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COMMODITIES CORNER

Wheat Heads Back to Earth

By TOM POLANSEK

Wheat's dance card will soon go begging, thanks to wilting demand.

U.S. WHEAT FUTURES WERE the bulls' darling in the spring as prices soared to all-time highs in the wake of global crop failures. But the grain probably won't be invited to any parties this fall.

Wheat quickly became a wallflower when farmers expanded plantings worldwide to take advantage of lofty prices. After a quick retreat, the market was left sandwiched between bearish forecasts of record global production and bullishness about steady export demand. But demand appears anything but steady. Importers are expected to back off on purchases once they replenish supplies drained last year during the price run-up and widespread production problems. U.S. prices should slip, along with demand.

Ten weeks into the 2008-'09 marketing year, which began June 1, total U.S. wheat-export commitments already reached 50% of the Agriculture Department's one-billion-bushel target. The sales are "all front-loaded," says Bill Tierney, head North American research analyst for LMC International, a global agricultural analysis firm.

The U.S. racked up strong early sales thanks in part to the lack of other suppliers with large quantities of high-quality wheat on hand. The Black Sea region, which has emerged in recent years as an aggressive wheat exporter, is facing quality troubles, while importers are waiting for supplies to come online from the European Union, Canada and the Southern Hemisphere.

Even Iran, which had not bought wheat from the U.S. in 27 years, has shown up as a buyer this summer, owing to a domestic drought and the lack of other available suppliers.



The buying interest should ease as harvests progress around the world, assuming good crops in other countries. When that happens, wheat on the Chicago Board of Trade could slip \$1 to summer lows around \$7.50 a bushel, according to Bill Nelson, analyst for Wachovia Securities. Nearby September wheat closed Friday at \$8.65½, up 5% on the week. This spring, nearby CBOT wheat topped out at

\$13. "I'm supposing that we'll have these other sources become available progressively over the next few months," Nelson says.

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The world is expected to grow more wheat than ever this year, with the global crop pegged at a record 670.8 million tons. That's up nearly 10% from last year, according to the Agriculture Department. Importers know they'll eventually be able to secure what they need, so they're wary of paying too much for their purchases, says John Kleist, broker/analyst for commodity research firm Allendale. They are replenishing supplies, but "on their own terms," he reports.

The U.S. should see solid demand from countries seeking high-quality wheat at least until it becomes clear whether Australia will have a milling-quality crop, analysts say. Production is expected to rebound Down Under this year after two years of severe dryness.

NYMEX CRUDE-OIL PRICES yo-yoed last week, but ended up gaining only 0.6%, settling at \$114.73 a barrel Friday for the October contract.

DJ-AIG Commodity Indexes

DJ-AIG Indexes	8/22	8/15	YTD
Commodity Futures	192.920	187.152	4%
Total Return	385.420	373.763	6%
Energy	296.877	298.463	11%
Petroleum	566.679	563.140	18%
Livestock	52.435	52.947	-9%
Grains	74.595	68.783	7%
Industrial Metals	194.837	187.619	2%
Precious Metals	124.671	118.513	-5%
Softs	58.949	55.648	-2%

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