

WHEAT

19th-26th MAY, 2007

MAJOR ACTIVITY HIGHLIGHTS

- Govt. Hike the MSP of Wheat to Rs.850/qlt
- Wheat Prices Bearish at Spot
- Government of India Extended the Date of Wheat Import Tender
- Govt. Wheat Procurement Surpasses 10 Mln Tonnes

MARKET FUNDAMENTALS:

Wheat procurement by the government as on May 24 surpasses last year procurement and stood around 10.65 million tonnes including 6 lakh tonnes procured by state government of Punjab. However, the procurement is still short of the targeted 15 million tonnes despite a 4 million tonnes projected increase in output. The trend is showing that Govt. will be able to procure around 12 million tonnes of the food grain this year. The procurement of Punjab is still lower whereas, in Haryana, U.P., M.P. and Rajasthan it is higher as compared to last year procurement. FCI is likely to stop wheat procurement in Punjab and Haryana by the month-end and in other states, barring Bihar, by June-end. In Bihar, the procurement will continue till Jul 15. The government usually stops its wheat procurement by May-end. STC has received seven bids from Indian and Global suppliers regarding the import of 1 million tonnes of wheat by August 15. However, the price quoted is on average 20 percent higher than those paid last year. The prices range between \$265 to \$302 per tonne on cost and freight basis. This is sharply higher than the weighted average of \$205.31 that it had paid for imports of 5.5 Mln Tonnes last year. The higher freight charges due to vessel shortage and an increase in demand from India and China have added further firmness in prices. The Baltic Dry Index has increased 41% since the beginning of the current calendar year. According to the market sources, the high wheat prices in the global markets may deter India from picking up the entire 1 million tonnes of the grain that it had sought in the tender. The rest amount may be left for buying through another tender in due courses when supplies will be improved. The cheaper fresh wheat from Black sea region will hit the global markets in the coming months. The U.S. and Pakistan wheat is relatively cheaper at the present time but India's import regulations were restricting imports from U.S. Despite an exportable amount up to 1.3 million tonnes wheat from Pakistan, the Government of the country has suspended the export of wheat from the country because of sudden hike in local wheat prices on hoarding interest of traders. The government is seeking to import around 3-4 million tonnes, so that it can intervene if prices rise. Amid such a scenario, it is unlikely that wheat prices are going to see any major increase. Arrivals continue to improve, totalling around 13.80 million tonnes so far. Wheat for ready delivery (truck loaded) traded down at about Rs 910-915 in Lawrence Road mandi, with daily arrivals being around 8000-10,000 quintal. In Narela and Najafgarh, wheat loose traded down at Rs 865-870, and Rs 855-860,

on the back of arrivals around 6000 quintals and 4,000 quintals, respectively.

OUTLOOK:

Short Term (One Week): Steady to down on higher arrivals amidst lower buying support.

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

Markets	19.05.07	26.05.07
Delhi (Lawrence Road) truck loaded ready delivery	920-925	910-915
Haryana (Karnal)	945-950	942-947
Punjab (Khanna)	942-948	942-948
Rajasthan (Kota)	962-968	950-955
Uttar Pradesh (Kanpur)	955-960	945-951
Madhya Pradesh (Indore)	925-930	903-908
Uttar Pradesh (Bareilly)	930-935	930-935
Punjab (Sunam) Loose	850-851	850-851
Ludhiana (Jagraon) Loose	851	850-851
Rajkot Loose Price	-	850
Madhya Pradesh (Bhopal) Loose	870	865

Wheat Products	19.05.07	26.05.07
Atta (90kg)	969	951
Maida Grade 1(90kg)	1054	1045
Suji (50kg)	588	583
Chokar (50 kg)	372	366
Chokar (35 kg)	227	225
Chakki Atta (90kg)	870	865

Following was the status in other mandis, with active millers and private trade buying: (26.05.07)

Place	Arrivals	Price
Mathura	5000 Qtls	Rs.850-870 per qtl
Kosi	4500 Qtls	Rs. 850per qtl
Hodal	5000 Qtls	Rs. 848-850per qtl
Palwal	3500 Qtls	Rs. 850 per qtl
Rajkot	4000 Qtls	Rs. 870-875 per qtl

PRICE DRIVERS:

