Wheat Letter

August 27, 2015

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 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. 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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PDF Edition: (See Attached)

USW Price Report: Published every Friday at http://www.uswheat.org/prices

1. Price Report, Charting Tools Help Overseas Wheat Buyers Manage Risk
By Stephanie Bryant-Erdmann, USW Market Analyst

Every Friday for more than 40 years, USW has called trade contacts around the United States to gather FOB (free-on-board) price indications and market intelligence for each of the five U.S. classes of wheat with exportable supplies: soft red winter (SRW), hard red winter (HRW), hard red spring (HRS), soft white (SW) and durum. This information helps create USW’s weekly Price Report, as well as the Nearby Cash Price Charting and Specific Deliver Month Charting Tools, which can found at www.uswheat.org/prices.

Price Report*: As the only weekly public source for U.S. wheat export prices, this is a unique report. Currently, seven companies that ship wheat from the Gulf, the Pacific Northwest (PNW) and the Great Lakes actively take part in USW’s Price Report. In return for their time, which is greatly appreciated, these companies receive data upon request, are included in trade team visits to the United States and are invited to send self-sponsored representatives to trade servicing activities held by our overseas staff.
The report also contains current exchange rate information for seven of the largest wheat markets, freight price indications and highlights of the week’s major events and reports that may affect the markets. Here are excerpts from the Aug. 21, 2015, Price Report:

- **Even with a brief rally on Thursday, supported by uncertainty about export delays from Russia, a weaker U.S. dollar and reports of Argentina losing an estimated 6 percent of its wheat crop to floods, wheat futures markets ended the week on a bearish note. With ample global supplies and weak export demand continuing to pressure the market, futures continued a long trend down. September CBOT wheat closed 7 cents lower at $5.00/bu, KCBT fell 19 cents to $4.71/bu and MGEX lost 6 cents to $5.13/bu for the week. September CBOT soybeans closed down 20 cents at $9.05/bu and September CBOT corn was up 1 cent from last week at $3.65/bu.**

- **Agricultural consulting group, SovEcon, reported that year-to-date Russian wheat exports at 1.7 MMT are down 50 percent from the same time in 2014/15 due to harvest delays and the export tariff put in place on July 1. This is the lowest level seen in four years, but trade experts caution it may be artificially low because of reporting delays.**

- **In its weekly crop progress update, USDA reported spring wheat harvest is 53 percent complete, ahead of the 5-year average pace of 31 percent. Crop conditions improved with 70 percent rated good to excellent, up one percent from the prior week and an unchanged 6 percent rated poor.**

While USW’s Price Report is an excellent tool to help manage price risks in your buying regimen, please note these are only price indications and actual quotes may differ greatly depending upon specifications.

If you want to receive the Price Report in your inbox every Friday, please email sbe@uswheat.org with your first and last name, company affiliation and email address. USW also posts the Price Report online at www.uswheat.org/prices.

**Specific Delivery Month Charting Tool**: This tool allows the user to chart cash and basis prices by delivery month for up to five time series according to the delivery month and year, port, wheat class and protein level. Gulf ports include the Mississippi River and East Texas ports; West Coast (PNW) ports include the Columbia River and Seattle ports; and Lakes refers to the Great Lakes and includes the ports of Duluth, MN, and Superior, WI.

**Nearby Cash Price Charting Tool**: Buyers may use this tool to chart export cash prices for the closest nearby shipment period, which is the price column farthest to the left in the report. With data back to 1973, this tool is valuable when looking at price trends over time.

As always, if you have questions about the Price Report, charting tools or other U.S. wheat market factors, please contact your local USW representative.

*See the online edition of “Wheat Letter” for additional content.*

**2. Russia Going Against the Grain**

*By Alan Tracy, USW President*

Russia has a long history of government involvement in the grain business. The old Soviet Union’s collectivization of agriculture and its suppression of Ukraine took it from a major grain exporter to, by the mid-1970s, the world’s largest grain importer. Agriculture rebounded after the Soviet Union collapsed, slowly at first. Then the sudden devaluation of the Russian rouble in October of 1998 led to price...
differences that encouraged the export, at very cheap prices, of much of Russia's wheat crop that year. Interestingly, the U.S. that winter donated 1.7 MMT of wheat to try to alleviate the shortage, with the sales proceeds going to Russia's pensioners who had seen their retirement funds nearly wiped out by the devaluation.

