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## Wheat Letter

**March 20, 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](http://www.uswheat.org) or contact your state wheat commission.*

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### **1. A Remarkable Year**

*by Joe Sowers, USW Senior Market Analyst*

By any measure, marketing year 2007/08 has been quite remarkable. Unforeseen weather calamities around the globe, major exporters protecting supplies for domestic use and the steady decline in the value of the dollar have turned import demand to the U.S., pushed stocks to their lowest level in 60 years and driven prices to record highs.

Only by first looking back at the underlying factors that set this dynamic market in motion can wheat buyers and flour users look forward with more confidence. We need to start almost two years ago.

In the spring of 2006, a drought in the U.S. Plains resulted in a short winter wheat crop, followed by harsh drought that cut Australian production. A wet fall in 2006 limited soft red winter (SRW) plantings but good conditions set up the U.S. hard red winter (HRW) for record yields. Optimism began fading however as a spring freeze and excessive rainfall slashed HRW yields in a large area leaving global supplies below average for 2007/08. Production problems in the U.S. were followed by a second disastrous crop in Australia, drought in North Africa and Canada, while a variety of problems negatively impacted European production and quality.

Despite lower supplies, global demand for milling wheat continued to rise, setting a new record this year. In order to keep prices low by protecting domestic supply, several countries restricted exports while the state export trading monopolies in Canada and Australia focused on "favored" buyers for their short crops. This left the U.S., EU-27 and Kazakhstan as the only suppliers open to importers. The weakness of the dollar, which hit a record low of \$1.59/euro this week, gives U.S. supplies an advantage to competing European grain.

These factors forced the U.S. Department of Agriculture (USDA) to periodically increase its U.S. wheat export forecast for 2007/08, eventually by 6.8 MMT above its initial forecast. Last week, USDA revised its

estimate for 2007/08 U.S. exports up to 33.3 MMT—8.6 MMT over last year. Supply challenges and the surge in exports are driving stocks to their lowest level since 1948, pushing futures prices higher as the market attempts to ration demand of old crop supplies.

The current situation underscores the strong fundamental relationship between exports and wheat prices. The critical question for wheat buyers and flour users, then, is whether or not they can rely on good weather to increase supplies and reduce prices. Today's market snapshot shows good potential in the new crop, (See Farmers Responding to Need for More Wheat, below), with high-protein wheat expected to remain somewhat dear. Still, forward purchases of 2.4 MMT of 2008/09 wheat, the highest level of new crop sales at this stage since 1982, may signal that international buyers remain concerned about available supply as current year stocks are drawn down and some governments show a willingness to artificially protect domestic supplies.

## **2. Farmers Responding to Need for More Wheat**

The table is set for a possible record wheat crop in marketing year 2008/09 as farmers in the major exporting regions begin responding to profit potential after years of only marginal returns. A tour around the world of wheat shows optimistic producers—who have their eyes on the skies.

Argentina consistently produces about 15 MMT of medium protein wheat year in, year out. Even though an aggressive export tax has muted the potential price response, there is no indication Argentina will plant less wheat in the new year.

Things are looking up “down under” as La Niña brings beneficial rain to Australia. The Australian Bureau of Agricultural and Resource Economics (ABARE) currently expects farmers to plant a record 13.4 million hectares of wheat in April. If there is a normal season, ABARE notes, total production could be nearly 26 MMT. Because Australia is an important high-protein wheat producer, crop conditions there will be closely watched.

In the Black Sea region, including Russia, Ukraine and Kazakhstan, the International Grains Council (IGC) forecasts that planted area will increase, though a slight decrease is forecast for Kazakhstan. The most recent IGC report forecasts a 1.2 million hectare increase in harvested area and that production will be 12 MMT above the ten-year average.

The Canadian Wheat Board (CWB) is calling for a 25 percent boost in wheat production based largely on increased winter wheat seedings, an optimistic durum outlook and a “stable to lower” spring wheat forecast. For example, Ontario producers planted about 162,000 hectares of winter wheat in the rainy autumn of 2006; last fall they planted more than 607,000 hectares. A CWB analyst recently said competing crops and dry conditions are likely to limit spring wheat planting even though high-protein wheat is fetching record high prices.

Production in the European Union (EU) is forecast up by about 15 percent according to Strategie Grains. Favorable conditions influenced the French analysis firm to increase its EU-27 non-durum wheat production forecast by 200,000 MT to 128.6 MMT. Strategie Grains notes that if the forecast is accurate, the EU will produce a surplus of wheat—and exportable supplies of 14 MMT compared to only 9 MMT this year.

