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Wheat Letter

December 20, 2012

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 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.

In This Issue:

- 1. U.S. Wheat Demand May Not Be as Weak as Some Consider**
- 2. Market Signals Buying Opportunity**
- 3. U.S. Wheat Growers Help Celebrate 50th Anniversary of Leading Asian Baking Institution**
- 4. TPP Talks Drive Toward Free Trade, Lower Cost for Wheat Buyers**
- 5. Season's Greetings from U.S. Wheat Associates**
- 6. Wheat Industry News**

Online Edition: [Wheat Letter – December 20, 2012 \(http://bit.ly/RH2OkI\)](http://bit.ly/RH2OkI)

Crop Quality Information: [USW Crop Quality Report \(http://bit.ly/ACVDIp\)](http://bit.ly/ACVDIp)

1. U.S. Wheat Demand May Not Be as Weak as Some Consider

By Casey Chumrau, USW Market Analyst

In its World Agricultural Supply and Demand Estimates (WASDE) released Dec. 13, the U.S. Department of Agriculture (USDA) surprised many analysts by lowering the 2012/13 U.S. wheat export forecast from 29.9 million metric tons (MMT) to 28.6 MMT, equal to 2011/12 exports. Based on the current level of total U.S. wheat sales, it is understandable why USDA would make such a move. However, there are many factors that suggest the United States could further increase the pace of sales in the second half of the marketing year.

As of Dec. 13, total known outstanding sales and accumulated exports were 17.7 MMT, 7 percent lower than last year's year-to-date total. However, commercial sales at the end of June were 21 percent off last

year's pace. A very strong August and a solid end to the calendar year helped lagging sales narrow the gap with the prior year's mark.

Competitive prices will help to drive the pace of sales in the second half of 2012/13 (see "Market Signals Buying Opportunity" below). Since September, U.S. prices have remained relatively stable while competitor prices rose. As of Dec. 2, U.S. soft red winter (SRW) and white wheat are less expensive than wheat from any other major exporter and major customers have noticed. In the month of December, Egypt has purchased 473,000 MT of U.S. wheat, compared to just 150,000 MT earlier in the marketing year and nearly tripling the 2011/12 sales-to-date of 246,700 MT. Tender results announced Wednesday showed Egypt purchased SRW at FOB \$335/MT, which is about \$20 below Russian milling wheat. This is a strong reversal from early August when Russian wheat prices were about \$30/MT less than SRW.

In addition, the United States has an ample supply of high quality wheat, unlike many competitors. U.S. production increased 13 percent in 2012/13 to 61.8 MMT, the highest mark since 2008/09. Unfavorable weather resulted in less fortunate harvests for other major wheat producers. Aside from Canada, which increased production by 8 percent, production in all the traditional wheat producers and the Black Sea countries declined in 2012/13. As a result, several suppliers have discussed limiting exports. Ukraine has publicly vacillated on the topic and Russia has indicated it will consider limits in 2013. This week, the Argentine government announced that it will allow 4.0 MMT of wheat exports for the marketing year, a 27 percent reduction from its original plan to permit exports of 5.5 MMT.

Poor weather conditions not only lowered production levels but also affected the crop quality around the world. Harvest reports this week from Australia, for example, indicate lower-than-expected protein levels from the premier wheat growing region in the east and a 26 percent decline in production for the year. Fortunately, the United States added to its consistent supply of high protein wheat in 2012/13 thanks to a harvest with above average protein levels for hard red winter (HRW) and hard red spring (HRS) wheat.

Futures prices have trended down in the last few weeks, which could make U.S. wheat even more competitive. However, the series of bullish factors outlined here complicate the current marketplace. Knowledgeable U.S. Wheat Associates (USW) representatives across the world are available to help customers navigate the market, manage risk and capitalize on excellent opportunities to purchase high quality U.S. wheat.

2. Market Signals Buying Opportunity

U.S. wheat futures prices have generally been trading within a relatively stable range since July after running up significantly with corn prices. U.S. wheat exports were slower than originally forecast at the beginning of marketing year 2012/13, especially for HRW, because prices stayed higher than comparable wheat from competing origins. Yet in the past month, HRW futures have moved nearly \$1.00 per bushel lower (\$36/MT), signaling what could be this year's best opportunity to buy in a down-trending market.

"The price trend for nearby U.S. wheat prices has definitely changed," said Vince Peterson, USW vice president of overseas operations. March HRW futures traded between \$8.80 and \$9.60 from about Aug. 1

until early November when the high side of the daily trading range started dropping. Then last week, the USDA lowered its U.S. wheat export forecast for the second month in a row.

