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2007-08 Grain Market Outlook
– we have invited three Idaho grain marketing experts to offer their advice on 2007-08 Idaho grain marketing strategies.

National Barley Grower's positions on the 2007 Farm Bill

Barley CAP research project

Congress begins mark-up of 2007 Farm Bill

Idaho Barley Commission has endorsed the National Barley Growers Association's position on the 2007 Farm Bill Commodity Title. Our primary objective is to restore equity in program crop support levels. U.S. barley has lost significant competitiveness in our traditional northern tier growing region – acreage is down 70% in the past 20 years – because of inequities between program crop support levels. We believe that barley has a great future in Idaho and other western states, which have very favorable climate and close proximity to both domestic and international markets.

FOR THE 2007 FARM BILL COMMODITY TITLE, NBGA SUPPORTS:

- Loan rate at 95% of the 2000-04 Olympic average market price equal to \$2.35/bu (barley's current loan rate is only 75% or \$1.85/bu);
- Target price at 130% of the 2004-04 Olympic average market price equal to \$3.21/bu (barley's current target price is only 91% or \$2.24/bu); and
- Direct payment equal to 17% of the 2000-04 Olympic average market price equal to \$.42/bu (barley's current direct payment is only 10% or \$.24/bu).

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Value-Added Barley Initiative – looking ahead to new market opportunities

In late 2005, the Idaho Barley Commission revised its 5-year Strategic Plan to focus its resources in three central program areas: Productivity, Profitability and Partnerships. The following year, the IBC launched three **Value-Added Barley Initiatives: Food Barley, Malting Barley for Export and Low Phytate Barley.**

Food Barley – In May 2006, the US Food and Drug Administration finalized a health claim that allows barley food products to claim a reduction in risk of coronary heart disease. Numerous human and small animal feeding studies have shown barley beta-glucan fiber reduces bad cholesterol and lowers the risk of coronary heart disease. To qualify for this health claim, a product must provide at least .75 grams of soluble fiber per serving of the barley food.

In response to this important development, the IBC launched a major three pronged effort to (1) improve the end-use performance of barley for human food applications; (2) increase the productivity of these specialty barleys; and (3) expand consumer awareness of barley's health benefits. Here are some recent highlights.

- We are engaged in a collaborative research effort with scientists at the USDA ARS research facility and the University of Idaho small grains research program – both located at Aberdeen – **to develop better yielding waxy barleys for food uses.** These lines include both hulled and hullless barley for different applications. The food traits of greatest interest include higher levels of beta-glucan fiber and unique starches, including waxy (100% amylopectin) and high amylose.
- IBC sponsored **specialty food barley nurseries** in both Parma and Genesee to evaluate how well these new barley cultivars perform in Idaho's diverse growing conditions.
- We organized and sponsored the **first ever U.S. Food Barley Research Forum in early November 2006 at Aberdeen** to bring together scientists, food manufacturers and growers from across the country to assess current and future research developments in food barley and to identify end-user needs.
- We entered into a **first-ever joint venture with WestBred, a private plant genetics company, to expand seed of two promising food barley varieties.** This seed increase took place this past winter and seed is now being grown this summer in order to meet commercial demands in 2008 and beyond.

- We have provided **samples of these new food barley varieties** to potential domestic and international customers. We invited a leading Japanese food manufacturer to consider Idaho as a new food barley supplier, which has resulted in a **first-ever production contract in northern Idaho in 2007.**

- We are **promoting the health benefits to consumers** through our work with the National Barley Foods Association (www.barleyfoods.org) and at leading consumer trade shows held in Idaho. Over the last two years, we have sampled barley food and provided new recipe ideas to more than 24,000 women who have attended the annual St. Luke's Women's Fitness Celebration and 5k Walk/Run. This event has become the largest 5K event for women in the U.S.

