

U.S. Hard Red Spring and Durum Trends / Strengths / Challenges



Jim Peterson

**Policy & Marketing Director
North Dakota Wheat Commission**



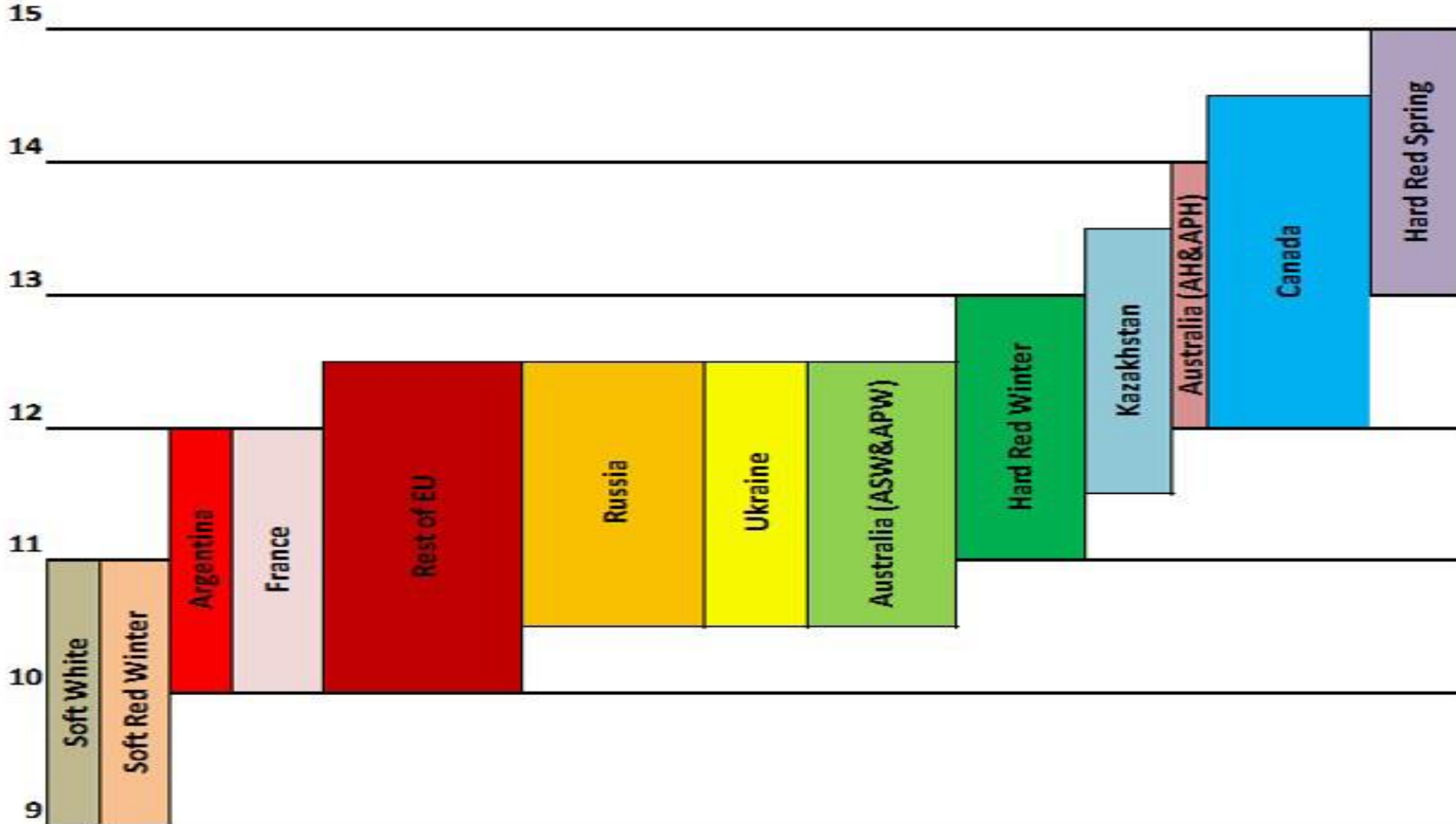
U.S. HARD RED SPRING WHEAT

“DNS Wheat”

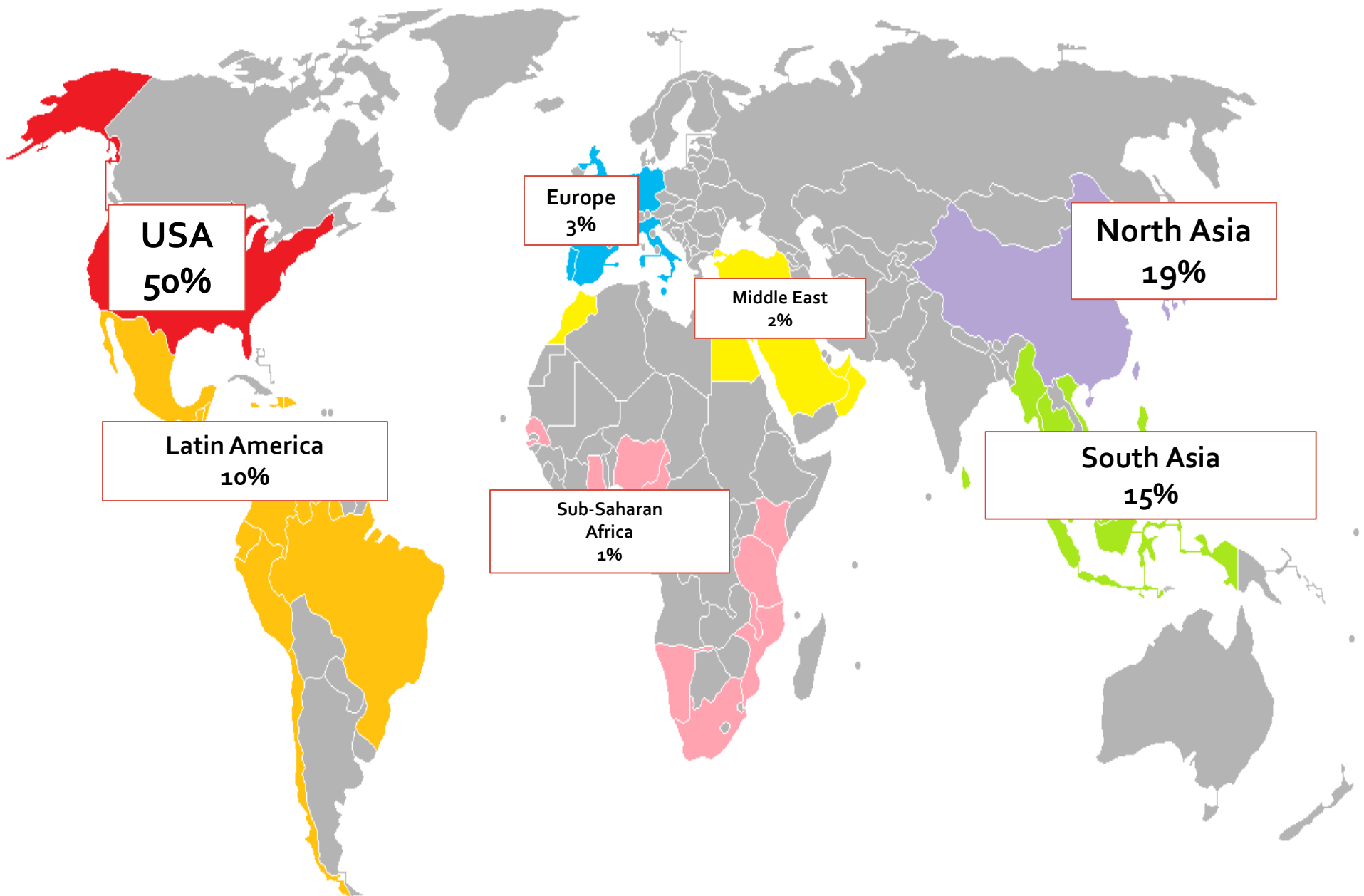
- **Second largest class produced in the U.S.**
- **Known for:**
 - **High protein content**
 - **High vitreous kernel levels**
 - **Dough strength and high water absorption**
 - **Big loaf volumes (with oven spring)**
- **Typically used as “blending” wheat (improve protein content and protein quality), specialty bread products and Asian noodles**
- **Major competitor is Canada, with some German, Australian and Kazak wheat offering limited competition dependent on year**
- **< 2% of Global Wheat Production but 4.5% of Global Wheat Trade**



PROTEIN/QUALITY SPECTRUM MAJOR WORLD WHEAT SOURCES



WHO BUYS U.S. HRS WHEAT?