- ✓ According to the Third Advance Estimates of Govt the estimated production of wheat is likely to be 73.7 million tonnes in crop year 2006-07 compared to 69.3 million tonnes in crop year 2005-06.
- ✓ This year, the FCI has so far procured 10.65 million tonnes as on 24.05.07 including 6 lakh tonnes procured by state government of Punjab.
- ✓ Arrivals across the country are stood at 13.80 Mln Tonnes more or less same at year ago.
- ✓ IGC lowered its forecast for world wheat output in 2007/08 to 621 million tonnes from 623 million tonnes, cutting world stocks to 115 mln tonnes their lowest levels since 1981.
- ✓ Global wheat prices up, India may take phased approach in imports
- ✓ Pakistan government has suspended the export of wheat
- ✓ STC has received seven bids regarding the import of 1 million tonnes of wheat by August 15. However, the price quoted is on average 20 percent higher than those paid last year.
- ✓ Wheat carry over stocks (as on 1.4.2007) was around 47 Lakh Tonnes this year that is more than the buffer norms of 40 lakh tonnes at the start of RMS 2007-08. The stock was also higher against the last year stock of 20 Lakh Tonnes of the same period.
- ✓ STC postpones opening of wheat import bids. The revised date for opening of bids is May 21 compared to the original schedule of May 10.
- ✓ ITC, Cargill and AWB Purchased over 50,000 tonnes of wheat so far this year
- ✓ Private companies imported 937,000 Tonnes wheat at zero duty as of May 3
- ✓ 13128 centers for wheat procurement have been opened by Government agencies in RMS 2007-08 as compared to 8985 centers in RMS 2006-07.
- ✓ Wheat exports on private account have been banned upto 31.12.2007. Wheat exports from Central Pool are also banned.

- ✓ According to the Essential Commodities Act 1955 on 1.3.2007 any Company or Firm or individual which purchases wheat beyond 50,000 tonnes during 2007-08 shall furnish to the Central Government a return indicating the name/address of the company, quantity of wheat purchased and quantity of wheat held in stock.

INTERNATIONAL AND DOMESTIC NEWS:

Indian Wheat Import is Likely to Costlier this Year

The tender of Government of India to purchase 1 Mln Tonnes of wheat from global market is unlikely to create much interest due to higher global prices and higher freight rates. It is expected that purchase may be lower as against the prior announcement of 1 Mln Tonnes. Increase global price of the commodity and rising freight rates resulting into costlier import this time. The Centre may receive offers at between \$265-\$282 a metric tonne to import 1 million tonne wheat as compared to an average \$205.31 a tonne paid last year. The Baltic Dry Index, an overall measure of commodity- shipping costs, has risen 48% this year. US eyes 1 Mln Tonnes of wheat sales to India. India is also likely to import US wheat if the commodity able to meets quality standards and price competitiveness. However, higher freight charges are prominently hindering the import from the country.

STC Has Received Seven Bids But at Higher Rates

STC has received seven bids from Indian and Global suppliers regarding the supply of 1 Mln Tonnes of wheat by August 15. However, the price quoted is on average 20 percent higher than those paid last year. The prices range between \$265 and \$302 per tonne on cost and freight basis. The companies are US agri giant Cargill, Topfer, Concordia, Glencore and two companies of Ahmedabad-based Adani group. Glencore and Cargill reportedly bid at between \$265.50 to \$296 per tonne. The bids were mostly for the ports of Mundhra and Kandla. STC reportedly favours to import 3.2 lakh tonnes of wheat at Mundra, 2.4 lakh tonnes at Kandla, 2 lakh tonnes at Chennai, 1.6 lakh tonnes at Vishakhapatnam or Kakinada and 80,000 tonnes at Tuticorin.

Wheat Production in Pakistan Surpassed the Set Target

Pakistan wheat production has set a record and surpassed the set target of 22.5 Mln Tonnes for the year 2006-07. The production has increased by 6 per cent as against last year and estimated to around 23 Mln Tonnes. Balanced use of fertiliser and sufficient availability of water for the crop helped in achieved the higher growth in production.

