California WHEAT COMMISSION

WHEAT SHEET

DECEMBER 2012

Research Funding Top Priority for Commission

In recent years, the Commission has increased funding for both wheat breeding and field research. This ongoing commitment represents about one third, or $350,000, of the Commission's annual budget. Research priorities are reviewed by the Commission's Research Committee and approved by the full Commission as part of its annual budget process.

CWC provides substantial funding to the wheat breeding program at UC Davis, led by Dr. Jorge Dubcovsky. Dr. Dubcovsky's team of researchers focuses on improving the quality and yield of California wheat varieties. The quality improvement work encompasses identifying genes that convey resistance to stripe rust and other diseases; increase protein; block cadmium uptake in durum varieties; improve drought resistance; and address falling number and resistant starch issues. In addition to releasing its own public wheat varieties, Dr. Dubcovsky's program also makes many of these quality traits available to private breeders for incorporation into their varieties. His work benefits both forage and grain varieties of wheat, especially in the area of disease resistance.

In addition to wheat breeding support, CWC provides funding for the statewide field trials, which provide agronomic data for current varieties planted in 15 locations, and the Collaborator program, which tests new varieties being considered for release. The California Grain Foundation also contributes to the Collaborator program. Data from the field trials, which track disease susceptibility and changes in quality and yield from year to year in various growing regions, provide key information to growers for their planting decisions.

Three years ago, CWC created a new mini-grant program to encourage UC Cooperative Extension wheat-related field research. Designed by the former UCCE statewide small grains specialist (and now CWC At-Large Member) Dr. Lee Jackson, the mini-grants have become an important component of the Commission's overall research effort. The grants fund projects that are designed to provide short term results to growers on issues such as increasing protein and yield through improved fertilization practices. All reports can be found on the Commission website under Growers/ Wheat Research. Several of the farm advisors funded by this program presented their findings at the recent 2012 Alfalfa & Grains Symposium in Sacramento. Funding is also being provided for internships to encourage students to pursue UCCE careers.

CWC is helping to fund a UC Riverside project entitled "Determination of optimum root and shoot size in bread wheat for increased water and nutrient-use efficiency and grain yield." CWC has also helped purchase a seeder and harvester for use in UC field trials. **As federal, state and UC funding for research is cut, the Commission has stepped up to fill the void and support these vital research programs and activities.**

California Wheat Market Unique, Diversified, Changing

California wheat producers produce more than one million tons of wheat each year. We grow five of the six classes of wheat and enjoy a high average yield per acre. As the largest flour milling state, much of our wheat goes to mills located around California. Dairies, feed yards and other animal facilities use both wheat silage and grain in their operations. The Commission estimates that approximately 75 percent of our production is sold for domestic use, with the balance exported. Traditional export markets include Italy and Nigeria for durum and Asia for HRW and HWW in containers. These export markets provide options for growers and help keep prices strong.

In recent years, the market has begun to change in several ways, including:

- Greater consumer interest in whole grain bread, cereal and other products, which is increasing demand for HWW in domestic and export markets.
- The availability of flour with a "California" label, developed in response to a growing demand for local and sustainable products.
- Growing demand for gluten-free products. The Commission participates in the Wheat Foods Council to insure that factual and science-based nutritional information is available to consumers.
- Increased interest in growing many different types of wheat, including spelt, emmer and older varieties. Many of these specialty wheats are sold at farmers markets and to artisan bakers.

These and other market developments represent opportunities for California wheat growers and for the Commission to expand its market development activities on behalf of the industry.

World Wheat Market Update

Steve Wirsching - VP and Director, US Wheat Associates, West Coast Office, Portland, OR

Today there is a lot of uncertainty in the market. Many buyers, sellers, end-users and wheat producers don't know which way the market will go because the road ahead is unclear! Potentially, many factors will merge, affecting market direction and future prices. However, three primary factors influencing the wheat market today include: drought in the Black Sea region; the small US corn crop pulling more wheat into the feed market; and the continued drought in the Great Plains. Other things to watch are the poor winter wheat crop conditions and continued demand from Asia.

In 2012, total wheat consumption outstripped production by 24 MMT or almost the same amount the United States exports in a year. This has happened three time in the recent past, 2003/04, 2006/07 and 2007/08. During those years, wheat prices were strong because the world market drew down stocks and rationed demand. Total world wheat stocks decreased 24 MMT to an estimated 174 MMT. A better measure of world stocks is world stocks-to-use ratio, simply calculated by dividing world stocks by total use. The stocks-to-use ratio is 26 percent, down from last year, but much higher than the record low of 20 percent seen in 2008.

Black Sea region countries showed a 37 MMT or 32 percent decrease in production due to an extended drought; Russia's production decreased 18.2 MMT, Kazakhstan's production dropped 12.2 MMT, while Ukraine's production decreased 6.6 MMT.

As a result of these dramatic decreases in production, Black Sea exports were trimmed by 15.7 MMT, and ending stocks were lowered 11.7 MMT. Many of the countries have or are threatening to implement a partial or complete export ban. Russia's Southern district, an area that accounts for most of the country's exports, received only 50 to 70 percent of normal precipitation during the June 1 to August 30 time-period when the wheat kernels were filling and needed moisture. Russian wheat production, estimated at 38 MMT, is down from last year and below 2010 levels when this country banned exports.