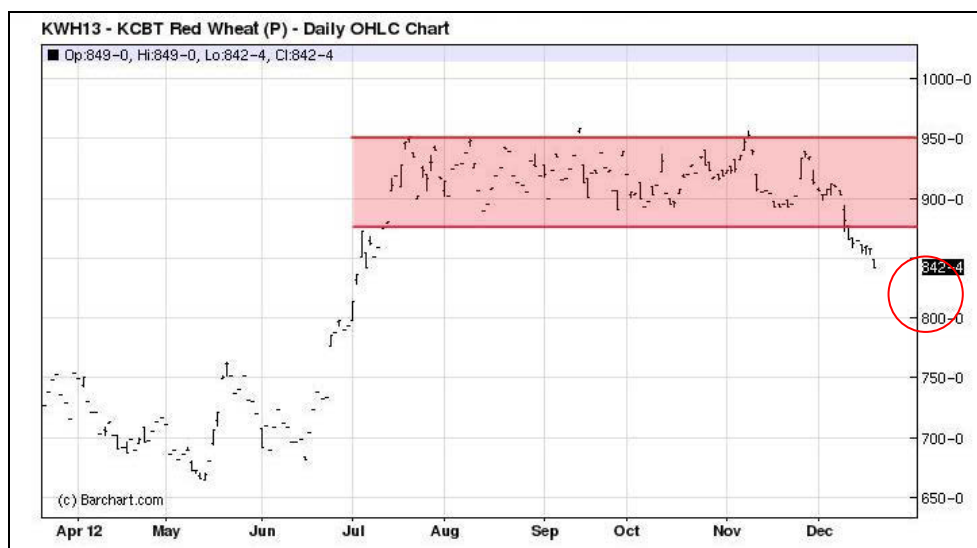
“Two days later, the bottom of the range broke through \$8.80 for the first time in four and a half months,” Peterson observed. “That is usually a sign that the market is setting up a new trend down in prices.”

How far down is the key question. Most of the pending factors that may affect the wheat market appear to be supportive of prices. The southern plains received a little rain a few days ago but virtually the entire U.S. HRW production region is now severely dry. Hard wheat supplies from the Black Sea region are thin and there are production concerns about the Southern Hemisphere crops currently being harvested.

“It is much more reassuring to buy and cover supply needs at incrementally lower prices than it is to be chasing a market that is heading up,” Peterson said. “So this slide in wheat prices may be an opportunity to make purchases at about the lowest levels available in this crop year.”

Customers can track U.S. wheat market cash, futures and export prices and read the USW Price Report posted every Friday at www.uswheat.org/reports/prices. For more information, contact your local USW office. To monitor crop and weather conditions in the United States and around the world, visit <http://bit.ly/zpVuxr>.

KCBT March 2013 Daily Wheat Futures



HRW March futures prices broke through a 4.5 month plateau recently as part of what appears to be a downward trend in spite of potentially bullish supply factors. Chart © Barchart.com.

3. U.S. Wheat Growers Help Celebrate 50th Anniversary of Leading Asian Baking Institution

Representatives from the U.S. wheat industry joined Sean Chen, Premier of the Republic of China, in Taipei Nov. 18 to celebrate the 50th anniversary of the China Grain Products Research and Development Institute (CGPRDI). Including a baking contest, training exhibitions and displays of both established and new wheat food products developed at CGPRDI, the event reflected the important education and research conducted there over the years.

For Adams County, WA, wheat grower Mike Miller, speaking at the celebration was a chance to link the past to the future.

“I am a fourth generation farmer and I work very hard to make sure four more generations of my family have that opportunity,” he said. “And I suggested that we see the relationship with this institution and our customers in Taiwan the same way. American farmers have done everything they can to provide the best quality wheat at the best price consistently and they can trust us to keep doing that in the future.”

Miller is a member of the [Washington Grain Commission](#), representing wheat producers in Adams, Chelan, Douglas, Grant and Okanogan counties. He is also a member of the [National Wheat Improvement Committee](#) and sits on Washington State University’s Variety Release Committee.