Pakistan Government has Suspended the Export of Wheat

Pakistan Government has suspended the export of wheat from the country because of sudden hike in local wheat prices on hoarding interest of traders. However, it is not a full ban on the wheat export. The exporters had started large-scale purchases, pushing prices of the new crop to Rs1,155 and Rs1,175 per qtl. The atta prices have also increased by Rs.80-100/ qtl in Karachi. The country has already exported 4 lakh tons of wheat from the export target of 8 lakh tons for the current season. Pakistan wheat production has set a record and surpassed the set target of 22.5 Mln Tonnes for the year 2006-07. The production has increased by 6 per cent as against last year and estimated to around 23 Mln Tonnes. The current carry-forward stocks stood at 5 Mln Tonnes. This means that there would be an good surplus this year.

ITC, Cargill and AWB Purchased over 50,000 Tonnes of Wheat So Far This Year

The companies like ITC Ltd., Cargill India Pvt. Ltd. and AWB India Pvt. Ltd purchased over 50,000 tonnes of wheat each. ITC reportedly purchased around 261,007 tonnes wheat till May 4, Cargill had bought around 170,880 tonnes wheat till May 3, while AWB purchased around 69,010 tonnes of the food grain till Apr 27. According to the Essential Commodities Act 1955 on 1.3.2007 any Company or Firm or individual which purchases wheat beyond 50,000 tonnes during 2007-08 shall furnish to the Central Government a return indicating the name/address of the company, quantity of wheat purchased and quantity of wheat held in stock. Last year private companies had purchased huge amount of wheat directly from the farmers and that leads to lower amount of the food grains in central pool and resulting into import from global market.

Wheat Stocks in Central Pool Increased by 30.3%

Wheat stocks in central pool has increased by 30.3% to 11.6 Mln Tonnes as on 1st May this year. The government's wheat stocks are higher despite lower procurement due to a higher carryover from last year. Wheat carry over stocks (as on 1.4.2007) was around 47 Lakh Tonnes this year that is more than the buffer norms of 40 lakh tonnes at the start of RMS 2007-08. The stock was also higher against the last year stock of 20 Lakh Tonnes of the same period.

Government of India Extended the Date of Wheat Import Tender

Government of India extended the wheat import tender up to 1.0 million metric tons by May 21 and offers should be valid till around May 30 as against the earlier date of closing on May 10 and sale offers to be made by suppliers were valid until May 21.

No Formal Ban on Wheat Purchase by Private Co. so far

There is no formal ban from the Govt. side on private traders for buying wheat from farmers in any parts of the country. However, Private traders should need to unfold details about their stock position if they purchase more than 50,000 tonnes of wheat in a year. Under the Essential Commodities Act, companies have to provide this piece of information if their total purchases are over 50,000 tonnes. Ag. Minister is optimistic about that wheat output in 2006-07 would cross 72.6 million tones.

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).

IGC Cut Down Global Wheat Out Put Forecast

Forecast production is 2m. tons lower than last month at 621m. tons, 28m. up from last year. Dry spring weather significantly reduced crop prospects in the EU and Morocco but heavy rains much improved the outlook in Australia. The US winter wheat crop is likely to yield substantially more than last year despite April's frost. In

Canada, a switch from wheat to oilseeds and barley is expected to reduce output. World wheat consumption is forecast at 624m. tons, up 2m. from last month as a result of greater feed use in the US, where maize will remain in tight supply. Food consumption growth in some developing countries is being contained by high import costs. The new closing stock projections for 2007/08 are sharply lower, especially in the EU. The total may be only 115m. tons, the smallest since 1981, with less than 34m. held in the five major exporting countries. Trade in 2007/08 is now expected to

reach 109m. tons, 2m. more than the last forecast, due to renewed purchases by India to maintain safe stock levels, more imports by the EU from Black Sea sources, and larger shipments to Morocco after its poor harvest.