Malting barley for export – Due to stagnant beer demand in the U.S. market, we have set our targets on export markets for Idaho's high quality malting barley in Mexico, Colombia and Peru. We are particularly interested in new marketing opportunities available to U.S. malting barley under bilateral free trade agreements signed with Peru and Colombia.

- **U.S. barley trade team traveled to South America in October 2006** and met with Bavaria, which controls brewing operations in Colombia, Peru, Ecuador, Chile, Panama and El Salvador. The team established excellent contacts, but near-term market potential in this market **depends largely on passage of U.S. – Colombia free trade agreement (malting tariffs for U.S. product will go to zero).**
- Tremendous growth potential is projected in Colombia and Latin American region – **5-year growth in per capita consumption of 32% and 45% growth in total volume** (31.4 million HL to 45.4 million HL by 2011).
- Bavaria is **very receptive to 2-row varieties grown in Idaho** (Harrington, Metcalfe) and is evaluating our new winter malting barley variety (Charles).
- U.S. should have freight advantages over Canada, Australia and Europe.
- IBC will host **Bavaria Company representatives in Idaho this summer** to discuss possible contracting opportunities.
- IBC is working diligently with our congressional leaders to **secure passage of Colombia and Peru free trade agreements.**

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MY 2007-08 Grain Market Outlook Remains Bullish

USDA unveiled their first supply and demand projections for Marketing Year 2007-08, which begins June 1 for wheat and barley and October 1 for corn. These S&D fundamentals remain bullish for grains in general, and feed grains in particular, as the strong demand base for corn as an ethanol feedstock means carryover will remain very tight at least for the next year. With snug carryover, extended downside price risk appears somewhat limited. However, continued price volatility is almost certain in a market environment where every bushel of production will count.

U.S. Wheat & Feed Grains Supply & Demand for MY 2007-08, million bushels (USDA, May 11, 2007)

	Wheat			Corn			Barley		
	2005-06	2006-07	2007-08	2005-06	2006-07	2007-08	2005-06	2006-07	2007-08
	Actual	USDA-May	USDA ^a May	Actual	USDA-May	USDA-May	Actual	USDA-May	USDA-May
Beg stocks	540	571	412	2114	1967	937	128	108	63
Production	2105	1812	2174	11,114	10,535	12,460	212	180	210
Imports	82	115	100	9	10	15	5	10	20
Total Supply	2727	2498	2685	13,237	12,512	13,412	346	298	293
Food, seed & industrial	993	1007	1011	2981	3525	4790	158	155	155
Ethanol		1603	2150	3400					
Feed	153	170	230	6141	5850	5700	52	55	50
Exports	1009	910	975	2147	2200	1975	28	25	20
Total usage	2155	2087	2216	11,270	11,575	12,465	238	235	225
End stocks	571	412	469	1967	937	947	108	63	68
Ave. farm price	\$3.42	\$4.27	\$4.35-4.95	\$2.00	\$3.00-3.20	\$3.10-3.70	\$2.53	\$2.88	\$2.85-3.45

Idaho grain marketing strategies

We are providing market insights from Idaho grain marketing experts. This market commentary is provided as a guideline for producers in preparing and implementing their 2007 Grain Marketing Plans and should be considered opinion only and not a guarantee of future market behavior.



Bill Mendenhall, President, AgriSource, Inc., Burley, ID

There are many factors to watch closely this season. If you can remember the 1996-97 seasonal pattern we feel the 2007-08-crop year will follow it very closely.

Up until the early April freeze, most users had been expecting near record world production and lower prices into early summer. The Easter week-end freeze came as a surprise and was colder than many past April episodes. The combination of the strong freeze and a wheat crop that had been ahead of schedule this spring due to plentiful moisture and warmer than normal March temperatures led to a sharp decline in crop conditions. Kansas, with 23% of all US wheat acreage, saw a 41% drop in its crop rating from 77% on April 2 to 36% good/excellent mid month.

