



RESEARCH 2

WHEAT MARKET REVIEW
. 3-4

TOP IMPORTERS. 5

DAKOTA GOLD

○ VOLUME 26
○ NUMBER 4

TOP BUYERS VISIT NORTH DAKOTA

Representatives from Italy, the largest importer of U.S. durum, and Japan, the largest buyer of U.S. hard red spring wheat (HRS) recently visited the state to get an update on quality research, variety development and outlook for the 2010 crops.

ITALIAN YOUNG MILLERS TEAM

An Italian Young Millers team was hosted by the North Dakota Wheat Commission (NDWC) in late April. The team consisted of representatives from family-owned mills and the Italian Milling Association. Team members represented the new generation of flour millers who will eventually become key decision makers in their respective companies. A similar team visited the state in 1997 and the NDWC and U.S. Wheat Associates have maintained a strong business connection with former team members. The team provided an opportunity to build good working relationships with the new generation of Italian mill managers and helped to collect information on attitudes about U.S. wheat quality and value. The main goal for the team was to obtain a better

understanding of the U.S. marketing system, quality of HRS and durum and breeding efforts to enable them to make purchasing decisions.

To accomplish these goals, the team met with the durum and HRS variety development team at North Dakota State University



The Young Italian Millers Team at the NDWC Cass County Representative, Todd Ellison farm at Mapleton, ND.

(NDSU), and also received information pertaining to the U.S. durum and HRS supply and demand situation, U.S. wheat classes, and cash and futures marketing. In addition, the group visited the Todd Ellison farm near Mapleton, the Northern Crops Institute, Reynolds United Co-op, and the ND Mill. Italy is the number one importer of U.S. durum with average purchases of about 11 million bushels and also buys a significant amount of HRS. Preliminary numbers indicate purchases of durum in 2009-10 at 12.5 million bushels and HRS at just under one million bushels. The team was accompanied by Goris van Lit and Rutger Koekoek of the U.S. Wheat Associates Rotterdam office.

JAPANESE FLOUR MILLERS

Representatives of four flour mills in Japan were accompanied by Wataru “Charlie” Utsunomiya, Director of the U.S. Wheat Associates Tokyo office, on a visit to North Dakota in mid-June. Japan is consistently the top buyer of U.S. HRS, with annual average purchases of 56 million bushels. The U.S. generally accounts for 60-65 percent of total Japanese wheat imports, with the remainder coming from Canada and Australia. Japan is a consistent buyer of U.S. high quality wheat. Customer visits to key production areas are essential to assuring our top customer that the U.S. (and North Dakota) will continue to provide them with the safe, clean and reliable wheat supply they demand. This is especially important as world wheat production and export activity has become increasingly competitive in recent years.

The team met with the HRS breeder and HRS and durum quality specialists at NDSU. NDWC staff provided an outlook for the 2010 HRS and durum crop. The team was also updated on the progress of biotech wheat research and visited Alton Grain Terminal and the Northern Crops Institute. Team members expressed continued satisfaction with the quality of U.S. HRS, but stressed the need for more consistent quality among shipments. Japan currently imports only a small amount of U.S. durum, but there is potential for future demand as recent changes have been made to their buying system. Japan will remain a significant customer of U.S. wheat, but continued focus on breeding and quality efforts for both HRS and durum are necessary to maintain high quality customers like Japan, a market that accounts for over one-quarter of total U.S. HRS exports.

Additional trade teams from Japan and the Philippines will visit the state in coming months. These events will provide additional opportunities for information exchange and updates on the 2010 crop condition and market opportunities for producers and customers alike.



Dr. Senay Simsek explains HRS quality testing to the Japanese Millers Team.



PROTECTING PRODUCERS AND WHEAT FROM RUST

The North Dakota Wheat Commission (NDWC) works to improve the economic well-being of North Dakota wheat producers and the economy of North Dakota through export market development, domestic promotion, research, policy and public information initiatives. Wheat producers fund the effort with a checkoff of a penny and a half per bushel.

