

# MARKET WATCH

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## Outside Markets Influence Kansas City Wheat Futures Prices

**Commodities are seeing more and more influence on price direction from the value of the U.S. Dollar and outside markets.**

**G**oing into the harvest season of 2010 and closing out the 2009/2010 marketing year, Kansas City wheat futures prices continue to hover in the \$5.00 range. Outside markets have played a significant role in price direction for the Kansas City Board of Trade Hard Red Winter wheat futures. This Market-Watch takes a close look at some of these components, including internal and external supply and demand influences.

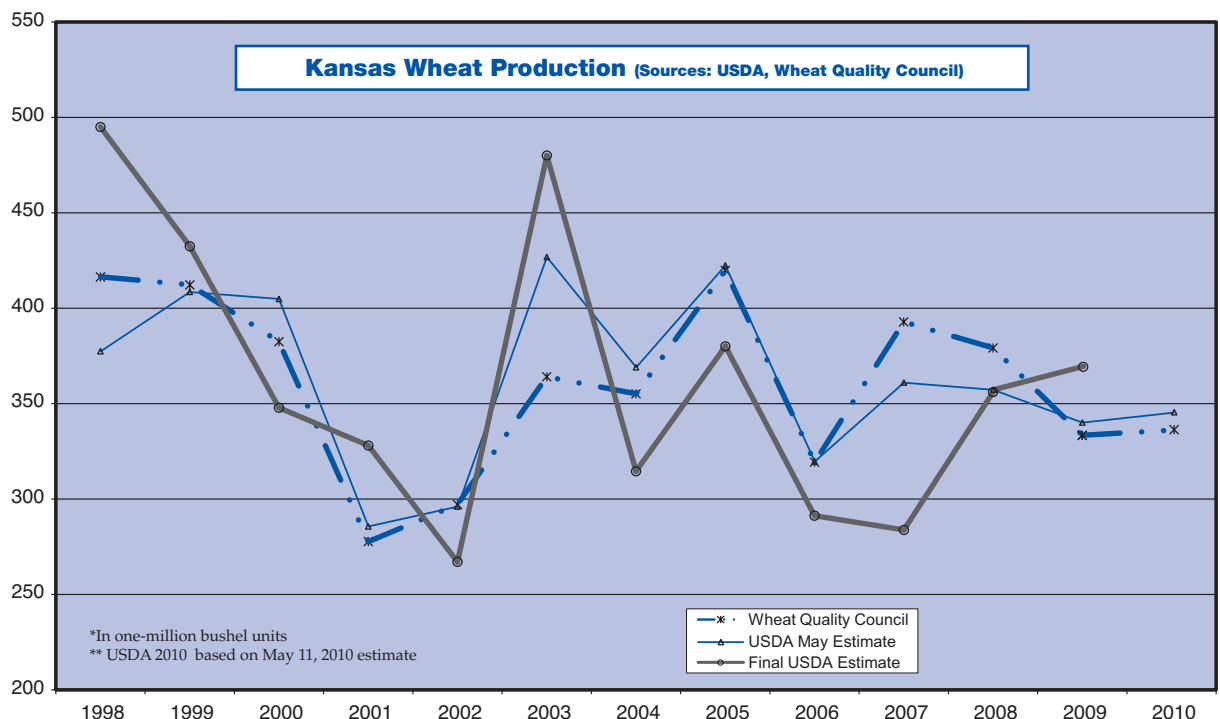
### Kansas wheat crop viewed as excellent to average condition by crop tour participants

The Kansas wheat crop was viewed by 67 scouts participating in the 53<sup>rd</sup> Annual Wheat Quality Council Hard Red Winter Wheat Crop

Tour the week of May 3-6, 2010. Kansas is the top-producing U.S. hard red winter wheat state. Participants in the tour made individual estimates on the total size of the crop, with the weighted average at 333.5 million bushels. The three-day yield average was 40.7 bushels per acre, .10 bushels lower than the 2009 estimate of 40.8 bushels per acre on the tour. Overall the crop was viewed as “consistent”, according to participants, with little disease or problems with this year’s crop seen.

“The USDA on May 11 estimated the Kansas wheat crop at 344 million bushels, just below the 10-year average of near 350 million bushels,” said Ben Hancock, the Executive Vice President of the Wheat Quality Council, Pierre, N.D. on May 10. Last year’s crop tour estimate was 333.3 million bushels. The USDA May estimate was

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340.0 million bushels. And the final USDA estimate in August for the 2009 Kansas wheat crop was 369.6 million bushels.

According to Hancock, "the good news is that most of the crop appears to be very healthy and has that good dark green color. We did observe some nitrogen deficiency problems in isolated areas. We have some producers concerned about leaf rust, but this would not appear to be a huge issue overall."

