

## WHEAT

03<sup>rd</sup> -10<sup>th</sup> , MARCH, 2007

### MAJOR ACTIVITY HIGHLIGHTS

- FMC Prohibited Futures Exchanges to Trade in Wheat
- Wheat Prices Bearish at Spot
- The Big Corporate House may Avoid Wheat Purchase this Year
- Duty Free Import of Wheat has Stopped
- Prices of Wheat Products Decline Sharply in Delhi Mandis

### MARKET FUNDAMENTALS:

Wheat prices drifted in majority of wheat wholesale markets on increased arrivals amidst lower demand. At Delhi, wheat dara for mills decreased by Rs.20 between Rs.1010-1015/qlt on the steady arrivals around 2,000-3,000 bags from old stocks and 2-3 motors new crop. Fresh arrivals are reported from M.P. Chakki atta and roller flour mills prices too slipped in line with wheat sentiments. Some demand from Uttar Pradesh restricted the further weakness. Punjab mandis saw further decline in wheat prices on increased arrivals amidst poor demand. Stockists as well as farmers continuously releasing their old stocks on the outlook of bumper production in the state. The yield of wheat is likely to increase in Punjab, the food bowl of the country on favourable weather condition. Comparatively lower temperature and some rainfall during February helped in crop growth by maintaining the moisture content and starch depositing in the plants. In Sunam mandis of Punjab the wheat prices drifted to Rs.860-870. The arrivals increased to 1000 bags from 300-400 bags last week. Fresh arrivals are continued in the market yards of M.P. and Gujarat. The wheat prices in Indore market quoted up Rs.870/qlt on steady fresh arrivals around 5,000 bags. Farmers are not showing interest to release their full stocks at lower price as Govt is considering adding a bonus of Rs25 to Rs50 per quintal over the minimum support price. However, no confirmation has made from Govt side so far. Wheat procurement in major parts of country will start from April 1 this year. FCI would start the season with a stock of 45 lakh tonnes of wheat as compared to 20 lakh tonnes last year. FCI is likely to procure more than 120 lakh tonnes of wheat this year as against the 91 lakh tonnes during last year. Agriculture Minister very much optimistic about the higher wheat production near about 73.3 million tonnes this year as against 69.5 million tonnes last year. However, actual production would depend on the weather conditions for the next few days. The IMD has confirmed on Wednesday that two incoming western disturbances are expected to hit northwest India after 11th March. This may adversely affect the standing crops of wheat that is mostly near maturity stage. In case of higher rainfall and hailstorm the crop yield will be down because of grain shedding. Vice President of US Wheat Associates is optimistic that India will go for wheat import up to 3 million tonnes this year as against 5.5 million tonnes in 2006. If needed India should purchase wheat between May to July when global prices are low because of harvests in most wheat-growing

countries. Everything will depend on the Govt. procurement. India will have to import the grain again in 2007 if the government fails to buy from farmers what it needs for its buffer stocks. FCI also has been seeking a complete ban on private sector companies procuring wheat in Uttar Pradesh. Prominent corporate houses are also not likely to enter in the states of Punjab, Haryana and Uttar Pradesh in the initial procurement period because of that the FCI will be active in these states for procurement a good amount. The fear associated with stock limits also make them stay away from wheat markets this year. However, some corporate house may enter the Madhya Pradesh and Gujarat mandis to purchase wheat. Haryana and Punjab account for more than 60 per cent of the government's wheat procurement. In 2005 FCI procured a total of 14.7 Mln. Tonnes and the production stood on 68.4 Mln Tonnes. Procurement came down a low of 9.1 Mln Tonnes during 2006 despite production crossing 69 Mln Tonnes last year. Therefore, procurement policy of Govt. as well as farmers interest of selling the grains will determine the wheat sentiments of India in coming days

### SPOT MARKET PRICE FOR WHEAT (IN RS./QUINTAL)

Markets	03.03.07	10.03.07
Delhi (Lawrence Road)	1020	1020
Haryana (Karnal)	985-990	965-970
Punjab (Khanna)	1050-1055	965-970
Rajasthan (Kota)	1010-1015	890-895
Uttar Pradesh (Kanpur)	N.A.	1005-1010
Madhya Pradesh (Indore)	865-870	860-865
Uttar Pradesh (Bareilly)	N.A.	1040-1045
Punjab (Sunam) Loose	900	850
Ludhiana (Jagraon) Loose	910-920	840
Rajkot Mill Price	850-860	900
Madhya Pradesh (Bhopal)	830-840	N.A.