As economic opportunity and private sector investment gradually grew in Russia's grain belt, she once again became a significant exporter and is now usually the fourth largest wheat exporting country after the United States, Australia and Canada. Her soils are good and her farmers are increasingly sophisticated. But Russia's government continues to lay a heavy hand that holds back the potential of her agricultural sector.

Faced with a run-up of global wheat prices in marketing year 2007/08, Russia first imposed a 40 percent export tax and then banned exports entirely for a time to keep bread prices low in Moscow and other urban centers. In 2010, the government again banned exports and cut across existing contracts leaving buyers high and dry; Egypt, for example, that year spent about $70 million more to replace that wheat from other sources. During the volatile price swings of the past seven years, Russia has curbed exports time and again*. After each grain harvest, Russian farmers and the trade hurry it out the door, depressing world prices and displacing other exporters, never knowing when that door might close. When the door shuts, world prices swing higher, damaging customers and distorting trade flows. As a result, Russian farmers receive on average lower prices than other wheat producers receive, discouraging the very sector that, if allowed to prosper fully, could ensure that Russia will never be short of grain.

Grain trade thrives on certainty. This year, the Russian government imposed a new system that was supposed to provide more certainty and transparency to its export taxes. It has not worked. The new system adjusts the tax according to a price formula, expressed in roubles. However, Russian exporters are reluctant to take the risk because world wheat prices are normally expressed in dollars and the rouble exchange rate has been particularly volatile lately, and because it takes a while between agreeing to an export contract and actually delivering it and being paid for it. They could make a contract at a reasonable expected profit only to see that turn into a loss when the tax is applied to the actual export. Exporters are complaining and exportable grain is backed up into the countryside. No doubt, the government will soon try another tack.

Unfortunately, what the Russian government fails to understand is that they really do not belong in the grain business. Despite good intentions, their actions disrupt trade, stifle growth and deny to both their consumers and their overseas customers the certainty of supply. With reasonable regulations and support for transportation facilities, but with otherwise a hands-off approach, they could help build agriculture into a great strength for their country. I think they will eventually get it right, but sometimes the process is painful to watch.

*See the online edition of “Wheat Letter” for additional content.

3. 2015 U.S. SRW Crop Quality Impacted By the Wet Growing Season

The USW 2015/16 SRW crop quality survey is complete and the full report will be available soon at http://www.uswheat.org/cropQuality. Great Plains Analytical Laboratory in Kansas City, MO, collected and analyzed 519 samples from 18 reporting areas in the nine states that typically account for 60 to 70 percent of total SRW production. USW and USDA Foreign Agricultural Service fund the annual survey.

USW will also share this data with hundreds of overseas customers at several upcoming events, including USW's annual crop quality seminars. Buyers are encouraged to construct specifications carefully to be
sure that they receive qualities that meet their needs either for traditional soft wheat products or for blending with higher protein wheat.

The 2015 SRW production, estimated at 10.6 (million metric tons) MMT, is down nearly 2 MMT from the 2014 crop and is the smallest SRW crop since 2010. Much of the SRW growing area received excessive moisture throughout the spring, encouraging the development of diseases. In many areas rain continued to cause lengthy harvest delays and reduced quality. Drier weather in mid-June allowed harvest to progress in a more timely fashion in the East Coast states.

The overall average SRW grade for 2014/15 is U.S. No. 3. Average protein is higher than last year and similar to the five-year average. Average dockage is also above last year and higher than the five-year average. Falling number values in the Gulf Port states are well below normal, where samples show the adverse effects of excessive moisture. In the East Coast states, falling number values reflect somewhat better harvest conditions.

Test weight averages are down for both Gulf Port and East Coast states with an overall average test weight of 56.9 lb/bu (75.0 kg/hl). This average is down 1.1 lb/bu (1.3 kg/hl) from last year and 1.8 lb/bu (2.2 kg/hl) below the five-year average. The average total defects value of 4.3 percent is 2.5 percentage points higher than last year and more than double the five-year average. The higher damage values are found mainly in the Gulf Port states; the East Coast damage and total defects are higher than in 2014 but below the five-year averages.