Although the full extent of damage will not be evident until harvest, anecdotal evidence indicates a production loss of 100 million bushels hard red wheat and 50 million bushels soft red wheat. *My estimate of a 150 million bushel loss is conservative when compared to some analyst's forecasts.*

OTHER MARKET TRENDS TO WATCH FOR MARKET DIRECTION:

- Australia is heading for another 100-year drought unless relief comes in the next 30-60 days. It is still very early in their season, they don't harvest until late December, so there is still some time left for moisture. If it doesn't come, it will be another major factor in the wheat market.
- Eastern European countries and the Ukraine also are having dry weather.
- China is suffering dryness.
- Crude oil prices will play a major role in wheat prices in the next nine months.

WHAT TO DO WITH MY WHEAT HERE IN IDAHO?

The prices you are seeing for wheat are the highest in ten years. The questions you have to ask yourself personally are:

- What price am I really waiting for?
- How much higher do I think these prices can go?
- How much profit can I make at these levels?

AGRISOURCE, INC., RECOMMENDS THE FOLLOWING ACTIONS FOR 2007-08 CROP WHEAT:

Note: prices are based on South Central and Eastern Idaho Points. Those producers in Northern Idaho please add \$.50 cents to the recommended prices.

DARK NORTHERN SPRING WHEAT:

- Sell 40% of Dark Northern Spring wheat, if prices reaches \$5.00 or better or if price not reached sell the 40% by May 20, 2007.
- Sell 40% of Dark Northern Spring wheat, if prices reaches \$5.20 or better or if price not reached sell the 40% by November 30, 2007.
- Sell 20% of Dark Northern Spring wheat, if prices reaches \$5.40 or better or if price not reached sell the 20% by March 31, 2008.

HARD WHITE OR HARD RED WINTER WHEAT:

- Sell 40% of HWW or HRW wheat, if prices reaches \$4.50 or better or if price not reached sell the 40% by May 20, 2007.
- Sell 40% of HWW or HRW wheat, if prices reaches \$4.75 or better or if price not reached sell the 40% by November 30, 2007.
- Sell 20% of HWW or HRW wheat, if prices reaches \$5.00 or better or if price not reached sell the 20% by March 31, 2008.

SOFT WHITE WHEAT:

- Sell 40% of SWW wheat, if prices reaches \$4.25 or better or if price not reached sell the 40% by May 20, 2007.
- Sell 40% of SWW wheat, if prices reaches \$4.50 or better or if price not reached sell the 40% by November 30, 2007.
- Sell 20% of SWW wheat, if prices reaches \$4.75 or better or if price not reached sell the 20% by March 31, 2008.



Keith Schumacher, Grain Division Manager, Primeland Cooperatives, Lewiston, ID

As we approach harvest for the 2007 crop many of you have the same aggravating question in mind. **When is the right time to sell new crop?** With the extremely small carryout in from the 2006 crop, in particular for corn, wheat, and barley, there is high level of emotion that that is tied to this year's crop. It is a difficult decision as when to time your sales, because as we all know markets can and will evaporate as fast as they arise.

When late March planting intentions showed U.S. wheat acres increasing by 5%, corn 15%, and barley 7%, many of the worries of the winter months were eased. Based on these seeding intentions, it appeared as if the U.S. would have enough production to meet the needs of the coming year. But one additional component was necessary to meet these projections – ideal weather. Clearly, the weather component will be the “x-factor” for determining price direction for this marketing year. If the intended acres get seeded and the weather is favorable, expect to see price declines from current levels. If drought conditions arise in the U.S. or other major producing nations, expect price surges based on these types of events. Also expect an extremely high level of market volatility and price swings due to the amount of emotion that is tied to the 2007 crop based on the small carry-in levels from the 2006 crop. However, these small carry-in levels will also provide the market with some underlying support until the crop is in the bin.

The best plan for the 2007 crop is to have a tiered pricing plan in place. Your plan should include pricing objectives for certain portions of your crop when we see price surges. If you want to keep yourself in the market after you have priced portions of your crop, replacing ownership with out of the money call options could work out well this year with the high level of volatility in the market. If you are not prepared to part with your crop and the market has a nice run, purchasing put options will allow you to maintain ownership but provide some protection. However,

be prepared to spend a pretty penny for options based on the high level of volatility the market is experiencing this year.

