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Wheat Letter

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1. **Global Wheat Buyers Jump on U.S. Wheat Value**

U.S. Wheat Associates (USW) is reminding wheat buyers that market conditions are creating exceptional opportunities to buy, commit to future purchases, and take ownership positions in U.S. wheat. Perhaps coincidentally, U.S. wheat export sales reached a marketing year high for the week ending Oct. 8, with buyers ordering 767,300 metric tons (MT), up 43 percent from the previous week.

Those buyers made an excellent choice. Considering price in relation to quality, performance, and service, the market is now offering U.S. wheat at the best landed-cost value the world has seen in several years. In fact, prices have dropped to low levels that roughly equal the highs of just a few years ago for a crop of generally good quality.

Supply and the declining U.S. dollar have much to do with current U.S. wheat value.

The U.S. Department of Agriculture (USDA) [World Agricultural Supply and Demand Estimates](#) (WASDE) released Oct. 9 reported increased global wheat production by 4.0 million MT to 668 MMT. U.S. wheat production estimate also grew by eight percent over the Sept. WASDE. This year's wheat production is second only to last year's record 682 MMT crop (see "Global Wheat Stocks Grow Larger," below).

In addition, as USW President Alan Tracy noted in the [Sept. 17, 2009](#), issue of *Wheat Letter*, the inverse link between wheat prices and the strength of the U.S. dollar appears to be broken. Wheat prices have declined as the dollar has softened over several months; as a result, U.S. wheat represents a genuine bargain in importing countries' currencies.

The U.S. dollar has fallen more than 13 percent from its 2009 peak against a trade-weighted basket of currencies, and a declining dollar does make U.S. wheat more competitive in more markets. As *Wheat Letter* noted in the [Feb. 5, 2009](#), issue, wheat is a dollar-denominated commodity. When the dollar is rising in value, importers must spend more of their local currency in exchange for the U.S. dollars required to buy wheat, so importing wheat from any origin, not just from the U.S., tends to be more expensive. The opposite is true with a declining dollar, which reduces the impact of ocean freight rates on C&F U.S. wheat prices. Ocean freight rates remain relatively low, which further improves U.S. wheat's value to importers.

Today's low prices are most likely not sustainable. Instead of a predictable reaction to the bearish news from USDA, U.S. wheat prices rallied primarily in reaction to the positive export numbers and the dollar's decline. Buyers should now monitor planted area. U.S. wheat prices are well below cost-of-production and to farmers around the world that is a clear signal to plant less. Tight soybean stocks, a sharp reduction in wheat planted area, and any hint of yield problems in the next crop, could spark a new price rally.

The market signals are clear for buyers: it is an excellent time to invest in U.S. wheat, the world's most reliable (and valuable) choice.

2. Global Wheat Stocks Grow Larger

by Chad Weigand, USW Market Analyst

The USDA reported more bearish news on Friday with its release of the October World Agricultural Supply and Demand Estimates (WASDE). USDA increased U.S. wheat production estimates by 1.0 MMT to 60.4 MMT.

The record yield in spring wheat this year is largely responsible for the rise in domestic production. North Dakota recorded an average yield of 45.5 bushels per acre (60.2 kg/ha), which beat the previous record set in 1992 by 3.5 bushels. USDA raised its hard red spring (HRS) output estimate by 1.1 MMT, placing production at 15.0 MMT. The U.S. average durum yield was also a record high at 43.7 bushels per acre and USDA's durum projection was up 8 percent from last month. USDA now projects durum output at 110 million bushels (3.0 MMT), up more than 12 percent from last month.

Many of the world's major wheat exporters also experienced higher yields and, as a result, USDA raised the global production forecast to 668.1 MMT. Favorable weather conditions in Australia and Canada boosted their crop production. Australia received timely rains, and USDA now expects the Australian crop to reach 23.5 MMT, up 0.5 MMT from last month. A dry September extended Canada's growing season, resulting in a 1.0 MMT projected crop increase, to 24.5 MMT. USDA said greater yields in the EU and Russia should also increase their crops to 138.8 MMT and 57.5 MMT, respectively.