Average wheat protein content of 10.0 percent (12 percent moisture) is slightly above last year and similar to the five-year average for both Gulf Port and East Coast states. Sedimentation and wet gluten values are slightly above last year and the five-year averages. The overall DON average of 2.2 ppm is similar to 2014 but above the five-year average. Comparing the two regions, the DON average for the six Gulf Port states is 2.6 ppm, similar to 2014 and about 1 ppm above the five-year average, while the average of 0.7 ppm for the three East Coast states is slightly below the five-year average.

**Flour and Baking Data.** Buhler laboratory mill flour extraction averages are above the five-year averages overall for both East Coast and Gulf Port states, although flour ash values are also higher. The dough properties are nearly all similar to five-year averages. Farinograph peak, stability and absorption values are somewhat higher than 2014 and similar to five-year averages. Alveograph P and L values are also higher than last year with the overall W value similar to last year and below the five-year average. The overall cookie spread ratio is below last year but similar to the five-year average, while the overall average loaf volume is below last year and the five-year average.

USW crop quality data and the skilled service from your local or regional USW office will be particularly valuable this marketing year. Because our organization only represents the wheat farmers who help fund our work, you can be confident that USW provides service and technical support with your best interests in mind.

### 4. Taiwan Goodwill Mission Returns to the U.S to Sign Letters of Intent for Wheat Purchases

As part of a biennial Agricultural Trade Goodwill Mission to the United States to purchase grains and other agricultural products for the people of Taiwan, the Taiwan Flour Millers Association (TFMA) will be in Washington, DC, Sept. 16, 2015, to sign a letter of intent to purchase U.S. wheat in marketing years 2015/16 and 2016/17.
TFMA imports wheat on behalf of all 20 Taiwanese flour mills and has been a loyal customer of U.S. wheat producers for many years. USW President Alan Tracy and current TFMA Executive Director Shin-Yao Lin, chief executive officer of Top Food Flour Mill in Taipei, Taiwan, will co-sign the letter.

Delegates from TFMA will start their visit to the United States as honored guests of the Idaho Wheat Commission at the Lewiston Roundup Rodeo Sept. 12. The entire mission’s visit to Washington, DC, includes a welcome reception at the U.S. Department of Agriculture and a reception Sept. 15, 2015, with the signing ceremony the next day at the U.S. Capitol. Taiwan industry representatives will also sign letters of intent with U.S. Grains Council and the American Soybean Association. The entire delegation will also call on members of the U.S. Congress and policy makers in the executive branch.

After completing formal activities in Washington, DC, the flour millers continue their part of the mission Sept. 17 with visits to Kansas, Montana and Washington to meet with state wheat commission and government representatives before returning to Taiwan Sept. 23.

Tracy said the U.S. wheat industry always looks forward to this event and appreciates the long history of mutually beneficial trade relations with the Taiwan milling and wheat foods industry.

“U.S. wheat farmers have maintained a trade office in Taipei since 1966,” Tracy said. “We are proud of that and also quite proud that USW Country Director Ron Lu has been a faithful part of that service for more than 33 years. We want to thank our customers for importing significantly more U.S. wheat than the 1.7 million metric tons in the agreement signed in 2013.”

5. USW Welcomes Renewed Ties with Cuba, Sees Many Steps Ahead of Renewed Exports
By Dalton Henry, USW Director of Policy

A new era in U.S. foreign relations began Aug. 14, 2015, when after some 54 years U.S. Secretary of State John Kerry formally re-opened the American embassy in Havana, Cuba. This historic event comes eight months after Cuban and U.S. leaders announced an effort to re-establish diplomatic ties and remove barriers between the two countries in place since early days of the Cold War.

In those eight months, there were several substantive changes, including two that stand out as good news for U.S. agriculture. The removal of Cuba from the U.S. “State Sponsors of Terrorism” list will loosen restrictions on U.S. banks while new interpretations of rules will ease the regulatory burden on companies doing business in Cuba. Even with all these changes, there is a great deal of work ahead before U.S. wheat farmers can expect their crop to flow once more to the largest market in the Caribbean (http://econ.st/1NBdQmO).

Long-term, the full repeal of the embargo is key to re-establishing Cuba as a major trading partner with the United States. The U.S. Agriculture Coalition for Cuba, a broad-based business group launched in early 2015 to advocate for normalizing trade relations, prioritizes the repeal as its overarching goal. It is also a priority for the U.S. wheat industry and both USW and the National Association of Wheat Growers are actively involved in the coalition’s efforts. Given the remaining political issues, however, it seems likely that the embargo will not end soon. Many Cuban policy experts and business leaders believe it will not end until 2017 or later, a belief that USW shares today.