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Dr. Maricelis Acevedo has only been in North Dakota as a new faculty member in the NDSU Department of Plant Pathology for a short period of time, but she has been working on rust related issues for many years and has big intentions for her research as NDSU's newest Wheat Rust Pathologist. Dr. Acevedo grew up in Puerto Rico where her father was an agronomist at the University of Puerto Rico. She was exposed to research plots and the university research station, and her father would often bring home sweet potatoes and other crops from his research for the family to eat and test for quality. It was only natural, she said, that her career path would lead her to agricultural research. She received her BS in Biology and MS in Agronomy from the University of Puerto Rico and did her doctoral work at the University of Nebraska – Lincoln. It was there she become interested in plant pathology and began research on bean rust.



Rust is a commonly known disease to North Dakota wheat producers and in recent years has been under control, primarily due to genetic resistance traits in most of the popular wheat varieties. However, a new form of stem rust, Ug99, for which there is little known resistance, has producers and researchers concerned that a North American outbreak might not be far off. Dr. Acevedo began doing research on the Ug99 rust race while working for USDA in Aberdeen, ID. The research group she was working with took about 2,500 spring wheat landraces from the USDA National Small Grains Collection (NSGC) to be evaluated for resistance in nurseries in Kenya. Dr. Acevedo estimates that only 2-3 percent of these wheat landraces show some resistance. In fact, it is estimated that 80 percent of the world's wheat is susceptible to Ug99. The rust race was discovered in 1999 in Uganda and had moved as far as Iran in 2007. Dr. Acevedo plans to continue the Ug99 research while at NDSU in an effort to find resistant genes, or combinations of genes to be incorporated into wheat varieties to combat this lethal rust race. Currently, much of the Ug99 research has to be done out of state at a secure facility for research on lethal forms of new diseases and pest. Eventually this research will also be done at the new NDSU greenhouse facility which will be equipped with bio-secure space.

Aside from the Ug99 rust strain, Dr. Acevedo says there is plenty of work to be done researching resistance to leaf rust strains in North Dakota. As Dr. Acevedo put it, "there are always new races of rust forming and evolving and we need to be ready with resistant genes to protect our wheat crop from the next new challenge." Currently, many of the wheat varieties are bred with one resistance gene, Lr21, and eventually this gene may lose its effectiveness. Dr. Acevedo and her team at NDSU will continue to search for new sources of resistance and gaining new information about the interaction of the rust pathogens and the wheat plant. As an alternative for a more efficient use of resistance genes, she suggested to combine multiple genes with complete or partial resistance to one or more rust strains into wheat varieties, because this can be longer lasting and offers a combination of resistance; however, multiple gene resistance is more challenging to work with and breed into new varieties.

Dr. Acevedo also stresses the importance of collaborating with scientists around the world on research issues. The most important result is that the research gets done and global food security is achieved. Dr. Acevedo received the Jeanie Borlaug Laube Women in Triticum Award,

given to women wheat researchers who have demonstrated commitment to and passion for agricultural development and leadership potential. As part of the award, she attended the Borlaug Global Rust Initiative workshop in St. Petersburg, Russia and is eligible to participate in a training session at the International Maize and Wheat Improvement Center (CYMMIT) in Mexico. Opportunities like this will provide Dr. Acevedo with additional experience and current information to continue her battle in searching for rust resistance. North Dakota producers will continue to be faced with many agronomic challenges, including rust, but they can be assured that Dr. Acevedo is up to the challenge.



LOWER PRODUCTION AND HIGHER DEMAND FOR 2010 U.S. WHEAT CROP

The latest 2010 U.S. wheat production estimate released by USDA on June 10, is 2.067 billion bushels. This is down from 2.216 billion last year, but up slightly from the May estimate due to higher yield reports for the hard red winter crop. The latest yield is 43.9 bushels per acre, up from 43.4 in May but still below the 44.4 reached in 2009. However, the lower production will be offset by nearly 300 million bushels of additional stock carry-in, keeping supplies above 3 billion bushels, the highest since 2000.

U.S. Supply and Demand (Million Bushels • June - July)			
	ALL WHEAT		
	09-10	*10-11	Change
Beg. Stocks	657	930	+42%
Production	2,216	2,067	-7%
Imports	115	110	-4%
Total Supply	2,988	3,107	+4%
Domestic Use	1,173	1,216	+4%
Exports	885	900	+2%
Total Use	2,058	2,116	+3%
End Stocks	930	991	+7%
S/U Ratio %	45%	47%	+4%

Source: USDA June 2010 *projected

The U.S. winter wheat harvest was roughly 20 percent complete as of mid-June. Texas and Oklahoma were one-half complete with Kansas 10 percent complete. Heavy rains have slowed harvest progress but there does not appear to be any serious quality loss yet. The main quality

shortfall on the harvest to-date has been below average protein levels with much of the crop in the 10 and 11 percent range, well below the five-year average of 12.5 percent. Significant protein discounts have been prevalent on the early harvest, a rarity for hard red winter wheat. The lack of on-farm storage is exacerbating the situation and forcing much of the harvest into feed channels.

