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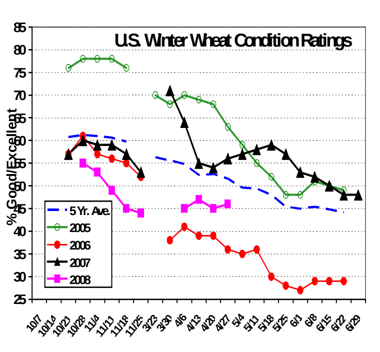
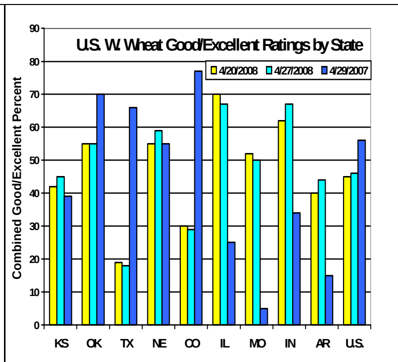
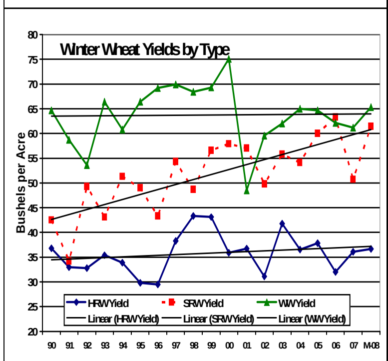
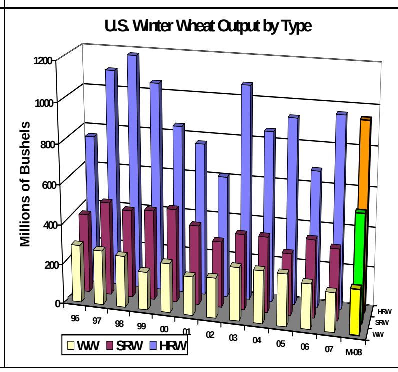
Larger U.S. and World Wheat Crops Appear on the Horizon









US Winter Wheat Production

State	Harvested Acres*			Yield per Acre			Output *		
	2006	2007	NARMS May 08	2006	2007	N-08	2006	2007	N-May 08
Ark	305	700	870	61	41	58	18,605	28,700	50,460
Calif	250	240	350	58	80	76	14,500	19,200	26,600
Colo	1,900	2,350	2,100	21	40	33	39,900	94,000	69,300
Geor	120	230	400	49	40	46	5,880	9,200	18,400
Idaho	710	710	860	77	73	80	54,670	51,830	68,800
Ill	910	890	1,140	67	57	63	60,970	50,730	71,820
Ind	460	370	520	69	57	65	31,740	21,090	33,800
Kans	9,100	8,600	9,200	32	33	36	291,200	283,800	331,200
Ky	320	250	420	71	49	65	22,720	12,250	27,300
Mich	650	540	710	73	65	68	47,450	35,100	48,280
Mo	910	880	1,100	54	43	47	49,140	37,840	51,700
Mont	1,920	2,190	2,500	43	38	35	82,560	83,220	87,500
Nebr	1,700	1,960	1,860	36	43	41	61,200	84,280	76,260
NM	120	300	260	32	26	27	3,840	7,800	7,020
NC	420	500	680	59	40	54	24,780	20,000	36,720
Ohio	960	730	980	68	63	66	65,280	45,990	64,680
Okla	3,400	3,500	4,000	24	28	32	81,600	98,000	128,000
Oreg	730	735	760	53	55	58	38,690	40,425	44,080
SC	123	135	165	50	31	42	6,150	4,185	6,930
S Dak	1,150	1,980	1,780	36	48	45	41,400	95,040	80,100
Tenn	190	260	500	24	37	37	4,560	9,620	18,500
Tex	1,400	3,800	3,100	24	37	30	33,600	140,600	93,000
Virg	155	205	250	68	64	65	10,540	13,120	16,250
Wash	1,800	1,690	1,720	66	64	67	118,800	108,160	115,240
U.S.	31,117	35,952	38,010	41.7	42.2	45.0	1,298,081	1,515,989	1,711,000

