

WHEAT

24th FEBRUARY- 03rd 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

MARKET FUNDAMENTALS:

Wheat prices remained weak in major wheat wholesale markets on bearish fundamental. Forward Market Commission prohibited futures exchanges to trade in wheat. This makes thin market activities in market yards. However, stockists are also seen liquidating their stock position. At Delhi, Wheat dara for mills quoted down between Rs.1020-1030/ql. The arrival remained around 5,000-6,000 bags. FCI is releasing 14,000 tonnes of wheat at Rs 986 per qlt in Delhi. Of the total amount 11,000 tonnes for flour millers and 3,000 tonnes for chakki millers. The FCI has declared to sale 3.65 lakh tonnes wheat under its open market scheme last week. However, buyers are not showing interest in purchasing the wheat from FCI as they are optimistic about further decline on wheat prices in coming days on plentiful harvest. The wheat prices in Rajkot mandis quoted down between Rs.860-870/qlt on the back of lower fresh arrivals about 5000 bags. The wheat prices in Indore market has decline to Rs.850-860/qlt on increased fresh arrivals around 6,000-7,000 bags. Farmers are not showing interest to release their full stocks at this price. Wheat has supplied to Chattisgarh from the M.P. mandis. The ample stocks are reported from millers to continue business for the next few weeks and they prefer to wait for fresh crop arrivals in March last to April. According to the Agricultural Minister this year's area under wheat is 9.2 % more than the average and 6.8 % more than the last year's area. However, at present government is in quandary over overstated acreage under wheat during 2006-07. This has led to a wrong estimate of the crop, which is now being reviewed afresh. Agriculture minister may allow the wheat export from India if weather conditions are favorable and output exceeds 72.5 Mln Tonnes this year. Private traders are also free to procure locally produced wheat but the prominent corporate buyers such as Adani, Noble Grain, AWB and Glencore likely to avoid wheat purchase this year due to high political risk. However, ITC is expected to buy wheat for its own brand need and not for trading with other millers. Others corporate are also likely to not enter in the states of Punjab, Haryana and Uttar Pradesh 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. The higher purchase is expected during March last to April. The International Grains Council 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. IGC also reported 2007-08 wheat plantings are down in China, suggesting a potential drop of 4 million tons from 2006-07, the agency projects higher acreage in the U.S., Europe, South America, India and Australia..

PRICES OF WHEAT PRODUCTS IN DELHI (IN RS.)

Wheat Products	24.02.07	03.03.07
Atta (90kg)	1077	1059
Maida Grade 1(90kg)	1273	1246
Suji (50kg)	713	698
Chokar (50 kg)	347	333
Chokar (35 kg)	231	223
Chakki Atta (90kg)	950	940

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

Markets	24.02.07	03.03.07
Delhi (Lawrence Road)	1050	1020
Haryana (Karnal)	1020-1025	985-990
Punjab (Khanna)	1080-1085	1050-1055
Rajasthan (Kota)	1040-1045	1010-1015
Uttar Pradesh (Kanpur)	1060-1065	N.A.
Madhya Pradesh (Indore)	945-950	865-870
Uttar Pradesh (Bareilly)	1065-1070	N.A.
Punjab (Sunam) Loose	970-975	900
Ludhiana (Jagraon) Loose	940-945	910-920
Rajkot Mill Price	905-910	850-860
Madhya Pradesh (Bhopal)	850-925	830-840

PRICE DRIVERS:

- New contract as well as new position in wheat futures has banned
- 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 below Rs.850 at M.P. mandis.
- 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. may consider to resume the wheat exports in case of bumper production
- 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:

FMC Prohibited Futures Exchanges to Trade in Wheat

Forward Market Commission prohibited futures exchanges to trade in wheat. It has prohibited launching any new contracts for wheat and also stopping members from taking new positions in existing contracts. All open positions in existing contracts are to be squared off.

