed that trend following funds reduced their net short position to 37,000 contracts in Chicago wheat. The report indicates that trend following funds had increased longs by 1,700 and decreased shorts by 8,400 contracts. That qualifies as genuine short covering by that group. Additionally, the net short position was reduced even further as trend following funds continued to cover positions on Wednesday, Thursday and Friday morning. Trend following funds in KC returned to a modest net long position of 1,600 contracts. Minneapolis remains net long roughly 4,400 as of Oct 20th. Index funds are net long 175,300 Chicago futures and 37,500 KC futures. Further weakness in the dollar increases the prospects of more fund buying and ultimately higher prices. However, the wheat market will need to continue to build momentum to the upside to trigger additional short covering. The dollar index may test the 14 month low of 75.085, and if that level continues to hold the wheat market will have a difficult time rallying, as the fundamentals may support current prices, but do not support a rally.

Regarding the current spring wheat crop and the prospects for next year’s production there are a few problems. Rain every other day is not conducive to the completion of the spring wheat harvest. There are a few pockets of wheat that have not been harvested. Obviously, this wheat is severely damaged, and some of it may not be harvested at all. However, it isn’t enough to make any difference on a 600 million bushel crop. Generally speaking, hard red winter wheat plantings are on pace. The southern plains are a little bit behind schedule and many soft wheat growing areas are well behind schedule. Wet weather and the fact that many of these fields still have beans and corn standing on them has limited the ability to get wheat planted. Ohio has made good progress. Arkansas, Indiana and Illinois are well behind schedule.

The dollar is going to continue to play a key role in the price of wheat. Fears about the possibility of inflation will create buying in these markets periodically.