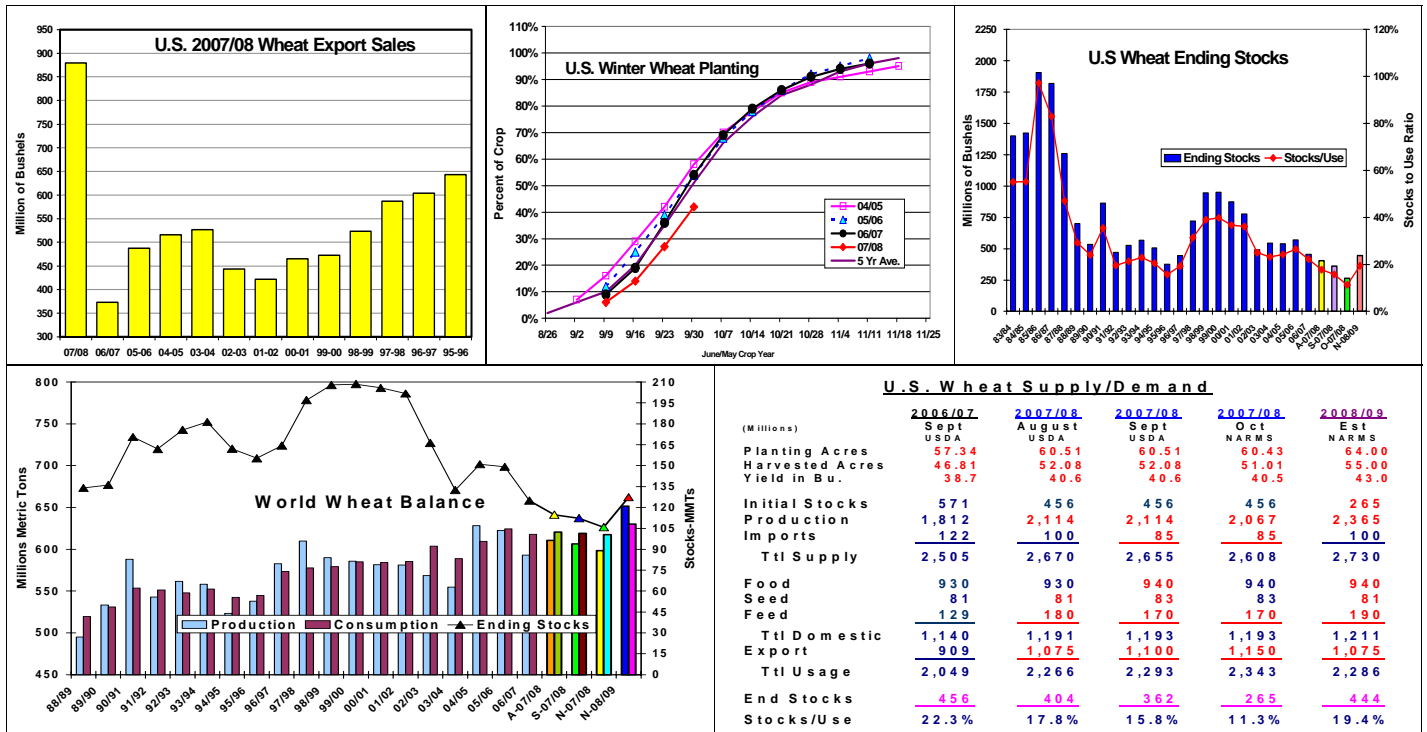


Rains Possibly Stabilizing S. Hemisphere Wheat Crops



After months of ongoing concerns about declining world wheat crops this year, rains last week in Argentina and Western Australia lead to talk that this year's Southern Hemisphere crops might be stabilizing. This prompted profit-taking that resulted in breaking a two-month uptrend and further liquidation from investment funds ahead of the USDA's world production and supply/demand update on October 12.

A bout of hot, dry winds across Australia last week prompted worries that this world wheat competitor's output would drop to last year's devastating 10 mmt level vs. the 15.5 mmt projection from Australia's ag ministry last month; trade ideas of a 12 mmt to 14 mmt crop have surfaced this week because of weekend rains. Despite dryness cutting Argentina's fall seedings slightly, warmer temperatures and rains the last two weeks have prompted output talk of 14 mmt or higher, the USDA current 2007/08 forecast.

Because of limited alternatives, foreign buyers have flocked to the U.S., pushing this year's first four-month export sales to 880 million bu., up 500 million from last year & 245 million larger than wheat's previous highest pace for this date set in 1995/96. This strong demand along with last month's lower-than-expected U.S. crop & quarterly stocks level suggests 2008's ending stocks could drop to 265 million bu. or less because of export sales rising to 1.15 billion this month. These smaller supplies along with a lower Australian crop (-8 mmt) will tighten the world output. But, with Canada reporting a slight rise (20.6 mmt) & indications that the FSI's Asian republics crops could be higher (+2 mmt), the USDA may only tighten world stocks to the 105-106 mmt level vs. 112.4 mmt last month.

Current dryness in the Southeast and Western Plains has U.S. winter wheat seedings running slightly behind the five-year average pace (42% vs. 51% by 9/30), but wheat's record prices are still likely to attract 2.5-3.5 million additional acres in the U.S. and 10 million more hectares in the world, similar to what happened after the previous high prices in 1996. Because of these probable larger supplies, producers should have 40%-50% of 2008/09 wheat forward contracted or hedged in \$6.65-\$6.85 ranges of July 2008 Chicago and KC futures. Producers should also have all their 2007/08 wheat sold on previous recommendations, with wheat still vulnerable to more downside liquidation to \$7-\$7.50 area or more, but the world's food grain will remain very emotional for sometime.

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