

## WHEAT

10<sup>th</sup> -17<sup>th</sup>, MARCH, 2007

### MAJOR ACTIVITY HIGHLIGHTS

- Govt. Hike the MSP of Wheat to Rs.850/qtl
- Wheat Prices Bearish at Spot
- The Big Corporate House may Avoid Wheat Purchase this Year
- Duty Free Import of Wheat has Stopped
- India may Import Wheat if Needed

### MARKET FUNDAMENTALS:

Wheat prices remains mix in domestic markets. Widespread rainfalls coupled with hailstorms in Punjab, Haryana, Rajasthan, U.P. earlier this week caused some crop lodging and water logging in the wheat fields. This may lead to some yield reduction and poor quality grains. However, no significant crop loss is reported by any Govt source. Standing wheat crop needs bright sunshine for healthy development and maturity. Intermittent showers and lower temperatures are forecast for the period March 19 to March 23, 2007 in the Northern Plains of India. Further rains at this moment certainly cause concern. According to Union Agriculture Minister Sharad Pawar the situation of wheat procurement is so far comfortable and if required the Government would import wheat. According to media reports the Cabinet Committee on Economic Affairs(CCEA) declared the bonus of Rs. 75 per qtl on the MSP of Rs.750 per qtl on wheat for the Marketing Season 2007-08. Thus a good procurement by state agencies is cleared and government is hoping for 13 million tonnes wheat procurement during the next 3 months. Last season, big corporate house such as Adani, Cargill and ITC purchased a huge amount of wheat from UP. This season, the Govt. target for wheat procurement in UP is a good near 15 lakh tones. The stock position of wheat in the central pool has improved and will be more than the buffer norm of 40 lakh tonnes at the start of the next procurement season. Govt. extended the closing date of duty free wheat imports of 55 lakh tonnes for PDS and other social welfare schemes by two months till April 30. However, the govt has not extended the time limit for zero duty wheat import contracts by private traders after it expired on February 28. At Delhi, wheat dara for mills traded up at Rs.1040/qtl on steady arrivals around 1,500-2,000 bags from old stocks and 3,000-4,000 bags new crop arrived from M.P. New wheat quoted between Rs.1020-1025/qtl. Some demand from Uttar Pradesh supporting the tone. Wheat product prices decline further in this week. Punjab mandis saw flat sentiments on some demand from millers. In Sunam mandis wheat prices quoted steady at Rs. 860/qtl on the back of arrivals about 1,000 bags. Traders are expected some delay in new crop arrivals. Rajkot mandis saw steady sentiments in price levels due to buying support from prominents corporate houses such as Kargil, AWB and Ruchi . according to trade sources near about 40-50 motors was already purchase by them. They are purchasing wheat at Rs.905/qtl. The forthcoming sentiments of wheat will

depend on the policy of 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.

### OUTLOOK:

**Short Term (One Week):** Bearish on increased arrivals amidst poor wheat as well as wheat product demand. The increased fresh arrivals in Gujarat and M.P. will add further bearish tone.

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

Markets	10.03.07	17.03.07
Delhi (Lawrence Road)	1020	1040
Haryana (Karnal)	965-970	1030-1035
Punjab (Khanna)	965-970	1035-1040
Rajasthan (Kota)	890-895	895-901
Uttar Pradesh (Kanpur)	1005-1010	1035-1040
Madhya Pradesh (Indore)	860-865	930-935
Uttar Pradesh (Bareilly)	1040-1045	1055-1060
Punjab (Sunam) Loose	850	910
Ludhiana (Jagraon) Loose	840	910
Rajkot Mill Price	900	940
Madhya Pradesh (Bhopal)	N.A.	860-880
Wheat Products	10.03.07	17.03.07
Atta (90kg)	1014	1023
Maida Grade 1(90kg)	1228	1201
Suji (50kg)	688	683
Chokar (50 kg)	333	340
Chokar (35 kg)	212	219
Chakki Atta (90kg)	925	955

## PRICE DRIVERS:

- Govt. discontinued the duty free wheat import by private traders
- Govt. Expand Duty Free Wheat Import by STC
- Wheat exports have been banned upto 31.12.2007
- Decision was taken to release 4 lakh tonnes of wheat under OMSS to cool the market prices
- Department of Consumer Affairs has extended upto 31st August, 2007 notification under the EC Act enabling State Governments to impose stock limit on wheat
- CCEA declared the bonus of Rs. 75 /qtl on the MSP of wheat
- Widespread rainfalls and hailstorms in north western India caused some crop lodging and water logging in the wheat fields
- Further rainfalls and hailstorms is not beneficial for wheat crop
- 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 130 lakh tonnes of wheat this year as against the 91 lakh tonnes during last year.
- 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.
- 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:

### FCI Looking for Higher Procurement of Wheat from Punjab

FCI makes arrangements for wheat procurement in Punjab for storage of expected yield of about 90 lakh tonnes. FCI with the help of a company has established high tech storage capacity to storage the crops safely. There is a arrangement of 90 lakh tonnes of wheat storage in Punjab and it will be further increased as per the requirement. Government agencies are likely to procure around 75-80 lac MTs of wheat as against the last year's 69.50 lac MTs depending upon the overall production scenario of the country and prices in the open market. Chief Minister of Punjab demanding a hike in the Minimum Support price (MSP) of Wheat by Rs.150/qtl to Rs. 900/qtl, keeping in view the steep increase in the cost of agriculture inputs and diesel in the recent past.