The Big Corporate House may Avoid Wheat Purchase this Year

The prominent corporate buyers such as Adani, Noble Grain, AWB and Glencore likely to avoid wheat purchase this year due to government pressure and high political risk. However, ITC is expected to buy wheat for its own brand need and not for trading with other millers. Others corporate are also likely to not enter in the states of Punjab, Haryana and Uttar Pradesh 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. wheat procurement by major private parties such as Cargill, ITC, Glencore, Adani, Reliance and AWB was only 2 million tonnes in rabi marketing season 2006-07 as against the total production about 69.5 million tonnes in 2005-06.

Australia to Produce Bumper Wheat Crop this Year

Wheat production in Australia is likely to be higher this time around 22 million to 29 million tons as against last year's drought-ravaged crop of 9.8 million tons. Australia is world third largest wheat exporter. The record crop was produced in 2003-04 around 26.1 million tons. Farmers will likely increase planting in the April to June sowing season to take advantage of the 48 percent rise last year in wheat prices.

Indian Agribusiness Systems Pvt. Ltd., New Delhi

The climate section of the country forecasts chances of good rains this year. According to the International Grains Council Global output may increase 5.8 percent, to 624 million tons in the year ending June 2008 because of "favorable" weather conditions. The rebound in Australia's crop will no doubt contribute a significant percentage of the expected increase in global production and that will lead to ease the wheat prices in international markets late in 2007.

IGC Forecasts Higher Wheat Production This Month

The International Grains Council 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. IGC also reported 2007-08 wheat plantings are down in China, suggesting a potential drop of 4 million tons from 2006-07, the agency projects higher acreage in the U.S., Europe, South America, India and Australia.

India's Wheat Stock 6 million metric tons

According to the Economic Survey for 2006-07 India's wheat stock was estimated at 6 million metric tons on Nov. 1, 2006, down from 9 million tons a year earlier. The Survey estimated total wheat imports in the current financial year ending March 31 stands for 6.5 million, including 1 million tons by private companies. The area under wheat, as of Jan. 5, is estimated at 27.55 million hectares, up 6.8% from a year ago.

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.

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.

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).

Source: PIB

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.

Wheat Procurement in M.P. Will Start 5 days Ahead of Normal Schedule

The Government is looking very aggressive in procuring wheat this season from the very beginning of crop arrivals. The government will start procuring wheat from Madhya Pradesh five days before of normal schedule i.e. March 15 instead of March 20. The fresh crops in M.P. are likely to start early this season because of early sowing. However, wheat procurement in others state will begin on normal schedule. The procurement usually commences on April 1 in Punjab and Haryana, and by the second week of April in Uttar Pradesh.

The STC Imported 49.93 lakh tonnes Wheat So Far

The State Trading Corporation has imported 49.93 lakh tonnes of wheat so far as on 12.02.07. The imported wheat had arrived at eight Indian ports i.e., Mundra, Kandla, Vizag, Chennai, Tuticorin, Kakinada, Mumbai and Cochin ports. Of the wheat arrived so far, 49.09 tonnes had been discharged from ships. About 42.26 lakh tonnes had been moved out of the ports. The rest amount i.e., 5.57 lakh tonnes is expected to arrive by the end of February.

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

USDA Long-Term Projections: Global Wheat Exports

The top five wheat-exporting nations (the United States, Australia, Canada, the EU-25, and Argentina) account for 73 percent of world trade in 2007-2016. This is down from a high of 87 percent in 2000/01, mostly due to increased exports from the Black Sea area. U.S. wheat exports are projected to account for 22 percent of global wheat trade, down from 25 percent in the past 5 years.

- Shares of the world wheat market held by Canada, the EU, and the United States decline slightly, offsetting increases by Australia, Ukraine, Russia, Argentina, and other Europe.

- In Canada, increased demand for vegetable oils, especially rapeseed oil for biodiesel production, and for barley is expected to reduce wheat area, which causes Canadian exports to trend slowly downward.

- The EU set-aside rate, currently 10 percent, is assumed to be lowered during the projections. However, most of any increase in planted area will go to rapeseed.