The latest demand projections for the 2010 marketing year are 2.1 billion bushels, up from 2 billion last year. Exports are expected to improve slightly to 900 million bushels compared to 885 million last year. Estimates should move higher in subsequent reports with the recent declines in production prospects in key competitors shifting more export opportunities to the United States.

Domestic demand is projected at 1.2 billion bushels, up 40 million bushels from last year. Both food and feed use are expected to see gains. The stable to slightly higher food use forecast should keep domestic mill grind strong and indicates that wheat products are still seeing good sales at the retail level. Many analysts expect the feed use estimate to increase in subsequent reports, as lower protein hard red winter wheat will account for a greater share of summer feed demand. The significant drop in cash basis levels for hard red winter has made it very competitive with corn.

Further production increases can not be ruled out in future reports, given the good yield reports for hard red winter and a strong looking hard red spring wheat crop. But prospects of higher demand should at least help stabilize stocks which would be supportive for prices.

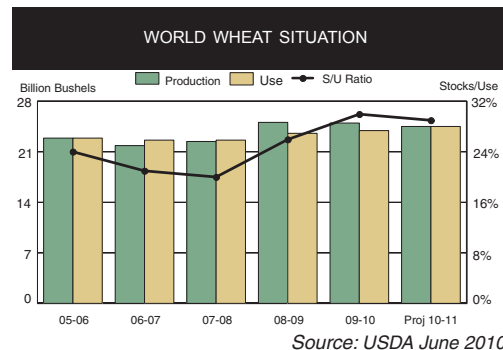
2010 WORLD WHEAT SITUATION MORE BALANCED

Latest projections for the 2010 world wheat crop are pointing toward a better balance between production and usage. This is helping to temper the buildup in wheat supplies, leading to a slightly lower stocks-to-use ratio in the current year.

USDA's June supply and demand report projects world wheat production at 24.6 billion bushels, only slightly higher than projected use of 24.5 billion and future reports are likely to show even lower production. Adverse weather is threatening production in key countries. In Canada, an untimely period of cool, wet conditions may prevent upwards of 3 to 4 million acres of wheat from being planted. This has potential to reduce the world crop by another 120 to 150 million bushels. In addition, overly wet conditions in Eastern Europe combined with overly hot, dry conditions in parts of the Former Soviet Union, as well as China are hampering crop prospects.

Usage levels of 24.5 billion bushel would be a record and the third straight year of gains. Growth is expected in both feed and food demand. Feed use is projected to reach 4.5 billion bushels, up 3 percent or 130 million bushels from last year. The non-feed use is projected at 20 billion bushels, up 2 percent or 430 million bushels from last season.

The current stocks-to-use ratio is at 29 percent, down slightly from 30 percent last year. This is still well above the recent low of 20 percent reached in 2008, and world prices continue to reflect a well supplied situation from a buyer's perspective. However, further production cuts in the 2010 crop, combined with the projections for record demand should begin to build a more positive price picture.



Source: USDA June 2010

Delayed plantings add uncertainty to durum acres

The extended wet period in durum producing areas of North Dakota and Montana has added another element of uncertainty to final 2010 durum acres. As of June 14, only 91 and 95 percent of the Montana and North Dakota durum crops, respectively, had been planted. Some additional planting has likely taken place but not all of the acres producers intended to plant will get planted. What amount of area is that? That will be a question the trade will try to answer after the June 30 acreage report, and it will be a factor that could prompt movement in durum prices.