Wheat Products	03.03.07	10.03.07
Atta (90kg)	1059	1014
Maida Grade 1(90kg)	1246	1228
Suji (50kg)	698	688
Chokar (50 kg)	333	333
Chokar (35 kg)	223	212
Chakki Atta (90kg)	940	925

#### PRICE DRIVERS:

- Govt thinking on ban on private companies procuring wheat in U.P.
- Prominent corporate houses are not likely to enter in the states of Punjab, Haryana and Uttar Pradesh in the initial procurement period.
- FCI is likely to procure more than 120 lakh tonnes of wheat this year as against the 91 lakh tonnes during last year.
- Government to add Rs.25-50 bonus to wheat MSP to beat private competition
- IMD's prediction that two incoming western disturbances are expected to hit northwest India after 11th March.
- FCI is releasing 14,000 tonnes of wheat at Rs 986 per qtl in Delhi.
- Acreage increased to 284.497 Lh as on 19th February 2007 as compared to 266.63 Lh during the corresponding period of last year.
- Government is in quandary over overstated acreage under wheat during 2006-07. Therefore, it is now being reviewed afresh.
- Fresh arrivals are increasing in Gujarat as well as M.P. mandis
- Farmers are not showing interest to release their stocks at lower prices in M.P. mandis.
- New contract as well as new position in wheat futures has banned
- Govt. will very aggressive in increasing buffer stocks of wheat this season
- Prominent corporate buyers are likely to avoid wheat purchase this year
- Govt banned wheat export till 31 December, 2007
- Govt. decided to extend the duty-free import of wheat up to February 28, 2007.
- IGC forecasts 624 million tons of world wheat production this month as on 22.02.07. That is increased by 3 million from last month's projection and 34 million from 2006.

#### INTERNATIONAL AND DOMESTIC NEWS:

##### Duty Free Import of Wheat has Stopped

The duty free import of wheat permitted by the Centre in September last year has closed on February 28 and 50 per cent duty on wheat imports was back again. No extension has been issued for private duty-free wheat imports. In June last year, the government had permitted private players to import wheat at an eased duty of 5 per cent. In September, the 5 per cent duty was cut down to zero to cut off the domestic wheat shortage. On December 22, the nil-

duty was further extended till February. However, Flour millers are not welcomed the decision and are seeking an extension of the zero duty.

##### Prices of Wheat Products Decline Sharply in Delhi Mandis

Wheat products prices decline sharply in Delhi mandis on lack of demand. The atta prices decline by Rs.30/90kg to Rs.1014/90 kg. Maida Grade 1 has also decline to Rs.1228/90kg. Suji decline to Rs.688/50kg. Markets likely to see further decline of wheat and wheat products on bearish fundamentals.

##### Govt. to Procure 151.5 lakh tones of Wheat in 2007-08

Govt. is likely to procure 151.5 lakh tones of wheat in the marketing season 2007-08. State Food Secretaries and Food Corporation of India assured that sufficient number of procurement centers would be opened in all districts in the States where there is marketable surplus of wheat. Most of the procurement is likely to be in Punjab (75 LT), Haryana (45 LT), Uttar Pradesh (15 LT), Bihar (10 LT), Madhya Pradesh (3 LT), Rajasthan (2 LT), Uttarakhand (1 LT) and Gujarat (0.5 LT).

##### U.S. Wheat Balance Sheets Unchanged this Month

WHEAT: The U.S. wheat and wheat-by-class balance sheets are unchanged this month. The projected range for the 2006/07 season-average farm price is also unchanged at \$4.20 to \$4.30 per bushel.

Source: WASDE

##### Wheat Production Likely to Hamper in China

According to China's state news agency Xinhua the country's 2.67 million hectare wheat crop growth has affected due to the warm winter, low rainfall and serious drought. This may reduce the total production of the country.

