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Wheat Letter

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1. **Soft White Data Reflect Sound Quality**

Pacific Northwest wheat producers completed their soft white (SW) harvest on Sept. 18. Quality test analyses reveal an improved crop compared with 2008/09.

The 2009/10 SW crop shows an average test weight of 78.7 kg/hl (59.8 lb/bu), an increase from 77.5 kg/hl (58.9 lb/bu) in 2008/09. Moisture is down slightly while average protein decreased to 10.3 percent from 11.2 percent last year. The crop is sound with an average falling number value of 324 seconds. Whole meal wet gluten content decreased to 24.2 percent from 26.3 percent last year with the new crop's lower protein content.

[Click here to see the current USW Harvest Report](http://www.uswheat.org/harvestReports) for SW and four other U.S. wheat classes (<http://www.uswheat.org/harvestReports>).

2. **Soft White Market Factors Reflect Broad U.S. Wheat Value Opportunity**

"I think what is happening with soft white wheat is a good indication of the overall value of U.S. wheat right now — and how buyers can benefit from that value," said Vince Peterson, USW VP of Overseas Operations during a recent video conference with the [Washington Wheat Commission](#).

"We are coming off a down-year in U.S. wheat exports as lower-cost supplies from other major exporters increased in 2008/09," Peterson reported. "Even though exporter production is down for 2009/10, total

supplies are up from carryover stocks, and production in North Africa, the Middle East, India and Pakistan recovered.” He noted that SW sales have picked up, however, as importers take advantage of good quality (see above) and FOB PNW prices close to \$200 per metric ton (MT) — their lowest since July 2007.

Peterson also showed an analysis of 11-percent protein hard red winter (HRW) FOB Gulf prices and U.S. production from 2000/01 through the 2009/10 U.S. Department of Agriculture forecasts that imply a pattern of historical planting responses that could point towards higher prices ahead.

“Higher supplies and lower prices have predicted price run-ups twice over that time,” Peterson said. “We are seeing that cycle again with all U.S. wheat classes. It would be a reasonable expectation that U.S. planted-area will be down for 2010/11 and probably down across the world as wheat profitability once again suffers.”

For example, David Clough, who grows hard red spring (HRS) in central North Dakota, believes the current economics point to reduced wheat planting next spring. “Two years in a row, a lot of farmers in my area have had to take discounts for lower protein,” Clough said. “That takes the profit right out of higher yields. That’s why I think farmers here will look at planting more acres to alternative crops like corn, soybeans, or pulse crops in 2010.”

Clough’s crop is emblematic of the U.S. HRS crop as harvest nears completion. Yields are above average and protein is below average, while test weights and other milling characteristics are quite strong. HRS average protein stands at 13.5 percent with a range of 10 percent to 19 percent. Vitreous kernels with late-harvested samples averaged 72 percent, and the crop currently grades No. 1 Northern Spring — available now at prices buyers have not seen in two years.

The northern durum crop — also on the market at remarkably low cost — is almost all in the bin and quality data show average test weight is high at 80.3 kg/hl (61.7 pounds per bushel). Average falling numbers continue to be strong at 419 seconds. Good color and an average vitreousness of 88 percent contribute to this valuable crop now graded as a No. 1 Hard Amber Durum.

Wheat Letter has already reported on HRW and soft red winter (SRW) quality for 2009/10 and USW posts current data on its Web site in [Harvest Reports](#). USW representatives have already started visits to share crop quality data and will soon begin their annual Crop Quality Seminars.