Last fall CBOT wheat futures and KCBT hard red winter wheat futures rose to right around the \$5.50 mark.

- I suggest having a large portion of your production (50-75% based on your comfort level and the stage your crop is in) sold if we approach these levels.
- If you want to buy calls to replace sales, I would suggest buying calls in this price range, or at least buying put options to give some protection, if you have done nothing at that point.
- If the market reaches that level, we will likely see some selling from the trade, simply because this is where the market “ran out of steam” last fall after the small U.S. harvest and Australian drought news hit the market. If the market does decide to surpass this level you will still have 25 to 50% of your crop remaining, or have your calls in hand.

Barley should continue to trade at fairly attractive levels. My pricing objectives for the 2007 crop are around \$160/ton coast price. I feel this price takes into consideration both the direly tight carryout from the 2006 crop as well as the increase in seeded acres in the PNW for the 2007 crop. However, if we experience drought condition in the Corn Belt or in major barley producing areas or Australia, look for higher numbers.



Randal Olstad, Palouse Manager, Columbia Grain International, Pullman, WA

SOFT WHITE WHEAT:

I see SWW following CHI futures until we get to June. At that time we will start seeing a basis increase over the CHI through August. I believe this because SWW seeded acres will be unchanged from last year and carry over stocks are extremely tight. Also importing nations will be in need of new crop stocks as soon as possible which will help hold up SWW prices through September. The possibility of Australia having a large SWW crop (it is very rare that an exporting country has a back to back drought) will start weighing on the market in October through January. SWW Basis should be in the .40c to .55c range Aug, Sep and the cash market will be flat from Oct. through Jan 08. (So if you believe this) a good strategy would be.

- I would be 40% contracted SWW before harvest using HTA or (hedge to arrive) this is selling the futures and waiting on the SWW basis to gain

over the Chicago if you don't like the futures play sell the cash at \$5.25 to \$5.50.

- I would also be looking at selling 20% of Chicago Dec 08 Futures @ \$5.08 or higher for the 2008 crop year.
- My basis goal is 40c to 50c over the Dec 07. futures (Flat cash \$5.50 to \$5.60) Portland.
- Harvest I would sell another 40% off the combine and push my 08 sales to 40% at this time if Australia's crop looks to be average or above. (Flat cash \$5.00 \$5.25 Portland) & (Dec 08 futures \$4.90 to \$5.00)

DARK NORTHERN SPRING WHEAT:

DNS values should hold into harvest with the Canadian crop being 13% smaller and the U.S. crop a million acres smaller as well. Protein is going to be a big problem this year in the U.S. because of higher fertilizer prices. Growers are putting on just enough for yield not protein. Plus with the Kansas crop looking to be about 75,000 to 150,000bu smaller due to frost damage in April hard wheat supplies will again be tight.

- I would forward contract 30% to 40% at \$6.15 to \$6.20 Aug (Portland cash values) and at this time I would sell 10% to 20% of my DNS 08 crop using the Minneapolis dec futures (HTA \$5.10 to \$5.20).
- If I had protein at harvest I would hold for better protein scales in October and sell the rest then, be looking for protein scales to be 10 to 15c a quarter up.
- If I didn't have protein I would sell it all off the combine. Scales should be in the 6c to 7c a quarter down at harvest and the flat cash market should be in the \$6.00 to \$6.10 level.

BARLEY:

With Australia looking to rebound from the '06 drought, U.S. barley producers should be concentrating there barley sales in August and September.

- Right now I would be 40% sold new crop at (\$145 to \$155per/ton Portland levels) and have the rest sold before October (in the \$150 to \$160per/ton range).
- The Japan market will want U.S. barley till October after that they will wait for the Australia barley that comes off in December. This will likely lower U.S. values \$25 to \$40 per/ton.



