

WHEAT

09th -16th JUNE, 2007

MAJOR ACTIVITY HIGHLIGHTS

- Govt. Hike the MSP of Wheat to Rs.850/qlt
- Wheat Prices Bullish at Spot on Lower Arrivals
- MMTC Ltd. Extended Shipment Period for Wheat Import Tender
- Wheat procurement in Punjab and Haryana is over

MARKET FUNDAMENTALS:

Wheat procurement by Government stood around 10.83 million tonnes as on June 14 as against the 9.22 million tonnes was procured last year. It is expected that government will be able to procure a little above of 11 million tonnes of the food grain this year as against targeted 15 million tonnes as the procurement season is over in the key wheat growing states of Punjab and Haryana. However, the procurement will continue in other states till June end as progressive procurement is remained strong. Despite an extension of 15 days and a bonus, the Punjab state farmers held back some amount with a hope to get a better price in near future. The state has contributed the lower amount of little above 65 lakh tonnes to the Central pool (excluding the 6.1 lakh tonnes purchased by state government for its atta-dal scheme) as against the last year procurement around 69 lakh tonnes. The target this year is stood around 75 lakh tonnes. The total wheat out put in the state is estimated around 145 lakh tonnes. The local flour millers and private parties have purchased some amount. Government is unlikely to grant a further extension there. However, in the states of Haryana, U.P., M.P. and Rajasthan it is higher as compared to last year. In the week, around 10,000 tonnes wheat are procured daily from the farmers as against 1000 tonnes in the year ago period. However, the procurement is seen decreasing as compared to last month of 90,000-100,000 tonnes during May-end. Arrivals are remained strong in the country. Around 50,000 tonnes wheat is still arriving in mandis on daily basis this year as against the last year's arrivals of 20,000 tonnes in the same period. This is because of farmer are offloading stored wheat to sell to the government at the minimum support price (MSP) of Rs 850/qlt. because lacking of other option. The news of India's floating wheat import tenders had motivated farmers to bring to the market their produce that was earlier being held back. The government is seen very desperate to built its buffer stocks. India announced plans to import 5 million tonnes between August and December. 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. However, according to the buffer stock quantity norms of GOI the wheat stock in central pool should be around 171 lakh tonnes as on 1st July. The global wheat prices remain firm and the CBOT July wheat contract tested 11 years high on underlying support from the concerns about tight global ending stocks and unfavourable weather condition in Ukraine and U.S.. However, it is still 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 cost.

OUTLOOK:

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

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

Markets	09.06.07	18.06.07
Delhi (Lawrence Road) truck loaded ready delivery	950-955	950-955
Haryana (Karnal)	942-947	945-950
Punjab (Khanna)	970-975	986-991
Rajasthan (Kota)	970-975	985-990
Uttar Pradesh (Kanpur)	970-975	962-967
Madhya Pradesh (Indore)	930-935	945-950
Uttar Pradesh (Bareilly)	945-950	960-965
Punjab (Sunam) Loose	855-860	860
Ludhiana (Jagraon) Loose	855-860	860
Rajkot Loose Price	865	865
Madhya Pradesh (Bhopal) Loose	865	865

Wheat Products	09.06.07	18.06.07
Atta (90kg)	970	987
Maida Grade 1(90kg)	1050	1063
Suji (50kg)	588	593
Chokar (50 kg)	375	362
Chokar (35 kg)	233	224
Chakki Atta (90kg)	895	890

Following was the status in other mandis, with active millers and private trade buying: (18.06.07)

Place	Arrivals	Price
Mathura	2500 Qtls	Rs.880 per qtl
Kosi	150 Qtls	Rs. 880-890 per qtl
Hodal	400 Qtls	Rs. 885 per qtl
Palwal	300 Qtls	Rs. 870-872 per qtl
Rajkot	300 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 10.83 million tonnes as on 13.06.07.
- ✓ Wheat procurement is end in Punjab and Haryana
- ✓ Government is likely to import around 4-5 Mln Tonnes of wheat during Aug-Dec to build buffer stocks
- ✓ MMTC Ltd. extended shipment period for wheat import tender.
- ✓ 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
- ✓ CBOT July contract tested 11-Year high
- ✓ 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 Ltd. Extended Shipment Period for Wheat Import Tender

MMTC Ltd. has extended the shipment period for its wheat import tender of 50,000 tonnes to August-September instead of July -August. The organization might be looking for the Australian crop arrival (which is reportedly delayed) for getting wheat at competitive price. Other terms and conditions remain unchanged. The tender is set to close on June 19 and the bids are valid till June 29.