3. U.S. Wheat Stocks Pressuring Prices

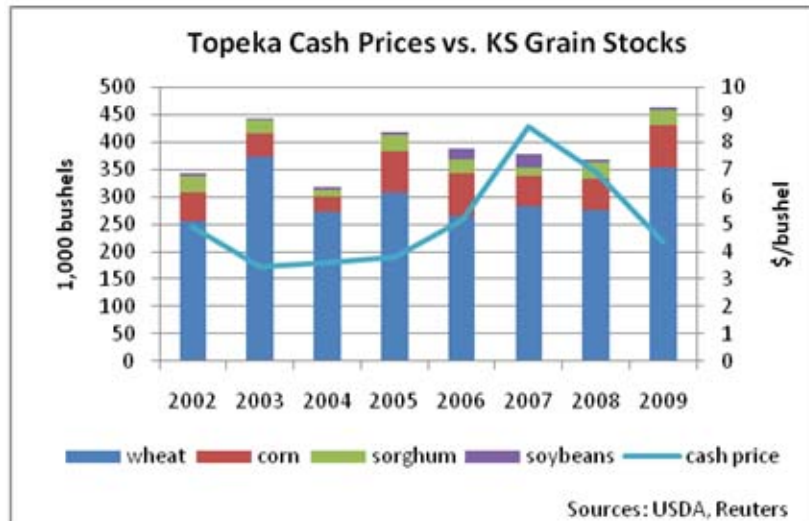
by Chad Weigand, USW Market Analyst

[USDA’s Annual Small Grains Summary](#) released on Wednesday, Sept. 30, reports that total 2009 U.S. wheat production is 60.4 MMT, an increase of two percent from USDA’s previous estimate. The summary indicated record spring wheat yields (45.0 bushels per acre) and barley yields (72.8 bushels per acre), along with increased durum production.

The past two years have been the most prolific for global wheat production. As a result, supplies are abundant and more wheat is being stored. USDA’s quarterly [Grain Stocks Report](#), also released Wednesday, revealed U.S. wheat stocks are at their highest level since 2000. The report estimates wheat stored in all positions as of Sept. 1, 2009 is 60.3 million metric tons (MMT), up 19 percent from this time last year and 21 percent higher than the five-year average of 50.0 MMT. USDA’s estimates exceeded trade expectations of 58.1 MMT. The indicated disappearance for June - August 2009 is down significantly (30 percent) from last year because of decreased exports compared to last year’s breakneck pace. First quarter exports for MY 2009/10 were down 42 percent from last year.

In addition to higher wheat stocks, USDA reported increased stocks for corn, sorghum, barley, and sunflower, which are competing with wheat for storage space. Kansas, the largest producer of hard red winter wheat, is facing its largest grain stocks since 2000. This has put significant pressure on local cash

prices. Topeka, KS, for example, is currently seeing historically weak basis levels. Basis in Topeka is approximately 40 cents below futures prices, putting local cash prices near \$4.35/bushel (see chart). The lower basis level presents opportunities for additional wheat feed use as the price spread between corn and wheat continues to contract. As of Sept. 30, the Chicago Board of Trade wheat/corn spread was \$1.13. USDA currently forecasts wheat feed use at 6.4 MMT.



4. GSM-102 Export Credit Guarantee Program at Risk

USW and 34 other agricultural trade groups recently asked [U.S. Trade Representative](#) Ronald Kirk “to request a new compliance panel to update the 2005 [World Trade Organization \(WTO\)](#) ruling on the U.S. Department of Agriculture’s [GSM-102 Export Credit Guarantee Program](#).” A recent arbitration panel ruling, if allowed to stand, could endanger this valuable tool global wheat buyers use to help them more efficiently purchase high-quality U.S. wheat and other agricultural commodities.

“If implemented, the WTO decision would cause unwarranted harm to U.S. agriculture,” the groups told Mr. Kirk in [a Sept. 21 letter](#). The groups explained that the WTO panel “was not able to consider the many changes to the GSM-102 program made since 2005.” Those changes — codified in *The Food, Conservation, and Energy Act of 2008* (the Farm Bill) — included suspending the GSM-103 program and abolishing the one-percent cap on guarantee premiums that could be charged to USDA, making GSM-102 more risk-based. In fact, USDA has proposed adjustments in the GSM fees for seven different risk categories that would reduce the fees on shorter-term loans and for lower-risk countries, while increasing the fees for longer-term repayment tenors and for higher-risk countries.

The panel’s decision, which awards Brazil “retaliatory authority in amounts based on the future use of a program that is now compliant...failed to recognize the benefits that have accrued to Brazil’s banks as a result of their significant participation in the GSM-102 program,” the U.S. groups wrote. Brazil’s banks have been the largest users of the GSM-102 program since 2002. The liquidity afforded by the GSM-102 program helped Brazil to avert a banking system collapse, maintain its balance of payments, and support its economy as a whole, the letter said. Brazil has also used the GSM-102 program to support turning to the reliable U.S. wheat market after political strife and poor weather reduced exportable supplies from Argentina the past two years. Brazil purchased more than 788,000 metric tons (MT) of U.S. HRW and SRW in 2008/09.

