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## Short Covering Slows, Outside Markets and Production Concerns Provide Strength

The strength in wheat continues as the dollar attempts to stabilize and funds continue to cover short positions. Additionally, the market remains concerned about planting delays in the northern tier and Canada. The possibility of losing spring wheat acres to various other crops does exist. Chatter about some of the remaining spring wheat acres possibly being changed to barley has increased. The wheat market is caught between the previously mentioned trend following fund short covering, which provides support and weak demand and increasing supplies, which provide resistance. Additionally, strength in corn and soybeans has also helped to support wheat futures.

Although the majority of production concerns pertain to the planting of spring wheat, Chicago wheat futures, which are basically backstopped by soft red winter wheat, had been the strong upside leader until the last couple of trading sessions. The fact that spring wheat has resumed the leadership role points to a slowdown in short covering in Chicago. The trend following fund net short position is in Chicago. As recently as late April, the net position was roughly 44,000 contracts. The Commitment of Traders report as of May 19<sup>th</sup> indicates trend following funds were buyers of a mere 1,439 contracts. The net short position had been reduced to roughly 18,000 net short. Index funds were also buyers of 1,439. I believe index funds will be quick to resume buying on further strength. Established trade above the 620 level in Chicago July will likely result in additional short covering and renewed Index fund buying. We could see a quick move to the 650 level. In this instance, KC and Mpls would be supported, but Chicago would remain the upside leader.

Wheat fundamentals do not support a move higher. US wheat is not in a competitive position on the global market. The bullish influence of a weakening dollar has been negated by higher futures prices. Growing conditions in the Black Sea region have gotten a little bit better. India and Pakistan have hinted at implementing export programs. It appears Egypt has come to terms with the concerns about the quality of wheat that has been purchased from Russia. I expect Russia got the point. Egypt has purchased about a 25% of the wheat exported by Russia this season. Russia cannot risk losing this business as harvest approaches.

Producers that have not gotten new crop wheat sold need to take a look at these prices. I am concerned about the possibility of inflation and increased speculative interest on the buy side of commodities. Therefore, I would refrain from selling wheat futures, unless one has the capital and discipline to hold the position, if futures post a significant rally. Alternatives include selling cash wheat or buying puts. I favor buying puts on new production. The ownership of puts allows the producer to take advantage further gains, while still providing downside protection. Current wheat fundamentals and the likelihood of future economic weakness merit having downside protection in place.

Do you have a question about this article? For a personal response within 24 hours, please email [brian.henry@archerfinancials.com](mailto:brian.henry@archerfinancials.com).

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