

The Wheat Market Rally Pauses

The wheat market trade continues near the middle of the trading range established over the course of the last few weeks. The market expected fund buying during the beginning of the month, but that has not materialized. Many in the trade expect funds to be decent buyers through December and early January. Some of it will be based on Index fund reallocation after the first of the year. Wheat is overvalued, but I do not recommend fading the possibility of additional fund buying. Buy puts to hedge current production.

The recent wheat trade has not demonstrated much in terms of direction. Unless another push of fund buying does develop, I expect the ambiguity of these markets to be removed over the course of the next couple days. The 20 day moving averages in all three wheat markets continue to provide support. The 20 day moving averages for the Chicago, KC and Mpls March contracts are 566 ¼, 560 and 573, respectively. Keep an eye on the March contract in Chicago. Funds are big players in all markets, but their influence in Chicago is often overwhelming. A modest correction in spite of a very weak dollar could allow the bears to breach these levels, which would generate long liquidation. I do not see a good reason for the dollar to post substantial gains, but markets do correct. The funds will buy on further weakness in the dollar.



The most recent Commitment of Traders Report indicates large specs in Chicago were net short about 19,000 contracts as of November 24th. As of the same date, large specs are estimated to be net long about 6,100 KC contracts and 7,100 Mpls contracts. Index funds continue to add longs. Index funds are estimated to be long 179,000 contracts in Chicago and 44,000 contracts in KC.

It does not appear the engineer strike is going to be a major issue for the grain trade. In fact, it may be over. The US continues to do some routine business into Pacific Rim countries. However, the current prices of soft wheat are not competitive into the Mediterranean countries. Winter wheat plantings are coming to an end. Much of the crop was planted late and in wet conditions, so it may not get off to great start. It appears Missouri is the only state that may suffer substantial acreage losses. They were only 69% planted vs. an average of 93%.

Stats Can estimated the 08/09 Canadian wheat crop at 26.515 mmt compared to the September estimate of 24.581 mmt. Production was down 7.3% from the prior year. Good weather late in the growing season was a tremendous help to the spring wheat crop. Current spring wheat production was estimated at 18.120 mmt compared to the September estimate of 16.561. Canadian spring wheat production was down a mere 1.5% from the prior year.

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