USDA changes to GSM-102 could help U.S. wheat remain competitive by providing alternative financing, said USW Director of Policy Rebecca Bratter. “We continue to support the value of, and the need for,

the GSM program and USDA's changes," she said, noting that wheat amounted to \$574.7 million or 12.4 percent of total GSM applications during Fiscal 2008-2009.

5. Seventeen Nations at NCI Grain Procurement Management Course

Thirty-nine grain buyers from 17 nations attended the 2009 Grain Procurement Management for Importers short course Sept. 21 to 30, 2009, at the Northern Crops Institute (NCI), Fargo, N.D., to learn how to make more effective purchases in the U.S. grain marketing system. USW and U.S. Grains Council sponsored many of the participants.

Grain buyers attending the course were from Japan, the Philippines, Korea, Mexico, Italy, Indonesia, Colombia, China, India, Jordan, Malaysia, Netherlands, Poland, Romania, Singapore, Canada, and St. Vincent and the Grenadines, West Indies. They represent large and small food processing, feed manufacturing, and trading companies that import and trade HRS and durum wheat, corn, soybeans, barley, and other commodities.

The NCI course teaches participants about the purchasing tools that will help them navigate their way through what can be unpredictable grain and commodities markets, said NCI Director Brian Sorenson. Dr. Bill Wilson, North Dakota State University Professor of Agribusiness and Applied Economics, was the lead lecturer, and Steve Wirsching, Deputy Director, USW West Coast Office, was one of the presenters at this year's course.

"In Asia, and in China in particular, the people selected to come to this course often have a very basic understanding about how to monitor, analyze, and use the U.S. cash and futures markets to manage price risks," said Matt Weimar, USW Regional VP, North Asia. "This year we are getting more interest in HRS wheat. In fact, I understand that one of the participants purchased new-crop HRS for December delivery. Protein was a concern, but they actually targeted a protein level of 12 percent to 13 percent to blend for Asian-product flours," Weimar concluded.

During the course, the group toured the Hunter Grain Company elevator and the Jim Howe farm in North Dakota. Additional visits included the Minneapolis Grain Exchange and a Cenex Harvest States (CHS) barge facility on the Mississippi River. At the end of the week, course participants toured the Duluth Seaway Port Authority and the CHS export grain terminal on Lake Superior.

Click here to read more about the course and NCI (<http://www.northern-crops.com/whatsnew/whatsnew.htm>).

6. USW Releases 2008-2009 Annual Report

U.S. Wheat Associates today released its 2008-2009 *Annual Report* covering worldwide marketing activities and developments between June 2008 and May 2009 for all six classes of U.S. wheat.

"Following a steady decline over 10 years, world wheat stocks rebounded last year to their highest level since 2001/02," says a letter in the report by 2008-2009 USW Chairman Michael Edgar and President Alan Tracy. The report notes that while the altered competitive situation pressured U.S. wheat sales, producer-funded USW and its team of 80 men and women working in more than 100 countries kept the focus on the reliable supply, high quality, and value of U.S. wheat, which helped the U.S. hold its position as the world's leading wheat exporter.

Maintaining global markets for the abundance of the U.S. wheat harvest would not be possible without generous support from 18 state checkoff programs and the USDA Foreign Agricultural Service (FAS). According to the report, the \$4.3 million USW received from wheat producers, combined with FAS program funding, helped return nearly \$7 billion in U.S. wheat sales in 2008/09. In fact, the report notes, average annual U.S. wheat exports have grown by 10 percent over the last five years.

“We also worked closely with the National Association of Wheat Growers (NAWG) to begin aligning the eventual introduction of biotechnology traits in wheat with the interests of producers, technology providers, and end-users,” the USW leaders say. “We fought trade barriers, including promoting the languishing U.S. - Colombia Free Trade Agreement to protect an estimated annual \$100 million in U.S. wheat sales.” USW in 2008-2009 also worked to build relationships with the Obama Administration, emphasizing the benefits of free trade for wheat producers, an effort that continues (see “Administration States Support for Agricultural Trade” below).

The USW 2008-2009 Annual Report will soon appear in several U.S. publications covering the wheat production industry, and is posted on the USW Web site (<http://bit.ly/kesof>).

7. Administration States Support for Agricultural Trade

USW President Alan Tracy, along with the leaders of other member organizations of the [U.S. Agricultural Export Development Council](#), met yesterday with USDA Undersecretary Jim Miller and other top agricultural officials from the Obama Administration. USDA was reaching out through the meeting to the cooperator community and other agricultural organizations to offer reassurance that the Administration is organizing a serious effort on trade.