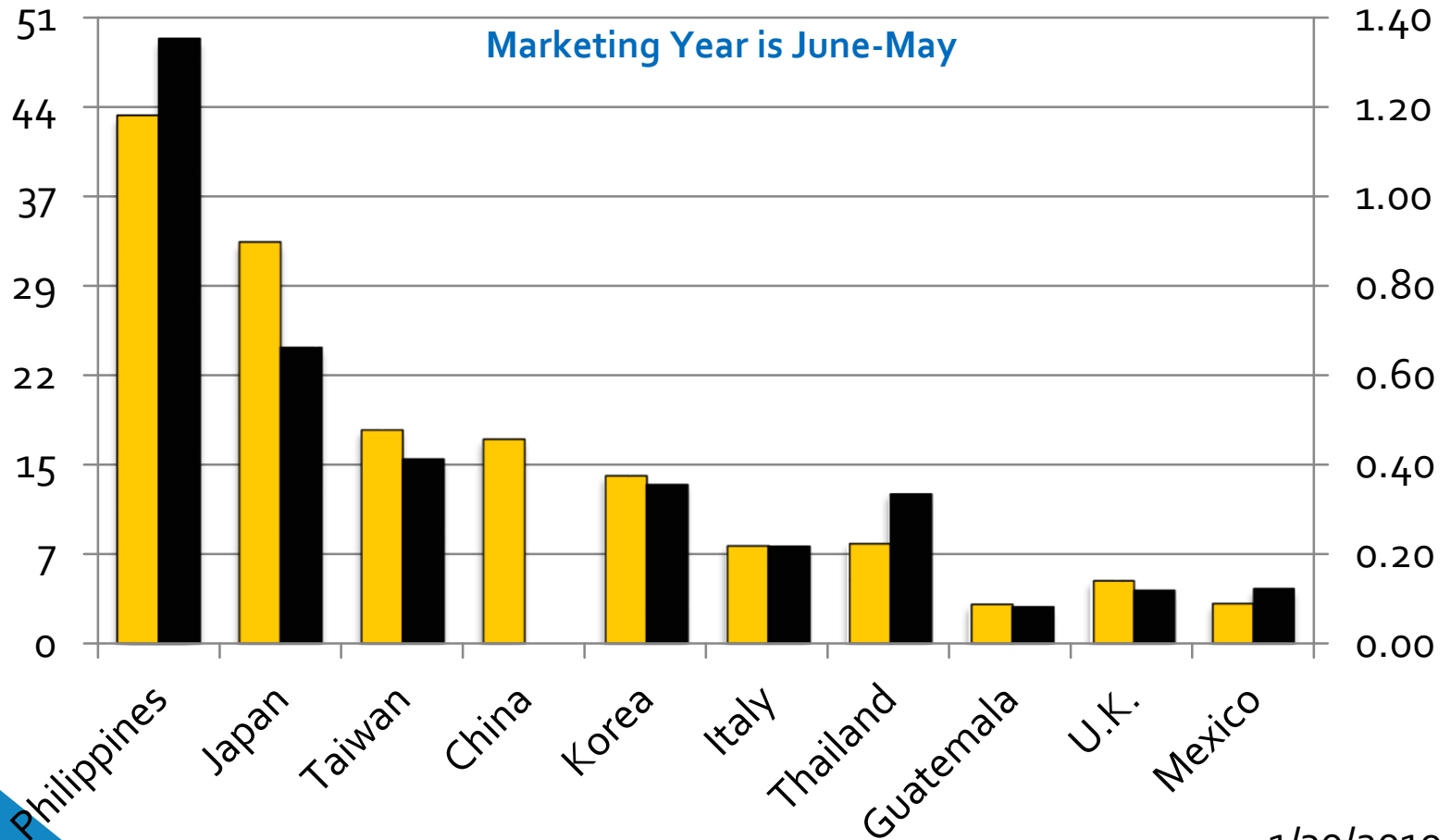
EXPORT SALES OF U.S. HRS WHEAT

(Year-to-Year comparison – As of mid-December)