Participants in the Oklahoma crop tour and members of the Oklahoma Wheat Commission joined the Wheat Quality Council group in Wichita, Kan. to give an assessment of the Oklahoma wheat crop. Oklahoma participants announced a production estimate of 4.209 million harvested acres, 141 million bushels,

and an estimated 33 to 49 bushels per acre. This is significantly higher than last year's Oklahoma estimate of 77.4 million bushels.

According to Rich Kochenover, Oklahoma Acreage Agronomist, on May 5, "The crop in the Panhandle region of the state has the highest potential for production in the 12 years that I have been out here." Oklahoma planted 5.2 million acres of wheat, compared to 5.7 million acres last year.

### KC July slips below \$5.00

Going into the 2010 harvest season, KCBT wheat prices were approaching contract lows made at the end of March of this year. KC July wheat traded at \$4.73 on March 31 before bouncing higher and trading in the range of \$5.28 to \$5.07 between the

middle of April and the middle of May.

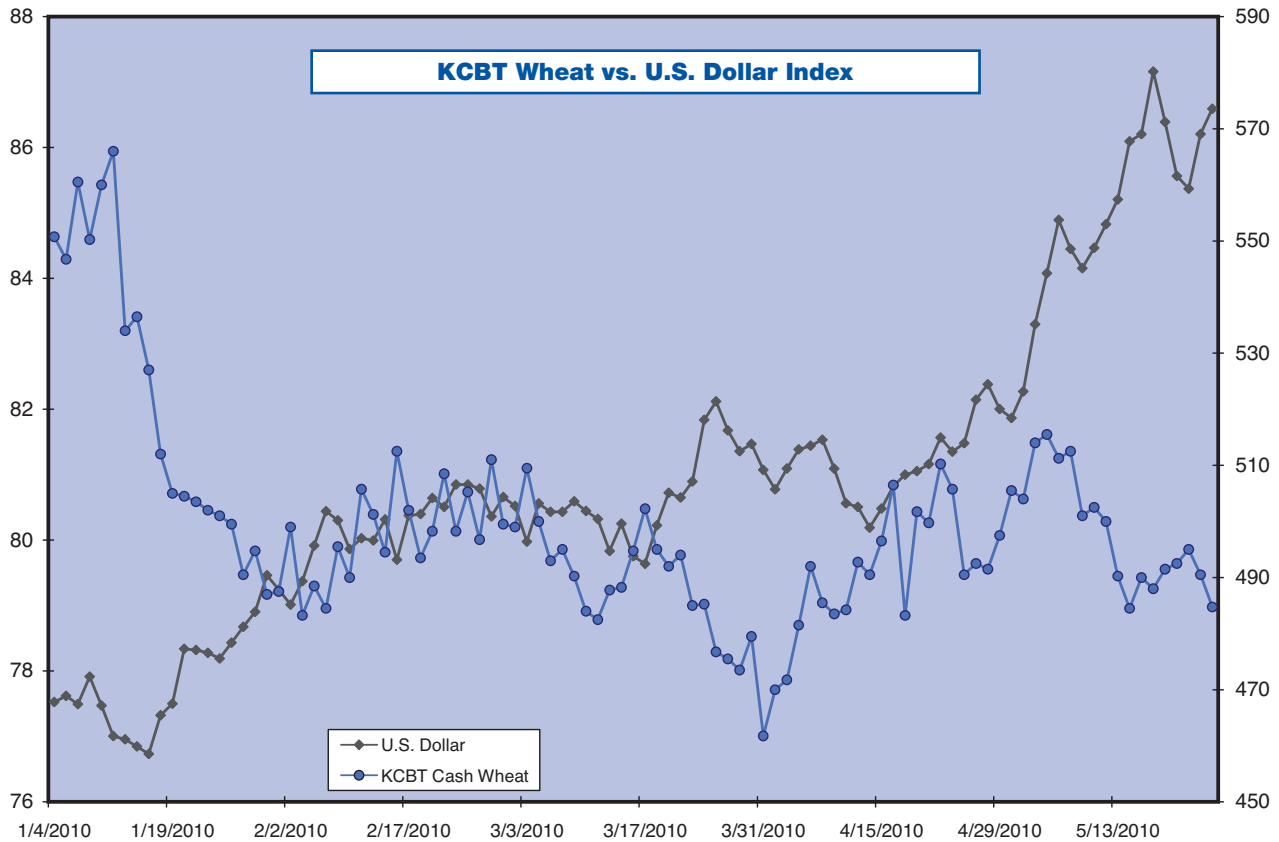
Prices started to slip below \$5.00 later in May due to influence of the stronger values in the U.S. Dollar and favorable conditions going into the harvest season. Compared to 45% good to excellent for the week ending May 24, 2009, the Kansas wheat crop was estimated at 65% good to excellent going into the week of May 17, 2010. This is a significant increase in the condition of the Kansas wheat crop from a year ago.

