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Wheat Letter

September 4, 2008

U.S. Wheat Associates (USW) is the industry's market development organization working in 90 countries on behalf of America's wheat producers. The activities of U.S. Wheat Associates are made possible by producer checkoff dollars managed by 18 state wheat commissions and through cost-share funding provided by USDA's Foreign Agricultural Service. For more information, visit www.uswheat.org or contact your state wheat commission.

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1. Buyers Consider Quality, Reliability in U.S. Wheat Value

A Kansas wheat marketing consultant suggested in an article last week that U.S. wheat exports are going to fall because prices are too high. "Why would you buy from us?" the consultant asked. In fact, most of the professional buyers around the world consider a lot more than price when they calculate the true value of U.S. wheat.

"The demand for high-quality, hard wheat is growing every year," says Dick Prior, Regional Vice President for the Middle East, East Africa and North Africa with U.S. Wheat Associates (USW). "Yes, the world supply of wheat is up but more than 60 percent of that is soft wheat. The U.S. along with Australia and Canada are the primary sources of quality hard wheats and the U.S. is the most reliable supplier to more buyers."

Sales of U.S. hard red winter (HRW) so far in marketing year 2008/09 back up the demand factor. USW Market Analyst Ian Flagg reports in this issue of *Wheat Letter* that at 7.8 million metric tons (MMT), U.S. HRW exports exceed 60 percent of U.S. Department of Agriculture (USDA) estimates for the entire year (see "New Crop Demand Buoy U.S. Wheat Exports"). USDA also recently boosted its [forecast of U.S. agricultural exports for fiscal 2008](#) (October - September) by \$5.5 billion from its May estimate in part because of "stronger demand for U.S. wheat, soybeans, pork and dairy products."

"Asian buyers are also importing more hard wheat because consumers in growing local economies are adopting Western-style diets," says Wataru "Charlie" Utsunomiya, USW Country Director in Japan. "This is true even in countries like Indonesia and Malaysia."

Joe Sowers, USW Assistant Regional Director for Mexico, Central America and the Caribbean, says that in today's market environment, the value of reliability is more important. "Global buyers were able to source wheat from the U.S. last year when other exporters turned them away," Sowers notes.

Wheat prices in the U.S. and around the world are trending down as traders react to the large global crop and the recent softening of commodity prices. Early this week, bread wheat from Black Sea ports was priced for export at only about five percent less than U.S. HRW. Additionally, USDA's first forecast of U.S. agricultural exports for fiscal 2009 predicts wheat sales will decline as supply outside the U.S. grows.

"For now, the fact remains that the U.S. is the first to harvest, the quality is exceptional and the Southern Hemisphere crop is still a question mark," Sowers says. "We remain optimistic that importers will continue to see the value of buying high quality U.S. wheat that meets their needs."

2. Why We Are Talking

It is late summer in America. In a time-worn ritual, farmers, their families, friends and suppliers are coming together again at county fairs, state fairs and expositions to compare the results of their labor—and to see, touch and discuss the latest agricultural technology.

The [Farm Progress Show](#) is one of those gatherings, drawing thousands of producers and commercial suppliers mainly from the Midwestern states of Iowa, Illinois and Indiana. Most of these "corn belt" producers didn't come to the show thinking primarily about a wheat crop. But at this year's event near Boone, IA, many of them saw a new drought tolerant corn variety that could have a profound impact on wheat producers—and wheat buyers—in the not-so-distant future.

The U.S. producer organization [Growers for Biotechnology](#) recently wrote that the experimental, genetically modified corn variety was "standing tall and looking good in its demonstration plot under a translucent tent that kept rainfall away." Nearby were other new transgenic varieties that will produce more bushels of higher quality corn and soybeans at a lower cost of production. The potential benefits extend directly to consumers through other traits that produce improved food ingredients such as heart-healthy cooking oils.

"The rapid advance of 'stacked' transgenic traits is helping make corn and soybeans even more competitive with wheat production along the eastern and northern edges of the Great Plains wheat belt," says John Oades, USW Vice President and West Coast Office Director. The cost to produce wheat is also rising quickly and could conceivably out-pace the rise in wheat prices. For example, USDA's [Economic Research Service](#) (ERS) calculates that the average cost to produce one metric ton of wheat was US\$254.61 (\$6.93 per bushel) in 2007 and \$268.57 (\$7.31 per bushel) in 2008. The predicted average cost of production in 2009 is \$297.60 per metric ton or \$8.10 per bushel. To see the supporting data from ERS, [click here](#) and select "Cost of Production Forecasts" under "Features."

"This competitiveness of transgenic crops is a key reason why we expect to see continued erosion in wheat acreage in the U.S.," Oades says. "It is also a fundamental reason why U.S. producer leaders are making the effort to discuss the development of transgenic wheat with their customers here at home and around the world."

[Click here to read a related article:](#) "World Needs GMO Wheat to Fight Hunger."

3. New Crop Demand Buoy Total U.S. Wheat Exports

by Ian Flagg, USW Market Analyst

Year-to-date U.S. wheat sales in 2008/09 are running well above the five-year average. With just less than a quarter of the marketing year complete, total sales are 14.6 MMT as of Aug. 21, with U.S. HRW and soft red winter (SRW) leading the way. Sales are 31 percent above the five-year average and 53

percent of USDA's current export forecast for the entire marketing year. U.S. wheat sales set a breakneck pace in 2007/08 when exports for the same period were 16.6 MMT and 34.5 MMT for the entire year.

