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Wheat Letter

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U.S. Wheat Associates (USW) is the industry’s market development organization working in more than 100 countries. Its mission is to “develop, maintain, and expand international markets to enhance the profitability of U.S. wheat producers and their customers.” The activities of USW are made possible by producer checkoff dollars managed by 19 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. Original articles from *Wheat Letter* may be reprinted without permission; source attribution is requested. Click [here](#) to subscribe or unsubscribe to *Wheat Letter*.

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**Crop Quality Information: [USW Harvest Report \(http://www.uswheat.org/reports/harvest\)](http://www.uswheat.org/reports/harvest)**

**1. Ocean Freight Rates Keep Rising with Commodity Stockpiling**

*From the “Transportation and Export” report by Jay O’Neil, O’Neil Commodity Consulting*

It would seem that dry-bulk ocean freight markets have recently followed a line “to the moon.” They just kept going up. Buyers have experienced a bit of a perfect storm of causes leading to the rapid freight market rally of the last eight weeks that took taken the market to a 24-month high last week.

The Capesize market was leading the charge, based largely on stockpiling of raw materials by the Chinese. China increased steel production at a time when domestic iron ore stockpiles were historically low, which led to a mad dash for replacement ore stocks and the freight to deliver such. Then there were

heavy rains in Western Australia that slowed ore exports from that region and caused buyers to increase shipments from more distant, less logistically efficient, ports in Brazil.

I heard reports estimating that 22 percent of the Capesize fleet was tied up in port congestion. There was also a 15 percent slippage (cancellation rate) in Capesize “newbuilding” orders leading to fewer deliveries than previously anticipated. The total fleet newbuild order book experienced a 30 percent slippage rate.

The strength in the Capesize market, which pushed daily hire rates for Capes up to \$38,000 to \$42,000 per day, caused charterers to reach down into the Panamax and Supramax fleets for split shipments. Depending on the vessel position, Panamax rates were \$15,000 to \$19,000 per day.

Yet, the market was also feeling a negative impact on capacity caused by “slow steaming,” a logistical backup of Panamax vessels in Brazil and unexpectedly strong demand for U.S. grain and coal exports from the U.S. Gulf. China, again, is involved as it dramatically increased soft red winter (SRW) wheat purchases.

U.S. Wheat Associates (USW) President Alan Tracy was in Australia recently and was asked about how higher freight rates might affect U.S. wheat exports to Asia. “The Land,” an Australian farm publication, reported that Tracy was confident a rise in freight rates would not adversely affect demand for U.S. wheat because most exported wheat ships in smaller-sized vessels. He also noted the advantage higher rates gives North American suppliers in northern Asian markets.

All this set me to consider what might happen after commodity stockpiling wanes. Late last week, in fact, the Baltic Exchange's main sea freight index fell, Reuters reported, “on weaker demand for Capesize” vessels.

However, a Chinese holiday period is over and the ocean freight market picked up right where it left off. The Baltic indices continue to move higher with the Panamax market at a 24-month high as of Oct. 11 and the Capesize market still leading the way up.

Some believe the commodity stockpiling will support vessel values through the fourth quarter of 2013. I am considering what message this market is sending to vessel owners. Will the higher rates motivate them to cease their slow steaming strategy? Will they be motivated to slow demolition rates? Will this motivate them to place additional newbuild vessel orders?

It is my opinion that the rally will probably top out within the next 30 days and we will see lower rates in December and January. But I believe the second half of 2014 (roughly the first six months of marketing year 2014/15) will likely bring forth a general turnaround for ocean freight markets and steadily rising rates going forward — that is, of course, if vessel owners do not build themselves out of those higher rates.

## **2. Europe is Missing the Boat on GMOs**

*By Alan Tracy, USW President*

I recently attended the European Commodity Exchange in Paris, a gathering of the grain and food business from throughout Europe, and I spoke on a panel sponsored by Syngenta about future grain demand and our ability to meet it. Yet, during the question and answer period, nearly all of the questions were about genetically modified organisms (GMOs). Strong support was evident for the “precautionary principle,” which is used to justify Europe's great reluctance to approve GMOs in the food supply. At the same time, much was made of efforts to ensure that food is being produced sustainably, a commendable trend where European companies are clearly in the lead.

I mentioned the strong record of accomplishment GMOs have in world food production, with 11 crops now produced with GMO technology on 170 million hectares in 28 countries. And after nearly 20 years of experience, there is no credible evidence of any health problems. But, I missed the chance to talk about the huge environmental benefits that the products of modern biotechnology have brought to U.S. agriculture. We have widely adopted “no till” and minimum tillage farming in no small part because herbicide resistant traits reduce the need for mechanical weed control. That saves time and money and means we burn less fuel in our machinery. Less tillage improves soil, enhancing water infiltration and reducing runoff, improving the clarity of our streams and rivers. We use fewer pesticides and store more carbon in our soils. The better yields we get from excellent crop varieties protected by biotech traits mean less pressure to farm rain forests and other fragile lands. In short, it makes our modern farming system much more sustainable. And with more new products coming from research, the benefits are only beginning.

