

Wheat Inundated With Selling

The pressure on the wheat market continues. The overbearing burden on the wheat market is the massive global supply of wheat. The dollar remains the key factor in terms of day to day price action.

The strengthening of the dollar, which limited fund buying initially, has resulted in fund selling. Each push higher in the dollar triggers additional fund selling. Until today, the March contract in Chicago had been supported by the 100 day moving average of 527. That level was breached today, which resulted in pretty heavy selling. My initial low level mark of 515 was also breached today. The new objective is most likely 500. The trade will likely see some follow through selling going into Friday's trade. If follow through selling does not materialize, the market may see a modest short covering correction. Again, the dollar will be a key factor.

What happens to the dollar is anyone's guess at this point. In addition to short covering in the dollar, it appears many are returning to a long dollar stance as a flight to quality. The shine has definitely come off the risk trade as stocks and most commodities work lower. Inflation does not appear to be a threat at this point.

The lower futures prices for wheat are being offset by the higher dollar. As a result, lower futures prices have done little to increase the competitiveness of US wheat on the global market. Soft wheat sales remain very slow as EU and Black Sea wheat is considerably cheaper. The hard wheat classes, including Hard Red Spring in Minneapolis, continue to do some business, but sales are at a slow pace. Generally, the hard wheat trade is going to routine Pacific Rim customers. The USDA should be able to reduce export expectations, and increase the carry out unless the pace of exports increases considerably. Increased exports will require lower prices.

Regardless of the market you are positioned in, focus on the March contract in Chicago. I would give this market a chance to test the \$5.00 level. On Friday, I am going to take a look at taking profits on the puts and put spreads that my customers own. We may be a little early, but it never hurts to take profits. I will be more aggressive taking profits on short calls or short futures positions. I am not a wheat bull by any stretch, but I am inclined to take profits on this break. A sharp short covering rally, dollar driven or not could be very detrimental to our positions as we move towards the first of the year.

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