Wheat prices have responded to the bearish news in a bullish manner (see "Global Wheat Buyers See U.S. Wheat Value," above). Since the WASDE report on Friday, CBOT December contract prices have climbed 43 cents/bu in three days. CBOT nearbys closed Friday at \$4.68/bu and finished Tuesday at \$5.11/bu. A weak dollar is partially responsible for fending off the bearish WASDE report because a weaker dollar makes U.S. wheat more competitive in more overseas markets. The dollar ICE index, which measures the dollar against six major currencies, fell to a 14-month low on Tuesday. Stronger export sales from last week also contributed to the rally in wheat prices.

To read the full WASDE, visit <http://www.usda.gov/oce/commodity/wasde/>.

3. Wheat Leaders Team in Latin America to Learn about USW Activities and Markets

A team of state wheat association leaders is on a 10-day visit to Latin America to learn about USW

activities overseas, the operations and needs of overseas wheat buyers and users, and to become more familiar with the views of government officials on international wheat trade issues.

The team, led by Richard Callies, USW VP of Marketing Programs, includes Brian W. Linin with Kansas Wheat Commission; Montana Grain Growers Secretary Gordon Stoner; Kody Bessent, Texas Wheat Producers Executive Assistant/Producer Relations; Idaho Grain Producers Secretary-Treasurer Scott Brown; and Oklahoma Wheat Growers Executive Director Tim Bartram.

The group met for background briefings at USDA and the USW Headquarters in Arlington, VA, on Oct. 5 before departing the next morning for Bogota, Colombia. According to a report by Bartram, USW team members met with agriculture, commerce and commercial officials at the U.S. Embassy on Oct. 7 before meeting with Columbian Millers Association Director Jaime Jiménez and members of that organization's board. They discussed U.S. wheat purchases and performance, plus the potential losses in U.S. wheat sales should Congress not ratify the U.S.-Colombia Free Trade Agreement. The head of a buying group made up of several small and medium sized Colombian mills echoed that assessment. The wheat leaders then toured a flour mill and pasta plant. The team's last event in Colombia was observing a USW-sponsored technical seminar for wheat laboratory professionals from across South America.

The team moved on to meet with wheat buyers, millers, and wheat food processors in Lima, Peru, on Oct. 10, in Mexico City on Oct. 12, and in Guadalajara, Mexico, yesterday and today. The wheat leaders return to the United States Oct. 15.

4. USW to Participate in Cuba Trade Mission; Trade Challenges Remain

Rebecca Bratter, USW Director of Policy, will travel to Cuba Nov. 10-13 to participate in an agricultural trade mission led by former U.S. Trade Representative Allen F. Johnson. Kirby Jones, President of Alamar (www.Alamar.com) is working with Ambassador Johnson to coordinate the trade mission.

The group will meet with officials of Alimport, the Cuban import agency, and the Ministries of Foreign Trade and Investment, Foreign Relations, and Agriculture. Site visits will include agricultural facilities and retail outlets.

U.S. wheat industry played an essential role in the passage of the Trade Sanctions Reform and Export Enhancement Act of 2000 that opened U.S. agricultural and medical trade with Cuba. USW continues to work with the industry for free, open trade with Cuba and is assisting the National Association of Wheat Growers in its support of legislation currently before Congress that would ease travel restrictions between Cuba and the U.S.

Cuba imports about 500,000 MT of wheat every year. Yet in a region where U.S. wheat market share reaches an average of about 80 percent, Cuba imports only about 36 percent of its wheat from the United States. Cuba turns to other origins, despite less expensive ocean freight rates from U.S. ports, to avoid U.S. government restrictions. For example, the U.S. Treasury Department's Office of Foreign Assets Control rules require Alimport to make cash payment in advance of shipment when buying U.S. goods, including wheat a restriction the U.S. wheat industry strongly opposes.