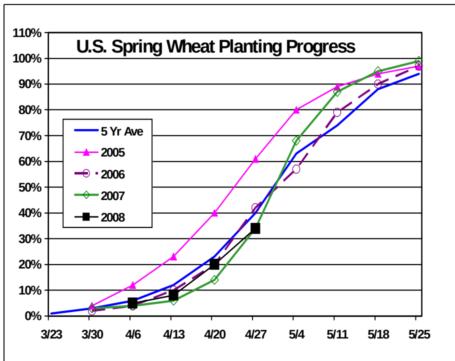
* - 000's

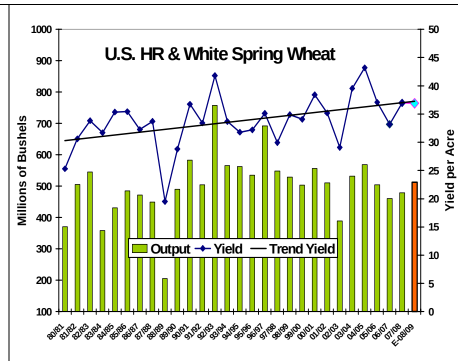
After last year's poor weather conditions tighten world supplies to their lowest levels since 1970s when a freeze and flooding cut the U.S. crop, dryness in Europe and Ukraine dropped their outputs and a second year of drought in Australia chopped their production 40% below expectations, expanding U.S. and world plantings and improved crop conditions in the Northern Hemisphere have been the market's focus over past six to eight weeks.

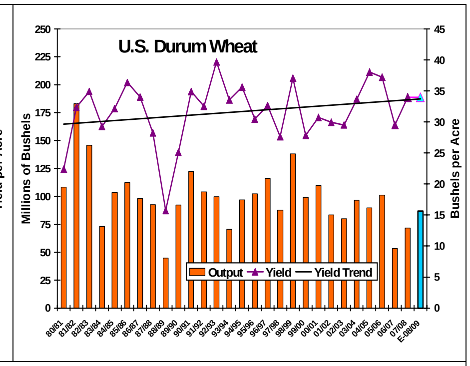
Because of this situation, an expanded look at the U.S. winter wheat prospects along with the potential for 2008 spring & durum crops is appropriate ahead of the first U.S. winter wheat crop report on May 9. We also will be offering some initial output projections for the major wheat exporting nations & the possible impact these crops will have on world supplies since the USDA will be issuing its 1st 2008/09 world wheat supply/demand estimates that day.

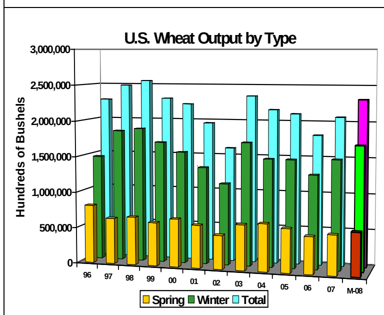
Dryness in the U.S. Plains states last fall curtailed U.S. hard red seedings (-440,000 acres). But, higher market prices boosted soft red planting (+2.05 million) in the eastern U.S and white wheat's area (+230,000) in the Pacific Northwest, resulting in a 6% rise in U.S winter wheat plantings for this year. After a sporadic winter, where the western areas of the Plains moisture remained below normal while the central and eastern areas of the country had adequate-to-abundant rainfall, this spring's U.S. winter wheat good/excellent ratings have stabilized in the 45%-47% range. This total is about 10% lower than last year's cumulative level for the crop. However, last year's heavy rains at harvest and larger impact from last spring's freezing temperatures that cut crop yields weren't known at this time last year. Interestingly, this year's top two categories are only 5%-6% below the five-year average for this date.

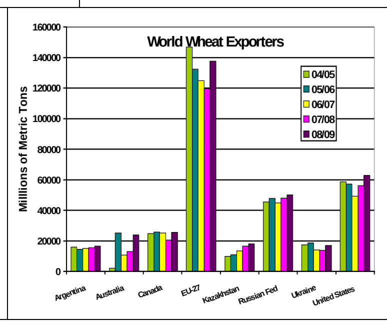
Looking at specific states, this year's Plains dryness shows up in sharply lower TX and CO ratings, while KS and NE conditions are even slightly better than last year. The crop isn't in the bin, but with yield prospects at or slightly better for the U.S. hard red crop, we are projecting a 945 million output for this variety next week. With this year's soft red conditions in its major states sharply higher than last year (IL 56% vs. 25%, MO 50% vs. 5%, IN 67% vs. 34% and AR 45% vs. 15%) and this year's 24% jump in seedings, soft red's U.S. output could jump to 540 million bu., up 182 million from last year. With seedings & conditions up slightly in the Pacific Northwest, next week's white wheat crop could be 225 million bu, up 29 million from 2007. Overall, we expect the USDA's May winter crop to be 1.711 billion bu., with a 45 bu. yield. It will be interesting to see what the industry wheat tour thinks of the Kansas

