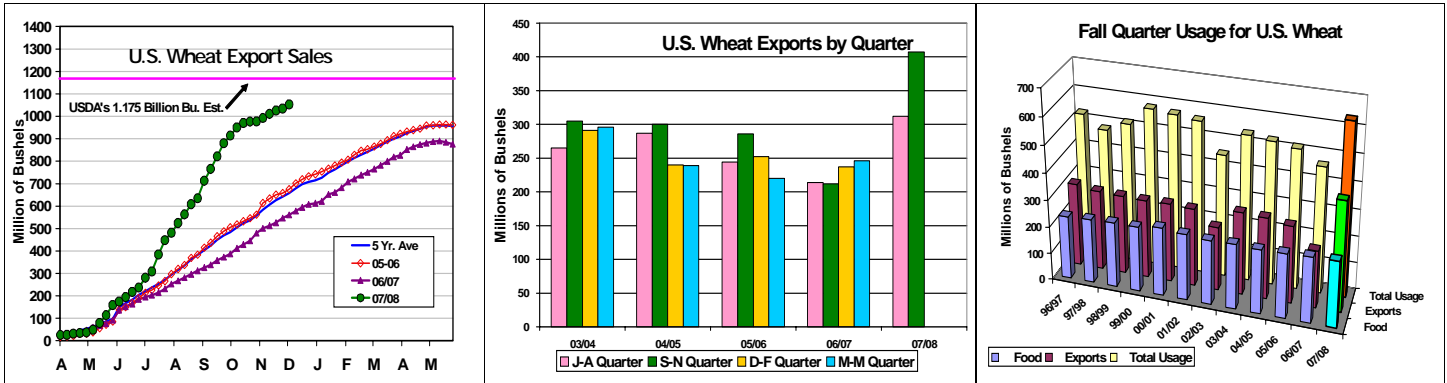


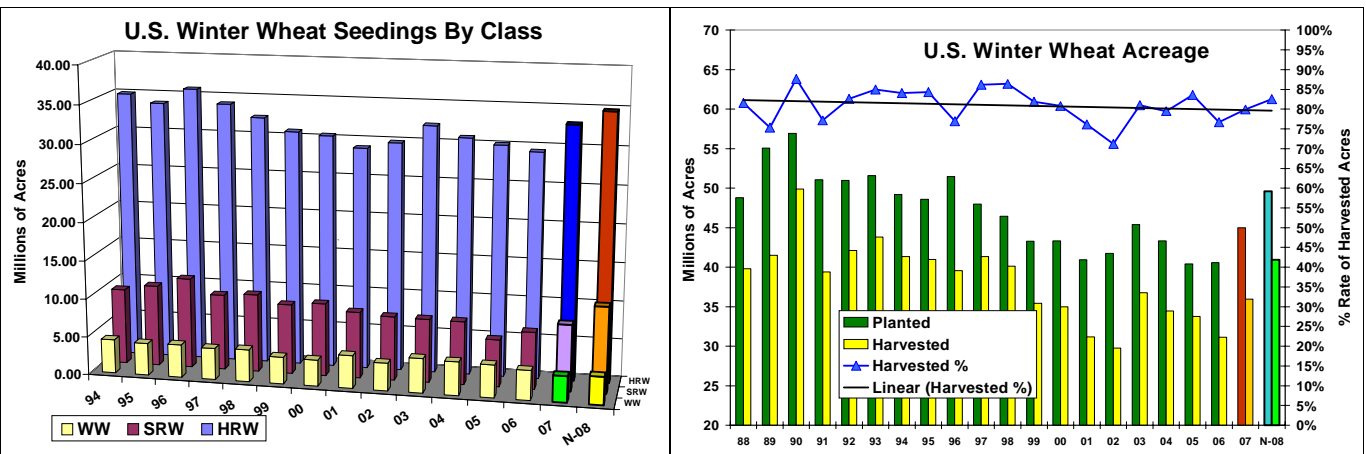
Exports Prompting Record Wheat Prices and Larger Seedings



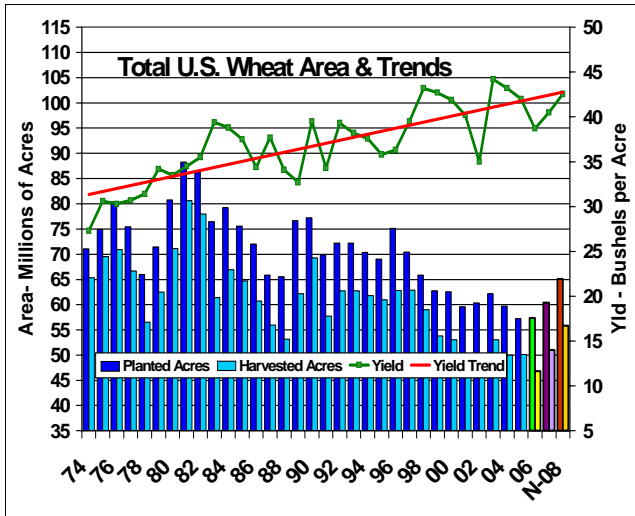
Wheat prices climbed in to record-high territory at \$10 per bu. earlier this week as the USDA increased its old-crop export demand forecast, Argentina kept its export registrations close and reports surfaced that Russia might close off its exports in February. Prices later slipped, however on improving moisture conditions in U.S. Plains and the Delta and profit-taking ahead of the holidays. Prices could remain very volatile in the coming month due to concerns about index funds rebalancing their ag futures early in 2008 and the USDA releasing its final production, quarterly stocks, winter wheat seedings and supply/demand reports on January 11.

