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The Wheat Market Attempts to Reverse Course, Tread Lightly

Overbought market conditions and perhaps a modestly higher dollar have brought some selling into the wheat market. However, this market continues to demonstrate plenty of upward momentum. The fundamentals surrounding all three wheat markets remain dismal and have not had any influence.

Money continues to flow into commodities, as investors continue to look for opportunities to hedge against inflation. A weak dollar is a key factor, but wheat has posted very impressive one day rallies on days that the US dollar Index has posted gains. While the dollar appears to be trying to stabilize and at times looks pretty good on the chart, the prospects for the dollar going forward do not look very good.

It looks like money is going to continue to flow into commodities. While wheat futures prices appear to be drastically over priced, you cannot fight the trend from the short side. There is just too much potential exposure. If one feels they need to get some downside protection, they have to take a good look at buying puts instead of shorting the market.

Right now, owning commodities is a trendy thing to do and, for the most part, recent buyers have done well. This is a high profile trade with many influential parties paying attention to it. I believe the short dollar trade and the long commodity trade is overcrowded. However, in the longer term, a market that does not have supportive fundamentals will falter. Wheat fundamentals have not been supportive as evidenced by the weak export activity and weak basis levels, specifically in the soft wheat.

While I believe inflation eventually will create many problems, I do not believe we are to that point yet. Inflation is too many funds chasing too few goods. While excess capital is certainly prevalent, demand remains questionable and, in the general case of wheat, deliverable supplies are ample.

Look for volatile trade to continue. Unless the dollar turns higher, I expect investment capital to continue to flow into commodities. I continue to key my decisions off of the March wheat contract in Chicago. This contract will have to continue to close above the 200 day moving average of 577 ½. If the market fails to close above that level, I expect selling to increase. Wheat would also give up some of its recent gains compared to corn. I believe the March wheat contract in Chicago could work its way down to 530, but I would not rule out 509. If that selloff is experienced, the market would be prime for a rally up to 650 possibly 700. If you are looking to get re-ownership of some wheat, take a look at buying some calls or call spreads on that selloff.

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