5. Doha Round Moves to Pre-Scheduling Commitments

by Rebecca Bratter, USW Director of Policy

Agricultural negotiators reconvened in Geneva last month to start an arduous schedule of multilateral meetings through the end of the year to close remaining gaps in the agricultural negotiating text of the World Trade Organization (WTO). Negotiations are proceeding on the basis of the December 2008 Falconer texts with no intention to rewrite or alter the baseline modalities. Talks to date suggest that there is little chance of renegotiating any aspect of the text other than those items left bracketed in the December 2008 version. Despite calls from the United States to alter the macro level negotiating

structure, any real new market access can only come from defining the micro level details and establishing the architecture of an eventual agreement.

United States negotiators have begun to move in this direction, conducting the technical exercises necessary to translate the concepts and percentages that appear in the text for subsidy reductions, market access offers, and elimination of export subsidies, into concrete offers. By conducting this so-called pre-scheduling exercise, negotiators are able to meet their goal and the demands of U.S. agriculture by quantifying specific market access gains. The process is resulting in the creation of templates that will allow for a more definitive sense of the overall strengths and weakness of the current offer on the table and clarify recent misleading statements issued by some in the current U.S. administration noting that the 2008 texts offer no new market access.

The current texts actually do provide new market access in developed country markets but offer very little new market access for US agriculture in developing markets and in particular in the advanced developing countries (Brazil, India, and China). Developing countries are allowed to self-designate special products, product lines that are exempt from most tariff reductions. Until the United States knows which products will be so designated, it is impossible to determine new market access. In addition, the United States and India are still at odds on the use of the SSM, an automatic tariff triggered when imports surge. This mechanism in its current form will not differentiate between a surge and normal import flows. USW believes that the pre-scheduling exercise is an important step in tightening up these and other long-standing market access loopholes that allow some countries to circumvent market access commitments.

Last week U.S. and other negotiators began draft-scheduling exercises outlining commitments in domestic support reductions, tariff reductions, and tariff quotas. There has been broad support for the templates with the EU signaling their intent to contribute their own ideas on commitments for export credits and export state trading enterprises. Talks on the content of the templates will continue among U.S. negotiators with all negotiators expected to meet again in Geneva this week.

WTO Director General Pascal Lamy and other trade ministers would like to see a final modalities agreement emerge in 2010. The template process along with a new round of bilateral meetings between the United States and key WTO trade partners is moving ahead with that time-frame in mind.

While there is no indication that U.S. negotiators can comply with this time-frame, most negotiators feel that there is minimal work left to finalize modalities, the bigger problem is the lack of political will to make this happen. This is particularly complicated in the United States where the intense focus on health care reform continues to delay the articulation of a clear trade strategy and an anemic political will has delayed action on pending trade deals. The U.S. wheat industry continues to see a successful and balanced Doha agreement as the industry's best opportunity for new global sales of U.S. origin wheat.

6. World Pasta Day Promotes Healthy Benefits

USW will join food and commodity organizations worldwide Oct. 26 to celebrate World Pasta Day in New York City. In the U.S., organizations like the [North Dakota Wheat Commission](#) (NDWC) and [Wheat Foods Council](#) have built their celebration around World Pasta Day (<http://www.worldpastaday.com/>) and National Pasta Month in October. NDWC will also honor the state's durum producers and pasta industry during "Pasta Lovers' Week" Oct. 25-31. WFC features its "World of Pastabilities" promotion, which focuses on the "universal love for pasta," pasta's durum origins, and America's role in global pasta production and consumption.

