U.S. WHEAT ASSOCIATES
1620 I Street N.W. ⬩ Suite 801 ⬩ Washington, D.C. 20006
Tel: (202) 463-0999 Fax: (202) 785-1052

Wheat Letter

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U.S. Wheat Associates 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 17 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.

1. U.S. Exports to Climb on World Supply Shortage with Record Prices Expected

by Joe Sowers, USW Market Analyst

The USDA World Agricultural Supply and Demand Estimates (WASDE) released this morning showed further reductions in global production as poor growing conditions around the world undermine harvests and further reduce global stocks, already at the lowest level seen in 36 years. Adverse weather has hurt quality in parts of the U.S. HRW region and the EU, further tightening availability of milling quality grain. Reduced exportable supplies are keeping import demand for U.S. supplies very strong despite the highest export values in 11 years. As a result, USDA increased U.S. export and farm-gate price estimates from already historically high levels.

USDA lowered expectations for global production by nearly 2 MMT from last month's forecast due to weather problems in the U.S., Canada, EU-27 and several other countries. The harvested area estimate in top HRW-producer Kansas was reduced by nearly 162,000 hectares, from a total 3.6 million hectares, due to freeze and flood. Kansas has harvested 40,000 hectares less than last season, despite planting 200,000 more hectares last fall. The total crop in Kansas is estimated at 7.8 MMT, down 100,000 MT from last year's drought stricken crop. Extreme heat in Canada reduced the harvest potential there by 1 MMT to 21.5 MMT, while drought in Eastern Europe combined with persistent rains in Western Europe to reduce the EU-27 production forecast by 1.7 MMT. Good weather in Russia and Kazakhstan was the only positive production news, reflected in a 500,000 MT increase in expected exports from the Black Sea region.

Although USDA expects global production to exceed 2006/07 output by more than 17 MMT, it predicts world use will exceed production for the third year in a row, thus reducing global stocks to 115 MMT. The stocks-to-use ratio of 19 percent is the lowest since USDA began keeping track in 1960.

Very Short Supplies. The supply situation has fostered price rationing in U.S. futures markets, and pushed prices to their highest level in 11 years. Prices for December delivery SRW at the Chicago Board of Trade breached $7/bushel this week. The record price for any delivery month is $7.50/bushel and $7.17/bushel for nearby delivery, both set in 1996. USDA forecasts that the average farm-gate price for this marketing year will set a new record between $5.10 and $5.70/bushel.

The U.S. export pace is currently 80 percent higher than at this time last year. Sales are up for every reported class of wheat and USDA increased its U.S. export forecast by 680,000 MT from last month, now 4.5 MMT above last season. Sales of SRW are nearly three times larger than last year as Egypt has only received offers from U.S. and Black Sea suppliers. HRW sales are currently 167 percent higher than last year, largely on increases to Iraq and continued strong sales to Nigeria. HRS sales to the EU-27 are more than 10 times greater than this time last year and durum exports are up by 27 percent. Sales of white wheat are just above last year's pace even though prices are 70 percent higher than they were last year at this time.

2. Unintended Consequences?

Plans for "Barley Freedom Day" in Canada are on hold following a decision by a federal judge that returned monopoly control over barley marketing back to the Canadian Wheat Board. At a time when the global market is heating up, growers who signed contracts to deliver barley directly to malters saw the bottom fall out of the Canadian market and are left with little except uncertainty. Canadian news outlets quoted Prime Minister Stephen Harper's position from a speech earlier this week: "We may have to wait till next season, but we're going to get this market opened, whether the Wheat Board likes it or not, and farmers are eventually going to win this battle."

The unintended consequence of this mess may put even more pressure on world wheat stocks.

Gary Pike is CEO of Pike Management Group, in Calgary, Alberta, an organization that provides "management and marketing support, business planning and coaching to large profitable farms, ranches and organizations." Pike says the firm's network of producers represent nearly 1.22 million hectares (3 million acres) of crop land in western Canada. "Frankly, large operators like my clients do not like being held captive to the CWB," Pike notes. "They believe they could earn more for wheat and barley in the open market, so they will probably vote with their seed drills next spring and plant more canola or pulse crops instead of grains," Pike says. This possibility exists where spring wheat planted area was already down 20 percent this year compared to 2006.

There is no doubt that wheat would have to compete for hectares with other commodities even in an open market, as it does in the U.S. Yet, at a time when the world is consuming far more wheat than it is producing, there seems little advantage to both growers and buyers from a marketing system that yields a disincentive for profit-minded producers to grow wheat.

