

## WHEAT

02<sup>nd</sup> -09<sup>th</sup> JUNE, 2007

### MAJOR ACTIVITY HIGHLIGHTS

- Govt. Hike the MSP of Wheat to Rs.850/qtl
- Wheat Prices Bearish at Spot
- GOI has Rejected the Wheat Import Tender
- Wheat procurement in Punjab and Haryana is extended up to 15 June

### MARKET FUNDAMENTALS:

Wheat procurement by Government has increased by 16.8% as against last year total procurement and stood around 10.77 million tonnes so far as on June 07. Daily arrivals are still strong. Presently, around 23,000 Tonnes wheat arrived in the mandis on daily basis as against 430 Tonnes in the year ago period. Wheat procurement has picked up on the news of government ploy to import the grain and that forced farmers to offload their stockpiles. However, the procurement of Punjab till date is still lagging around 6.56 million tonnes, down 5.4% from 6.95 million tonnes a year ago period whereas, in Haryana, U.P., M.P. and Rajasthan it is higher as compared to last year procurement. The government has extended wheat procurement in Punjab and Haryana until Jun 15 and it will continue in other states till June end as progressive procurement is remained strong. The government may consider extending the procurement season further this year if the states ask for it. After scrapping a tender for 1 million tonnes by the STC in late May, India announced plans to import 5 million tonnes between August and December of this year to help rebuild buffer stocks. However, the wheat stocks in the country are enough to meeting the demand of 12 million tonnes annually for public distribution requirements. The country has a 4.7 million tonnes carryover stocks from last year. It is also learnt that talks between India and U.S. about wheat trade is ongoing. Government is thinking on wheat import quality norms so that it can incorporate the competitive bidders from U.S. Meanwhile, a tender has issued by India's MMTC Ltd. to import 50,000 tonnes of wheat is likely to cater to private buyers as the company isn't meant to make purchases on behalf of the government. MMTC, a government-run trading company that purchases wheat on behalf of local flour, bread and biscuit manufacturers, plans to import wheat for delivery in July or August 2007. The global wheat prices remain firm on underlying support from the concerns about tight global ending stocks. Further, unfavourable weather condition in Ukraine and U.S. is increasing some concern of lower yield. However, it is possible that global wheat price may cool down in the later of the year with the fresh harvest of Australia, USA and EU. However, the uptrend in freight charges likely to add some firmness in import transportation cost. Wheat for ready delivery (truck loaded) traded up Rs.950-955/qtl in Delhi's Lawrence Road mandi amidst some demand from local flour millers with daily arrivals being lower around 12,000-18,000qtls. At Narela and Najafgarh, loose wheat traded up between 905-910/qtl, and 900-908/ qtl on the back of lower

arrivals 4000qtls and 3000qtls respectively as against last week.

### OUTLOOK:

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

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

Markets	02.06.07	09.06.07
Delhi (Lawrence Road) truck loaded ready delivery	907-910	950-955
Haryana (Karnal)	942-947	942-947
Punjab (Khanna)	942-948	970-975
Rajasthan (Kota)	962-967	970-975
Uttar Pradesh (Kanpur)	952-957	970-975
Madhya Pradesh (Indore)	922-927	930-935
Uttar Pradesh (Bareilly)	935-940	945-950
Punjab (Sunam) Loose	850	855-860
Ludhiana (Jagraon) Loose	850	855-860
Rajkot Loose Price	850	865
Madhya Pradesh (Bhopal) Loose	865	865

Wheat Products	02.06.07	09.06.07
Atta (90kg)	951	970
Maida Grade 1(90kg)	1045	1050
Suji (50kg)	583	588
Chokar (50 kg)	370	375
Chokar (35 kg)	228	233
Chakki Atta (90kg)	865	895

**Following was the status in other mandis, with active millers and private trade buying: (09.06.07)**

Place	Arrivals	Price
Mathura	2500 Qtls	Rs.880-885 per qtl
Kosi	2500 Qtls	Rs. 870-875 per qtl
Hodal	300 Qtls	Rs. 870 per qtl
Palwal	1000 Qtls	Rs. 875 per qtl
Rajkot	1000 Qtls	Rs. 865 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, government has so far procured 10.77 million tonnes as on 07.06.07.
- ✓ Arrivals across the country are stood higher at 14.45 Mln Tonnes.
- ✓ Government is likely to import around 4-5 Mln Tonnes of wheat during Aug-Dec to build buffer stocks
- ✓ MMTC Ltd. has floated a wheat tender to import 50,000 tonnes wheat for Jul-Aug delivery.
- ✓ 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 Production forecast is still sharply up against the 2006 harvest of 592.5 million tonnes.
- ✓ Global wheat prices up, India may take phased approach in imports
- ✓ GOI has rejected the wheat import tender
- ✓ Pakistan government has suspended the export of wheat
- ✓ Ukraine will not allow wheat exports from July
- ✓ 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.
- ✓ 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:**

##### **Bangladesh Issued a Tender to Import 212,000 Tonnes of Wheat**

Bangladesh has issued a tender on 02.06.07 to import 212,000 tonnes of wheat by early September this year. The tender will close on July 17, with validity up to Aug.6. The wheat will be supplied either at Chittagong or Mongla port. The country has to import good quantity wheat every year through government and private sector imports because of supply demand mismatch of the food grain. Foreign grants also help the country.