##### Expected Good Crop in Pakistan Rising Export Anticipation

Wheat production in Pakistan is likely to higher this year around 22.5 Mln. Tonnes as against the last years' 21.6 Mln. Tonnes. Recent precipitation in major wheat growing parts of the country helped in crop growth. Pakistan's wheat harvesting is expected to begin in March and will be concluded by the end of April. The expected good crop in the year as well as bumper crop in the last year has boosted domestic supplies and rising the expectation of export. In December, Pakistan's federal government allowed exports of 5 lakh tonnes of wheat by private mills and traders. Further, the country is likely to export up to 22 lakh tonnes of wheat between Jan. 1, 2007 and March 31, 2008. The wheat export prices of Pakistan is comparable to prices of Russian, Kazakh and Australian wheat.

##### USDA Long-Term Projections: Global Wheat Imports

Growth in wheat imports is concentrated in those developing countries where robust growth in income and population underpins increases in demand. Important growth markets include Sub-Saharan Africa, Brazil, Egypt, and Pakistan. World wheat trade (including flour) expands by nearly 27 million tons (23 percent) between 2007 and 2016 to 140 million tons.

- Egypt maintains its position as the world's largest importing country, as imports climb slowly to nearly 10 million tons. Imports by Brazil, another large importer, are projected to approach 9 million tons. Brazil's climate generally does not favor wheat, and in some key wheat-producing states, winter corn is expected to have better returns than wheat.

- Imports by developing countries in Sub-Saharan Africa, North Africa, and the Middle East rise 11 million tons and account for 40 percent of the total increase in world wheat trade. In most developing countries, little change in per capita wheat consumption is expected but imports expand modestly because of population growth and limited potential to expand production.

- Changing consumption patterns will boost wheat imports by some major importing countries. In Indonesia, strong economic growth and diversification of diets are projected to increase per capita wheat consumption. Mexican consumers are projected to continue substituting wheat for corn in their diets.

- Lower wheat-to-corn price ratios during most of the projection period enable wheat to compete effectively with corn for feed use in a number of countries. South Korea is projected to substitute 1 million tons of feed wheat for corn annually by 2016. Europe is expected to continue to account for the largest share of global wheat feeding.

- China has been a small net exporter of wheat in recent years, but production constraints cause it to become a net importer by 2009/10 and to import nearly 2 million tons annually by 2016.

Source: USDA

### **Global Wheat Production Projected 1.1 MT Up from Last Month**

Global wheat production for 2006/07 is projected at 593.1 million tons, up 1.1 million from last month on higher production in India. Production for India is raised 1.4 million tons, more than offsetting a downward revision in EU-25 of 0.2 million tons. A small reduction in Former Soviet Union output accounts for the rest of this month's 2006/07 production changes. Global consumption is raised 1.2 million tons with increases for EU-25, India, and Australia. Higher wheat feeding in Australia is expected to offset some of the decline in sorghum production and pasture and forage availability as a result of the ongoing drought. Global exports are lowered 1.0 million tons this month, reflecting a like drop in EU-25 exports. Lower production and rising domestic consumption in EU-25 are expected to limit the availability of wheat for export. Global ending stocks for 2006/07 are raised 0.4 million tons as higher stocks in India and Australia more than offset a reduction in EU-25. An upward revision this month in 2005/06 production raises 2006/07 supplies and ending stocks for Australia.

Source: WASDE

### **USDA Wheat Export Sales Highlights**

Wheat: Net sales of 421,900 metric tons were 31 percent above the previous week, but 10 percent under the prior 4-week average. Increases reported for Mexico (108,600 MT), Japan (96,800 MT), Nigeria (67,200 MT), Indonesia (60,000 MT, switched from unknown destinations), the Dominican Republic (39,900 MT), Guatemala (28,900 MT), and South Korea (26,900 MT), were partially offset by decreases for unknown destinations (97,500 MT). Exports of 453,100 MT were 26 percent below the previous week and 11 percent under the prior 4-week average. The primary destinations were Nigeria (85,100 MT), South Korea (67,000 MT), Sri Lanka (56,300 MT), Taiwan (52,400 MT), the Philippines (36,300 MT), Japan (28,000 MT), and Colombia (26,400 MT).

