



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

Wheat Letter

September 20, 2007

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 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.

In this issue:

- 1. Robust U.S. Wheat Exports Continue**
- 2. Australian Crop Issues Could Diminish Stocks**
- 3. Suppes: Free Trade is Critical**
- 4. U.S./South America Trade at Crossroads**
- 5. Are You Being Served?**
- 6. Dollar at Historic Low; U.S. Supplies More Competitive**
- 7. Wheat Industry Notes**

1. Robust U.S. Wheat Exports Continue

U.S. wheat export sales for the week ending Sept. 13 were around 1.44 million metric tons (MMT) according to the U.S. Department of Agriculture (USDA) weekly Export Sales Report. This immediately follows a week when importers bought more than 2 MMT of U.S. wheat, the most for a single week since 1996. In the September World Agricultural Supply and Demand Estimates, USDA increased its U.S. wheat export forecast by about 700,000 MT to 29.94 MMT – up 5.2 MMT over actual sales last year. With that adjustment, the U.S. has now sold 70 percent of the total forecast in a less than four months.

Total known outstanding sales and accumulated exports of all classes of U.S. wheat for MY 2007/08 through Sept. 13 were around 20.84 MMT. Sales of hard red winter (HRW) were up sharply on sales to Morocco, Iraq, Nigeria and Algeria. Additional buyers this week included Egypt, Japan and Brazil.

Here is a summary, by class, of U.S. wheat net sales and net sales plus accumulated exports (1,000 metric tons) in MY 2007/08 for the week ending Sept. 13 as reported by USDA:

<u>Wheat Class</u>	<u>Net Sales</u>	<u>MY Total</u>	<u>Export Forecast</u>	<u>% of Projected</u>
HRW	576.8	8,679.0	12,247.2	71
SRW	224.7	4,180.7	4,762.8	88
HRS	388.2	4,636.5	7,756.6	60
SW/WW	221.9	2,643.0	4,354.6	61
Durum	28.5	695.6	816.5	85
Total	1,440.0	20,834.7	29,937.7	70

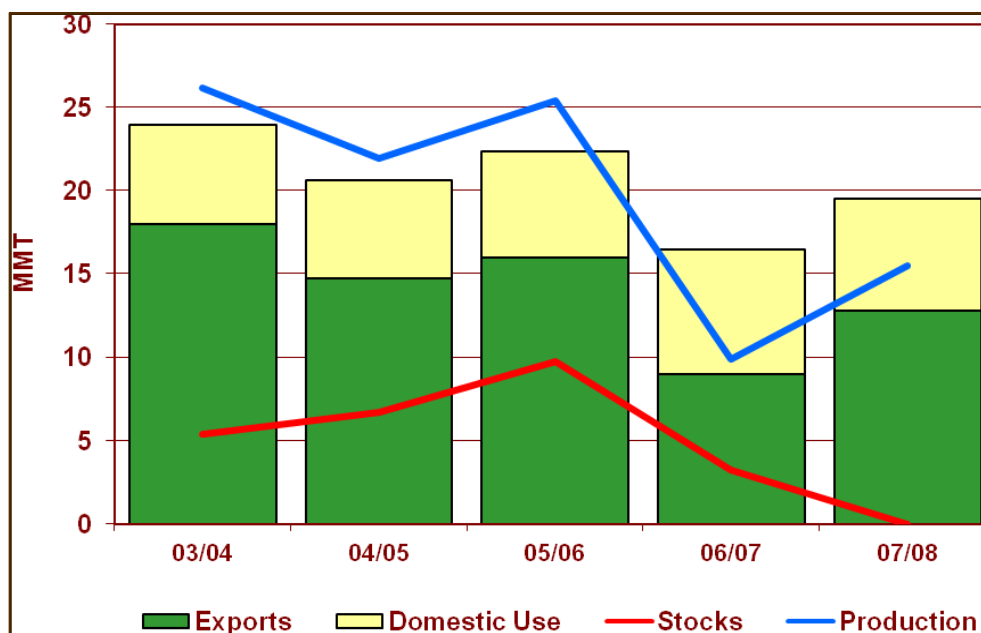
2. Australian Crop Issues Could Diminish Stocks

by Joe Sowers, USW Senior Market Analyst

This week, the Australian Bureau of Agricultural and Resource Economics (ABARE) confirmed that drought has damaged its wheat crop for the second year in a row, threatening to reduce supplies dramatically. ABARE pegged Australia's production at 15.5 MMT, down 7 MMT from its June forecast. Despite a below-average harvest, ABARE forecasts Australia to export 12.8 MMT, 3.8 MMT more than last year. If accurate, stocks in the country will be drawn down to bin bottoms.