Source: IGC

IGC: Wheat Supply Demand Projection for 2007-08

WHEAT: Northern hemisphere weather problems, including a severe frost in US winter wheat areas and very dry conditions in most of Europe, parts of North Africa and in China, have not yet significantly affected forecast total production. It is now projected at 623m. tons, 1m. less than last month's forecast, but 32m. Tons more than in 2006. The biggest increases compared with last year are in the EU, the CIS, the US, India and Australia. World wheat consumption is forecast at 622m. Tons, unchanged from last month's initial projection. Half of the 13m. Tons increase over this season's estimate will be in feed use, encouraged by high feed grain prices and likely greater availabilities of wheat, particularly in the EU and the CIS. There will also be significant growth in industrial use as new plants to produce ethanol from wheat are opened in the EU and Canada. With expected total production and use evenly matched, there is little chance of a significant recovery in global stocks during 2007/08. The new projection of the end-year carryover is 117m. tons, 1m. tons down from last month's, and only 2m. more than this season's 26-year low. Exporters' stocks, in particular, are expected to remain tight. No change is made to the world wheat trade forecast of 107m. Tons, which is close to the estimate for 2006/07. Compared with this season, increased requirements are expected by Morocco and Iraq, and the EU will likely buy more feed wheat from the Black Sea exporters, but India's milling wheat imports should be much lower.

Source: IGC

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

US Wheat Production Projected 20%Up

WHEAT: The 2007/08 U.S. wheat outlook is for higher production with increased feed use and exports and a modest growth in ending stocks. Total production is projected at 2.2 billion bushels, up 20 percent from 2006/07. The survey-based forecast of winter wheat production is up 24 percent as area and yield are higher than last year. Spring wheat production is expected to rebound from last year's drought in the Northern Plains despite lower planted area for 2007 as reported in Prospective Plantings. Durum and other spring wheat are projected at 558 million bushels, up 9 percent from 2006/07, based on 10-year harvested-to-planted ratios and trend yields. Total wheat supplies are projected up 7 percent from 2006/07 as lower carryin partly offsets higher expected production. Ending stocks for 2006/07 are reduced 10 million bushels this month reflecting an increase in the 2006/07 export projection. Total wheat use for 2007/08 is projected 6 percent higher as domestic use and exports are expected to rise year-to-year. Food use is projected at 930 million bushels, up 5 million from the current year reflecting small, but steady growth in domestic demand for wheat-based products. Feed and residual use is projected at 230 million bushels, up 35 percent from 2006/07 as high corn prices encourage domestic wheat feeding. Exports are projected at 975 million bushels, up 7 percent from 2006/07 as tight world supplies boost demand for U.S. milling quality wheat. Ending stocks are projected up 57 million bushels. At 469 million bushels, 2007/08 ending stocks would be the second lowest since 1996/97. Relatively tight stocks, strong export demand, and higher corn prices are expected to boost 2007/08 farm prices. The national average farm price for 2007/08 is projected at \$4.35 to \$4.95 per bushel, well above the 2006/07 forecast of \$4.27 per bushel. Due to forward contracting, prices received by farmers in 2007/08 will also reflect strong prices during early 2007 for new-crop delivery.

Source: WASDE

Global Wheat Production Projected 4% Higher

Global wheat production for 2007/08 is projected 4 percent higher than in 2006/07, but remains below 2004/05 and 2005/06. Higher projected production in Australia, Brazil, FSU-12, India, and the United States is partly offset by lower expected output by Argentina, Canada, and China. EU-27 production is expected to be up just 2 percent from 2006/07 due to dry April weather and freezes that reduced yield prospects, especially in Germany and Poland. Tight exportable supplies in key export competitors such as Argentina, Australia, Canada, and EU-27 are expected to

boost U.S. wheat exports and prices. World wheat feeding is expected to fall 3 percent in 2007/08 with declines in Canada and EU-27 more than offsetting higher wheat feeding in the United States. Wheat imports are expected to increase for Egypt, EU-27, Morocco, and several smaller countries, but decline for Brazil and India with larger crops expected in both countries. World exports are projected higher with increases for Australia, Russia, Ukraine, and the United States more than offsetting lower exports for Canada and EU-27. Global ending stocks for 2007/08 are projected at 113.4 million tons, down 6 percent from 2006/07, and the lowest since 1981/82.