With the USDA's final wheat crop report traditionally having only minor output changes, we are only expecting a 6 million bu. decline because of slight adjustments in this year's winter wheat crop, leaving the 2007/08 crop at 2.061 billion bu. With last fall's export shipments the highest quarterly loadings since 1984/85 (at over 400 million bu.), this year's U.S. December 1 wheat stocks could decline 17% below last year and could be the tightest in memory, at 1.1 billion bu., if U.S. domestic demand totals 230 million bu. last fall as we calculate it now.

With these small U.S. stocks, the trade's main focus within the January reports will likely be on this year's winter wheat planting report also released on January 11. Dryness in the southern and western areas of the U.S. Plains curtailed some hard red wheat seedings from our earlier expectations in October, but we still expect a 5% rise in this variety's plantings to 34.75 million acres (+1.81 million). This year's largest jump in winter wheat seedings has likely occurred in soft red areas of the Eastern Corn Belt, Delta and the Southeast, with a possible 30% jump in acreage to 11.2 million acres because of the allure of potentially double-cropping soybeans on many of acres if weather permits next summer. PNW seedings likely will increase too, but the proportion of white wheat plantings may continue to slip to just 240,000 additional acres, given current hard red prices. Overall, we still expect a sub-



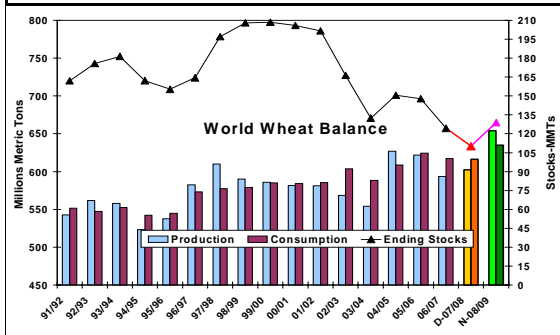
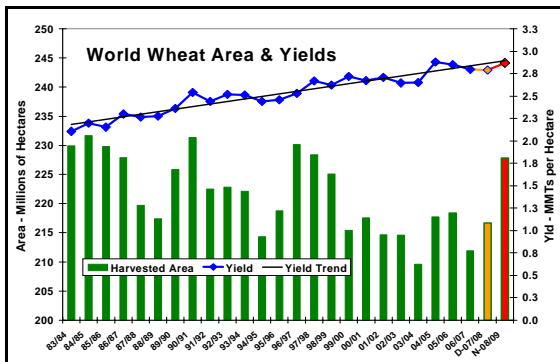
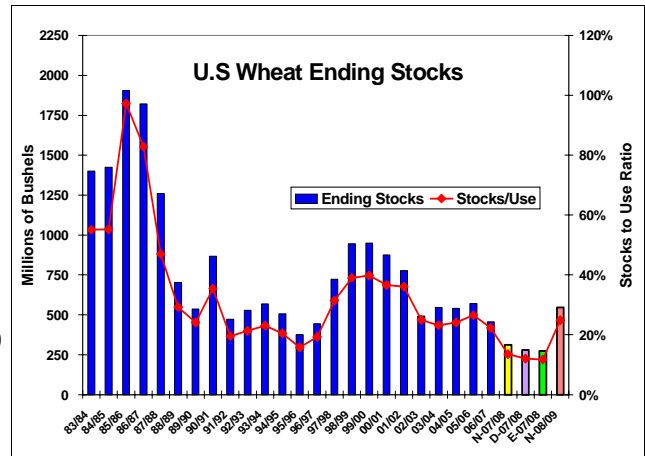
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stantial winter wheat seedings jump of 4.6 million acres (10%) vs. our earlier ideas of a 5.1 million rise, resulting in a 49.6 million acre winter wheat planting report level.

Spring wheat's leadership of the recent price strength and the current exceptional prices being paid for durum wheat of \$16-\$18 per bushel probably has eliminated any switch in spring wheat seedings in the Northern Plains to soybeans, but a half million acre shift to durum is my current thinking on these two crops, which won't be known until the March 31 intentions report. Overall, wheat's 2008/09 crop could be seeded on 65.06 million acres, which could result in a substantial jump in U.S. output to 2.4 billion bu. for the coming year and stocks likely doubling to near the 600 million for next year. The current strong prices are also boosting overseas plantings with 6%-10% higher seeding levels being reported in Europe and the FSU. Dryness may keep India from planting more wheat (current talk is 500,000 less hectares), but world output could still be up sharply by 40-50 mmt, with wheat's world stocks also recovering to the 130 mmt area. These likely larger wheat areas will limit wheat's upside potential. Note: the USDA doesn't officially release its foreign and world crops and supply/demand updates until May 2008.

The potential for a big jump in world wheat production exists, with reports from Europe and the Black Sea of 5%-10% increases in seeding along with this year's U.S. seedings rise. After recently increasing new-crop sales on price strength, we recommend finishing up old-crop sales and having new-crop 2008 sales at 50%-60% and July 2009 sales at 20-25% with recent weather in the U.S. Plains improving America's growing conditions. Index funds reducing their net long position through liquidation during the first 10 trading days of January could prompt weakness to the \$9.00 area, basis March, and \$7.25 & 7.00 areas, basis July 2008 & 2009 in Chicago values. Merry Christmas and a Profitable 2008 to everyone! Jerry Gidel



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