

Wheat 'worst bet among grains'. Or is it?

Wheat is investors' worst bet among the major Chicago crops – or is it? Analysts on Tuesday divided on which is the smart grain to buy, with Goldman Sachs warning of a 20% slump in wheat futures over the next year.

Goldman analysts named corn as the most lucrative pick, forecasting Chicago prices of the grain rising more than 10% over the next three months to hit \$7.15 a bushel as hopes for US supplies are reduced further.

Although the US Department of Agriculture has already made a series of downgrades to its hopes for domestic corn supplies, "we expect additional tightening ahead and forecast significantly higher prices to generate both demand rationing and the necessary acreage response in the US [this] spring", they said.

Wheat futures, meanwhile, were set to fall by some 6% in the three months, undermined by "ample" supplies.

The grain's stocks-to-use ratio - a key measure of the tightness of supplies, and therefore of the prices it can command – is a relatively high 27% as of the end of 2010-11 on a global basis, according to the US Department of Agriculture, compared with the multi-year lows seen in corn and soybean equivalents.

In a year's time, Chicago's near-term wheat contract will be trading at \$7.00 a bushel, compared with \$9.04 a bushel on Monday for the March 2012 lot, Goldman said.

'Looks exhausted'

However, others analysts scrapped over the interpretation of latest regulatory data showing a rise of 38,095 contracts to 430,494 contracts in speculators' net long position in Chicago corn.

Rabobank highlighted that this increase in exposure was the "largest since mid-August 2010".

But Australia & New Zealand Bank highlighted that speculators' net long exposure remained short of that seen in November, despite apparently bullish downgrades earlier this month by the USDA to estimates for domestic supplies, and potentially supportive factors of a weaker dollar and stronger shares.

"Corn looks exhausted... [and] increasingly unable to hold onto recent highs," ANZ said.

"One reason is [that] speculative buying looks to have run its course."

'Profitability collapsed'

And Societe Generale analyst Emmanuel Jayet also said that corn had "relatively less upward potential", with prospects sapped by worsening profitability among ethanol plants, which consume more than one-third of the crop in the US, the top producer.

"The profitability of US ethanol producers has collapsed in the past week," he said.

"Either ethanol prices will have to rise, which is possible... or ethanol manufacturers will soon slow down production and therefore their demand for corn."

Indeed, wheat looked a better bet, supported by growing concern about the health of winter wheat seedlings in America and China, at a time of bumper import demand, as highlighted by Friday's "massively bullish" weekly weekly US export data.

With further demand from thge Middle East and North Africa yet to feed through, the "timing and dynamics" of news in the grains complex looks set to favour wheat prices, in particular those for the higher-quality variety traded in Kansas.

Agrimony