"Despite the decreasing price, wheat is still overvalued and the market needs to come down to start generating an increase in demand," said Darin Newsom, Senior Market Analyst, DTN, Omaha, Neb., on May 26. "Due to the reduced acreage of the

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## Index Value

## Cents Per Bushel



\* The USD Index measures the performance of the U.S. Dollar against a basket of currencies: EUR, JPY, GBP, CAD, CHF, and SEK (Euro, Japanese Yen, Pound Sterling, Canadian Dollar, Swiss Franc, and Swedish Krona).

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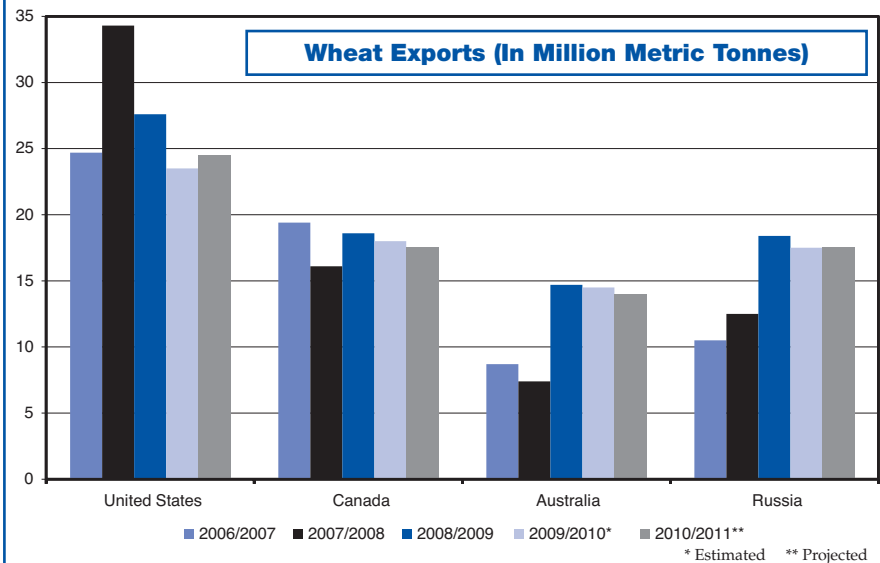
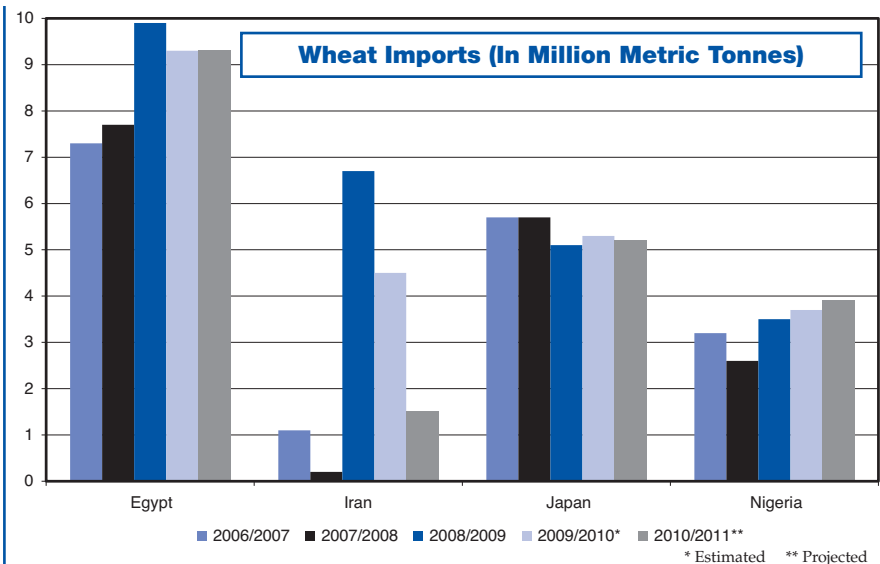
wheat crop this year, there is still a question of what the actual production will be until numbers start coming in from the harvest. If the numbers come in lower than anticipated, the market has a chance of a rally in late June and early July. This could be an opportune selling time. As for the futures market, an elevator could currently hedge out into a December or March contract and take the carry and storage costs."

Neal Driscoll, Grain Merchandiser with Louis Dreyfus, Kansas City, Mo., agreed with the strategy of selling futures out into a deferred contract month from a producer standpoint as well. "Right now the KC July 2010/July 2011 carry is the widest it has ever been on record," said Driscoll on May 27. "With Kansas City paying large carries, it would be an advantage for a farmer to find a way to store wheat whether at the elevator or at home and take advantage of the carry."