##### **MMTC has Floated Tender to import 50,000 tonnes of Wheat**

MMTC Ltd. has floated a wheat tender Thursday to import 50,000 tonnes wheat for Jul-Aug delivery. The tender will terminate Jun 19 and the bids will remain valid till Jun 29. Earlier, STC and FCI had floated tenders to import wheat but had to cancel the tender because of lack of competitive bids. Unlikely the FCI and STC the MMTC is importing wheat on the private account and may sell it to private players later for a profit. Further, Government is likely to import around 4-5 Mln Tonnes of wheat during Aug-Dec to build buffer stocks and may restart the process of importing wheat before August. However, the wheat stocks in the country are enough to meeting the demand of 12 Mln Tonnes annually for public distribution requirements. The country has a 4.7 Mln Tonnes carryover stocks from last year. Government is considering on the relaxation of wheat import quality norms so that it can incorporate the competitive bidders from U.S.

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##### **Ten Agencies Steadily Procuring Wheat from the Country**

There are ten agencies procuring wheat during 2007-08 rabi marketing season. The agencies are FCI, NAFED, St. Govt., C.S.C., CO-OP, CONFED, AGRO, SWC, SFC, USS. Among the agencies CO-OP has procured largest amount around 2919800 tonnes so far as on 06.06.07. The other agencies have procured like, St. Govt.2186106 tonnes, FCI 1510764 tonnes, CSC 1471585 tonnes, AGRO 1126907 tonnes, SWC 1065538 tonnes, NAFED 144597 tonnes, CONFED 265736 tonnes, SFC 31604 tonnes, USS 30588 tonnes in decending order. SFC and

USS have procured wheat only from Uttar Pradesh. CONFED only from Haryana and CSC from Punjab. FCI is procuring wheat from Punjab, Haryana, U.P., M.P., Bihar, Rajasthan, Uttarakhand and Delhi. Wheat procurement from Bihar and Delhi remain 984 tonnes and 846 tonnes respectively so far as against nil procurement during last year. St. Govt. has purchased its maximum quantity around 1273158 tonnes from Punjab followed by 811142 tonnes from Haryana. CO-OP has procured its largest amount around 1569282 from Punjab followed by 1286535 tonnes from Haryana. NAFED has procured its largest amount around 114019 tonnes from U.P. so far as on above mention date.

### **Ukraine Will Not Allow Wheat Exports from July**

The Ukraine will allow wheat exports in June but the severe drought is likely to prompt the government to ban exports from July. Ukraine will allow the export of 900,000 metric tonnes of grain already held by traders, but there will be no exports of the drought-reduced 2007-08 crop until reserves are built.

### **GOI has Rejected the Wheat Import Tender**

STC had proposed to buy only about 300,000-350,000 tonnes wheat from Toepfer and Glencore at \$263 a tonnes from the tender that STC has floated last month to import one million tonnes of the food grain from global markets. However, the government has not accepted STC's proposal and reportedly rejected the import. This is may be because of the outlook that the government may be able to get a better deal later in the year following harvest in the European Union and the Black Sea regions. It seems that Government not in a hurry of huge import as the government has sufficient stocks of wheat and it will prefer to wait for the coming months of July and August when increase supply will ease down the global wheat markets. Government is unlikely to spend more money on importing grain this year and will intervene in the global market with very cautiously. The stocks with FCI are satisfactory right now. India's wheat buffer stocks were at 5 million tonnes on April 1 against a government norm of 4 million tonnes. India needs 1 million tonnes every month for its PDS system. As the FCI has already procured more than 10.4 million tonnes from farmers and has carry-forward stocks of 1.5 million tonnes (as on June 1), there is no urgent need for rushed purchase. The steady procurement in recent period will no doubt increase the stock position. It is possible that global wheat price may cool down in the later of the year with the fresh harvest of Australia, USA and EU. However, the uptrend in freight charges likely to add firmness in transportation cost. Freight rates have shot up to a two-year high due to a vessel shortage and an increase in demand from India and China. The Baltic Dry Index has increased 41% since the beginning of the current calendar year.

### **Wheat procurement in Punjab and Haryana is extended up to 15 June**

The government has extended wheat procurement in Punjab and Haryana by 15 days until Jun 15. Government will continue to give 100 rupees per 100 kg bonus on wheat procurement in these 2 states until Jun 15. The procurement of Punjab till date is still lagging around 6.52 million tonnes, down 6% from 6.94 million tonnes a year ago period whereas, in Haryana, U.P., M.P. and Rajasthan it is higher as compared to last year procurement. Around 11 lakh tonnes of foodgrain has still to be procured from Punjab to reach the targeted level of 75 lakh tonnes for the

state. The arrivals are also lower in the mandis due to late maturity of the crop and wide spread manual harvesting.