HRW sales started 2008/09 with the strongest year-over-year sales increase of any U.S. wheat class. At 7.8 MMT to date, HRW sales account for 61 percent of USDA's current projected 2008/09 total of 12.1 MMT. With large sales to Iran and Iraq, HRW exports are 16 percent ahead of last year and 53 percent ahead of the five-year average. Insufficient rainfall in Iran and Iraq devastated domestic crops and cut wheat production by 30 and 45 percent, respectively. Iran purchased wheat from the U.S. for the first time since the early 1980s—a total of more than 1.2 MMT so far this year. Iraq bought more HRW than any other country in 2007/08 and has nearly doubled last year's procurement rate by importing 1.2 MMT in 2009/08.

Global demand for SRW has been strong early in 2008/09, with sales already at 80 percent of USDA's projected marketing year total. U.S. SRW is the first new crop wheat on the global market each year and, following a major draw-down in global stocks the previous season, this year's near record harvest generated ample supplies to satisfy early season demand. Year-to-date SRW sales are well above the five-year average but still 17 percent below last year's pace. Sales to last year's top three importers are mixed with Mexico up 80 percent (270,000 MT) Nigeria up 36 percent (59,000 MT) and Egypt down sharply (880,000 MT). However, Egypt bought 120,000 MT of SRW in a tender this week.

Soft white (SW), hard red spring (HRS) and durum sales paint a somewhat different picture. Yemen has taken less SW this year after aggressive purchases the past two years filled near-term requirements and gave the country purchasing flexibility in 2008/09. Year-to-date sales to Yemen are seen at 94,000 MT against 448,000 MT last marketing year. Lower sales to Indonesia and the Philippines have also contributed to an early-season deficit. On a positive note, SW sales to Japan through Aug. 21 are up 31 percent while sales to Korea are keeping pace with last year.

At 1.2 MMT, HRS sales are currently running about 35 percent below last year at this time with four of the top five markets in 2008/07 buying less HRS so far this year. The primary reason is robust production in the European Union (EU) compared to last year—the same reason why U.S. durum sales are running lower than in 2008/09. Spain and Italy, the largest EU importers of U.S. wheat, have purchased 210,000 MT and 176,000 MT less HRS this year respectively compared to 2007/08. Additionally, sales are off to the Philippines, Taiwan and Venezuela. Japan helps offset the difference with strong purchases of 724,000 MT in 2008/09 against 494,000 MT the previous year. Japan is consistently among the top HRS importers.

[Click here](#) to see year-to-date commercial sales compared to the past five years. [Click here](#) to see the latest USW Commercial Sales Report.

4. USW Internships Benefit Students and Customers

Four years ago, USW developed an internship program for professional baking students at the [Temasek Polytechnic Institute](#) in Singapore. Roy Chung, USW Baking Consultant in Singapore, is an "Honorary Consultant" to the Department of Applied Food Science & Technology at the Institute and supervises the internship program. This year, Ms. Jamie Tan Bao Zhu and Ms. See Jingsi spent three and one-half months in Bangkok, Thailand, helping Chung and Mr. Phua Lock Yang, USW Biscuit/Bakery and Noodle Technologist, conduct baking courses and other customer education activities.

"The interns assisted in preparation for the Overseas Varietal Analysis program, the Baking Science and Technology Course, the Frozen Dough Course and the Advanced Cookie and Cracker Course," Chung says. "The students also get professional development by sitting in during lessons and participating in the workshop sessions."

Ms. Tan recently wrote Chung to say the internship "was really a meaningful and fruitful" assignment. "Though you are my supervisor," she added, "I regard you as a great teacher who has been so patient

and taught me a lot. A big thank you to you!”

5. Wheat Industry News

- Best Wishes. USW says *au revoir* to Liz Jayankura Jones who has taken a new position as Communications Manager with the [World Airline Entertainment Association](#) in McLean, VA. Liz has been Trade Policy Specialist with USW since September 2006.
- Welcome. Shane Townsend has joined USW after serving in the USDA Foreign Agricultural Service [Office of Capacity Building and Development](#). Shane has been assigned to work in the Arlington, VA, headquarters on several trade policy projects with Rebecca Bratter, Director of Policy.
- Cereal Science Event Resource. M. Hikmet Boyacioglu, Ph.D., Professor in Cereal Science at Istanbul Technical University in Turkey prepares a monthly calendar of cereal science and related events for distribution to interested parties. “My wife and I received Ph.D. degrees in cereal science from North Dakota State University in 1992 and I have been working as faculty member here ever since,” Dr. Boyacioglu writes. To receive the events calendar, write to Dr. Boyacioglu at mhboyaci@itu.edu.tr. Click here to see the latest edition.
- USW Board Meeting. The USW and the [National Association of Wheat Growers](#) (NAWG) wheat producer boards will meet jointly from Nov.1 to 3, 2008, at the Sheraton Dallas Hotel in Dallas, TX. The event includes separate and joint committee and board meetings. For more information and to register, [click here](#) or visit the [USW Web site](#) and click on Events & Meetings.

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