### India may Import Wheat if Needed

According to Union Agriculture Minister Sharad Pawar the situation of wheat procurement is so far comfortable and if required the Government would import wheat.

### Govt. Expand Duty Free Wheat Import by STC

Govt. extended the closing date of duty free wheat imports of 55 lakh tonnes for PDS and other social welfare schemes by two months till April 30. However, the govt has

not extended the time limit for zero duty wheat import contracts by private traders after it expired on February 28. More than 53 lakh tones of wheat imported by STC has already reached to the country.

### FCI Looking for Good Procurement of Wheat from U.P.

Procurement of wheat under MSP operations carried out by the government is open-ended and no targets are fixed. However, center reportedly fixed an unofficial target to procure 151.5 lakh tones of wheat in the marketing season 2007-08. 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). Last season, big corporate house such as Adani, Cargill and ITC purchased a huge amount of wheat from UP. This season, the target for wheat procurement in UP is a good near 15 lakh tones. The stock position of wheat in the central pool has improved and will be more than the buffer norm of 40 lakh tonnes at the start of the next procurement season.

### 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).

### 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 Increased by 5%

Wheat: Net sales of 443,400 metric tons were 5 percent above the previous week and 14 percent over the prior 4-week average. Increases were reported for Mexico (64,400 MT), Nigeria (46,600 MT, including 44,200 MT switched from unknown destinations), South Korea (41,600 MT), unknown destinations (41,500 MT), Taiwan (41,400 MT), Venezuela (34,100 MT), and Guatemala (32,600 MT). Sales of 43,500 MT for delivery in 2007/08 were mainly for the Philippines (32,500 MT). Exports of 543,700 MT were 20 percent above the previous week and 14 percent over the prior 4-week average. The primary destinations were Egypt (126,000 MT), Nigeria (117,100 MT), the Philippines (77,200 MT), Mexico (61,300 MT), Morocco (26,400 MT), Venezuela (23,100 MT), and South Korea (22,900 MT).

Source: USDA

### FOREX (As on 21<sup>st</sup> MARCH, 2007):

Foreign Currency	Rs. per unit
1 US \$	44.17
1 Euro	58.67
100 Yen	37.71
1 British £	85.58

### WEATHER WATCH

A western disturbance as an upper air system lay over north Pakistan and neighbourhood on 9th, over Jammu & Kashmir and neighbourhood on 10th and moved away eastwards on 11th. An induced cyclonic circulation at lower levels lay over Punjab and neighbourhood on 10th and 11th and moved away eastwards thereafter. On a quick succession, another western disturbance lay over north Pakistan and neighbourhood on 11th, over north Pakistan and adjoining Jammu & Kashmir on 12th, over Jammu & Kashmir and neighbourhood on 13th and moved away eastwards on 14th. An induced cyclonic circulation at lower levels lay over south Pakistan and adjoining Rajasthan on 11th, over West Rajasthan and neighbourhood on 12th, over East Rajasthan and neighbourhood on 13th and over East Uttar Pradesh and adjoining East Madhya Pradesh on 14th. A trough in the westerlies at 500 hPa level ran roughly along 60° E upto the north of 20° N on 8th. It moved slowly eastwards and ran roughly along 75° E to the north of 20° N on 14th. It moved further eastwards thereafter.

### Rainfall:

Rain/snow occurred at a few places on 10th & 11th, at most places with scattered heavy to very heavy falls on 12th, 13th & 14th over Western Himalayan region. Over Punjab, Haryana, Chandigarh, Delhi and Rajasthan light to moderate rain/thundershowers occurred at a few places on 10th & 11th and at many places on 12th, 13th & 14th. Isolated rain/thundershowers occurred over Uttar Pradesh, Madhya Pradesh, Chhattisgarh and Vidarbha on 12th, which became scattered to fairly widespread on 13th & 14th. Scattered rain/thundershowers occurred over Bihar, Sub-Himalayan West Bengal & Sikkim and Jharkhand during 13th & 14th. Isolated scattered rain/thundershowers also occurred over Orissa, Gangetic West Bengal and northeastern States on a few days of the week. Isolated rain/thundershowers occurred over Kerala on 8th and over Tamil Nadu on 13th & 14th. Mainly dry weather prevailed over the remaining parts of the country during the week.

### Outlook for the week ending on 21<sup>st</sup> March 2007

Scattered to fairly widespread precipitation likely over Western Himalayan region from 17th night onwards for next 3-4 days. Isolated rain/thundershowers also likely over the adjoining plains of Punjab and north Haryana from 18th onwards.

Source: IMD

### IGC WORLD WHEAT ESTIMATES (22.02.07)

	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

(Million tons)

\* Adjusted for EU-27

Source: International Grains Council

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