

Wheat Continues to Push Higher, Defying Fundamentals

Wheat continues to push higher in very volatile trade. Fund buying appears to be the primary factor, but many shorts have also been forced to liquidate positions as their positions are just not working. While I believe the market is going to work lower, I cannot fault people for blowing out of short positions.

Although the market has been pushing higher, the trade hasn't exactly been easy for the bulls. Moves higher have generally been followed by sharp moves lower. That being said the market has not broken the trend line. One day it will and the result is going to be a very sharp selloff. That's not to say the fundamentals are going to be a factor. Personally, I hope they do become a factor sooner than later.

The USDA estimated the 09/10 US wheat carry out at 885 million bushels vs. 864 in October. The average analyst estimate was 869 million bushels. This is simply another confirmation of a very large US wheat stocks. Additionally, the world wheat carry out was increased from 186.7 million metric tons in October to 188.3 million metric tons on Tuesday. These factors do not support higher prices, but we continue to get higher prices.

The momentum of the wheat market remains positive as we continue to put in new highs. However, the rallies that we have experienced the last couple of days have failed late in the session. This pattern will likely limit the aggressiveness of the bulls.

While the funds have been good buyers of late, fund buying will slow down unless the market is able to sustain rallies from this point forward. Trend following funds were once net short about 75,000 contracts in Chicago. Their net short position is probably nearing 20,000 contracts net short. The wheat market may need the downward trend in the dollar to resume, before the market can push much higher. The dollar appears to be correcting off of recent lows. I do not believe the dollar is ready to change course. I expect to see a very modest rally (Thursday's move may take care of it) followed by a resumption of the downward trend. Regardless, we may see the dollar work higher near term. That will limit some commodity buying. Once the correction is complete, it may be tomorrow. or it may be later, but we expect the investment community to continue buying commodities.

The market is going to remain volatile. I expect to see a pause in the uptrend as the dollar corrects. While I believe the market is going to work lower, be careful selling the market near these levels. Trend following funds may need to cover an additional 20,000 contracts just to get even. That type of short covering could result in a 30 to 40 cent rally from these levels. One does not have to wait for the fundamentals to become a factor before they sell this market, but I would let the market lose some of the upward momentum before I aggressively sold futures. I would look at buying puts or put spreads to establish short positions.

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