The Australian crop had a promising start after receiving ample moisture in June and July. Since August, however, dry conditions have lingered through the important heading and flowering development stages and cut yield potential. The ABARE production estimate is 31 percent below its June forecast of 22.5 MMT and 5 MMT below Australia's ten-year production average.

Although ABARE does not report estimates of stock levels, USDA estimates Australia holds 3.2 MMT of wheat after exporting more than 90 percent of production last year. In MY 2006/07, Australia held record stocks of 9.8 MMT but drew them down to compensate for the shortest crop in more than a decade. If the USDA estimate is accurate and the ABARE forecast turns out to be correct, Australia could draw stocks down to virtually nil by the end of MY 2007/08.



Dragged down by drought. Australia's wheat stocks could be nil by the end of MY 2007/08 based on ABARE's latest report estimating a 15 MMT wheat crop and exports of 12.8 MMT.

3. Suppes: Free Trade is Critical

by Bill Spiegel, Editor, *Kansas Farmer*. This story originally appeared in the August 2007 issue of *Kansas Farmer*.

AS a high school principal for 10 years, Lane County farmer Ron Suppes learned to nip potential problems in the bud by following a simple, yet effective rule.

"When there were complaints, I would tell the faculty and students that I'd listen, but when they got through complaining they needed to come up with a solution. If there wasn't a solution, it probably wasn't worth complaining about," Suppes explains.

Throughout his farming career, he has followed that same advice. So when the Kansas Legislature voted in 2000 to privatize the state's commodity commissions and call for commissioners to be elected rather

than appointed, Suppes ran for a spot on the Kansas Wheat Commission, which oversees the state's 1-cent-per-bushel wheat checkoff.

"I began to think I'd been complaining too long, and it was time to make a difference," he recalls.

Two representatives from the Kansas Wheat Commission are appointed to the U.S. Wheat Associates board of directors. Suppes was one of them selected for the job. (Hoisington farmer Dean Stoskopf is the other.) Suppes was then encouraged to run for an office in U.S. Wheat, and after a successful campaign for secretary-treasurer, he eventually became chairman of the group, which is funded in part by checkoff dollars collected in wheat-growing states. U.S. Wheat works to develop worldwide markets for American-grown wheat, opening the door for private companies to sell wheat to foreign buyers.

Free trade

Given that 50% of the wheat grown in Kansas and 75% of the wheat grown in the northern U.S. is exported, leading U.S. Wheat is a big job.

"My agenda is to continue developing free trade agreements," says Suppes, who assumed the USW duties last month. "Colombia presents a vast market, as does all of South America. Canada and the U.S. have a lot to gain by concentrating on South America."

The most important agreement, he believes, would be to open trade with Cuba. U.S. Rep. Jerry Moran, R-Kan., and U.S. Sen. Max Baucus, D-Mont., have introduced similar bills to both sides of Congress that would do just that.

"We've inquired how we can help," says Suppes, adding that even though President Bush has promised to veto such a measure, "it doesn't mean we'll ever quit trying."