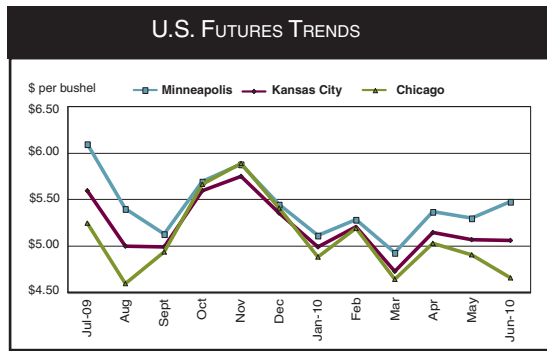
In the March survey, USDA indicated durum area would decline by a combined 220,000 acres in North Dakota and Montana, or roughly 10 percent from last year. In late April, when the higher loan rates for durum were announced, speculation shifted to a net gain in durum acres

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SUPPLY CONCERNS, HIGHER DEMAND OPPORTUNITIES INCREASE HRS PREMIUM

Minneapolis futures prices are developing a greater premium to both Kansas City and Chicago, driven by smaller 2010 crop expectations in Canada and potential U.S. demand gains. A prolonged cool, wet weather pattern in parts of North Dakota, Montana and on up into Saskatchewan may keep final spring wheat plantings below early spring expectations. It appears that upwards of 3 million acres of spring wheat will not be seeded in Canada this year, and maybe another 250,000 to 500,000 acres in North Dakota and Montana. The loss of acres in



the U.S. has been muted by the early and excellent start to the spring wheat crop in the majority of the region, but the loss of spring wheat acres in Canada is beginning to have a positive impact on prices.

The March USDA survey indicated that U.S. spring wheat plantings would be 5 percent higher. An early start to planting in much of the region likely secured most of the intended acres but the late May rains and cool, wet weather in early June may have prevented all of the intended acres in western North Dakota and parts of Montana from being planted. Some producers were still planting spring wheat as late as June 10. This has created a wider variance in crop maturity for the U.S. spring wheat crop compared to last year but current crop yield potential looks promising. As of mid-June 86 percent of the crop was rated good to excellent, compared to 75 last year.

Demand opportunities look to be expanding on both the domestic and export front for HRS. The lower than average protein in the early hard red winter harvest is shifting some domestic mill demand to hard red spring wheat already and that has been reflected in notable gains in cash basis levels for old crop HRS supplies. This trend should continue if protein levels do not improve on the hard red winter wheat crop as harvest progresses north. Higher export demand is likely to shift to U.S. HRS with the sharp decline in Canadian acres. The ultimate level of gains for the U.S. will be dependent on our final quality and protein levels, as well as what level of production recovery the growing season provides Canada. Protein was already short in world wheat supplies in 2009 and 2010 is starting out with the same pattern.



by Jim Peterson, Marketing Director

CANADIAN WHEAT BOARD EXPECTS LOWEST WHEAT PLANTINGS SINCE 1971

The Canadian Wheat Board (CWB) issued its first crop forecast for the year on June 11 and surprised the market with a dramatic cut in expected wheat plantings. The CWB estimates that only 15.2 million acres of spring wheat will get planted, down from 17.9 expected in March and 16.7 million planted last year. Cool, wet weather late May into early June has essentially halted planting progress. Some planting was still taking place in mid-June, but well past the ideal dates. This late crop, combined with poor emergence on some earlier crop could also lead to below trend yields and raise quality risk for the crop, according to the CWB. Production estimates for spring wheat range from 480 million bushels to 540 million. Canada's five-year average is 630 million bushels. In 2009, 650 million bushels were produced.

For durum, the CWB estimates final planted area to be 3.4 million acres, down from 3.7 million expected in March and well below the 5.7 million planted in 2009. Production estimates range from 100 to 120 million bushels. In 2009, nearly 200 million bushels were produced and the five-year average is 176 million bushels.

The cut to both durum and hard red spring wheat crops will shift greater demand opportunities to the U.S. in the 2010 marketing year. Quality will still be an important variable in capturing the expanded demand opportunities for the United States. The CWB indicated some concerns about their crop quality prospects as well, citing increased disease threats and lower protein production if overly wet conditions continue, and frost concerns for late planted crops. Heightened disease concerns are also a threat to the U.S. crop, as well as lower than average protein levels, given current weather patterns, but the more advanced maturity of the U.S. crop is a benefit.

delayed plantings con't

over 2009, with some fairly lofty estimates of a 20 percent or greater gain. With the delayed planting season, this will not happen, but final 2010 durum acres should still be higher than 2009.