Million Bushels

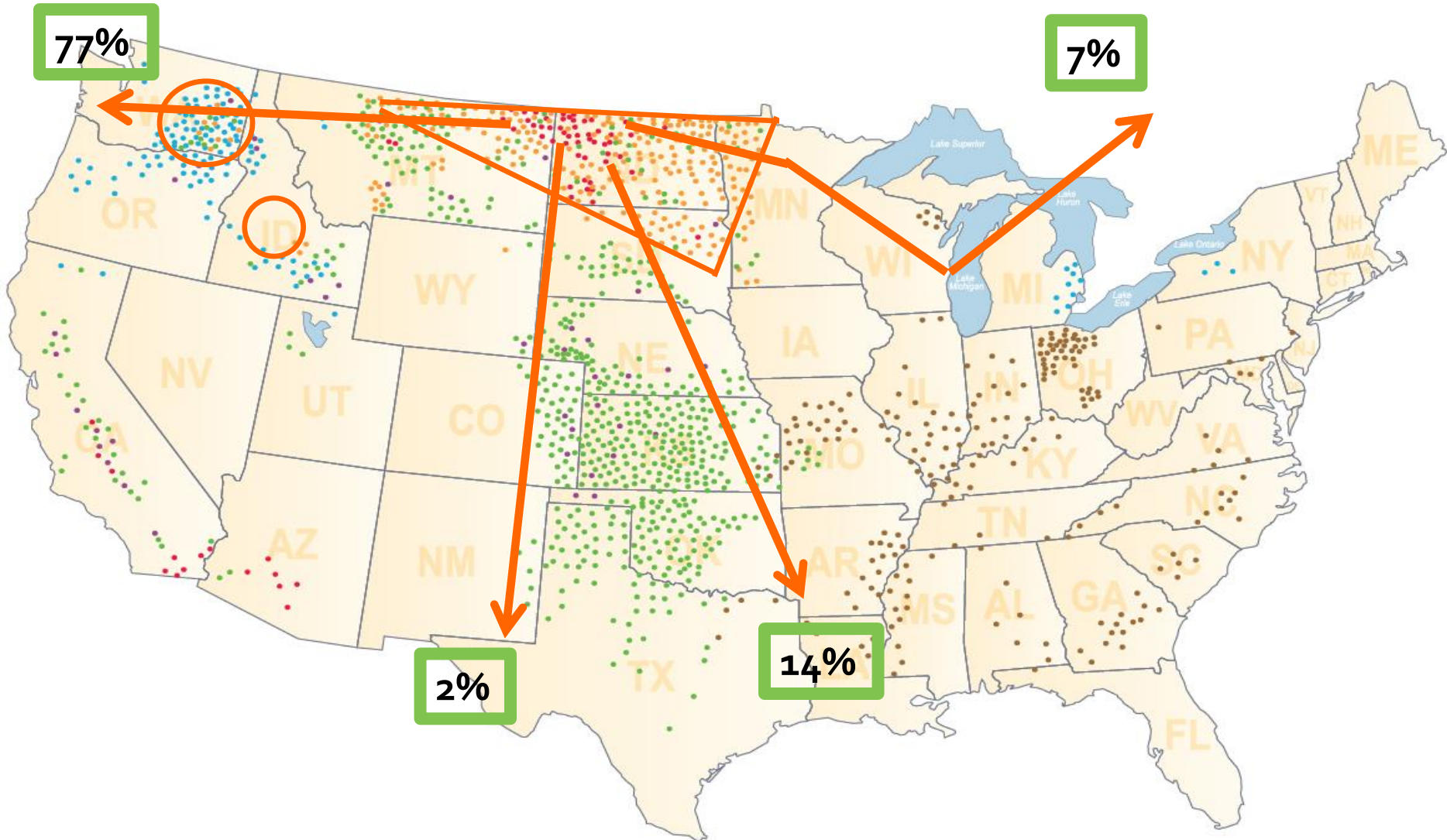
Million Tons

■ 17-18 Sales ■ 18-19 Sales



1/30/2019

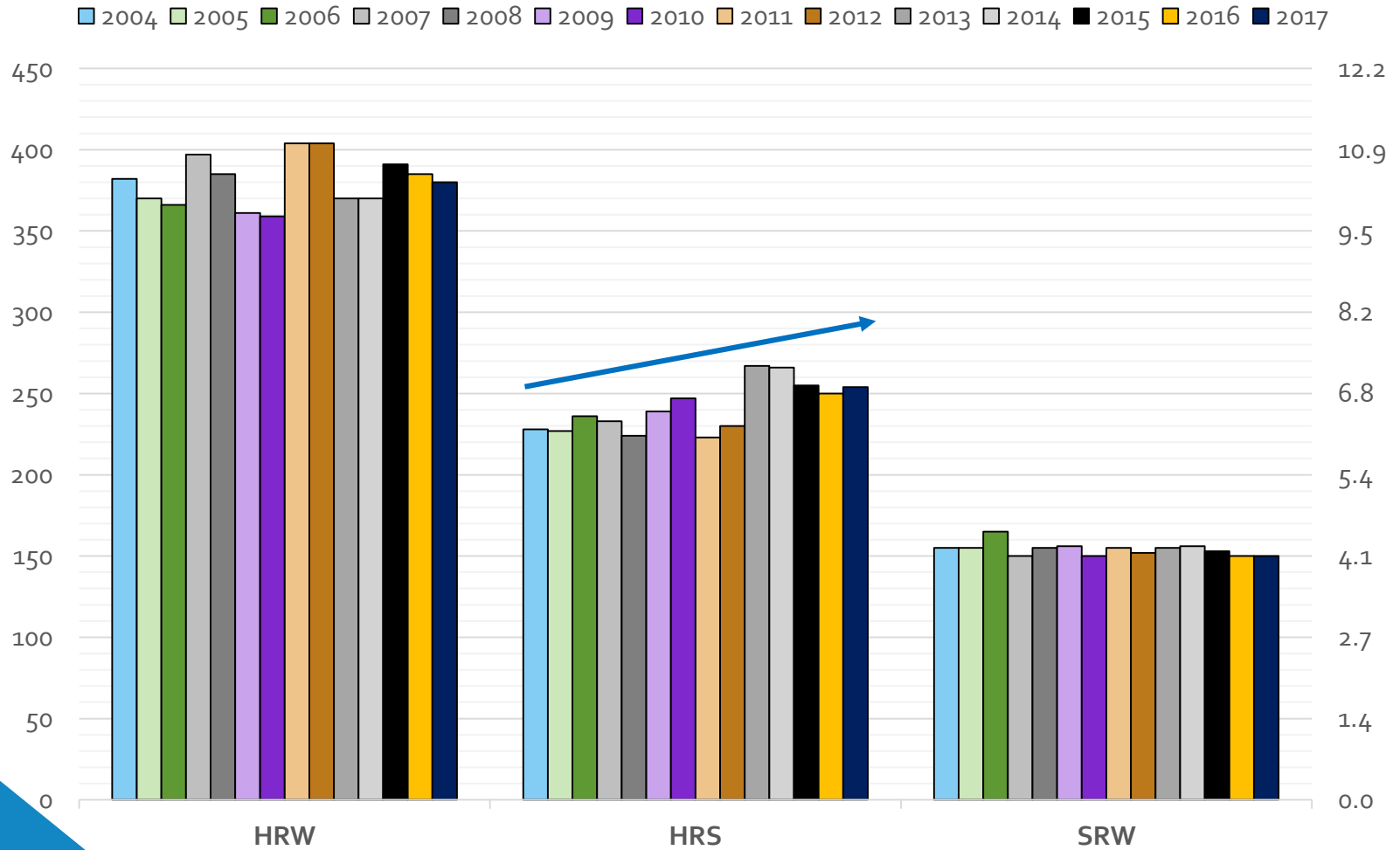
U.S. HRS PRODUCTION REGION / EXPORT PATH



