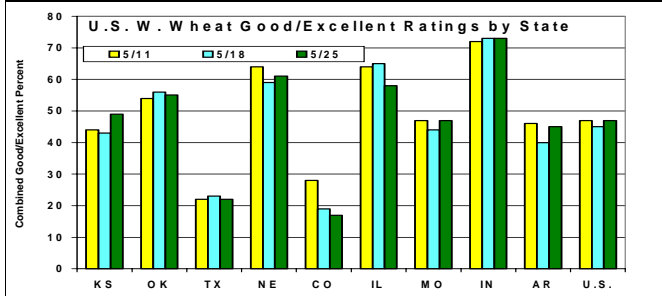
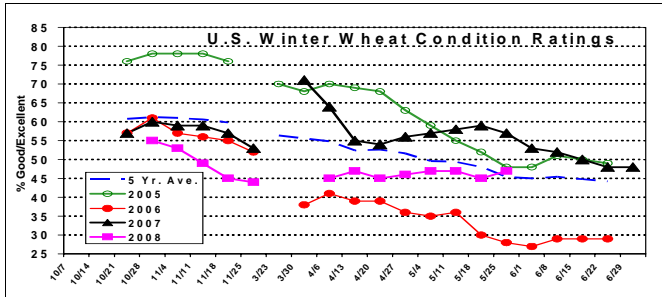


Larger U.S. & World Crops Limit Wheat As Harvest Begins



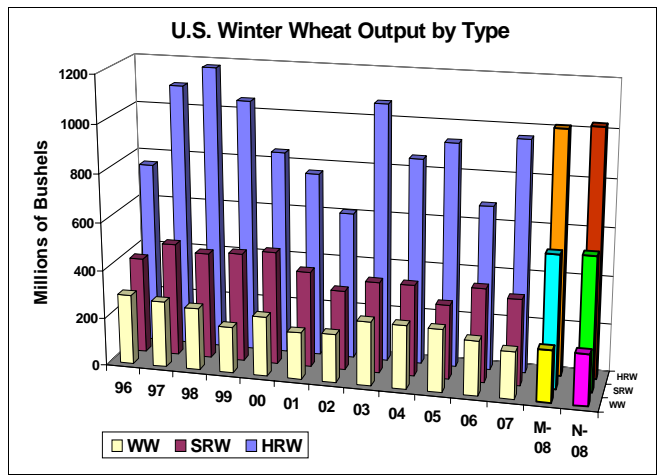
| State | Harvested Acres | | | | Yield per Acre | Output * | | NARMS |
|-------|-----------------|--------|------|------|----------------|-----------|-----------|-------|
| | May-08 | Jun-08 | M-08 | J-08 | | 2007 | May 08 | |
| Ark | 840 | 840 | 53 | 53 | 28,700 | 44,520 | 44,520 | |
| Calif | 320 | 320 | 80 | 80 | 19,200 | 25,600 | 25,600 | |
| Colo | 2,100 | 2,100 | 32 | 30 | 94,000 | 67,200 | 63,000 | |
| Geor | 350 | 350 | 54 | 56 | 9,200 | 18,900 | 19,600 | |
| Idaho | 840 | 840 | 72 | 72 | 51,830 | 60,480 | 60,480 | |
| Ill | 1,160 | 1,140 | 63 | 65 | 50,730 | 73,080 | 74,100 | |
| Ind | 530 | 530 | 66 | 67 | 21,090 | 34,980 | 35,510 | |
| Kans | 9,400 | 9,400 | 38 | 39 | 283,800 | 357,200 | 366,600 | |
| Ky | 450 | 450 | 66 | 66 | 12,250 | 29,700 | 29,700 | |
| Mich | 710 | 710 | 69 | 71 | 35,100 | 48,990 | 50,410 | |
| Mo | 1,120 | 1,100 | 52 | 52 | 37,840 | 58,240 | 57,200 | |
| Mont | 2,600 | 2,600 | 34 | 35 | 83,220 | 88,400 | 91,000 | |
| Nebr | 1,850 | 1,850 | 44 | 45 | 84,280 | 81,400 | 83,250 | |
| NM | 260 | 260 | 27 | 27 | 7,800 | 7,020 | 7,020 | |
| NC | 700 | 700 | 51 | 53 | 20,000 | 35,700 | 37,100 | |
| Ohio | 1,000 | 1,000 | 64 | 65 | 45,990 | 64,000 | 65,000 | |
| Okla | 4,500 | 4,500 | 33 | 34 | 98,000 | 148,500 | 153,000 | |
| Oreg | 760 | 760 | 60 | 58 | 40,425 | 45,600 | 44,080 | |
| SC | 170 | 170 | 50 | 50 | 4,185 | 8,500 | 8,500 | |
| S Dak | 1,750 | 1,750 | 44 | 45 | 95,040 | 77,000 | 78,750 | |
| Tenn | 490 | 490 | 58 | 58 | 10,660 | 28,420 | 28,420 | |
| Tex | 3,400 | 3,400 | 29 | 29 | 140,600 | 98,600 | 98,600 | |
| Virg | 250 | 250 | 64 | 64 | 13,120 | 16,000 | 16,000 | |
| Wash | 1,720 | 1,720 | 63 | 62 | 108,160 | 108,360 | 106,640 | |
| U.S. | 40,162 | 40,122 | 44.3 | 44.8 | 1,515,989 | 1,777,532 | 1,797,200 | |