Value-Added Barley Initiative – looking ahead to new market opportunities

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Specialty feed / low phytate barley – Phytate or phytic acid represents about 75% of the seed's total phosphorous in conventional barleys and cannot be digested by monogastric animals (fish, swine and poultry). This causes a nutrient deficiency in the animals and a phosphorous waste problem that requires expensive waste management systems. ARS scientists at Aberdeen have developed barley cultivars with 50 to 99% reduction in phytate or phytic acid. Livestock feeding trials at University of Missouri and the University of Idaho have documented improved animal nu-

trition and reduced animal wastes from feeding these modified barleys.

- ARS Aberdeen scientists released the **world's first low phytate barley variety – Herald – in 2006**. They released a second low phytate hullless barley variety named **Clearwater** in spring 2007. The hullless variety shows great promise as a fish feed ingredient.
- ARS and the University of Idaho fish scientists at Hagerman, ID, are conducting research to determine the nutritional value of various barleys

in trout and catfish diets. Aquaculture is the fastest growing segment of animal agriculture in the world today and the greatest increase is occurring in Pacific Rim countries, led by a 1 MMT growth in China in recent years. The market for grains used in fish feeds in China is believed to be at least 2 to 3 MMT.

- We are sponsoring a **fish feeding trial in Southeast Asia in late 2007** using the new hullless barley variety Clearwater produced in eastern Idaho.



Barley Coordinated Agricultural Project (CAP)

The barley Coordinated Agricultural Project (CAP) is a four-year, \$5 million project funded by the USDA-CSREES that started on April 1, 2006. The barley CAP is a community effort of 30 scientists from 19 institutions (including Don Obert at the ARS-USDA laboratory in Aberdeen, ID) with expertise in genetics/genomics, breeding, pathology, databases, computer science, food science, malt quality and statistics to enhance the efficiency of barley breeding. The University of Minnesota is the lead institution.

The barley CAP research goals are to identify and map significant genes that will help plant breeders in their efforts to improve barley varieties. Scientists in the CAP institutions are working cooperatively in these efforts, utilizing state of the art genomic and database research tools.

The Institute of Barley and Malt Sciences (IBMS) works with the barley CAP to conduct research and

outreach efforts. Clark Kauffman, Filer, ID, and former member of the Idaho Barley Commission is currently representing Idaho on the IBMS Board of Directors. For more information visit the barley CAP website at www.barleycap.org. (article contributed by Karen Hertsgaard, IBMS barley information specialist)



National Barley Growers monitor Doha Round Trade negotiations

Pressure is increasing on the World Trade Organization (WTO) negotiators to make progress if negotiations are to succeed this year. In an effort to move the WTO Doha talks forward, senior officials for the so-called G4 countries (the United States, European Union, India and Brazil) have been meeting frequently this spring to discuss possible compromises on agricultural market access. There have been no signs of a breakthrough on market access while the U.S. remains under considerable pressure to increase

our offer to cut trade distorting domestic support levels. Meanwhile, the WTO has restarted talks in Geneva, which were suspended last July due primarily to a lack of progress on agriculture. Since early May, Agriculture Committee Chairman Crawford Falconer has presented two papers on the status of the agriculture negotiations and is expected to draft a new negotiating text by the end of June.

The National Barley Growers Association remains skeptical of a Doha trade deal that requires the U.S. to substantially cut domestic supports without equal reductions in import tariffs in key markets around the world. "The bottom-line for our producers is that no deal is better than a bad deal," says NBGA President Evan Hayes, barley grower from American Falls, ID. "We simply cannot accept deep cuts in domestic farm support programs, without the hope of achieving equally ambitious reforms in market access and elimination of export subsidies that have distorted world barley markets for years," Hayes concluded.

NBGA endorsed the U.S. agricultural negotiating proposal presented to the WTO in October 2005, but has stressed the importance of maintaining an effective safety net for U.S. producers.



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