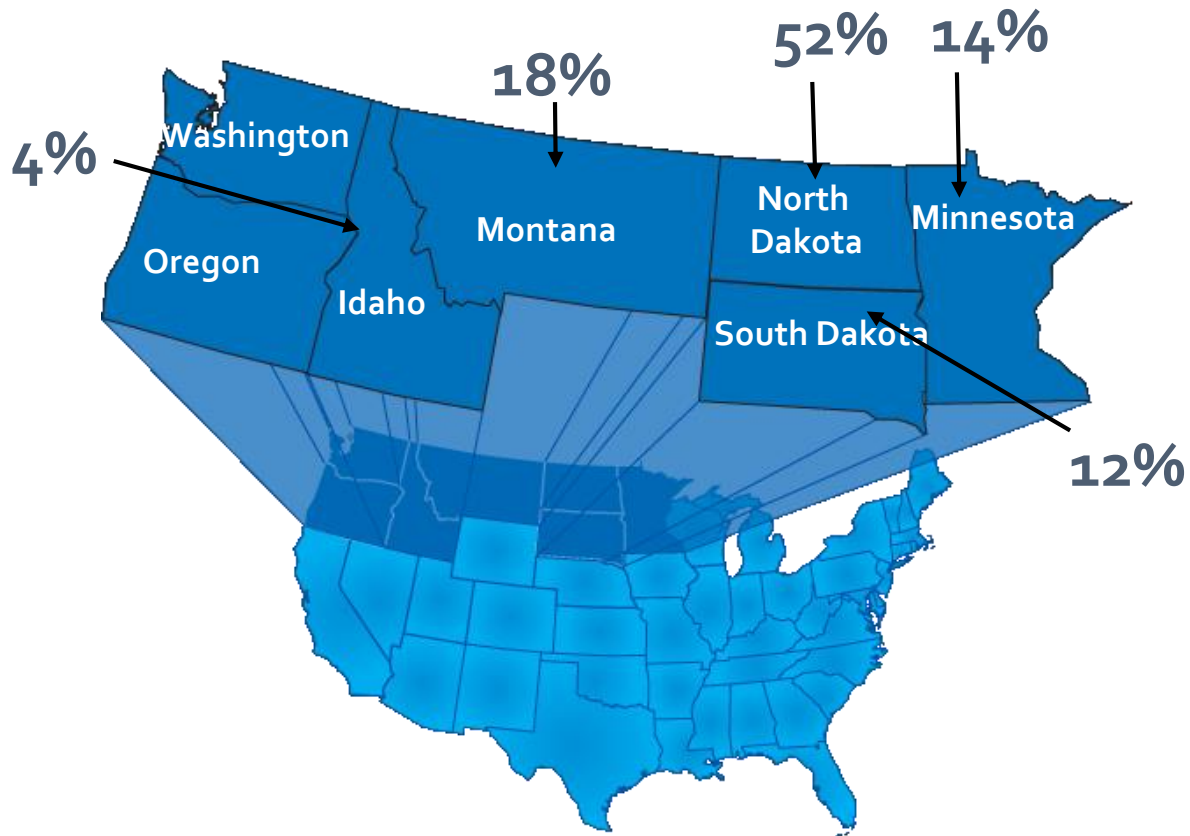
U.S. WHEAT FOOD USE BY CLASS

Million Bushels

Million Tons



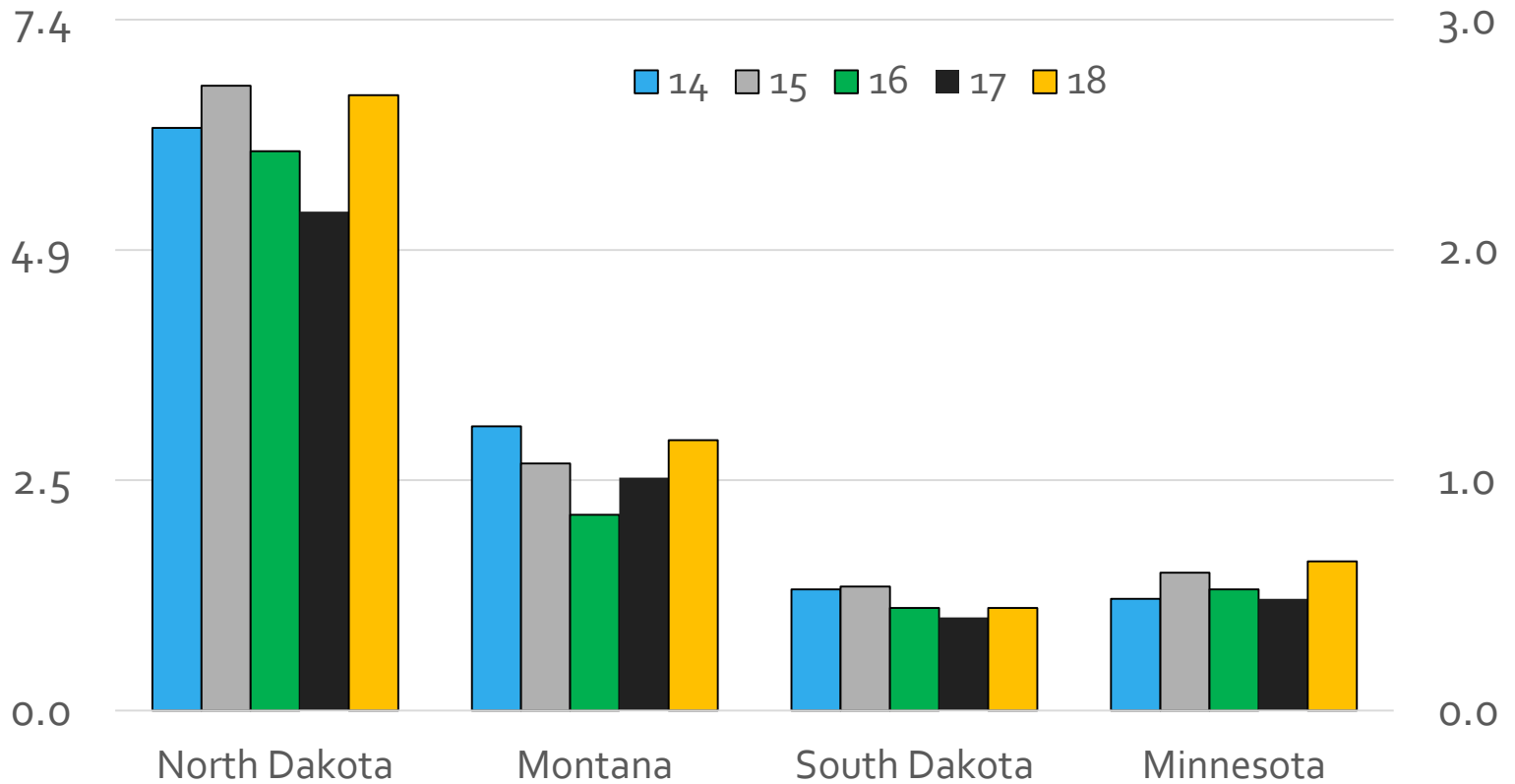
Typical Share of Production by State/Region



U.S. SPRING WHEAT PLANTINGS BY STATE

Million Acres

Million Hectares



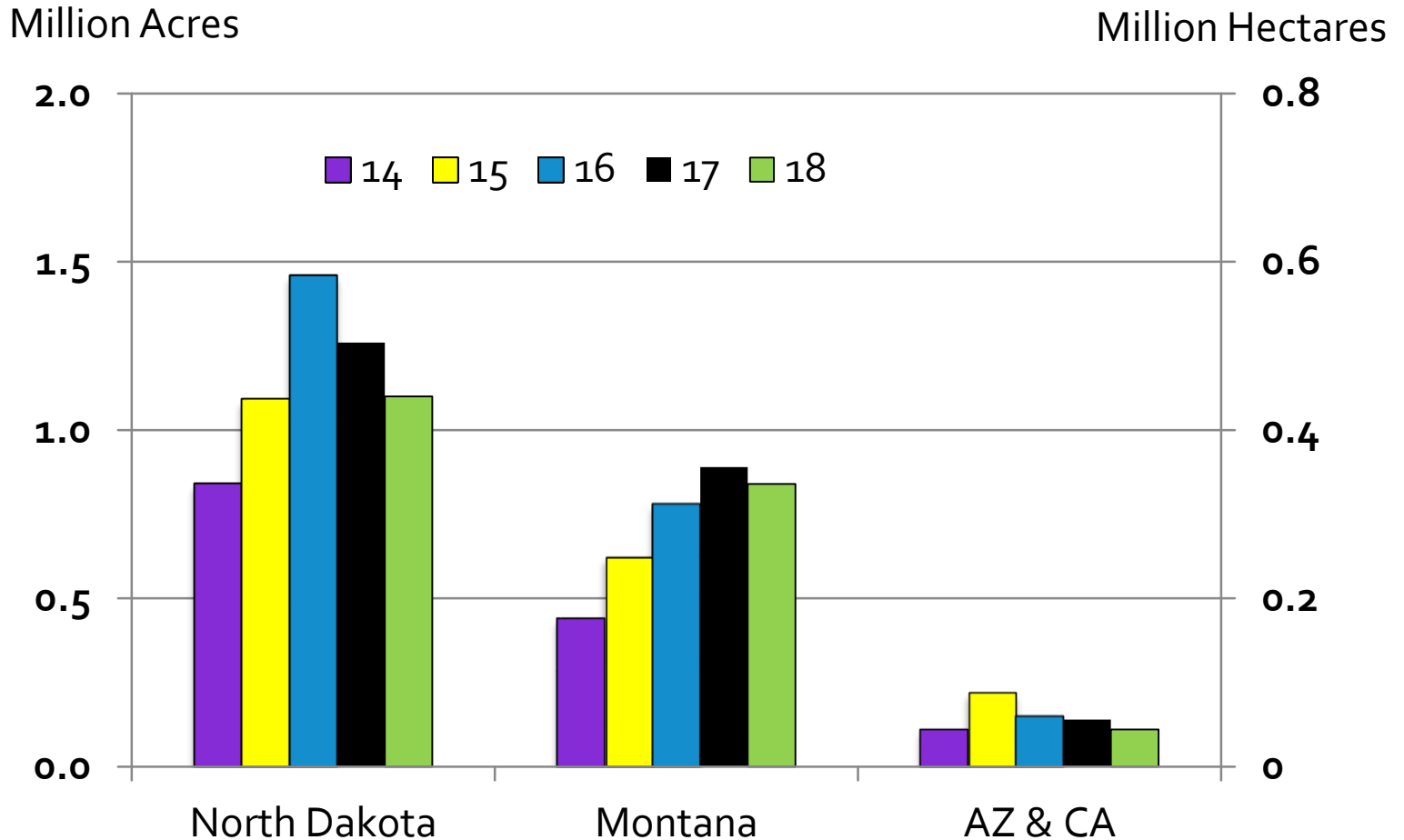
Source: USDA Small Grains Summary

U.S. Northern Durum

- Valued for high protein, high vitreous kernels, and strong gluten
- 70% of demand is from U.S. millers
- Top international markets are Italy, Algeria, Nigeria and Central American countries
- Recent market challenges....improving domestic production in Algeria...Kazakhstan exports