The U.S. wheat industry is an integral part of CGPRDI’s heritage. USW Country Director Ron Lu reports that in 1962, state wheat commissions from Washington, Oregon, Idaho, Montana, Nebraska, Kansas and Oklahoma – supporting the legacy organizations to USW – provided seed money to the Taiwan Flour Mills Association (TFMA) to start the Taiwan Wheat Foods Promotion Council. That led the U.S. wheat industry to support establishment of the Taiwan Baking School to help bakers produce new products and open their own baking businesses. In 1982, TFMA, USW, Taiwan Grains Foundations and the Taiwan baking industry built new facilities to expand training programs. The Taiwan Baking School moved to the new facilities in 1984 and it was renamed as CGPRDI. In its history, CDPRDI has trained 300,000 bakers.

“I am sure everyone who laid the groundwork would be very proud to see how this wonderful facility has grown and blossomed into the leading baking school in Taiwan and in Asia,” said Steve Wirsching, USW vice president and director, West Coast Office, Portland, OR.

The celebration coincided with USW’s annual Crop Quality Seminar series, allowing Miller and Wirsching to participate. They were joined by: Glen Squires, CEO of the Washington Grain Commission; Royce Schaneman, executive director of the Nebraska Wheat Board; Dr. Senay Simsek, assistant professor, wheat quality research, North Dakota State University; Matt Weimar, USW regional vice president, People’s Republic of China/Hong Kong; Lu and his Taipei-based USW team.

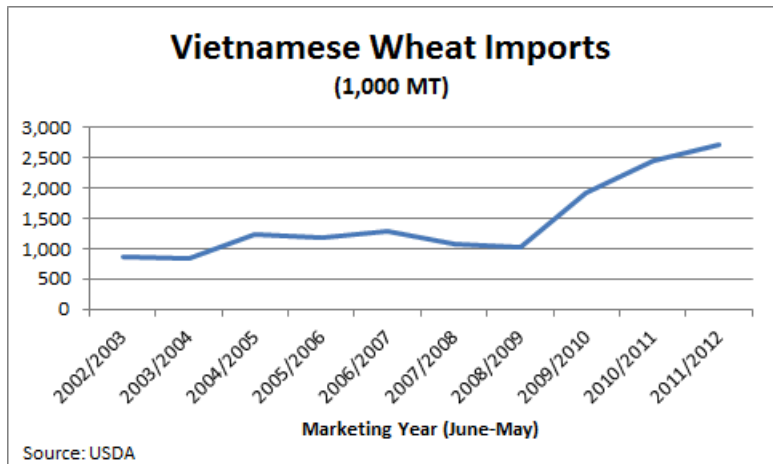
4. TPP Talks Drive Toward Free Trade, Lower Cost for Wheat Buyers

American wheat producers sell a lot of their wheat into the Asia-Pacific region where population and purchasing power are increasing rapidly. Yet while demand for wheat is also growing in the region, tariff and non-tariff barriers still exist. Liberalizing trade can help keep U.S. wheat supplies available to more customers at a lower cost. The best opportunity to do so is through the regional Trans-Pacific Partnership (TPP) free trade agreement (FTA).

TPP talks include Brunei, Chile, Singapore, New Zealand, the United States, Australia, Peru, Vietnam, Malaysia, Mexico and Canada. This agreement has ambitious goals to eliminate virtually all tariffs, take on new “21st Century” issues and strengthen commitments on sanitary-phytosanitary (SPS) measures relating to food and plant safety.

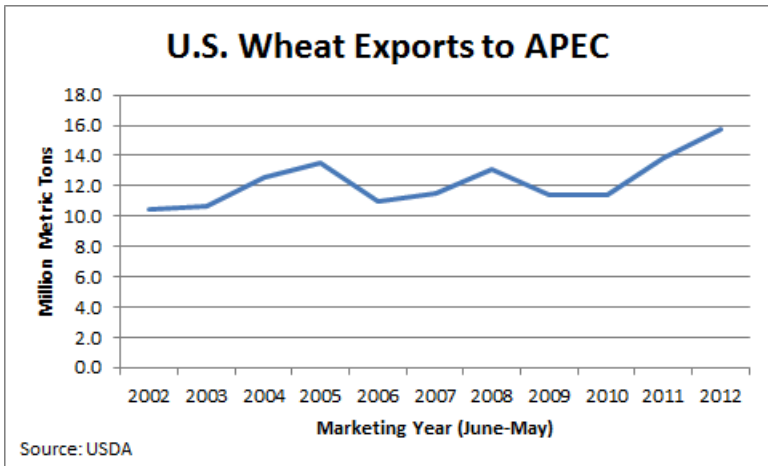
“As we have seen from previous agreements in markets like Mexico, Peru and Colombia, U.S. participation in regional free trade agreements provides real benefits to both U.S. wheat producers and their customers,” said USW President Alan Tracy. “We are excited about the TPP and the promise it shows for liberalizing trade in the Asia-Pacific region.”