Europe, however, despite its sustainability efforts, is missing the boat by not adopting modern biotechnology. The idea of “precaution” makes intuitive sense, but not as it is being applied. The current approach denies Europe and other countries that follow her lead the benefits of biotechnology. Louis Pasteur was a Frenchman, but in France one can still buy unpasteurized cheeses. Every now and then somebody dies from doing so. Food borne diseases are a serious problem that got no mention at this forum. But the products of modern biotechnology, properly regulated and used, bring no new food risks. None.

Early in October, Chief Scientific Adviser to the President of the European Commission Dr. Anne Glover publicly said, “there is no substantiated case of any adverse impact on human health, animal health or environmental health ... and I would be confident in saying that there is no more risk in eating GMO food than eating conventionally farmed food.” She concluded that she believes the precautionary principle no longer applies as a result.

We agree with Dr. Glover. To deny European farmers the use of biotechnology, to forego its very real environmental benefits and the health and other consumer benefits that will come is not precaution, it is foolhardiness.

### **3. 2013 Hard Red Winter Crop Has Good Protein and Functionality**

Final crop quality data from a survey of the 2013/14 U.S. hard red winter (HRW) wheat crop will soon be available.

The [USDA Agricultural Research Service Hard Winter Wheat Quality Lab](#) and [Plains Grains, Inc.](#) collected and analyzed 534 samples from Texas, Oklahoma, Colorado, Kansas, Nebraska, South Dakota, North Dakota, Wyoming, Montana, Washington, Idaho and Oregon, representing about 80 percent of U.S. HRW production.

Following is an initial summary of results funded by USW, HRW states supporting Plains Grains and USDA's Foreign Agricultural Service. USW will post complete results on [www.uswheat.org](http://www.uswheat.org) soon and discuss characteristics with overseas customers at its annual Crop Quality Seminar events. Buyers are encouraged to construct specifications carefully to be sure that they receive qualities that meet their needs.

Despite generally dry growing conditions and kernel characteristics slightly below average, the 2013 HRW crop has unusually high protein content and very good processing characteristics. Water absorption and loaf volumes are very good and significantly exceed long-term averages.

**Wheat and Grade Data.** The overall average grade was US No. 2 HRW, down from last year and the five-year average of No. 1 HRW because average test weight was 59.9 lb/bu (78.8 kg/hl). Forty-nine percent of the samples graded US No. 1 HRW. Nearly all the overall average wheat characteristics reflected the adverse weather conditions. Test weight and thousand kernel weight were well below the 2012 and five-year averages. Dockage of 0.6% was slightly above the 2012 and five-year average of 0.5%, while total defects of 2.0% was significantly above last year's 1.4% and the five-year average of 1.5%. Both Gulf and PNW samples showed similar changes in kernel characteristics from last year and the five-year averages. The average protein of 13.4% was almost a full percentage point above the 2012 average of 12.6% and more than a full point above the five-year average of 12.2%. For both Gulf and PNW samples approximately 15% are in the less than 11.5% protein category, 25% in the 11.5% to 12.5% category and 60% in the greater than 12.5% category. Average falling number of 421 seconds indicates sound wheat.

**Flour and Baking Data.** The laboratory mill flour yield averaged 76.1%, above the 2012 average of 75.2%, but with higher flour ash content. The yield is significantly above the five-year average, a difference mostly attributable to use of a new tandem Buhler Experimental Mill. Wheat to flour protein loss averaged 1.1%, below the five-year average of 1.3%. Overall average farinograph peak time and stability were slightly above the 2012 and five-year averages, and water absorption of 59.8% was higher than the 2012 average of 58.9% and significantly above the five-year average of 57.9%. The alveograph W value of 250 (10-4 J) is comparable to 2012 and five-year averages. Overall loaf volume averages 860 cc, significantly higher than the 2012 and five-year averages. The flour and baking data indicate there is protein quantity and quality in the 2013 HRW crop.

#### **4. USW, NAWG Applaud 2013 World Food Prize Laureates, Reinforce Support for Biotech Wheat**

USW and the National Association of Wheat Growers (NAWG) on Thursday reinforced their support for the continued development of biotech wheat by joining others in the industry to [congratulate the 2013 World Food Prize recipients](#), whose work has been instrumental to this vital technology.

While biotech wheat is not currently available to farmers, NAWG, USW and the wheat farmers who lead them support innovation, research and the responsible introduction of new wheat varieties, including biotech wheat. Both organizations are working with industry partners throughout the wheat value chain to prepare the path for these new varieties of wheat — both biotech and non-biotech — that will improve farmers’ ability to increase yields, use fewer agricultural inputs and continually improve the quality of their crop.

Wheat is a staple of the world’s diet, but worldwide demand for wheat is outpacing our ability to produce it. In fact, the number of acres planted with wheat has fallen relative to other crops with biotech options available in part because the more advanced crops offer farmers a better return on their investment. Biotech wheat varieties, which the industry expects to be introduced within the decade, will help ensure that wheat continues to be a valuable source of nutrition for people around the world and a staple of American agriculture for generations to come.