U.S. DURUM WHEAT PLANTINGS BY STATE



Source: USDA Small Grains Summary

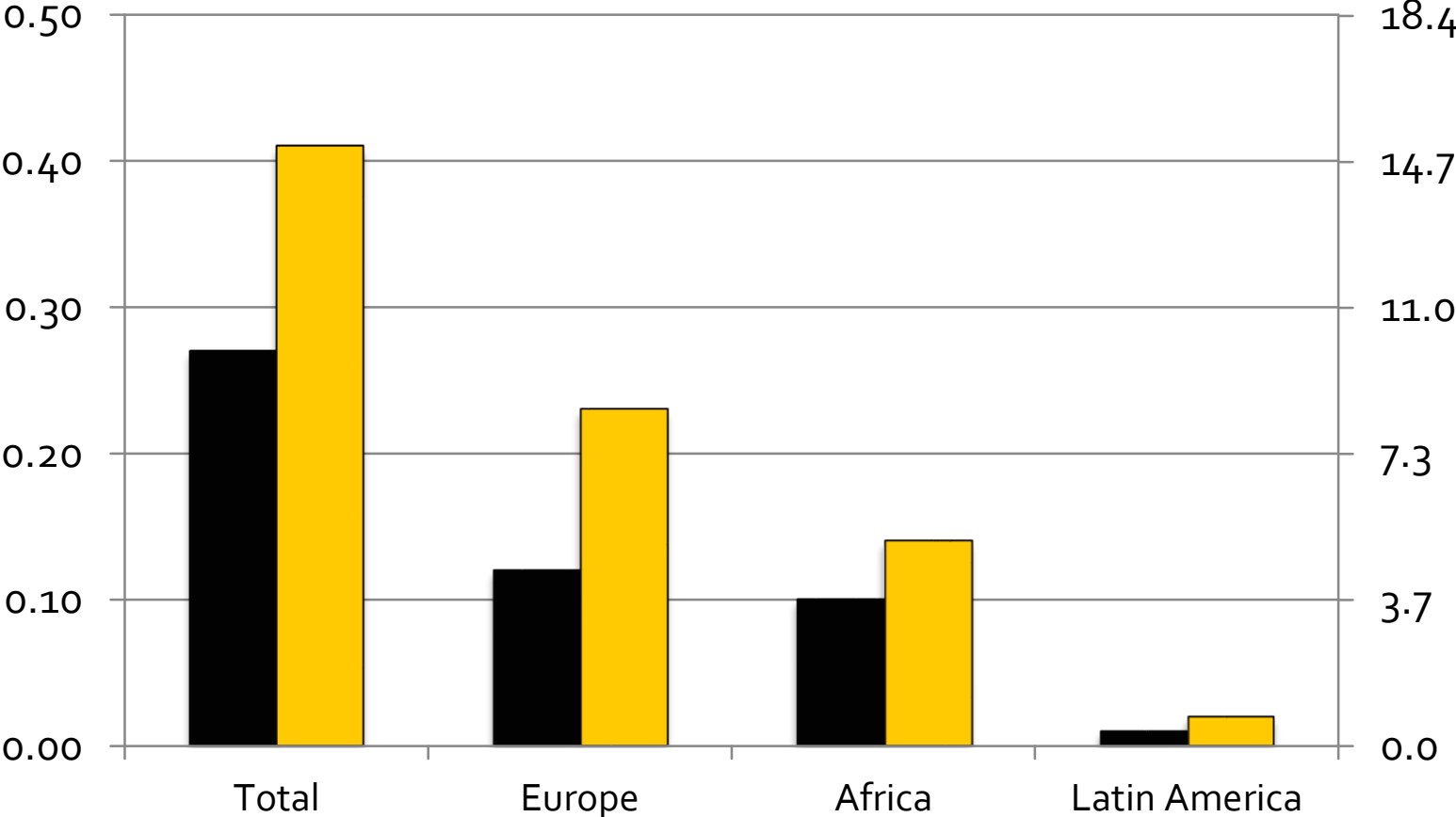
EXPORT PACE – U.S. DURUM WHEAT

as of mid-December

Million Tons

■ 17-18 ■ 18-19

Million Bushels



1/30/19

HRS and Durum

Successes / Opportunities

- **Strong base of traditional customers**
- **Premium prices in world market help offset to some degree “freight” disadvantage from North Dakota**
- **Push for “clean label” and higher fiber bread products favors higher percent of HRS in blends**
- **U.S. northern durum has advantage over EU and Desert Durum from sustainability perspective**
- **Two new durum varieties, Riveland and Grano, put us in great position if EU moves forward with lower Cadmium threshold**
- **U.S. HRS viewed as best in the world for gluten strength (recent improvement from 5-10 years ago)...but need to up breeding efforts for absorption**

Wheat Challenges

- **Competing crops**
 - **Per acre returns**
 - **Quality pricing risk**
- **Intense Black Sea competition**
 - **Directly impacts HRW but lowers base price of all wheat**
- **Increasing customer concerns over residues and allergens**

Allergen Challenges

- **Soybean & buckwheat allergens**
 - **Japan and some EU markets**
 - **Buckwheat is similar to U.S. peanut allergy for segment of Japan population**
 - **Volunteer tame buckwheat in next season wheat crop is concern**
 - **As soybean production expands, customers finding higher levels of soybeans in wheat – for some it is a GMO concern**

Residue Challenges

- **Glyphosate**
 - **Italy and U.S. market currently**
 - **Pre-harvest application is greatest concern by customers, but variability in testing brings all production into the mix**
 - **Producers need to remain vigilant on issue and when using as pre-harvest weed control follow post harvest window**