In the United States, HRW planted area declined slightly in a generally dry autumn while soft white (SW) and SRW planted area is up significantly. The Soft Wheat Division of the North American Millers' Association this week projected the largest SRW crop since 1989 and a 20 percent increase in SW production. As in Canada, U.S. spring wheat production is still a question mark. It is rather dry in the Northern Plains and competing crops including oilseeds, barley, pulse crops, corn and, fortunately, durum are very attractive. Yet some analysts believe non-durum spring wheat prices will win some acres from other crops that require more fertilizer. That is why the USDA's March 31 Planting Intentions report will draw so much attention.

IGC currently forecasts that world wheat production will reach a record 646.2 MMT in 2008/09, a level that would help ease supply side concerns. As always, however, Mother Nature will write the final chapter in the new wheat crop story.

*[Editor's Note: For a more comprehensive survey of factors impacting the wheat market over the past few years and a look at the importance of the new crop, we recommend reviewing the March 11, 2008, issue of Milling & Baking News, published by Sosland Publishing, Kansas City, MO. For subscription information, visit <http://www.sosland.com> .]*

### **3. Market Realities Impact Trade Policy, Too**

*by Rebecca Bratter, USW Director of Policy*

Dynamic forces are shaping global grain markets in entirely new ways and have a wide-ranging impact. The reverberations are slowly but unmistakably seeping into every aspect of USW's trade policy programs in ways both positive and negative. While some level of correction can be anticipated for the present period of unusually high prices, the U.S. wheat industry must be prepared to adjust trade policy priorities and positions in the face of any long-term effects. For example:

- High prices have pushed tariffs to zero in many key importing countries. Even in markets where the U.S. enjoys tariff rate quotas that allow set quantities of wheat at lower tariffs to be imported, tariffs have dropped to zero. U.S. wheat exports to Morocco have more than quadrupled over the last two years.
- Markets where the U.S. has faced long-standing non-tariff barriers to trade have shown signs of opening. Brazil imported less than 100,000 MT of wheat from the U.S. for the past three years but has already purchased close to 400,000 MT of U.S. wheat in 2007/08.
- U.S. food aid programs appear to be suffering under the current short-supply environment. The U.S. government is working with a burdensome budget shortfall, which is likely to result in the elimination of programs that traditionally help populations in need; specifically, wheat monetization programs may be curtailed until domestic supply recovers.
- Despite calls from some domestic segments to impose direct or indirect limits on wheat exports, the U.S. government has consistently maintained an open market policy and continues to stress that the U.S. will remain the most reliable supplier of wheat to domestic and export markets.

The undeniable fact is there are more people with more money to spend on food in the world. The pressure on resources and food supplies will keep growing with a global population poised to top seven billion people. Emerging economies are experiencing unprecedented economic growth that is generating a whole new consumer class with the resources to eat more and eat better. Global trade liberalization has played no small part in that economic growth. It is the underlying impetus behind the U.S. wheat industry's active participation in the World Trade Organization Doha round negotiations. A successful agreement will help fuel sustained economic growth and, in turn, create new market opportunities so important to expand U.S. wheat market share around the world.

### **4. Board Teams Put Producers in Touch with Customers**

A USW Board Team returned last week from the Middle East and North Africa and another Team is preparing for a trip to Latin America. "As always, our customers really enjoy meeting with farmers that grow the wheat they buy," says Alvaro de la Fuente, USW Vice President, South America Region. "Buyers also appreciate the time farmers take from their busy schedules to meet them face-to-face."

On the Middle East/North Africa Team, Ian Flagg, USW Assistant Director, West Coast Office, traveled

with Tim Anderson, a USW Board Member from Albin, WY, representing the Wyoming Wheat Marketing Commission, and Al Simons, Executive Director of the Arizona Grain Research & Promotion Council. The team visited USW offices and meet with wheat buyers, millers and wheat food processors in Egypt, the United Arab Emirates and Morocco.

The Latin American Board Team departs March 25 to visit Colombia, Peru, Costa Rica and Mexico. This Team will include two agricultural reporters. Russell Nemetz, a farm broadcaster with the Northern Ag Network based in Billings, MT, is traveling with support from the Montana Wheat and Barley Committee, and Jennifer Latzke, associate editor with High Plains Journal in Dodge City, KS, is traveling with support from state wheat commissions in Kansas, Colorado, Nebraska, Oklahoma and Texas. Russell and Jennifer will be “blogging” from the road. Visit [www.northernbroadcasting.com](http://www.northernbroadcasting.com) and <http://latinamericawheattour.hpj.com> to find their blog sites.