- Ukraine, Russia, and Kazakhstan have become significant wheat exporters in recent years. Low costs of production and new investment in their agricultural sectors have enabled their world market share to climb to as high as 18 percent in 2005/06. Exports from Ukraine and Russia are projected to continue gaining market share, more than offsetting a slight decline in the share held by Kazakhstan. However, because of the region's weather extremes, high year-to-year volatility in production and trade can be expected. Also, continued real appreciation of these countries' currencies, caused mainly by domestic inflation, could mitigate the rise in exports.

- China has been a small net exporter of wheat in recent years, but becomes a net importer of nearly 2 million tons annually by 2016. This is offset by other Europe, mostly Romania and Bulgaria, which shifts from a small net importer to a net exporter of more than 2 million tons. Most of these exports go to the EU-25.

- Exports by Turkey and other smaller exporters change little or trend slowly downward during the projection period. Although India has exported some wheat in recent years, exports are expected to be minimal as stocks remain relatively tight.

Source: USDA

USDA Wheat Export Sales Down by 29%

Wheat: Net sales of 321,700 metric tons were 29 percent below the previous week and 39 percent under the prior 4-week average. Increases reported for Nigeria (114,000 MT, including 77,500 MT switched from unknown destinations), Japan (80,000 MT), Indonesia (56,800 MT, including 57,000 MT switched from unknown destinations), Yemen (46,800 MT), Mexico (35,000 MT), and Egypt (30,000 MT), were partially offset by decreases for unknown destinations (102,500 MT). Exports of 612,500 MT were 43 percent above the previous week and 22 percent over the prior 4-week average. The primary destinations were Japan (121,900 MT), Nigeria (104,100 MT), Yemen (98,800 MT), Mexico (69,900 MT), and the Philippines (55,400 MT).

This summary is based on reports from exporters for the period February 16-22, 2007.

Source: USDA

WEATHER WATCH

During the week, two western disturbances affected the Indian region from 23rd to 25th and from 27th onwards. Under the influence of 2nd western disturbance, an induced low pressure area formed over central Pakistan and adjoining West Rajasthan on 27th and persisted on 28th. An upper air cyclonic circulation extending upto 1.5 km a.s.l. developed over East Uttar Pradesh on 28th. A north-south trough extending from Sub-Himalayan West Bengal & Sikkim to north Bay of Bengal was observed from 22nd to 23rd and from northeastern States to Head Bay on 25th. An easterly wave also affected the extreme south peninsular region during 24th to 26th.

Rainfall:

Light to moderate widespread rain/snow occurred over Western Himalayan region on 22nd, 27th & 28th with isolated heavy falls on 28th. Light to moderate rain/thundershowers occurred over Plains of northwest India and Rajasthan on 26-28th. Rain/thundershowers occurred at a few places over West Madhya Pradesh on 25th and isolated on 24th & 26th. Light rain/thundershowers also occurred over East Uttar Pradesh on 25th & 26th; over Bihar and Jharkhand on 26th and over West Bengal & Sikkim & northeastern States on 26th & 27th. Isolated rain/thundershowers occurred over Tamil Nadu & Kerala on 27th. Mainly dry weather prevailed over the remaining parts of the country during the week.

Outlook for the week ending on 07th March 2007

Fairly widespread precipitation over Western Himalayan region, Indo-Gangetic plains and adjoining central India during 1st two days of the week and over northeastern States and adjoining east India during 1st three days of the week. Light rain/thundershowers also likely over extreme south peninsula during 1st two days of the week. Fall in

night temperature and rise in day temperature by 4-6 °C over plains of northwest India during the week. over extreme south peninsula during 2nd half of the week.

Source: IMD

FOREX (As on 05th MARCH, 2007):

Foreign Currency	Rs. per unit
1 US \$	44.28
1 Euro	58.32
100 Yen	36.64
1 British £	86.62

IGC WORLD WHEAT ESTIMATES (22.02.07)

(Million tons)

	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 [#]	41	55	57	37	37

* Adjusted for EU-27

Source: International Grains Council

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