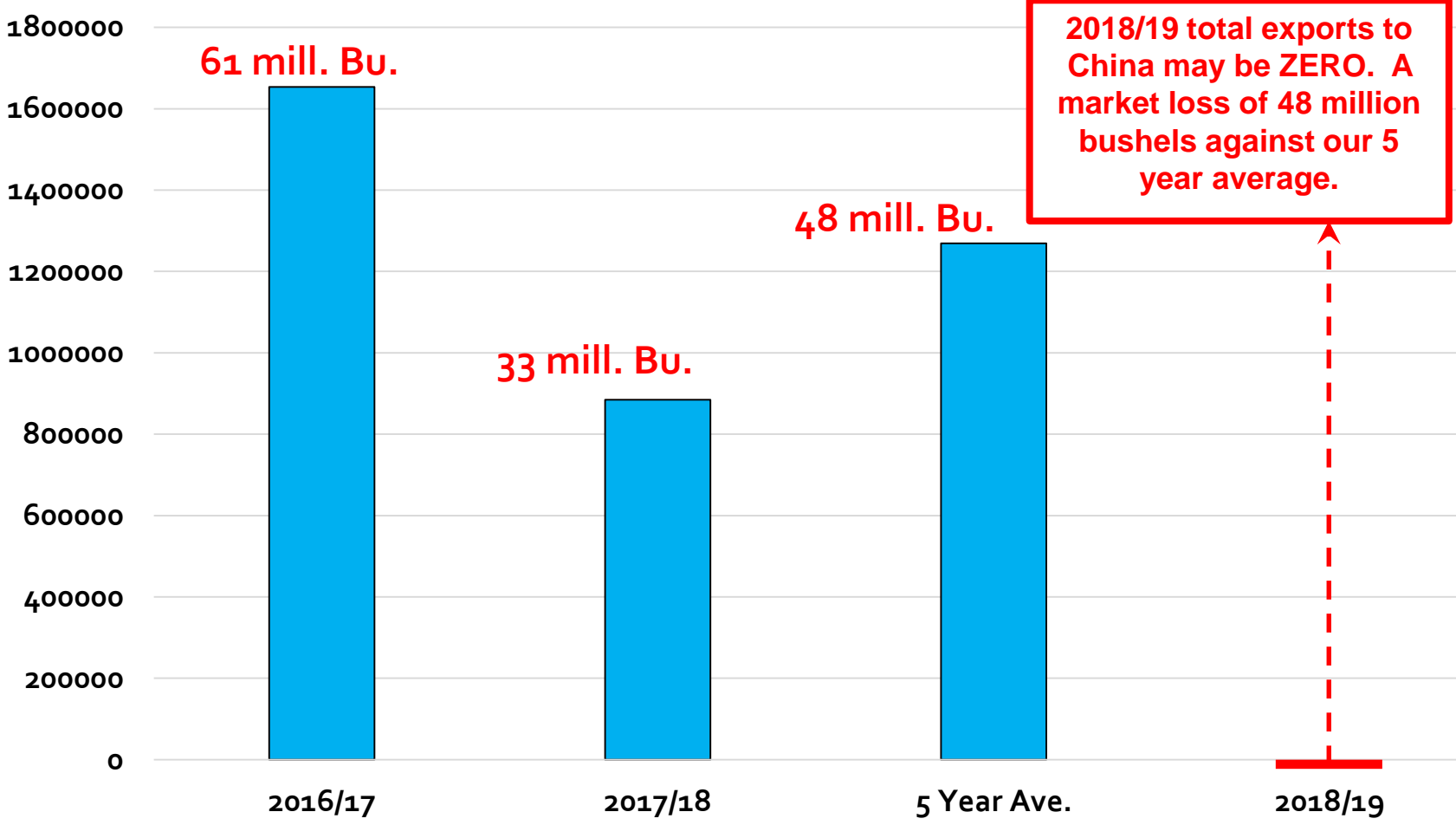


U.S. INTERNATIONAL TRADE POLICY

Trade Policy

- Work directly with U.S. Wheat Associates, National Association of Wheat Growers, ND Grain Growers and U.S. Durum Growers
- Need effective and forward looking trade policy –
 - Open new markets, preserve current markets and ensure fair/equal trading platform with competitors
- Current challenges and potential challenges exist in some very important markets
 - China and Japan
- U.S./China trade dispute
 - No wheat sales to China since March 2018
 - Has been a #2 market for U.S. HRS exports...as high as 40 million bushels
 - Buyers in China place high value on U.S. or Canadian spring wheat because they need it to upgrade large stocks of low quality domestic wheat
 - If current U.S./China talks successful...HRS is rumored to be of interest by China...

US Wheat Exports to China



Trade Policy

- Comprehensive and Progressive Trans-Pacific Partnership (CPTPP)
 - Formerly TPP, U.S. dropped out in 2017
 - Signed December 31, 2018
 - **Canada, Australia**, Brunei, Chile, **Japan**, Malaysia, Mexico, New Zealand, Peru, Singapore and Vietnam
 - Gives preferential access to Australia and Canada in Japan - one of our largest HRS markets
 - U.S. potentially at a \$0.35-\$0.40/bu. disadvantage by April 1, 2019. Disadvantage could grow to \$1.90/bu. by 2027.
 - U.S. HRS wheat not likely to be 100% displaced since mills and end-users value U.S. HRS and Canadian HRS for different traits...but potential price discount for Canadian wheat is significant.
 - US Wheat Associates and member states pressing Administration to reengage with Japan on a bilateral

Japan: TPP Agreement to Lower Re-sale Mark-up

Price advantage to Australia and Canada

US\$ /MT

180

160

140

120

100

80

60

40

20

0

2018

1-Jan

Apr-19

Apr-20

Apr-21

Apr-22

Apr-23

Apr-24

Apr-25

Apr-26

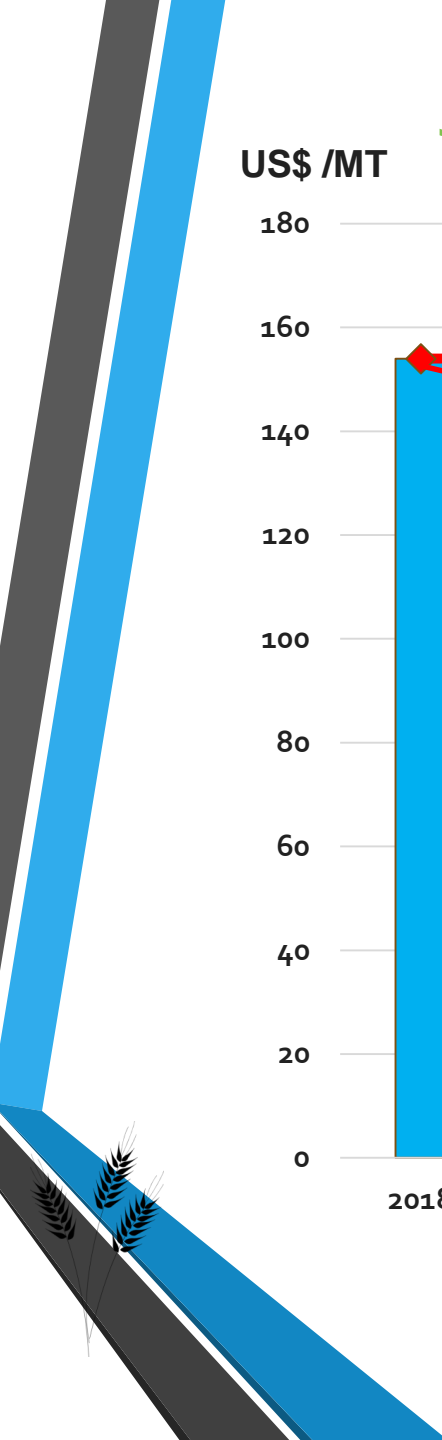
Aus/Can Assessment

US Assessment

40 cents
per bu.

At risk:
US HRS sales priced at \$1.90 per
bushel over CWRS

Bottom Line:
Japan Flour Millers Assn
projects US exports to drop from 3.0
MMT to approx. 1.4 MMT *