The National Pasta Association (<http://www.ilovepasta.org/10waysOctober.html>) and the [International Pasta Organization](#) are collaborating to host "World Pasta Day 2009," including a conference "with the world's leading pasta manufacturers to present the latest nutritional and scientific research on pasta." USW is a conference sponsor and will be represented by Pres. Alan Tracy and Past-Chairman Michael Edgar. Edgar is VP, General Manager of [Barkley Seed, Inc.](#), which produces high-quality, identify

preserved [Desert Durum](#)[®]. [Oldways Preservation Trust](#), a nonprofit education group, is organizing presentations that will include nutritional research. The annual event will also include demonstrations from world-class chefs on preparing appetizing and healthy pasta recipes.

[World Pasta Day](#) objectives include drawing the attention of the media and consumers to the fact that pasta is a global food of unquestionable merit, appropriate for a dynamic and healthy lifestyle and capable of meeting primary food requirements as well as the requirements of high-level gastronomy.

7. Millers Seek USW Knowledge

USW has a busy schedule of international meetings over the next few weeks, and USW VP, Overseas Operations Vince Peterson will participate in each one.

First up is the 20th Annual International Association of Operative Millers (IAOM) Mideast & Africa District Conference & Expo, Oct. 23-26, in Antalya, Turkey. Peterson will present perspectives on the U.S. wheat supply and demand situation, and USW Secretary-Treasurer Randy Suess, a soft white wheat producer from Colfax, WA, will moderate a panel discussion. USW/Cairo helped establish this IAOM district in 1989 and maintains a positive relationship with its millers reflecting USW's commitment to service. USW will be present in the exhibition hall and sponsor a group dinner at the conference again this year.

Peterson then travels to Sao Paulo, Brazil, Oct. 29-30 to present the current U.S. wheat situation to the Brazilian milling industry at their annual Abitrito conference. Brazil is turning more and more to the United States to help make up a supply shortfall in Argentina.

Finally, the 27th ALIM Annual Meeting will be held Nov. 8-11 in Buenos Aires, Argentina, hosted by the Argentine Milling Industry Federation and Organizing Committee. Peterson will join Alan Tracy, USW Chair Janice Mattson, a wheat producer from Chester, MT, at the meeting. Other USW colleagues attending include Alvaro de la Fuente, Regional VP, South America, one of the founding members of ALIM, the Latin American Millers Association. For more information, click here, http://www.alim2009.com.ar/programa_eng.html.

USW looks forward to these annual opportunities to meet with our customers, thank them for purchasing U.S. wheat, and help keep them informed about new crop quality, value, and supply.

8. Wheat Industry News

- **USW Welcomes Ohio to Membership.** USW is proud to announce that the new Ohio Small Grains Marketing Program (OSGMP) has officially joined USW as its 19th state wheat commission member. Ohio just harvested its first crop under the OSGMP checkoff program introduced by the Ohio Wheat Growers Association (OWGA) and signed into law in Dec. 2007. In addition to domestic education, the OSGMP committee will help fund research for better yields, disease control, end-uses, and expanding markets for wheat, barley, oats, and rye. To learn more about OSGMP and OWGA, click here, <http://www.ohiosmallgrains.org>. To learn more about soft red winter wheat production in Ohio, click here <http://agcrops.osu.edu/wheat/>.
- **Wheat Web Site Facelifts.** In the past few weeks, USW member organization Kansas Wheat and the National Association of Wheat Growers have redesigned and improved their Web sites. Click here, <http://kansaswheat.org/>, to visit Kansas Wheat and see the creative work from a state wheat photo contest and video from Kansas Wheat's work at the Kansas State Fair. Click here, <http://www.wheatworld.org>, to see what is new at NAWG, the organization that speaks for U.S. wheat growers on Capitol Hill.
- **USW/NAWG Board Meeting.** U.S. wheat grower leaders will gather Oct. 21-23 at Utah's Snowbird

Resort for the joint board meetings of USW and NAWG. Click here, <http://bit.ly/2F6fAN>, to see an agenda and other information.

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