Mission Accomplished. *New crop HRW wheat is on its way from this Texas Panhandle field to domestic use or export. In a world that is producing less wheat than it consumes, a reliable, high-quality supply is increasingly important. In its open market system, the U.S. wheat industry is committed to filling this need every year.*

3. From Geneva: Guarded Optimism Will Bring Negotiators Back in September

by Rebecca Bratter Coleman, USW Director of Policy

Representatives from the 151 WTO member countries reconvened in Geneva late in July to provide formal response and input to a draft modalities text from WTO agriculture chair Crawford Falconer meant to demonstrate "what is potentially on offer as we move into what could be a serious closing zone for this (Doha) negotiation."

USW met in Geneva with a number of delegations and representatives from the Director General's office and noted a distinct sense of optimism that the defined parameters are within a range that is sufficiently acceptable to bring everyone back to the table for full-scale negotiations. The stalemate is broken and, according to one inside source, "we are close on agriculture."

How close are we and what are those landing zones? The draft text highlights the following:

- U.S. Domestic Support – the text proposes a reduction of between 66 percent and 73 percent to the current U.S. offer. The starting zone for negotiations in September would then be based on a U.S. domestic support offer in the range of $14 - $16 billion.
- Market Access – the G-20 (group of 20 countries) proposed thresholds for market access have been the benchmark for tariff cuts throughout the negotiations. The draft text proposed a "G-20 plus" formula that will result in tariff reductions that are on average less than what the US requested but greater than the G-20 proposal. In the case of the EU, the overall tariff reduction across all tiers is around 54%, and could go up to 73 percent in the highest tier; for developing countries it is 2/3 of that number.
- Export Competition – disciplines for export credits still stipulate a 180-day loan tenor limitation. Additionally, while disciplines for food aid still include a cash option, there does seem to be consensus that monetization programs will be left intact in the final negotiations. There is still the unresolved issue of NGO involvement in monetization. Export STE monopolies are presented with disciplines, and language calling for elimination is still bracketed (reflecting lack of consensus on this issue).

U.S. Wheat Concerns. While the text shows progress since the April challenges paper, we remain concerned that the range of proposed cuts to U.S. domestic support is not drawing reciprocal offers in market access. The tariff cut proposals are much improved but several undefined aspects of the market access discussion could be deal breakers:

- Treatment for Sensitive and Special Products – countries are permitted tariff reduction exemptions for products designated as sensitive (developed countries) or special (developing countries). The proposed percentage of protected tariff lines for special products is still too high. Nor does the draft text provide detail on treatment for special products. This will be critical in determining real market access, especially in developing country markets such as India, which is proposing to designate 98 percent of its agricultural products as special.
- Special Safeguard – The draft text falls short in providing disciplines for the special safeguard and special safeguard mechanism (ssg/ssm) for developing countries, which are designed to protect against import surges. They are triggered automatically and will result in the application of a high tariff band when imports surpass a certain threshold.
- Elimination of Export STEs – The U.S. wheat industry will not truly reap the benefits of a level trade playing field until export state trading enterprises (STEs) are eliminated. The industry wants to see unbracketed language calling for export STE elimination – not a series of disciplines.

These highlights will form the basis of negotiations set to resume on September 3, 2007. In Geneva, USW expressed our concerns with negotiators and insisted that any cuts to domestic support are reciprocated with real market access. A successful Doha agreement still presents the wheat industry with the best opportunity for new global sales. Farm Bureau estimates from 2006 estimated an agreement could increase U.S. wheat exports by as much as 200 million bushels (18 percent) by 2015. USW believes the promise of greater per capita income in developing countries offers the best potential for increased wheat exports. The Organization for Economic Co-operation and Development has estimated that a successful negotiation could add $300 billion annually to global income. As a substantial percentage of that increase would be spent on food, export-dependent commodities like wheat stand to gain the most.

We are grateful for the efforts of the U.S. WTO negotiating team which has worked non-stop to secure the best possible deal for U.S. wheat and U.S agriculture – an objective and commitment we share.

4. Wheat Industry News

USW Welcomes Trade Team. Wheat buyers from Cyprus, Jordan and United Arab Emirates are in the U.S. this week to visit USW's Washington, DC, office, USDA, Kansas City, the port of New Orleans and USW's Portland offices. Combined with local efforts to build productive relationships, trade team trips to America are a vital part of building trust in the wheat production and marketing system that backs our reliability promise. USW-sponsored visits are supported by the USDA's Foreign Agricultural Service and the dedicated individuals at member state wheat commissions.

Wheat buyers hot on the trail *of quality milling wheat braved one of the hottest days in Washington this summer en route from USW's office to meet with officials at USDA. Left to right: Alain Sellier, USW Program Manager, Hassouni Muhuilan, Director of Trade & Storage, Ministry of Industry and Trade, Amman, Jordan; Takis Kanaris, Director, Cyprus Grain Commission, Nicosia, Cyprus; Jacek M. Plewa, General Manger, Grand Mills for Flour & Feed Company, Abu Dhabi, U.A.E.; Shannon Schlecht, USW Assistant Regional Director, Middle East-East Africa, Cairo, Egypt.*

Prepared by Steve Mercer