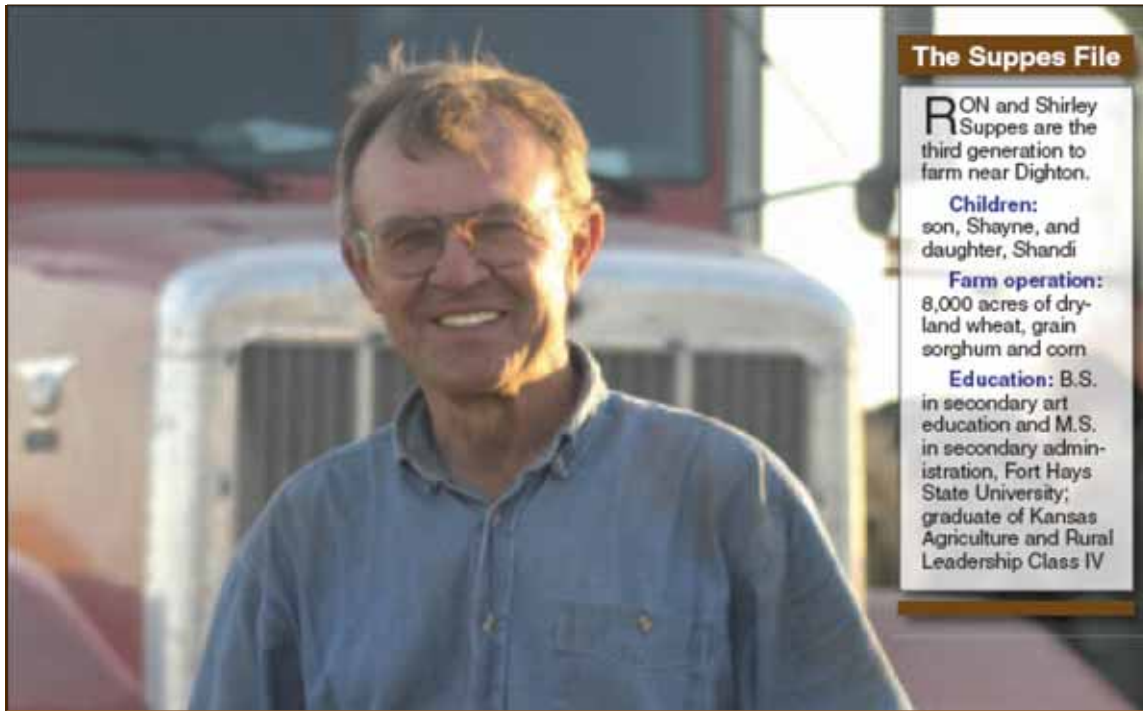
People helping people

U.S. Wheat Associates has 16 offices worldwide, with employees helping foreign buyers learn more about the attributes of U.S.-grown wheat, how to best use the wheat in their mills.

Suppes travels around the world meeting foreign buyers of U.S. wheat. His status as a farmer often helps buyers more closely identify with U.S. wheat production, which augments the work performed by the organization's employees.

He and his wife, Shirley, often travel together. Although the couple pays Shirley's travel expenses, Suppes wouldn't have it any other way. "We raised our family as a team, and we farm as a team," he says. "We decided as a team to be involved in U.S. Wheat Associates."

Used by permission. Copyright 2007 © Farm Progress Cos.



USW Chairman Ron Suppes. Photo by Bill Spiegel, appeared originally in the August 2007 issue of *Kansas Farmer*. Used by permission. Copyright 2007 © Farm Progress Cos.

4. U.S./South America Trade at Crossroads

Notable threats to the competitive standing of the U.S. in South America have a significant impact on the U.S. wheat industry, and chief among them is the drawn-out debate over approval of free trade agreements (FTAs) with Colombia and Peru. Given the current trade environment in the hemisphere, USW Director of Trade Policy Rebecca Bratter Coleman has prepared a paper that examines these threats in depth and discusses why ratifying the FTAs offers upside potential for U.S. wheat exports and long-term benefits beyond trade. Here are some excerpts from the paper, titled "Hemispheric Paradigm Shift Calls for New U.S. Strategy in South America." To read the entire paper, visit the USW Web site at <http://www.uswheat.org> and click on [Trade Policy](#).

"South America is the new trade battleground for the U.S. and especially so for the U.S. wheat industry. Once dominant U.S. influence in South America is waning under fire from a number of competitive threats and U.S. wheat exports to the region are not immune to shifting geopolitical realities. While there are a number of factors outside the realm of influence, the situation is not without remedy. Congress is currently debating the fate of three free trade agreements (FTAs) in Latin America – Panama, Peru, and Colombia – in addition to a fourth in South Korea. As one U.S. diplomat noted, "there is a battle going on for the hemisphere... Trade agreements with Peru and Colombia as well as an eventual Doha agreement would go a long way towards leveling the competitive playing field and sealing the U.S.' position as a committed trade partner in the game for the long haul.

"Trade agreements signify more than preferential duties and market access. While the U.S. tends to think in terms of free trade, potential partners in South America see these agreements as strategic alliances. These are partnerships that can lead to, as one U.S. State Department official termed it, "microeconomic revolutions." FTAs create an opening for modernization and serve as an engine for economic growth. This in turn can lead to improved livelihoods and a better quality of life with more disposable income.