Govt to Import 4-5 Mln Tonnes of Wheat During Aug-Dec

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.

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 descending 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, Uttarkhand 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

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

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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 Export Sales Increased by 19%

Net sales of 413,100 metric tons were 19 percent above the previous week. Increases reported for Nigeria (122,000 MT), unknown destinations (62,000 MT), Indonesia (61,800 MT, including 60,000 MT switched from unknown destinations), Japan (40,700 MT), and Venezuela (28,300 MT), were partially offset by decreases for the United Kingdom (24,200 MT) and Guatemala (11,600 MT). Exports of 267,600 MT were 46 percent below the previous week and the prior 4-week average. The primary destinations were Japan (57,000 MT), Indonesia (51,500 MT), Mexico (46,900 MT), Venezuela (35,600 MT), Nigeria (25,500 MT), and Spain (23,100 MT).

This summary is based on reports from exporters for the period June 1-7, 2007.

Source: USDA

MONSOON WATCH

Southwest monsoon has further advanced into remaining parts of Bay of Bengal, some more parts of Arabian Sea, entire northeastern states, most parts of West Bengal & Sikkim, some parts of Bihar, Jharkhand, some more parts Peninsular India during the week. Northern limit of monsoon passes through lat. 16.0 °N/ long. 60.0 E°, lat. 16.0 °N/ long. 70.0 E°, Vengurla, Gulbarga, Nizamabad, Vishakhapatnam, lat. 20.0 °N/ long. 87.0 E°, Digha, Bankura, Bhagalpur and Raxaul on 13th June.

WEATHER WATCH

An off-shore trough extended from Karnataka coast to Kerala coast during many days of the week. An upper air cyclonic circulation lay over Jharkhand at lower level on 8th & 9th and became less marked on 10th. An upper air cyclonic circulation lay over West Uttar Pradesh with a trough extending upto Orissa at 0.9 km a.s.l. during 7 to 9th. An upper air trough extended from Haryana to Gangetic West Bengal during 10 to 12th. An upper air cyclonic circulation lay over Assam & Meghalaya during 7-9th and became less marked afterwards. An upper air cyclonic circulation lay over west central Bay of Bengal off Andhra Pradesh coast on 7th and became less marked on 8th. An upper air trough extended from Orissa to south Tamil Nadu through Andhra Pradesh between 1.5 & 2.1 km a.s.l. on 8th & 9th and moved westward and extended from

Orissa to south Bay of Bengal between 1.5 to 3.1 km a.s.l. on 10th and became less marked on 11th.

Rainfall:

Rainfall was excess/normal in 14, deficient/scanty in 19 and no rain in 3 out of 36 meteorological sub-divisions (Actual: 27.0 mm, Normal: 30.8 mm and Departure: -12%).

Outlook for the week ending on 20th June 2007

Southwest monsoon is likely to advance further into some more parts of Maharashtra, east India and some parts of Chhattisgarh, Uttarakhand and Himachal Pradesh. Fairly widespread rainfall is likely over west coast, Indo-Gangetic plains, northeastern states and Western Himalayan region. Numerical Weather Prediction model suggests formation of low pressure area over west-central and adjoining northwest Bay of Bengal towards the end of the week.

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

FOREX (As on 19th JUNE, 2007):

Foreign Currency	Rs. per unit
1 US \$	40.76
1 Euro	54.58
100 Yen	32.99
1 British £	80.67

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