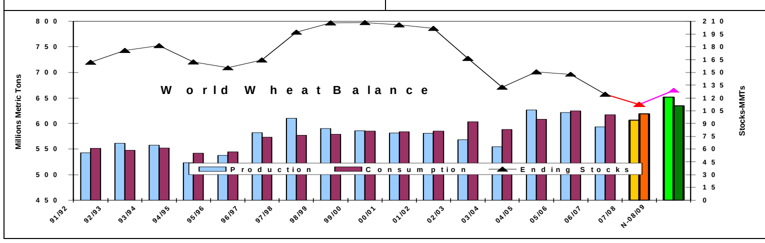












U.S. Wheat Supply/Demand

(Millions)	2007/08 Mar USDA	2007/08 Apr USDA	2007/08 May USDA	2008/09 USDA Mar 31	2008/09 NARMS May
Planting Acres	60.43	60.43	60.43	63.80	63.80
Harvested Acres	51.01	51.01	51.01	54.23	54.47
Yield in Bu.	40.5	40.5	40.5	42.8	42.4
Initial Stocks	456	456	456	242	257
Production	2,067	2,067	2,067	2,320	2,311
Imports	90	90	90	100	100
Ttl Supply	2,613	2,613	2,613	2,662	2,668
Food	950	950	950	955	955
Seed	86	86	86	84	84
Feed/Residual	110	60	60	175	175
Ttl Domestic	1,146	1,096	1,096	1,214	1,214
Export	1,225	1,275	1,260	950	1,000
Ttl Usage	2,371	2,371	2,356	2,164	2,214
End Stocks	242	242	257	498	454
Stocks/Use	10.2%	10.2%	10.9%	23.0%	20.5%

crop when it crosses the state on Tuesday to Thursday next week.

Despite below-normal temperatures this spring, wheat seeding in the Northern Plains has stayed near its five-year average pace, with 34% of this year's expanded area completed through April 27 vs. a 40% average rate from 2003-2007 & 28% last year. Last winter's record spring wheat prices prompted producers to signal a 1 million acre increase in spring wheat and 480,000 in durum planting intentions on the USDA's survey in March. No official spring wheat and durum production levels will be made until July, but the USDA likely will use trendline yields for each crop to pencil in a total crop of 600 million (513 million spring and 87 million durum) from this region to project an overall 2008 U.S. wheat supply of 2.311 billion bu. Variable soil conditions across the Northern Plains and Minneapolis new-crop wheat prices falling $4 per bu. over the last six weeks could mean some of these projected acres may slip back into soybeans, sunflowers or other small grains such as oats and barley. However, these shifts in seedings won't be known until this summer's USDA acreage report is released on June 30.

With most of the world's major wheat exporting and consuming countries announcing 3%-7% higher wheat seeding levels for the 2008/09 crop year, which begins this summer, a significant rebound in world wheat output is expected to 651 mmt, up 45 mmt from last year. Much improved prospects are expected in the EU (up 15%) and FSU (up 8%). Argentina's recently harvested crop is projected 1 mmt larger than a year ago. Stats Canada announced that 2008 wheat seedings could jump 16% to over 25 million hectares on recent intentions. Australia also remains quite optimistic its output will jump 10-11 mmt over this year's drought-impacted crop because La Nina in the Pacific Ocean is expected to wane this summer. However, this year's world consumption also will increase sharply as feed utilization and domestic demand recover dramatically after being severely curtailed last year. Overall, 2008/09 world ending stocks will likely rebound to 129 mmt from this year's 112.5 mmt level, but wheat's world supply tightness won't decline much with the USDA's stock/use ratio only increasing 2 points to 20.3%.

Using these U.S. & world crop prospects, the USDA's first 2008/09 ending stocks level will be 454 million bu, up about 200 million from this year. These will be adequate supplies unless one of the our world export competitors has a crop problem, as occurred last year, so keep abreast of this year's global crop situation. However, downside risk to $7.30-$7.50 in Chicago and $7.90-$8.20 in KC still exist during the upcoming harvest. Hold cash new-crop sales at 55%-60% and any future hedges on 10-15% of the new crop to cover at the above levels this summer. Wheat's upside potential will be determined by U.S. & world weather as well as the strength of corn and soybean prices. Overhead resistance comes in at $9.00-$9.75 in Chicago and $9.60-$10.25 in KC as likely new sell points.