Until there is more certainty with the final planting numbers, the durum market seems content to stay at current trading levels as U.S. durum carryover levels still remain near 50 million bushels compared to only 25 million in June 2009. In addition, sufficient old crop supplies in Canada, along with the commencement of harvest in the Desert Southwest, and no major crop issues in North Africa and Europe seem to be outweighing concerns over lost acres in North America. The latest production estimate for the U.S. Desert Durum crop is 19.7 million bushels, down from 29.4 million last year but still above their norm of 16 million. A greater than normal share of the crop will find its way into local feed markets, with durum priced below corn.

World demand is expected to grow in 2010 and the U.S. should be in a good position to capture more market share with the smaller Canadian crop. The potential size of the 2010 U.S. durum crop will become a little clearer on June 30 and the delayed planting season has likely played a bigger role in tempering final acre levels than the market is currently trading.



TOP IMPORTERS OF HARD RED SPRING AND DURUM

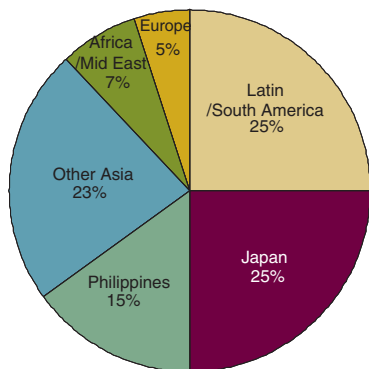
Preliminary numbers indicate that Japan was once again the number one U.S. HRS importer and Italy was the largest buyer of U.S. durum in the 2009-10 marketing year which ended May 31.

Hard Red Spring

Japan purchased close to 56 million bushels of HRS, slightly lower than last year's amount, but similar to the five year average. Japan is traditionally the largest buyer of HRS, this year accounting for one quarter of all U.S. HRS exports. The Philippines was once again the second largest buyer of HRS, with purchases near 29 million bushels in 2009-10 accounting for 15 percent of total HRS exports. Taiwan, Korea and Venezuela rounded out the list of top five buyers. Other Asian countries, excluding Japan and the Philippines made up 23 percent of the export market share, bringing the total for Asia to 63 percent. The Latin and South American region accounted for 25 percent of total HRS exports. The biggest change in export demand was in the European and African/Middle East regions. Percent of export share to Europe dropped from 10 percent in 2008-09 to 5 percent in 2009-10. This was due to an improved domestic crop in Europe and higher prices for high protein wheat. Exports grew to the African/Middle East region, accounting for 7 percent in 2009-10, up from only 2 percent last year. Exports to Nigeria more than doubled in 2009-10, reaching nearly 7 million bushels making that country the number 8 market for HRS. Nigeria and other African countries took advantage of the competitive price situation of HRS, especially for lower protein wheat that met their needs. The top ten markets for HRS and the estimated exports (in million bushels) are listed below:

1. **Japan 55.8**
2. Philippines 29.1
3. **Taiwan 15.4**
4. Korea 11.6
5. **Venezuela 9.2**
6. Thailand 8.2
7. **Mexico 7.7**
8. Nigeria 7.0
9. **Dominican Rep. 5.7**
10. Spain 5.0

Top HRS Importers by Region

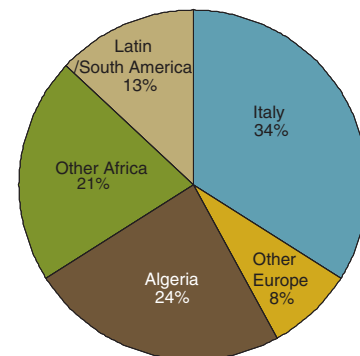


Durum

Italy is once again the largest buyer of U.S. durum. Preliminary data shows the country made purchases totaling nearly 12.4 million bushels, accounting for over one-third of total U.S. durum exports. Exports of U.S. durum were nearly double last year's value, reaching nearly 38 million bushels. Exports to the largest durum buyer were nearly 21 percent higher than one year ago. Algeria was the second largest buyer of durum at 9.1 million bushels, nearly four times larger than one year ago. Algeria and other North African countries took advantage of early season sales and lower than average prices and expressed satisfaction with the quality of U.S. durum. The Algerian market accounted for 24 percent of all sales and other African countries made up 21 percent of sales. Latin and South American countries bought 13 percent of U.S. durum sales and other European countries, excluding Italy accounted for 8 percent. Exports were significantly higher for all major durum importing regions. The top five durum buyers and estimated amounts (in million bushels) are listed below:

1. **Italy 12.4**
2. Algeria 9.1
3. **Nigeria 3.7**
4. Morocco 2.7
5. **Venezuela 2.0**

Top Durum Importers by Region



For the 2010-11 marketing year which started on June 1, U.S. HRS export sales are 26 percent higher than last year's pace and U.S. durum sales are 37 percent higher, indicating strong early season demand.