On Thursday, Dr. Marc Van Montagu, Dr. Mary-Dell Chilton and Dr. Robert T. Fraley were awarded the World Food Prize for their roles founding, developing and applying agricultural biotechnology. Thanks to the discoveries of these laureates, farmers around the world are able to grow crops with higher yields and a more sustainable environmental profile than was ever possible before.

To listen to USW and NAWG officers talk about the importance of this award, visit <http://bit.ly/18q5Bob>.

## **5. Philippine Team Travels Coast to Coast to Talk Policy and Crop Quality**

A Philippine trade team will travel coast to coast Oct. 19 to 27 to see this year’s U.S. wheat crop and discuss trade policy issues that are having detrimental effects on the Philippine milling industry and U.S. wheat exports.

The delegation includes the director of the Philippine Association of Flour Millers (PAFMIL) and key decision makers at three of the leading flour mills in the Philippines. While in Washington, DC, the team is scheduled to meet with U.S. government officials and grain industry organizations to discuss what PAFMIL and USW consider dumping of Turkish flour into the Philippine market.

“With 52 years of partnership, USW has maintained a long-term, almost familial, relationship with the Philippine milling and baking industry,” said Manila-based USW Assistant Regional Director Joe Sowers, who will accompany the team. “Bringing these team members together with policy experts within the U.S. government and allied organizations to discuss important issues and explore potential solutions ultimately benefits both U.S. wheat farmers and some of their best customers.”

Sowers added that meeting with the U.S. wheat industry is a highlight for the team. During stops in Oregon and North Dakota, team members will gather information on the soft white (SW), hard red spring (HRS) and HRW wheat crops. Participants will also discuss end-product functionality with public and private wheat breeders.

The Philippine trade team is sponsored in part by the Washington Grain Commission, North Dakota Wheat Commission and Montana Wheat & Barley Committee in addition to funding from market development programs administered by USDA's Foreign Agricultural Service. USW also collaborated with the Oregon Wheat Commission on this team.

USW (initially its legacy organization Western Wheat Associates) has maintained an office in the Philippines – as well as relationships with industry leaders – since 1961. Since that time, the Philippines increased annual wheat imports from 200,000 metric tons in 1961, to nearly 2 million metric tons with a U.S. market share that exceeded 90 percent of milling wheat imports in 2012/13. Today, the Philippines is the second largest importer of U.S. SW and HRS wheat in the world and imports more wheat than any other U.S. agricultural product.

## **6. U.S. Wheat Store Stayed Open During Government Shutdown**

USW is pleased to report no disruption in U.S. wheat exports as a result of the U.S. federal government's partial shutdown from Oct. 1 to 16.

Federal grain inspectors, employed by USDA's Federal Grain Inspection Service (FGIS), sample, weigh, inspect and certify nearly every wheat shipment exported from the United States. These inspectors remained on the job weighing and inspecting grain for export. While some FGIS employees were furloughed, user fees support inspectors and their work was not affected by the lapse in Congressional appropriations.

User fees also support officials employed by USDA's Animal and Plant Health Inspection Service (APHIS) and they continued to issue phytosanitary certificates for plant materials bound for export even in the face of some staff disruption.

Today, USDA announced it would not release the World Agricultural Supply and Demand Estimates (WASDE) report originally scheduled for Oct. 11, nor will it make up two weekly crop progress reports that it would have issued during the shutdown. Yet, USW is glad that USDA colleagues are back to work and believe our customers should be encouraged that the U.S. wheat store remained, and will continue to be, open for business.

## **7. Wheat Industry News**

- **No Clear Link Between Wheat Classes, Celiac Disease.** Writing in the September 2013 "Journal of Agricultural and Food Chemistry," Donald D. Kasarda, a USDA staff member at the Agricultural Research Service's Western Regional Research Center in Albany, CA, said that "if there has indeed been an increase in celiac disease during the latter half of the (20th) century, higher gluten content does not seem to be the basis." To read more, visit <http://bit.ly/GX1ZzX>.

- **WMC Cracker and Biscuit Technology Short Course.** The Wheat Marketing Center (WMC) in Portland, OR, will hold its Cracker and Biscuit Technology Short Course Dec. 9 to 13, 2013. For more information or to register, visit <http://www.wmcinc.org>.
- **Distance Quality Control/Quality Assurance Short Course.** The International Grains Program (IGP) will hold its distance version of the Quality Control/Quality Assurance Flour Milling Course in Nov. 4 to Dec. 16, 2013. For more information or to register, visit <http://www.grains.ksu.edu/igp/>.
- **Follow USW Online.** Check out our page at [www.facebook.com/uswheat](http://www.facebook.com/uswheat) for the latest updates, photos and discussions of what is going on in the world of wheat. Also, find breaking news on Twitter at [www.twitter.com/uswheatassoc](http://www.twitter.com/uswheatassoc), additional photos at [www.flickr.com/photos/uswheat](http://www.flickr.com/photos/uswheat), plus video stories at <http://www.youtube.com/uswheatassociates>.

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