“Undersecretary Miller showed an excellent grasp of current trade policy and phytosanitary issues, and he touted a strong role by the department in such trade problems as pork restrictions due to H1N1 and in improving delivery of FAS marketing programs,” Tracy said. “He assured us that he, Secretary Vilsack, and the Administration fully support the goal of enhancing agricultural trade to benefit rural Americans.”

At the meeting, FAS Administrator Michael Michener introduced a revision of the FAS mission, which now reads “Linking U.S. agriculture to the world to enhance export opportunities *and global food security* .” He assured participants that any new food security programs will come with funding and that all existing programs, including market development, will continue. Other top officials from the Secretary’s office, the Federal Grain Inspection Service, and the Animal and Plant Health Inspection Service reinforced the message that they are working together to solve trade-related problems. They described the Administration’s effort to enhance global food security and agricultural development abroad as fully consistent with trade promotion and market development.

Tracy said the participants were encouraged by the Administration’s message and the recent nominations of Michael Punke to serve as U.S. Ambassador and Permanent Representative to the WTO, and Islam A. Siddiqui to serve as Chief Agricultural Negotiator at the Office of the U.S. Trade Representative. At the same time, Tracy said, the participants emphasized the need for demonstrated leadership from the Administration to convince Congress and the public that trade is important to the country, and vital to the health of U.S. agriculture and its overseas customers.

8. Wheat Industry News

- **Fair Exhibits.** The Nebraska Wheat Board had a popular exhibit at the 2009 Nebraska State Fair and recently posted a YouTube® video (<http://bit.ly/8fgh7>) capturing its experience educating fair-goers about the crop. Kansas Wheat also participated in its state fair this year and posted video from the event on its Web site (<http://www.kswheat.com/videogallery.php>).
- **Biotechnology Research Investment.** The Danish Ministry of Food, Agriculture and Fisheries has released a report showing that the production of transgenic crops has the potential to reduce greenhouse gas emissions, help produce plants that are more resistant to climate change, and give farmers an opportunity to achieve the same harvest yield with reduced use of pesticides. The Danish agency has earmarked funds for additional research into the use of biotechnology in farming and

food.

- **Thoughts and Sympathy.** USW extends its best wishes to Hydro, OK, wheat producer and former USW board member Jeff Krehbiel for a full recovery from surgery to treat brain cancer, and sends its concerns to his family, friends, and colleagues in Oklahoma. USW also extends sympathy to USW Secretary-Treasurer Randy Suess and his family on the death of Randy's father Hank Suess who farmed in Whitman County, WA, for more than 60 years. He was a life-long member of the Washington Association of Wheat Growers. Finally, USW and the wheat producers we represent are mindful of our customers and colleagues so badly hit by recent flooding from typhoons in Taiwan, the Philippines, and other southeast Asian countries, and by the earthquakes and tsunami in Samoa and Indonesia. We hope your recovery is speedy and complete. [Click here to see photos of flooding in Manila \(http://bit.ly/sWZRw\)](http://bit.ly/sWZRw).
- **Cereal Science Calendar.** M. Hikmet Boyacioglu, Ph.D., Professor in Cereal Science, Istanbul Technical University, has released another monthly update to the Cereal Science and Soyfoods Event Calendar he produces. If you wish to receive the calendar, write to Dr. Boyacioglu at mhboyaci@itu.edu.tr.
- **Taiwan Wheat Delegation in Wheat Country.** Representatives from the Taiwan Flour Mills Association are traveling today on the last leg of their extensive visit to Kansas, North Dakota, Montana, and California following the official signing Sept. 24 in Washington, DC, of an agreement to purchase 1.7 MMT of U.S. wheat over the next two years. The delegation's tour has generated strong local interest. Click here to read more about the Kansas stop (<http://www.kswheat.com/blog.php?bid=104>). Click here to read about the North Dakota visit (http://www.agweek.com/articles/?id=6440&article_id=135152&property_id=40). Click here to see coverage of the Montana tour (<http://www.montanasnewsstation.com/Global/story.asp?S=11235808>). Click here to see photographs of the signing ceremony on Capitol Hill (<http://www.flickr.com/photos/uswheat/3950989347/>).

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