NDSU EXTENSION INFORMATION

With the growing season upon us, we've included some helpful web sites to refer to for questions on nitrogen applications, pest and disease issues and the NDSU Extension Field Days schedule.

Small Grain Disease Forecasting Model
<http://www.ag.ndsu.nodak.edu/cropdisease/>

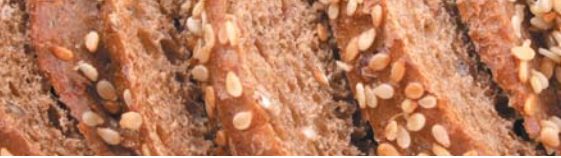
Dr. Dave Franzen's Home page
 Information on post planting nitrogen application
<http://www.soilsci.ndsu.nodak.edu/Franzen/Franzen.html>

NDAWN Website
<http://ndawn.ndsu.nodak.edu/>

NDSU Crop & Pest Report
<http://www.ag.ndsu.nodak.edu/aginfo/entomology/ndsucpr/>

NDSU Field Days
<http://www.ag.ndsu.edu/ndsuaq/>

- | | |
|---------|--|
| July 12 | Agronomy Seed Farm, Casselton, 10:00 am CST |
| July 13 | Research Extension Center, Hettinger, 3:00 pm MDT |
| July 14 | Research Extension Center, Dickinson, 8:30 am MDT |
| July 15 | Research Extension Center, Williston 8:30 am CST |
| July 20 | Research Extension Center, Carrington, 9:00 am CST |
| July 21 | Northcentral Research Extension Center, Minot, 8:30 am CST |
| July 22 | Research Extension Center, Langdon, 8:30 am |



U.S. WHEAT COURTS CUSTOMERS AT CONFERENCE

U.S. Wheat Associates (USWA) hosted more than 150 buyers from 17 countries at the Latin American Buyers Conference June 23-25 in Florida. The North Dakota Wheat Commission (NDWC) was a sponsor of the event and its staff used the opportunity to promote the current promising prospects of our 2010 crop. Erica Olson, Marketing Specialist, a program speaker said, “the sharp drop in Canadian spring and durum wheat acres this year, due to weather and market conditions, provides U.S. HRS and durum producers with an even more unique opportunity to capture additional market share in the region. We highlighted the steps our producers took to increase the protein potential in our 2010 crop, such as planting higher protein varieties and applying additional nitrogen pre and post plant.” The remainder of the growing season will still play a significant role in final crop yields and quality. But Olson adds, “we want to assure customers that we feel positive about our position to meet their needs for high protein wheat, which appears to be getting tighter every day.”

The conference drew customers from Central and South America, and the Caribbean regions. Countries in this region import all five classes of U.S. wheat and have accounted for nearly 300 million bushels, or 30 percent, of annual export demand for U.S. wheat over the past five years. According to Neal Fisher, NDWC Administrator, “this region

promises great growth opportunities for U.S. wheat exports due to our logistical advantage, the combination of a relatively young population and potential for growth in per capita incomes. The latter two variables tend to favor demand for higher quality bread and pasta products which require a greater use of higher protein hard wheat and durum... essentially North Dakota grown wheat.”

Customers in the region like the quality and versatility in U.S. wheat but continue to demand improved contracting and purchasing methods to better manage both quality and price risk. Competition is intense, primarily from Canada and Argentina, but lower priced European and Black Sea wheat has also found its way into the region. In addition to providing updates on 2010 crop prospects, USWA used the opportunity to gather detailed input from customers on how U.S. wheat compares on physical and functional quality characteristics with our competitors. Speakers also provided information on megatrends impacting global markets and education on ocean freight and the differences in purchasing their wheat FOB (basis a U.S. export facility) or CIF (delivered to their mill), and hedging practices to better manage price risk between wheat procurement and flour sales.



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