David Clough of Fessenden, ND, will also join the Team through funding by the North Dakota Wheat Commission. They will join Board members Richard Starkebaum of Haxtun, CO, and Chet Edinger of Mitchell, SD, and Steve Mercer, USW Director of Communications.

## 5. Wheat Industry News

### U.S. Wheat Associates Announces the Following Staff Changes:

- Nancy L. Fisher joined USW as Meeting Planner on March 17, 2008, in the Arlington, VA., headquarters. Nancy most recently was an independent meeting planner with ConferenceDirect for such clients as the National Electrical Manufacturers Association. She has also worked in sales and marketing in the hospitality industry, including an internship in Germany for Kempinski Hotels, at the Ritz-Carlton Hotel in Tysons Corners, VA., the Lansdowne Resort and Conference Center in Leesburg, VA, and the Ronald Reagan Building and International Trade Center in Washington, DC. She has a bachelor's degree in German with a minor in English from Guilford College, Greensboro, NC. She also earned a German language proficiency certificate from Goethe Institute in Frankfurt, Germany.
- Brenda Diaz will join USW as Fiscal Officer on March 24, 2008 in the Arlington, VA, headquarters. Brenda most recently was employed as manager of payroll and accounting services at World Data Ventures, Inc. She has also worked in public accounting at Kamerow, Wientraub & Swain, LLP. Brenda has a bachelor's degree in accounting from the University of Maryland, College Park, MD, and is bilingual in Spanish.
- Adam Kiely is promoted from Staff Accountant to Senior Accountant in the Arlington, VA, headquarters. Adam will retain his current responsibilities and assist Vice President of Finance Kevin McGarry with office management. Adam joined USW in 1996 after working as an accounting assistant at Strauss Photo Technical Services, Washington, DC. He has a bachelor's degree in accounting from Appalachian State University, Boone, NC.
- Steve Wirsching is promoted to the new position of Deputy Director, West Coast Office, Portland, OR. He will remain in his current position as Assistant Director, Mexican, Central American and Caribbean Region, in Mexico City, Mexico, until relocating with his family to Portland before September 1, 2008. Steve was an Agricultural Loan Officer with Farm Credit Services in Moses Lake, WA, before joining USW in 1992 as Assistant Director in Portland. He also served as Assistant Director, South American Region, in Santiago, Chile. He has a bachelor's degree in agribusiness/animal science and a master's degree in agricultural economics from the University of Idaho, Moscow, ID, and is fluent in Spanish.
- Joe Sowers is promoted to Assistant Director, Mexican, Central American and Caribbean Region. He will remain in his current position as Senior Market Analyst in the Arlington, VA, headquarters until relocating to Mexico City before September 1, 2008. Joe joined USW in 2005 after working as

Economist with the International Agriculture Division of Global Insight Inc., in Philadelphia, PA, and Barcelona, Spain. He has a bachelor's degree in agronomy and a master's degree in agricultural economics from Virginia Tech, Blacksburg, VA, and is fluent in Spanish.

- Ian Flagg has accepted a position as Market Analyst in the Arlington, VA, headquarters. He will remain in his current position as Assistant Director, West Coast Office, Portland, OR, before relocating to the Washington, DC, area before September 1, 2008. Ian was a master's degree candidate in agricultural economics studying with Dr. William Wilson at North Dakota State University when he joined USW in 2005. He has a bachelor's degree in economics from Minnesota State University Morehead.

**America Celebrates Agriculture Today.** It is National Ag Day, a time set aside in the U.S. to recognize the many blessings that flow from the farm. American farmers and ranchers are conservationists, providing food and habitat for about 75 percent of this nation's wildlife with a farm policy that encourages environmental habitats that help protect land and water resources. Farmers use computer and satellite technology to map their fields for production inputs and help match production practices to soil type and climate conditions. The result is higher yields with lower input costs from more efficient use of chemicals, fertilizers and tillage. Ultimately, that means more food at a lower cost for consumers. Advancements in crop and equipment technology and information management make it possible to feed a growing world. American farmers and others involved in the agriculture industry have met and will continue to meet this challenge again and again.

**Grain Science a "Modern Marvel."** Experts from the Kansas State University [Grain Science & Industry](#) department will help tell the story of wheat, milling, baking and bread on the U.S. television program [Modern Marvels](#) airing Monday, March 24, 2008, on The History Channel. Modern Marvels tells the stories behind everyday items, technological breakthroughs and man-made wonders. The U.S. cable network describes the program as "celebrating ingenuity, invention and imagination brought to life on a grand scale."