Source: WASDE

USDA Wheat Export Sales Highlights

Wheat: Net sales reductions of 136,500 metric tons--a marketing-year low--resulted as increases for Nigeria (83,000 MT, including 30,000 MT switched from unknown destinations), South Africa (32,400 MT, including 30,000 MT switched from unknown destinations), Japan (26,200 MT), and Chile (24,900 MT), were more than offset by decreases for unknown destinations (201,700 MT), Taiwan (32,000 MT), South Korea (21,600 MT), Jamaica (17,300 MT), and the Dominican Republic (12,500 MT). Net sales of 800,300 MT for delivery in 2007/08 were mainly for Iraq (200,000 MT), unknown destinations (174,000 MT), the Philippines (74,500 MT), Egypt (60,000 MT), Mexico (55,400 MT), Japan (50,900 MT), South Korea (41,900 MT), and Taiwan (41,200 MT). Exports of 531,500 MT were down 6 percent from the previous week, but 18 percent over the prior 4-week average. The primary destinations were Japan (78,000 MT), Mexico (53,000 MT), Nigeria (51,500 MT), Yemen (50,300 MT), Indonesia (47,500 MT), and South Africa (32,400 MT).

This summary is based on reports from exporters for the period May 11-17, 2007.

Source: USDA

WEATHER WATCH

Two western disturbances affected Western Himalayan region during the week. Last week's trough at lower tropospheric level extending from northwest Rajasthan to Chhattisgarh persisted on 17th & 18th. It ran from northwest Rajasthan to East Uttar Pradesh on 19th, from Haryana to East Uttar Pradesh on 20th and became less marked on 21st. An embedded cyclonic circulation lay over northwest Rajasthan on 18th & 19th. Another embedded cyclonic circulation lay over East Uttar Pradesh and neighbourhood on 17th, over north Chhattisgarh and neighbourhood on 18th and over central Uttar Pradesh, neighbourhood on 19th & 20th and became less marked on 21st. A cyclonic circulation at lower levels lay over Bihar and neighbourhood on 21st, 22nd and 23rd. A trough from this system extended to north Bay of Bengal during these days. A cyclonic circulation lay over coastal areas of north Orissa and West Bengal extending upto mid-tropospheric level on 17th. It lay over north Bay of Bengal extending between 1.5 and 4.5 km a.s.l. on 18th and between 3.1 and 4.5 km on 19th. It became less marked on 20th. Strong northwesterly winds prevailed over northern parts of the Peninsula during many days of the week.

MONSOON WATCH

Southwest monsoon has further advanced into some more parts of Southeast Bay of Bengal, some parts of east-central Bay of Bengal and remaining parts of Andaman Sea on 21st May 2007. The northern limit of monsoon passed through Lat. 5.0° N /Long. 86.0° E, Lat. 11.0° N /Long. 89.0° E, Lat. 15.0° N /Long. 92.0° E and 17.0° N /Long. 95.0° E

Rainfall:

Isolated to scattered rain/thundershowers occurred over Western Himalayan region during many days of the week. Isolated duststorm/thunderstorm occurred over plains of northwest India, Rajasthan, northwest Madhya Pradesh and West Uttar Pradesh during many days of the week. Scattered rain/thundershowers occurred over West Bengal & Sikkim and Orissa on many days of the week. Isolated rain/thundershowers occurred over remaining parts of east and central India on many days and over extreme south Peninsula, west coast and Coastal Andhra Pradesh on a few days of the week. Scattered to fairly widespread rain/thundershowers occurred over northeast India during many days of the week. The weather was mainly dry over remaining parts of the country during the week.

Outlook for the week ending on 30th May 2007

FOREX (As on 28th MAY, 2007):

Foreign Currency	Rs. per unit
1 US \$	40.60
1 Euro	54.55
100 Yen	33.46
1 British £	80.65

Under the influence of the western disturbance, isolated to scattered rain/thundershower activity likely over northwest India and Rajasthan.

Scattered rain/thundershowers activity likely over northeast India and isolated over of east India. Increase in rain/thundershowers activity likely over south peninsula.

Source: IMD

IGC WORLD WHEAT ESTIMATES (24.05.07) (Million tons)

	2004-05	2005-06	2006-07 Est.	2007-08 (Forecast)	
				26.04	24.05
Production	628	620	593	623	621
Trade	110	109	107	107	109
Consumption	617	624	610	622	624
Stocks	140	136	118	117	115
Year-Year Change	+12	-4	-18		-3
5 Major Exporters [#]	55	56	36	38	34

*Argentina, Australia, Canada, EU, United States

Source: International Grains Council

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