* - 000's

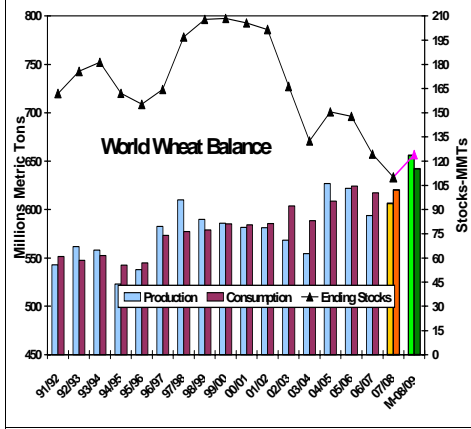
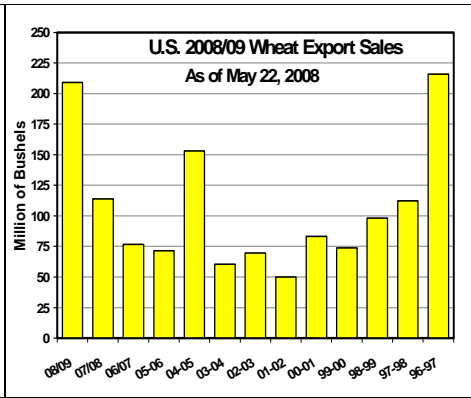
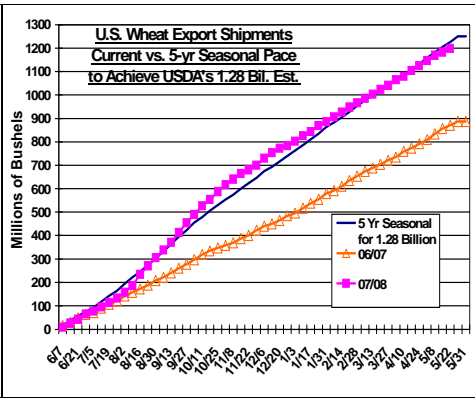
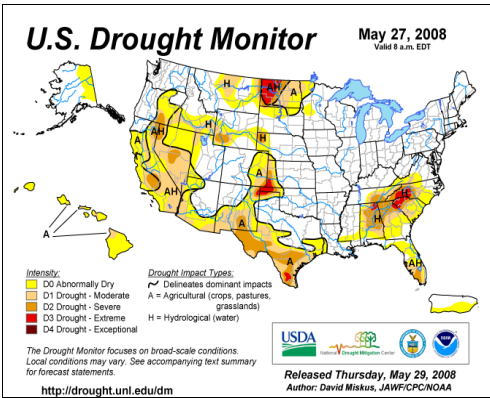
With the U.S. harvest poised to pick up steam in the next few weeks, the wheat market remains on the defensive because of larger U.S. and world supplies forecast for the upcoming 2008/09 crop year. Increasing fears of a possible government intervention because of rising Washington rhetoric over excessive speculative & index fund buying in U.S. futures also will likely limit this pit's upside ahead of the USDA's next monthly June 10 crop update.

U.S. winter wheat conditions have remained relatively stable over the last month as the USDA's good/excellent combined ratings have swung from 45% to 47%. However, recent rains have improved hard red winter prospects in the central and northern Plains, with wheat's top two ratings categories rising in MT (+8%), KS (+6%) and NE (+2%) on the latest update. Because of these improvements, the U.S. hard red crop likely will increase nearly 17 million bu. on the USDA's upcoming June update to 1.028 billion. Ongoing moisture activity has also occurred in Ohio River Valley in the last month, with excessive amounts in parts of IL & MO possibly cutting harvested area by 20,000 acres in each state because standing water has drowned some fields. However, higher yield potential from the rainfall could still push up this year's U.S. soft red wheat output by 6 million bu. to 557 million, a jump of nearly 56% over 2007. Building dryness in the PNW over the last few weeks has slipped WA & OR ratings recently, suggesting this year's white wheat crop could drop 3 million to 212 million bu. on the upcoming June report. Overall, the USDA likely will increase its 2008 winter wheat crop projection by 19.5 million to 1.797 billion bu., an 18.5% rise over 2007, with its national average yield up a half bushel per acre to 44.8 from its initial estimate in May.