Driscoll recommended the wheat producer watch closely what is going on in the U.S. corn crop at this time as well. "Corn and wheat prices have converged at this point to be close to even money in the cash market," he said. "In many cases in the FOB market, U.S. wheat is cheaper than U.S. corn and because they are somewhat linked, a producer should be interested in what the corn market is doing and the status of this year's corn crop. If there were to be a severe drought in corn, the price of wheat is likely to rise with corn."

### Significance in the Value of the U.S. Dollar

In addition to fundamental factors, wheat futures are also seeing increased influence from outside markets, most notably in the value of the U.S. Dollar. As of June 1, 2010, the U.S. Dollar Index traded to a new high of \$87.47.



The U.S. Dollar Index consists of six foreign currencies, including the Euro, the Japanese Yen, the Pound Sterling, the Canadian Dollar, the Swedish Krona and the Swiss Franc.

Concerns regarding the status of the European markets and the European Union's economy have pressured EU prices going into the Spring of 2010 and brought more value to the U.S. Dollar. The Euro traded to a new four-year low against the U.S. Dollar index on June 1 at 1.21. Exports for U.S. wheat and grain are viewed as less valuable on the world marketplace due to the strength of the Dol-

lar, and U.S. commodity markets feel the pressure. Traders also watch how the energy markets are performing, including the value of cash crude oil, which traded to a new seven-month low of \$66.88 a barrel on Tuesday, May 25.

"The U.S. Dollar continues to be one of two safe havens versus the falling Euro, next to gold," said Newsom. "In reality, Kansas City wheat has held support relatively well in comparison to the rise in the dollar. Outside markets are indicating that wheat should be under more pressure than it is, particularly dealing with

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the domestic and global supply and demand situation at this time.”

Looking at USDA numbers, the U.S. carryout for the 2009/2010 marketing year is estimated at 950 million bushels with a 46.6% ending-to-use ratio. The U.S. carryout for the 2010/2011 marketing year is estimated at 979 million bushels with a 47.3% ending-to-use ratio.

“These are the largest numbers seen in quite some time and in fact the last 47% ending-to-use ratio was in the 1987/1988 marketing year,” said Newsom. “Overall exports are slow, estimated at 865,000 metric tonnes for the 2009/2010 marketing year. The slowest export demand pace since 1971-1972 continues to ratchet up the ending stocks-to-use percent.”

### Global wheat production and exports

According to the USDA, global wheat supplies for 2010/2011 in the May 11 reports are projected 2% higher with larger year-to-year beginning stocks more than offsetting lower expected production. Global 2010/2011 wheat production is projected at 672.2 million metric tonnes, down 1% from 2009/2010 and the third largest production on record if realized. Larger projected production in Europe, South America and the Middle East is more than offset by expected declines

in the Former Soviet Union, North Africa, South Asia, China, Canada and Australia.\*

“At this time there aren’t any major problems with major exporters of wheat,” said Driscoll. “The only minor problem that is being looked at currently is the weather in Northern France and Germany, and the weather in Russia and the Ukraine. If problems are to occur in these areas, it could translate into better exports for the U.S. Russia is expected to be a large exporter, with similar export numbers estimated for this year compared to last year. Overall there are no major production problems, and it is apparent that inelastic and non-price sensitive importers such as Japan and Nigeria should continue to be regular buyers of U.S. wheat.”

As far as major importers, there are some countries that are being lost due to changes in production. “This is the second year that India is running a surplus,” said Driscoll. “Iran is also showing a decrease in amount of wheat imported, and may not import any wheat this upcoming year.”

Outside of this, Driscoll does not expect any surprises on the import front. “U.S. exports in general are inelastic with traditional buyers, and

\* Referenced from the USDA May 11, World Supply and Demand Reports.

are not priced competitively for elastic buyers such as Egypt, he said.

Alongside keeping an eye on what the U.S. wheat market is reflecting from a fundamental point of view and in association with crop production numbers, it is apparent again this year that outside markets and the global marketplace also will have a major influence on price direction. Harvest is just beginning in the southern Great Plains and will move forward in the coming months, bringing a better idea of what kind of crop the U.S. will produce this year and a better sense of price direction for the future.

Using Kansas City wheat futures and options can assist customers in the management of risk and volatility in a marketplace that continues to fluctuate on domestic and global terms.

The Kansas City Board of Trade is the benchmark institution for the price of hard red winter wheat. Our website, with updated daily quotes, market commentaries, historical data and charting services is available online at [www.kcbt.com](http://www.kcbt.com).

Call your broker today to find out more about KCBT hard red winter wheat futures and options and how you can use them to hedge your risk.

## MarketWatch

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