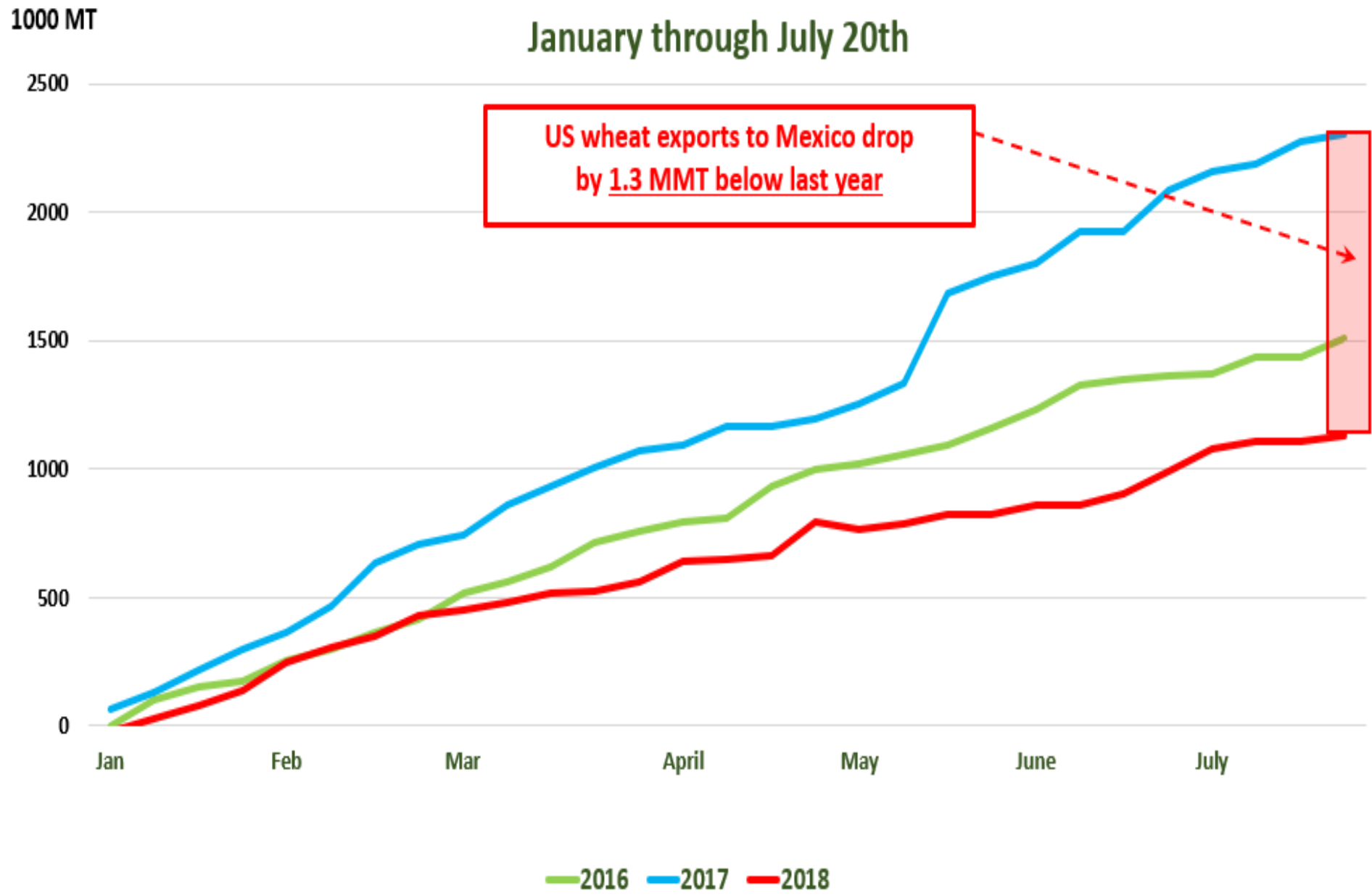


Trade Policy

- **USMCA (United State – Mexico – Canada Agreement), revised NAFTA**
 - **Retains tariff free wheat exports to Mexico – HUGE market impact**
 - **Addresses some issues with Canada on wheat...but not all**
 - **U.S. wheat no longer automatically downgraded to “feed”...must be given the same grading standards as Canadian produced wheat**
 - **The catch....agreement allows Canada to retain it’s “approved variety” threshold for wheat classes...**
 - **To qualify for CWAD and CWRS (top prices).. must be an approved variety...very few ND, MT or MN varieties apply.....Glenn HRS and Strongfield Durum**
 - **More work yet to do on improving this....also addressing rail freight advantage and ensuring phyto issues don’t hinder trade**
 - **Heavy imports from Canada having big impact on U.S. durum and HRS prices**

Mexican Wheat Purchases from USA

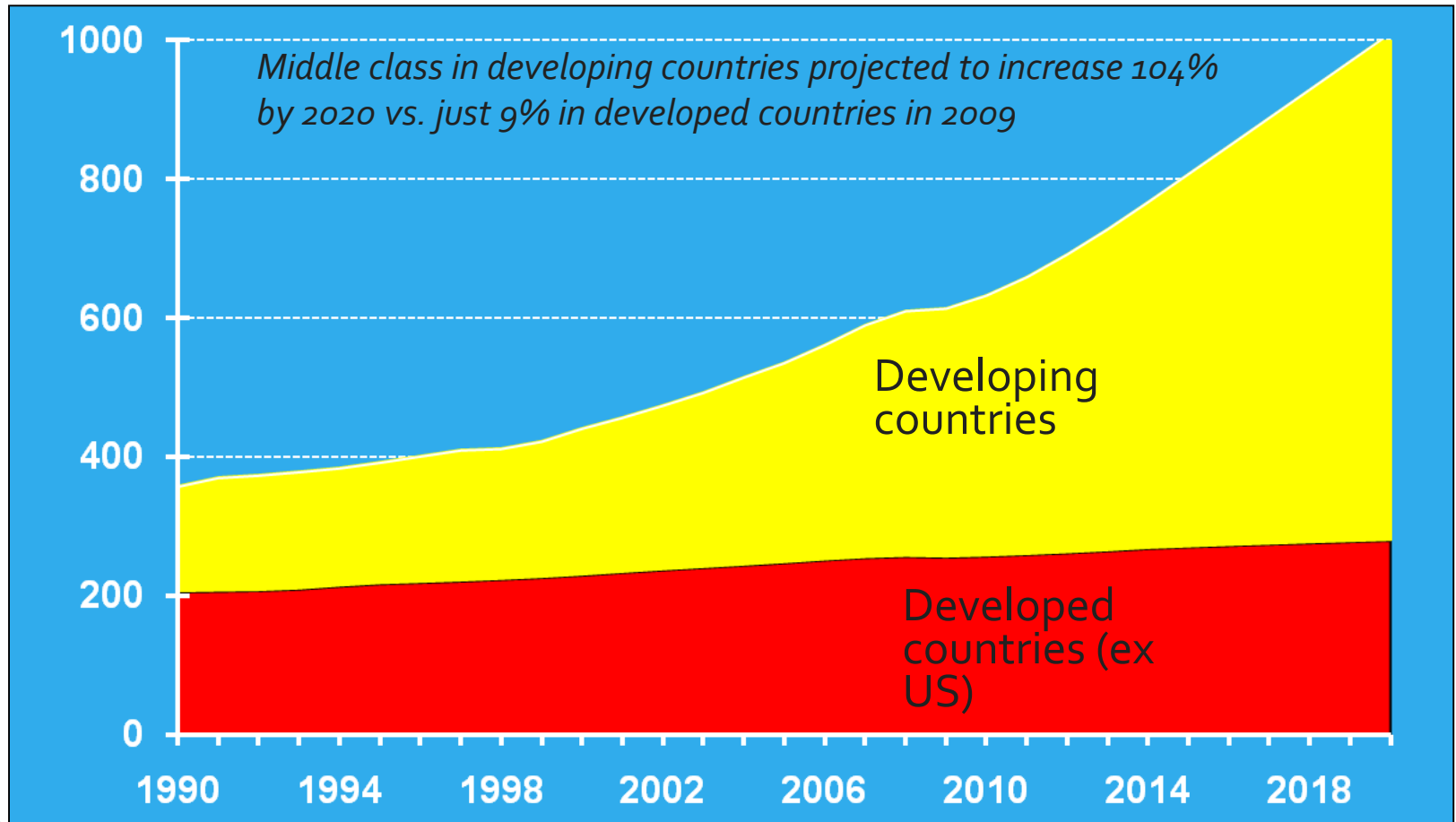
January through July 20th



“Middle Class” *Outside the U.S.* Expected to Double By 2020 – To 1 Billion Households

Worldwide food consumption will be impacted

Foreign households w/real PPP incomes greater than \$20,000 a year (in millions of households)