Recent rainfall in the Northern Plains also has improved U.S. spring wheat prospects, but previous dry conditions as noted on the NWS Drought Monitor for western North Dakota will mean additional moisture will be needed ahead of this area's late summer harvest. Thus, the USDA likely will stay with its previous 614 million bu. estimate for spring and durum wheat output, resulting in total U.S. wheat estimate of 2.412 billion bu. on the June 10 report.



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Over the last three or four weeks, this year's wheat export shipments have sagged behind the pace to achieve the USDA's 1.28 billion bu. forecast, when utilizing the U.S. weekly export inspection data. Export sales also appear to be behind by a similar 20 million bu., so wheat's 2007/08 export projection could be lowered by this amount on the upcoming June supply/demand update. However, the USDA could wait until its quarterly stocks data is available later in June before making any adjustments in its old-crop balance sheet data since we are expecting wheat's June 1 stocks level at 250 million bu. vs. the current 239 million. If this ending stocks level is correct, then this last year's feed demand likely will be raised by 10 million bu., too.

Overall, the trade will be focusing its attention on wheat's 2008/09 balance sheet, which could have 30 million higher supplies than May's total supply due to larger beginning stocks and a slightly higher crop size. Because of this possible situation and current new-crop export sales of 209 million for 2008/09 through May 22 (the highest level since the 1996/97 crop year), new-crop export sales could also be increased by 25 million to 1 billion bu. for the upcoming 2008/09 season. Currently, new-crop cash wheat prices in the Southeastern U.S. are competitive enough to attract some livestock feeders to work wheat into hog and poultry rations. However, for the USDA to achieve its current 230 million new-crop feed demand projection, wheat prices in the Southwest must decline another 50-75 cents (combination futures and basis) for feedyards to purchase substantial quantities for cattle feeding that the USDA is currently forecasting vs. just 60-70 million bushels used in the past year. Overall, we expect 2008/09 ending stocks likely will be nearly the current 483 million bu. projection, to possibly 5-10 million higher, when the USDA updates the new-crop balance sheet.

World wheat output still appears to be recovering substantially in 2008/09 with Ukraine, Russia and India all indicating that they have or will be dropping 2008/09 restrictions or export taxes. Dryness in eastern Australia's New South Wales (30% of the crop) has prompted some forecasters to slip their crop estimate because the planting window will be closing in the next two to three weeks, but a front is forecast for this important area in the next 7-10 days. Overall, the world's supplies will rise, but stocks will remain relatively snug at 124-125 mmt. as wheat consumers rebuild reserve stocks after this last year's record price levels.

Given this supply/demand situation, KC July wheat still could sink to \$7.35-\$7.50 before it is able to attract much cash feed demand; Chicago's new-crop harvest downside risk is likely the \$6.75-\$7.00 area. Because of corn's likely growing season volatility, winter wheat values could have a significant post-harvest price rebound toward their overhead \$9.00 resistance in KC July, which will likely be our next selling point to increase sales from the current 55%-60% level. Jerry Gidel

| U.S. Wheat Supply/Demand | | | | | |
|---------------------------------|------------------------|------------------------|--------------------------|------------------------|--------------------------|
| (Millions) | 2007/08 Apr USDA | 2007/08 May USDA | 2007/08 June NARMS | 2008/09 USDA May | 2008/09 NARMS June |
| Planting Acres | 60.43 | 60.43 | 60.43 | 63.80 | 63.80 |
| Harvested Acres | 51.01 | 51.01 | 51.01 | 56.28 | 56.24 |
| Yield in Bu. | 40.5 | 40.5 | 40.5 | 42.5 | 42.9 |
| Initial Stocks | 456 | 456 | 456 | 239 | 250 |
| Production | 2,067 | 2,067 | 2,067 | 2,392 | 2,412 |
| Imports | 90 | 95 | 95 | 100 | 100 |
| Ttl Supply | 2,613 | 2,618 | 2,618 | 2,732 | 2,762 |
| Food | 950 | 950 | 950 | 960 | 960 |
| Seed | 86 | 88 | 88 | 84 | 84 |
| Feed/Residual | 60 | 60 | 70 | 230 | 230 |
| Ttl Domestic | 1,096 | 1,099 | 1,108 | 1,274 | 1,274 |
| Export | 1,275 | 1,280 | 1,260 | 975 | 1,000 |
| Ttl Usage | 2,371 | 2,379 | 2,368 | 2,249 | 2,274 |
| End Stocks | 242 | 239 | 250 | 483 | 488 |
| Stocks/Use | 10.2% | 10.1% | 10.6% | 21.5% | 21.5% |

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