Among existing TPP participants, Vietnam is a market that best represents the incredible growth in demand for wheat. On average over the past five years, Vietnam annually imported about 100,000 MT (3.5 million bushels) of U.S. soft white (SW) and HRS, but total demand reached 2.7 MMT (almost 100 million bushels) in 2011/12. Because Vietnam already has a separate FTA with Australia, Aussie wheat will have a five percent tariff advantage over U.S. wheat by 2016. TPP has the potential to permanently eliminate that tariff advantage, resulting in a more competitive evaluation on U.S. wheat quality and price.



Establishing new SPS commitments among TPP trading partners could reduce trade impediments. This is important, as the number of non-tariff barriers, like SPS restrictions, has increased as tariffs have fallen in some countries.

Members hope to expand TPP to eventually encompass the entire Asia-Pacific region. In MY 2011/12, the 21 Asia Pacific Economic Cooperation (APEC) countries imported more than 15.8 MMT (580 million bushels) of U.S. wheat, valued at \$5.05 billion and representing over 45 percent of U.S. exports. Yet overall demand for wheat is still growing rapidly.



The ability to come to a compromise agreement on the wide-range of topics under negotiation will take time. Fifteen negotiating rounds have been completed to date and the parties hope to wrap up negotiations before APEC meetings in November 2013. However, as U.S. Trade Representative Ron Kirk has noted many times, substance will drive the timeline, not a hard deadline. While the negotiating timeline is uncertain, one thing is for sure: an ambitious FTA with the Asia-Pacific region will be good for U.S. wheat growers and their customers in TPP member countries.

5. Season's Greetings from U.S. Wheat Associates



6. Wheat Industry News

Holiday Schedule. USW Headquarters and West Coast offices will be closed Dec. 24, 25 and 30, 2012, and Jan. 1, 2013. The next issue of Wheat Letter will be Jan. 10, 2013.

Bunge CEO Calls for Export Infrastructure Improvements. Alberto Weisser, chief executive officer of Bunge Ltd, recently called for major agricultural exports to update road, rail and waterways networks and remove trade barriers to improve food security, adding, “We need the ability to grow commodities where it makes the most sense to grow them and to move them where they need to go.” To read more, visit <http://reut.rs/V3a8lp>.

IGP Intro to Flour Milling Short Course. The International Grains Program (IGP) in Manhattan, KS, will hold its IAOM Introduction to Flour Milling course Jan. 14 to 18, 2013. For more information or to register, visit <http://www.grains.ksu.edu/igp/>.

WMC Asian Noodle Short Course. The Wheat Marketing Center (WMC) in Portland, OR, will hold its Asian Noodle Technology and Ingredient Application Short Course March 19 to 22, 2013. For more information or to register, visit <http://www.wmcinc.org>.

NCI Pasta Production Short Course. The Northern Crops Institute (NCI) in Fargo, ND, will hold its Pasta Production and Technology Short Course April 16 to 18, 2013. For more information or to register, visit <http://www.northern-crops.com/>.

A Vision for “Biohappiness.” Dr. M.S. Swaminathan, head of his own research foundation based in India, recently wrote in [Frontiers in Plant Genetics and Genomics](#): “I believe that the current concerns of biosafety and the impact of GMOs on biodiversity will soon give way to an appreciation of the potential benefits that the new genetics can confer on humankind. Agricultural science and genetics together have fed the world and will continue to feed the world. Thus, the use of the tools of molecular genetics based on a careful and transparent analysis of the risks and benefits by a competent regulatory agency will help us to enter into an era of biohappiness based on the intelligent application of genetics to human well-being.”

Congratulations to Roy Chung, Terrence Herman and Paola Valdivia, who mark significant anniversaries with USW this month. Chung has worked for USW for 35 years and is the bakery consultant in the USW Singapore Office. Herman marks 20 years with USW and is the director of information systems in the USW Headquarters Office. Valdivia has worked for USW for 10 years and is the administrative assistant in the USW Santiago Office. Thanks for your hard work representing U.S. wheat producers around the world!

Congratulations to USW President Alan Tracy and his wife Kris on the birth of their granddaughter Finley Rose Tracy, born to Paul and Lily Tracy in Austin, TX, Sept. 28, and their granddaughter Savannah Christine Tamminga, born to Sarah and Joshua Tamminga in Durango, CO, Dec. 12 (12-12-12).

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