This summary is based on reports from exporters for the period February 23, 2007 - March 1, 2007

Source: USDA

### **WEATHER WATCH**

A western disturbance as an upper air system lay over north Pakistan and adjoining Jammu & Kashmir on 1st, over Jammu & Kashmir and neighbourhood on 2nd and moved away eastwards on 3rd. An induced cyclonic circulation extending upto 4.5 km a.s.l. lay over Punjab and neighbourhood on 1st and became less marked on 2nd. Another cyclonic circulation at lower levels lay over southwest Uttar Pradesh and neighbourhood extending upto 1.5 km a.s.l. on 1st. It lay over north Orissa and adjoining Gangetic West Bengal and Jharkhand on 2nd and became less marked on 3rd. Another western disturbance as an upper air system lay over north Pakistan and adjoining Jammu & Kashmir on 3rd, over Jammu & Kashmir and neighbourhood on 4th and moved away eastwards on 5th. Moderate to strong northwesterly winds prevailed at lower tropospheric levels over Indo-Gangetic plains during 5th-7th. A low level cyclonic circulation lay over extreme south peninsula on 1st and became less marked on 2nd. However, an upper air trough in lower levels ran from north Orissa to south Tamil Nadu across Andhra Pradesh on 2nd. A low level cyclonic circulation again developed over extreme south peninsula on 3rd and lay over Commorin area till end of the week..

### **Rainfall:**

Fairly widespread precipitation occurred over northwest India with isolated heavy falls over Punjab and Haryana on 1st. The precipitation activity was scattered over northwest India on 2nd. Thereafter, mainly dry weather prevailed over the region outside Jammu & Kashmir where isolated rain/snow occurred on 4th and 5th. Scattered rain/thundershowers occurred over East Uttar Pradesh, Bihar, Sub-Himalayan West Bengal & Sikkim and Jharkhand on 1st and 2nd; over Gangetic West Bengal on 2nd and over Orissa on 2nd and 3rd. Isolated rain/thundershowers also occurred over Sub-Himalayan West Bengal & Sikkim during 5-7th. Fairly widespread rain/thundershowers occurred over northeastern States on 2nd. It was scattered on 3rd and isolated during remaining days of the week. Scattered rain/thundershowers occurred over Rajasthan on 1st and isolated rain/thundershowers occurred over Madhya Pradesh and Chhattisgarh on 1st and 2nd. Isolated rain/thundershowers occurred over Kerala during 2nd-4th; over Tamil Nadu on 4th and over Coastal Andhra Pradesh on 4th and 5th. 27th. Mainly dry weather prevailed over the remaining parts of the country during the week.

### **Outlook for the week ending on 14<sup>th</sup> March 2007**

Under the influence of two western disturbances in quick succession, one from 9th to 10th and another from 11th to 13th, scattered to fairly widespread rainfall/snowfall activity is likely from 9th to 13th over Western Himalayan region with possibility of isolated heavy falls on 12th & 13th. Isolated to scattered rain/thundershower is also likely over plains of northwest India on 9th & 10th. This activity is likely to increase on 11th and 12th with possibility of isolated hailstorm and squall. This activity may further extend into east India on 12th & 13th. Increase in night temperature by 3-4 °C over northwest India from 9th onwards and over Gangetic plains & east India from 11th onwards. Day temperatures are likely to drop significantly particularly during 11th to 13th.

Source: IMD

FOREX (As on 12<sup>th</sup> MARCH, 2007):

Foreign Currency	Rs. per unit
1 US \$	44.22
1 Euro	58.03
100 Yen	37.40
1 British £	85.51

IGC WORLD WHEAT ESTIMATES (22.02.07)  
(Million tons)

\* Adjusted for EU-27

Source: International Grains Council

	2003-04	2004-05	2005-06 Est.	2006-07 (Forecast)	
				25.11	22.02
Production	556	629	620	589	590
Trade	103	110	107	106	106
Consumption	596	617	624	606	607
Stocks	125	137	133	116	116
Year-Year Change	-40	+12	-4		-17
5 Major Exporters <sup>#</sup>	41	55	57	37	37

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