By contrast, production in the United States and Canada increased by 7.3 and 1.7 MMT, respectively. Wheat production in the United States estimated at 61.8 MMT is up by 14 percent from last year. US exports pegged at 29.9 MMT are up 4.5 percent while ending stocks seen down slightly at 19.2 MMT. US feed wheat consumption is seen almost doubling this year, from 4.4 to 8.6 MMT, due to a smaller than expected corn crop. Domestic wheat food consumption will be stable this year at 25.9 MMT.

World and U.S. wheat prices have remained high. There is a relationship between world ending stocks and the price of US Hard Red Winter wheat in the Gulf. When world stocks are low, generally wheat prices are high. Overall, ending stocks are down, because demand has outpaced supply this year, but world stocks are not at the extremely low levels seen in 2008. Currently, wheat prices within the United States are high when compared to world prices. A smaller than expected corn crop has drawn more wheat into the feed market resulting in additional demand, pushing both corn and wheat prices up. The US had planted 96 million acres of corn, expecting a record harvest that would have surpassed the previous record of 12.3 million bushel. All looked promising until late June when it was clear that the rains were not coming and the record hot temperatures just continued to burn up the crop. In response, corn and wheat prices started to climb.

In the end, the US harvested 10.7 million bushels. The average yield per acre dropped from 147 bushels per acre to 122. The price of corn increased as the market rationed demand, both domestic and overseas. A smaller US corn crop also put upward pressure on wheat prices because wheat must stay above corn so that it does not move into the feed market. Expectations are that stronger prices throughout the year will continue to encourage additional seeded acres next year.

Looking ahead, some positive price drivers are the poor winter wheat conditions in the states of Texas, Oklahoma and Kansas. Drought continues to negatively influence these states. Reports are that more than a quarter of the winter wheat crop could be abandoned next spring. Since the 1950's, the US wheat abandonment rate has only breached 25 percent twice, once in 1988/89 and another time in 2001/02, both due to drought. Current US winter wheat conditions are worse than measured in both of those years.

The USDA estimated that China's wheat production is less than current consumption and like the rest of the world this country will be drawing down stocks. The USDA pegged China's total wheat consumption at 122 MMT, of which 90 MMT is said to be for human consumption. While slower than in the past, China's economy continues to grow, pulling more of the population out of poverty and into the middle class. This is good for wheat exports because more affluent consumers are looking for a greater variety of western style bakery goods. China has concentrated on medium protein wheat varieties with high yields that produce noodles and steam breads. The US has high protein wheat which produces superior quality pan bread and pastries, as well as low protein soft wheat, best for cookies and crackers. Estimates are that if China only imported 5 percent of their total requirements, this country would become one of the largest wheat importers in the world and one of the biggest markets for US producers.

Grower Participation Needed

The Commission seeks representatives to serve out partial terms as board members in the following areas. (Full terms run for three years.)

- District 10 - Santa Barbara, San Luis Obispo, Monterey, San Benito, Santa Clara
- District 11 - San Bernardino, Riverside, San Diego, Los Angeles, Ventura

We also have Alternate openings in several other districts. Involvement in the California Wheat Commission enables California producers to set the priorities for how grower assessment dollars are spent and to take a more active role in national wheat organizations and policymaking bodies.

A qualified producer member or alternate is defined as any person in California who is engaged in the business of producing wheat for market during any of the preceding three marketing seasons, and who resides or conducts farming operations in the district. Between election cycles, interested growers can submit a petition to fill partial terms.

Interested parties should contact the Commission office or their local Commission members:

- District 1 - John Walker and Bryce Crawford
- District 2 - Tom Millar
- District 3 - Larry Hunn and Bob Adams
- District 4 - Erik Freese and Alan Freese
- District 5 - Dennis Pelucca
- District 6 - Augie Scoto and Kole Upton
- District 7 - Scott Schmidt
- District 8 - Jim Parsons
- District 9 - Kirk Elholm
- District 12 - Roy Motter and Ron Rubin
- District 13 - Ronnie Leimgruber
- Handlers: Michael Edgar, Geoff Schulz, J.W. Cope and Pat Klingler
- At-Large Members - Lee Jackson, Mike Scriven, and John Smythe
- Public Members - Steve Windh and Damon Sidles

California Wheat Commission Referendum

As required by the California Food and Agriculture Code, a reapproval referendum is to be conducted every five years. If a majority of the wheat producers voting in the referendum favor reapproval, the California Wheat Commission will continue for another five years.

Ballots will be mailed by the California Department of Food and Agriculture's Marketing Branch in mid-January to California wheat growers to determine the continuation of the California Wheat Commission. Ballots must be postmarked no later than February 14, 2013. If a grower has not received a ballot by the end of January, please contact the Marketing Branch at (916) 900-5018 to request a ballot.

The Commission's authorizing statute directs the Commission to conduct research, market development and promotion activities and provides for an assessment on all grain grown in California. The statute also defines the makeup of the Commission, which is comprised of elected growers and handlers and appointed at-large and public members. The Commission sets the assessment, currently at $.05 per hundred weight, and determines the priority for funding these activities.

For more information, please call the Commission at (530) 661-1292 or email: info@californiawheat.org.