

THE WALL STREET JOURNAL.

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MARKETS | COMMODITIES

Mideast Tensions Threaten Strained U.S. Wheat Exports

Farmers are already struggling following trade war with China and tough weather last year



A farmer looking over his wheat field in Corn, Okla., in June. PHOTO: NICK OXFORD/REUTERS

By Kirk Maltais

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Rising tensions in the Middle East threaten to make a tough export market for U.S. wheat growers even harder to crack.

Fears of retaliation for a U.S. airstrike that killed top Iranian General Qassem Soleimani have sparked concern that U.S. wheat growers will lose access to Middle Eastern markets—a growing destination for U.S. grain exports.

Without continued demand from the Middle East, wheat farmers already struggling following the U.S.-China trade war and the tough weather of last year may face more difficulties in 2020.



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wheat had been on the rise, topping out at its highest level since summer 2019 at \$5.60 a bushel last week. That rally was driven by optimism that the signing of a preliminary trade deal this month would unleash demand from China.

The airstrike was a key reason for last week's 2.4% rise in the Jefferies Shipping Index, which tracks the stock performance of shipping companies, with the brokerage forecasting that the attack would lead to "hazard pay" for freight ships operating in the area.

"Getting a tanker or a freighter in there will be more risky. We don't know how the Iranians will react," said Dan Basse, president of agricultural research firm AgResource Co.

Middle Eastern nations are projected to import 17.3 million metric tons of wheat in the 2019-20 marketing year, according to the U.S. Department of Agriculture, making them one of the largest importers of wheat outside Southeast Asia and North Africa.

But the U.S. only claims a small portion of exports to the region. Middle Eastern nations imported just 1.6 million tons exported from the U.S. in 2018, according to data from the U.S. International Trade Commission, the last full year of data currently available.

Of Middle Eastern nations, Iraq and Yemen are among the biggest importers of U.S. wheat. This week, Iraq—which imported roughly 470,000 tons of U.S. wheat through October 2019—voted to expel U.S. troops from the country in reaction to the airstrike that killed Mr. Soleimani taking place in Baghdad. The vote spurred threats of sanctions from President Trump.

U.S. grains traders have been hoping that weather events, such as the widespread brush fires in Australia, would boost demand for wheat and other U.S. agriculture. Additionally, traders have held out hope for a weakening U.S. dollar in 2020 to spur further interest in U.S. commodities.

"[Wheat is] such a world market, it would be the biggest beneficiary of that," said Jason Britt, president of Kansas City, Mo.-based Central States Commodities.

Instead, news of the airstrike pushed investors toward haven assets including the dollar and gold. Prolonged uncertainty surrounding a ramp-up of hostilities in the area could cause the dollar to trend higher and thus dampen wheat demand further, said Mr.



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U.S. farmers have been struggling to get through an especially tough growing season in the Corn Belt. Record wet weather, combined with constricted export demand during the trade war, led to record farm bankruptcies in 2019.

Because of the fluid situation in the Middle East, some grains traders have said they think it is too soon to judge the effect on U.S. wheat and other grains.

“The market does need to price in some concern, but I’m not sure this will impact the market just yet,” said Rich Nelson, chief strategist with agricultural brokerage firm Allendale Inc.

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