### **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.

### **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

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Source: IGC

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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 Weekly Export Sales Highlights**

Net sales for the 2007/08 marketing year, which began June 1, totaled 347,700 metric tons (MT). Major increases were reported for Spain (154,000 MT), the United Kingdom (34,000 MT), Nigeria (30,000 MT), South Korea (22,600 MT), Egypt (22,000 MT), and Japan (20,000 MT). A total of 886,300 MT in sales were carried over from the 2006/07 marketing year, which ended May 31. Exports of 496,500 MT were 31 above the previous week and 4 percent over the prior 4-week average. Accumulated exports of 22,902,400 MT were down 10 percent from the prior year's total of 25,320,100 MT. The primary destinations were Nigeria (53,400 MT), Iraq (51,100 MT), Spain (51,000 MT), South Korea (46,400 MT), Japan (46,400 MT), and Guatemala (42,600 MT).



This summary is based on reports from exporters for the period May 25-31, 2007.

Source: USDA

### WEATHER WATCH

An upper air cyclonic circulation lay over east-central Arabian Sea on 31st May. Under its influence, a low pressure area formed over east-central Arabian Sea on 1st June. It became well marked over the same area at 1430 hrs IST and concentrated into a depression around mid-night of the same day and lay centered at 0830 hrs IST of 2nd June near Lat. 15° N / Long. 67.5°E, about 700 km south-west of Mumbai. It moved westwards and intensified into a cyclonic storm (GONU) and lay centered at 1430 hrs IST near Lat. 15.0° N / Long. 67.0°E, about 800 km south-west of Mumbai. Further moving northwestwards, it intensified into a severe cyclonic storm at 0530 hrs IST of 3rd June and lay centered at 0830 hrs IST over east-central Arabian Sea near Lat. 15.5° N / Long. 66.5°E. Continuing its northwestward movement, it intensified into a very severe cyclonic storm around mid-night of 3rd and lay centered at 0830 hrs. IST of 4th June over east-central and adjoining west-central Arabian Sea near Lat. 18.5° N / Long. 65.0° E about 600 kms southwest of Dwarka. Then it moved west-northwestwards and intensified into a super cyclonic storm and lay centered at 2030 hrs. IST of 4th over northwest Arabian Sea and adjoining central and northeast Arabian Sea near Lat. 20.0° N / Long. 64.0° E. Moving further northwestwards it weakened into a very severe cyclonic storm in the early morning of 5th and lay centered at 0830 hrs. IST of 5th June over northwest Arabian Sea & adjoining central and northeast Arabian Sea near Lat. 21.0° N / Long. 62.0° E. Then the very severe cyclonic storm 'GONU' moved northwestward and crossed OMAN coast during morning hours of 6th. Later on, it emerged into Gulf of OMAN, weakened gradually and moved northwestwards. It crossed Makran coast between 0830 hrs. and 0930 hrs. IST of 7th as a cyclonic storm. An off shore trough extended from the above system to Southeast Arabian Sea during 31st May to 3rd June and moved away westwards thereafter. An upper air trough ran from Sub-

Himalayan West Bengal & Sikkim to north Orissa, north Bay of Bengal at lower tropospheric levels at times embedded with cyclonic circulation over Sub-Himalayan West Bengal & Sikkim and neighbourhood during 31st May and 3rd June. It became less marked thereafter. However an upper air cyclonic circulation lay over Assam & neighbourhood during 4th and 6th June. A cyclonic circulation lay over west-central Bay of Bengal off south Orissa-north Andhra Pradesh coast extending upto 2.1 km a.s.l. on 5th June and became less marked on 6th June.

### Rainfall:

Scattered to fairly widespread rainfall occurred over northeastern states and Sub-Himalayan West Bengal & Sikkim during many days of the week. Isolated to scattered rain/thundershower occurred over remaining parts of east India outside east Uttar Pradesh on a few days of the week. Isolated to scattered rain/thundershower occurred over western Himalayan region during many days of the week. Isolated duststorm/thunderstorm occurred over plains of northwest India and Rajasthan on a few days. Rain/thundershower occurred at many places on 5th and activity was isolated to scattered during remaining days of the week over Saurashtra & Kutch. Isolated to scattered rain/thundershower also occurred along west coast and adjoining subdivisions of west and south India on many days and over eastern parts of south India & Vidarbha on a few days. The weather was mainly dry over the remaining parts of the country.

### Outlook for the week ending on 13<sup>th</sup> June 2007

Conditions are favourable for onset of monsoon over northeastern states during first half of the week. Increase in rainfall activity over south peninsula. Rise in day temperature over northwest India and adjoining central India.

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 <sup>#</sup>	55	56	36	38	34

\*Argentina, Australia, Canada, EU, United States

Source: International Grains Council

### FOREX (As on 11<sup>th</sup> JUNE, 2007):

Foreign Currency	Rs. per unit
1 US \$	40.91
1 Euro	54.60
100 Yen	33.64
1 British £	80.46

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