“Colombia holds a dramatic and symbolic value for the U.S. and the consequence of not ratifying an FTA with this important hemispheric partner is that much greater. The U.S. has invested over a billion dollars over the years in Plan Colombia...widely credited with restoring a sense of peace and stability, resulting in dynamic economic growth and increased foreign investment...Not ratifying the FTA sends the wrong signal to Colombia about the U.S.’ commitment to free trade and to the important strategic alliance that has been established over the years. Colombia has traditionally been the top South American buyer of U.S. wheat after Venezuela. The convergence of all these factors, compounded by a decision not to ratify the U.S.-Colombia FTA, would be a disaster for U.S. wheat.

“The U.S. cannot afford to further delay or even consider not ratifying both the Peru and Colombia agreements...The U.S. has always cultivated ties within the hemisphere but is facing a paradigm shift that requires a change of course...The current strategy...puts U.S. agriculture at a disadvantage and directly affects the ability of industries like U.S. wheat to compete...long-term.”

5. Are You Being Served?

What if you couldn't turn to the open market of the U.S. in this short world wheat supply situation? You'd be "over a barrel," as they say. Judging from an article on world wheat prices in the Sept. 13 edition of the *Calgary Herald*, a spokeswoman for the Canadian Wheat Board (CWB) apparently thinks that would be a good idea:

Tight world inventories favour Canadian grain producers who are dominant sellers of durum wheat and barley, said Maureen Fitzhenry, spokeswoman for the Canadian Wheat Board...As Western Canada's sole wheat marketer, the Canadian Wheat Board is in a position to maximize the situation for producers, she said. "When you only have one seller, you can really get your buyers over a barrel, not to be too rude about it," Fitzhenry said.

Higher grain prices do benefit farmers, though not as much as one might think; wheat production costs in the U.S., for example, have trebled in just the past two years. Farm-gate prices in the U.S. are determined in an open market as are the prices paid by domestic and international wheat buyers. That's why USW works with millers around the world to help them buy efficiently and to help them find the right U.S. wheat to meet the specific needs of their end use customers. We believe U.S. wheat growers are most successful when their customers are most successful.

6. Dollar at Historic Low; U.S. Supplies More Competitive

by Joe Sowers, USW Senior Market Analyst

In this era of soaring grain and freight prices, one offset for global importers is weakness in the U.S. dollar, currently at a record low against the euro and several other currencies. A weak dollar lowers the real cost of U.S. exports to foreign buyers. The dollar has also weakened to multi-decade lows against currencies of other exporters, making U.S. supplies more competitive on the global market.

This week, the U.S. Federal Reserve cut interest rates to head off a potential slowdown in the U.S. economy. The cut of 50 basis points was viewed as aggressive, causing speculation it is the start of a rate-cutting cycle. The move led to a decline in the value of the U.S. dollar to a record low of \$1.398/euro and a 31-year low of parity with the Canadian dollar on Sept. 20.

To illustrate the effective price advantage this exchange rate has in Europe, compare the cost of one MT of HRS at current exchange rates to the average 2006 exchange rate. This week, Duluth-origin HRS is valued at \$305/MT FOB. At the current exchange rate, that is €218/MT while at the 2006 average exchange rate of \$1.255/euro, the HRS would cost €243/MT. Meanwhile, the Canadian and Australian dollars are essentially unchanged from last year's average values.

7. Wheat Industry Notes

Joint Board Meetings Coming Up. The next two USW Board Meetings will be held jointly with the National Association of Wheat Growers (NAWG). The organizations are scheduled to meet Sept. 29 to Oct. 1, 2007, at the Renaissance Denver Hotel, with a joint Board session Sunday, Sept. 30, from 1:30 p.m. to 4:30 p.m. The 2008 winter meetings will again be held in Washington, D.C., at the Renaissance Hotel, Feb. 3 to Feb. 5. USW Board meetings are posted on the “Events Calendar” at the USW Web site, www.uswheat.org.

More Good Whole Grain News . Two new studies have confirmed that whole grains help reduce the risk of cardiovascular disease and diabetes. One, an analysis of seven larger studies, concluded that people who averaged 2.5 daily servings of whole grains were about 20 percent less likely to have heart disease or a stroke than those consuming little or no whole grains. The second study, from Germany, found that those who consumed the most fiber from grains (primarily whole grains) as well as magnesium (in whole grains, beans, leafy greens and nuts) were 23 to 33 percent less likely to develop Type 2 diabetes. (Reported by the Wheat Foods Council, www.wheatfoods.org. SOURCE: University of California, *Berkeley Wellness Letter*, August 2007.)

Prepared by Steve Mercer

Number of times this document has been viewed by web users = (since 7/22/2007)