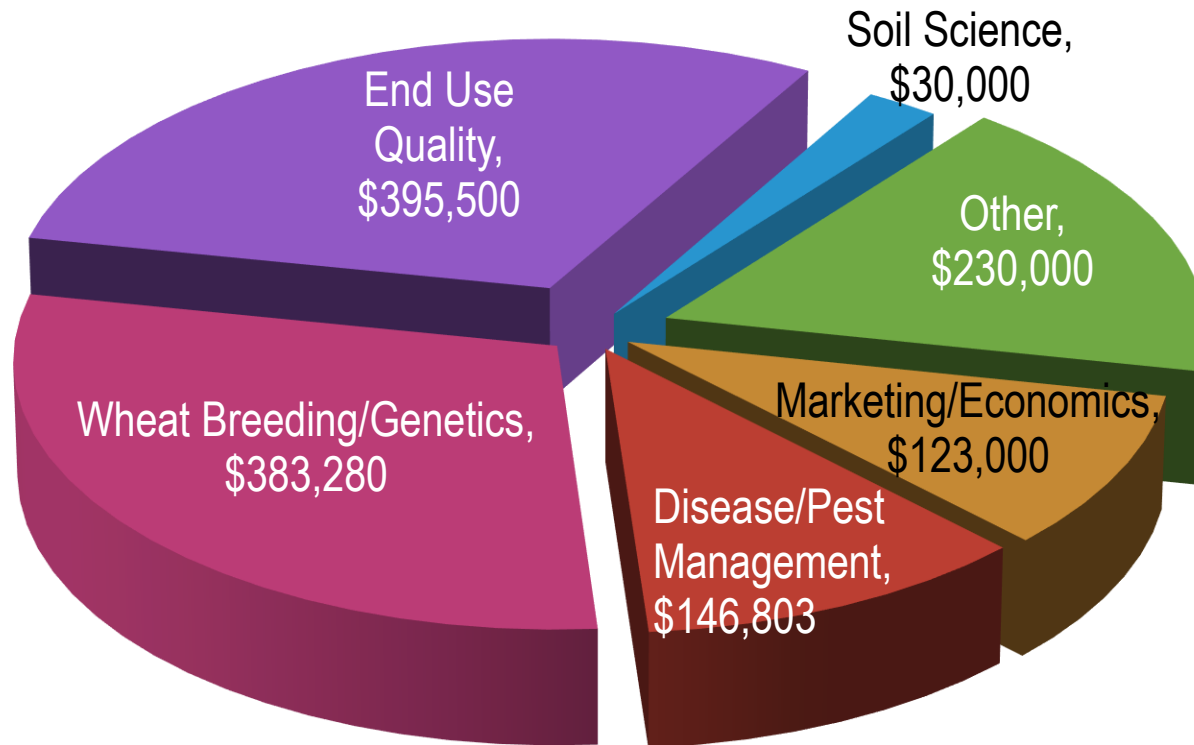


Source: Global Insight's Global Consumer Markets data as analyzed by OGA

Research

- NDWC funds between \$1.2 to \$1.7 million in wheat research annually
 - This has continually increased over time
 - State and federal funds still make up the majority of funding for NDSU research programs...but its share has declined in some programs.
- Key support areas
 - Variety development for HRS, durum, and HRW
 - Disease resistance, stronger straw and increased yields
 - Quality testing and research
 - Key selling factor in retaining “class” / “origin” premiums
- Other areas – soil science, marketing, transportation and economics
- Priorities discussed at annual meeting with county representatives

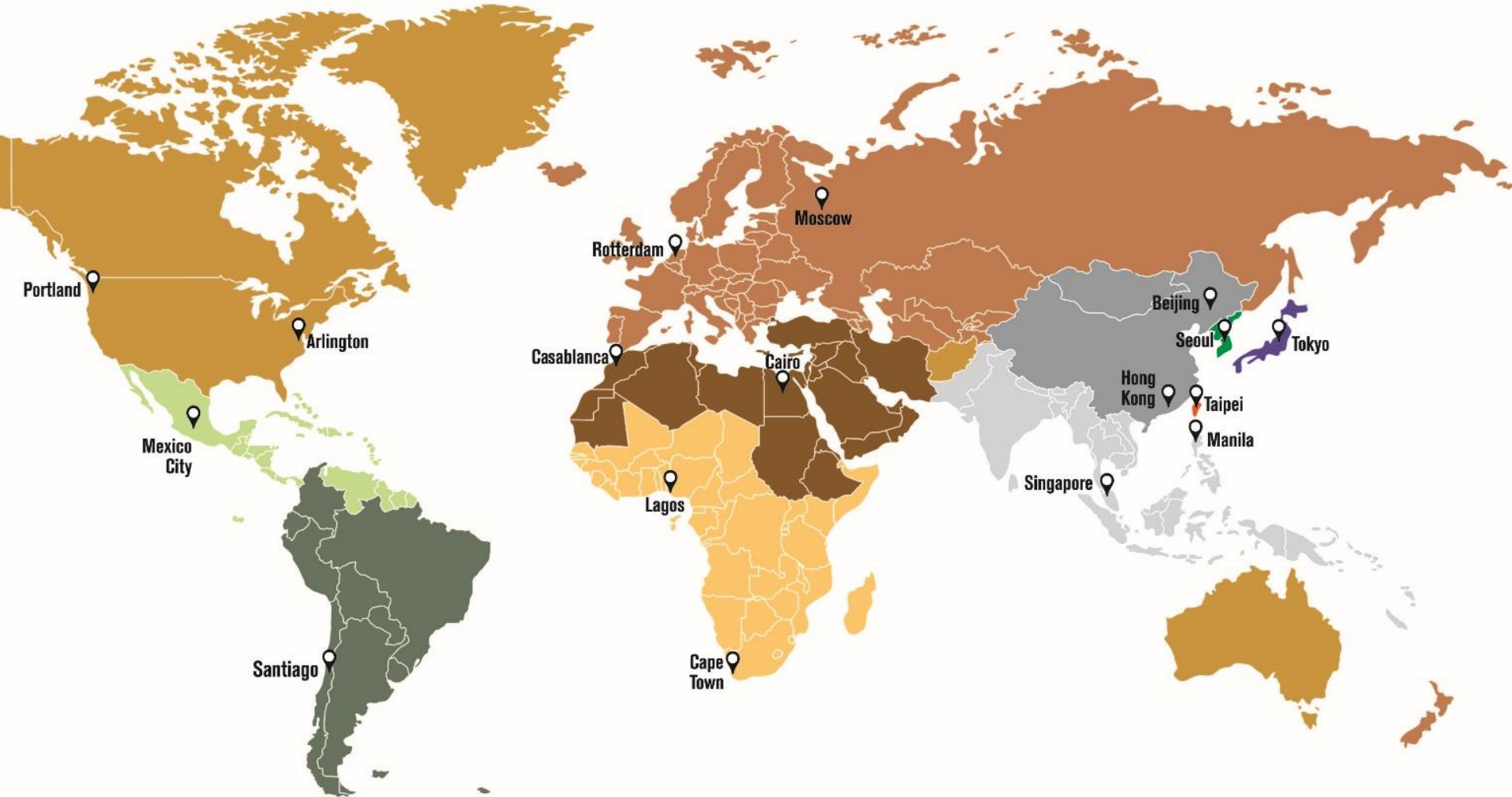
2018-19 BUDGETED NDWC SUPPORTED WHEAT RESEARCH : \$1,308,583



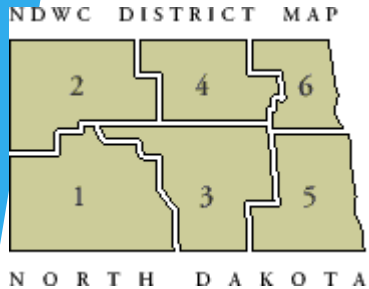
Other includes New Technologies Contingency, NCI and Wheat Marketing Center.



World Map of USW Offices and Regions



NDWC BOARD OF COMMISSIONERS



OUR MISSION

- Build bigger better markets for ND premium wheat
- Promote, aid and develop marketing opportunities for ND wheat
- Sustain and improve state ag economy



District 1
Jim Bahm
New Salem



District 2
Dustin Johnsrud
Epping



District 3
Jim Pellman
McClusky



District 4
Phil Volk
York



District 5
Greg Svenningsen
Valley City



District 6
Aaron Kjelland
Park River



At Large
Bruce Freitag
Scranton

THANK YOU

QUESTIONS?

