

Crop Production

# Winter wheat crop sets summer tone

## Wheat Outlook

By ARLAN SUDERMAN

### Key Points

- Plains winter wheat yields will set the tone for this summer's market.
- Follow the money flow to assess the scope of price moves.
- Volatility will likely remain with the market for several more months.

**H**ARD wheat prices rode hot, dry winds higher this spring, as drought gripped the Plains winter wheat crop. Periodic rains provided relief, but the crop is expected to fall short of levels needed to sustain stocks of quality milling wheat at a time when world stocks of the same are growing tight.

Wheat is a durable crop, able to overcome a great deal of adversity. That's why it's so prevalent in the Plains. You can't ever count wheat out, which is why many traders are anxious to see harvest results from the field. Those results will come in over the next 30 days as combines move north through the Plains. The size of the Plains winter wheat crop will tell the world the size of the deficit that must be filled by crops elsewhere.

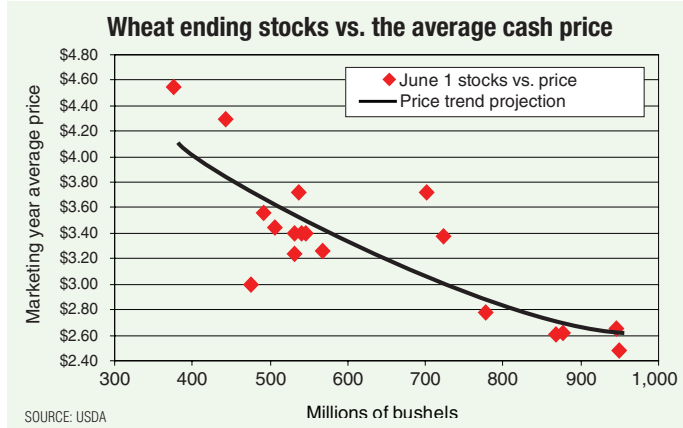
The focus will then shift to the northern Plains hard red spring wheat crop. Minneapolis prices rallied this spring to buy acres away from corn and soybeans, but weather and rising

row-crop prices made the job difficult. Growing conditions in the region over the next 90 days will determine final yields. Combined, the above factors will determine whether the market bull still has life in it, or whether it needs to go on life support.

Chicago soft wheat fundamentals justify a price range of \$2.90 to \$3.30 this summer, if tight hard wheat fundamentals were not a factor. Kansas City should remain in the lead well into the winter wheat harvest, with some of the emphasis shifting north to Minneapolis as the trade monitors growing conditions in the hard red spring belt.

### Follow the money

The oft-repeated phrase "follow the money" has never been truer in the commodity markets than it is this year. Fund money continues to flow into a



broad spectrum of raw commodities, including corn, soybeans, wheat, crude oil and precious metals.

Speculators fear being short (sold) on any commodity as long as new money continues to flow into the market. The money supply is expected to peak at some point, perhaps shifting back to other investment vehicles. The collapse could be significant at that point, but the ride should be a wild one in the meantime.

Fundamentally, support for wheat should remain strong if projected ending stocks are below 400 million bushels this summer. However, higher prices would be expected to ration demand, creating anxiety over where those stocks will eventually settle. A

move back above 500 million bushels would argue for hard wheat prices below \$4, but traders will be reluctant to settle there until they know more about this year's world numbers. A move to 10-year highs is possible if the Plains' harvest disappoints over the next 30 days, but larger-than-expected yields in Kansas could spell the end of this year's bull market.

Don't put all of your eggs in one basket. Spread out your marketing, and price a bit of next year's crop on market strength as well. Look for wide price swings to remain the norm through the summer, with a possible resurgence in the fall if weather threatens planting conditions. Sell rallies so you can sleep easy during the liquidation phases.



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