Aside from the embargo, two other major hurdles remain: U.S. companies may not extend credit to foreign buyers and ships that call on a Cuban port generally may not return to a U.S. port for 180 days. Recently, a number of U.S. policymakers have urged changes that would remove these restrictions. If successful, that would place U.S. farmers and exporters on a more level playing field with their global
competitors that enjoy unrestricted access to the Cuban market. Unfortunately, the legislative path forward for these amendments — as well as the embargo itself — is far from certain.

With additional action in the hands of the U.S. Congress, USW takes heart in its experiences in other markets like Nigeria that once showed similar barriers to trade. We will continue trying to re-establish relationships with prospective buyers and provide the trade service information they will need when they once more are able to turn to U.S. wheat.

6. What Letter Schedule Change


7. Wheat Industry News

- **USW Joins the U.S. Sustainability Alliance (USSA),** a group of American farm, fishery and forestry producers that came together to explore and share their values about sustainability and conservation. Together, with partners across the value chain, USSA is committed to responsible management of our resources. Learn more about USSA on its website, [http://www.thesustainabilityalliance.us/](http://www.thesustainabilityalliance.us/).

- **USDA Foreign Agricultural Service had Released GAIN Reports on Agricultural Biotechnology** for several countries including highlights from Canada, Mexico, South Africa, Honduras and Vietnam. [Read the full report here.](https://ガインレポート)

- **National Wheat Foundation Accepting Applications for Jerry Minore Memorial Scholarship.** NWF has partnered with BASF for the fourth consecutive year to award two $1,500 scholarships and two $1,000 scholarships to students who have a personal connection to the wheat industry and a planned career path in agriculture. The Jerry Minore Memorial Scholarship honors both high school and college students who have demonstrated success in academics and leadership roles. [Read the full announcement here.](https://nationalwheatfoundation.org/scholarships)

- **Look for Important Information in “The Truth About Glyphosate,”** a blog sharing the facts about the herbicide glyphosate and its use in the wheat industry sponsored by the National Wheat Foundation and shared online at [http://wheatfoundation.org/blog/](http://wheatfoundation.org/blog/).

- **The Northern Crops Institute Introduces New Staff Members.** Neil Doty, who will serve as technical director, has already had a successful career in the food industry, co-founding the Giant Sunflower Seed Company in Wahpeton, ND. Betsy Armour will become NCI’s manager of communications and public relations. Armour previously served as the communications director of the North Dakota Corn Growers Association.

- **MSU Durum Wheat Varieties Now Licensed to Northern Seed.** Montana State University (MSU) has completed an agreement to license more than 700 developmental lines of durum wheat to Montana-based Northern Seed, LLC. The developmental durum lines come from the research program of Joyce Eckhoff, who recently retired after 28 years at MSU’s Eastern Agricultural Research Center near Sidney, MT. [Read the full announcement here.](https://m.au/)

- **MSU Hires Cereal Genetics Leader.** MSU also announced it has hired Dr. Hikmet Budak as chair of Montana Plant Sciences, the first endowed chair in the history of MSU’s College of Agriculture. Dr. Budak formerly headed a plant genetics and genomics team at Sabanci University in Istanbul,
Turkey, and at MSU will build a significant integrative research program addressing Montana’s grains industry challenges. Read the full announcement here.

- **The Wheat Marketing Center Continues to Accept Applications** for its open executive director position until Sept. 1, 2015, via email to ceoapplication@wmcinc.org. A job description is available at http://wmcinc.org/images/ExecutiveDirectorJobDesc.pdf.

- **Registration is Now Open for the AIBI-KSU Grain Milling and HACCP Workshop** planned for Oct. 27 to 29, 2015, at the IGP Institute in Manhattan, KS. The course will cover a variety of topics including the history of HACCP, identifying key parts of wheat milling, identifying common sanitary design flaws in mills, communicating to company associates why FSMA was implemented, applying 12 steps of Codex to a grain milling operation to create a HACCP plan and compiling a HACCP manual. Learn more and register at www.aibonline.org.

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