

WHEAT

26^h MAY-02nd JUNE, 2007

MAJOR ACTIVITY HIGHLIGHTS

- Govt. Hike the MSP of Wheat to Rs.850/qlt
- 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 14% as against last year total procurement and stood around 10.51 million tonnes so far as on May 31 excluding 6 lakh tonnes procured by state government of Punjab. However, the procurement of Punjab till date is still lagging around 6.52 million tonnes, down 6% 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 with incentive bonus in Punjab and Haryana by 15 days until Jun 15 and it will continue in other states till June end. The government usually wraps up wheat procurement operations by May 31. Total arrivals are stood higher around 14.45 million tonnes so far in the country. This year around 100,000 tonnes wheat is still arriving in the mandis everyday by May-end as against 3,000-4,000 tonnes a day during same period of last year. STC had proposed to buy only about 300,000-350,000 tonnes wheat from Toepfer and Glencore at \$263 a tonnes from the tender it has floated last month to import one million tonnes of the food grain from global markets. However, the government has cancelled STC's import tender. This is may be because of 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 cool down the global wheat markets. Government is seen to 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 on an average 1 million tonnes every month for its PDS system. As the FCI has already procured more than 10.5 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. Amid such trends, it is unlikely that prices are going to see any major high. The steady procurement in recent period amidst higher market arrivals will no doubt increase the stock position. According to the forecast of IGC, world wheat output in 2007/08 will be higher around 621 million tonnes as against 592.5 million tonnes during last year. 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 flat

Rs.907-910/qlt in Delhi's Lawrence Road mandi, with daily arrivals being around 20,000-25,000qtls.

OUTLOOK:

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

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

Markets	26.05.07	02.06.07
Delhi (Lawrence Road) truck loaded ready delivery	910-915	907-910
Haryana (Karnal)	942-947	942-947
Punjab (Khanna)	942-948	942-948
Rajasthan (Kota)	950-955	962-967
Uttar Pradesh (Kanpur)	945-951	952-957
Madhya Pradesh (Indore)	903-908	922-927
Uttar Pradesh (Bareilly)	930-935	935-940
Punjab (Sunam) Loose	850-851	850
Ludhiana (Jagraon) Loose	850-851	850
Rajkot Loose Price	850	850
Madhya Pradesh (Bhopal) Loose	865	865

Wheat Products	26.05.07	02.06.07
Atta (90kg)	951	951
Maida Grade 1(90kg)	1045	1045
Suji (50kg)	583	583
Chokar (50 kg)	366	370
Chokar (35 kg)	225	228
Chakki Atta (90kg)	865	865

Following was the status in other mandis, with active millers and private trade buying: (02.06.07)

Place	Arrivals	Price
Mathura	3000 Qtls	Rs.865-870 per qtl
Kosi	4000 Qtls	Rs. 860per qtl
Hodal	1500 Qtls	Rs. 835-852per qtl
Palwal	2000 Qtls	Rs. 850 per qtl
Rajkot	2000 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, the FCI has so far procured 10.51 million tonnes as on 31.05.07 excluding 6 lakh tonnes procured by state government of Punjab.
- ✓ Arrivals across the country are stood higher at 14.45 Mln Tonnes.
- ✓ 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:

Wheat Arrivals Remain Up all Over India

Total arrivals are stood higher around 14.45 million tonnes so far as on May 31 in the country. This year around 100,000 tonnes wheat is still arriving in the mandis everyday by May-end as against 3,000-4,000 tonnes a day during same period of last year. Of the total arrivals so far in the country around 11.45 million tonnes arrived in the states of Punjab and Haryana. Arrivals remain in M.P. around 1.09 million tonnes, whereas, in U.P. and Rajasthan it stood around 9.6 and 7.1 lakh tonnes respectively.

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.

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

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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 248,900 metric tons resulted as increases for Indonesia (58,000 MT, switched from unknown destinations), Mexico (3,400 MT), Nigeria (2,200 MT), Taiwan (2,100 MT), the Dominican Republic (2,100 MT), and Thailand (2,000 MT), were more than offset by decreases for Japan (97,700 MT), unknown destinations (83,000 MT), Iraq (51,200 MT), the Philippines (28,900 MT), and Cuba (25,000 MT). Net sales of 958,800 MT for delivery in 2007/08 were mainly for Japan (169,400 MT), Iraq (100,000 MT), unknown destinations (90,000 MT), Taiwan (83,500 MT), the Philippines (80,000 MT), Mexico (72,900 MT), Egypt (60,000 MT), and Colombia (57,000 MT). Exports of 380,400 MT were down 28 percent from the previous week and 23 percent from the prior 4-week average. The primary destinations were the Philippines (80,200 MT), Japan (51,000 MT), Iraq (48,900 MT), Taiwan (46,300 MT), Colombia (39,000 MT), and Mexico (35,900 MT).

This summary is based on reports from exporters for the period May 18-24, 2007.

Source: USDA

WEATHER WATCH

An off shore trough in sea level ran from Karnataka coast to Kerala coast during 26th to 30th. An embedded cyclonic circulation at lower levels lay over Southeast Arabian Sea off Kerala Coast on 26th. It lay over south-east Arabian Sea and adjoining east-central Arabian Sea off Karnataka coast during 27-30th. Two western disturbances as upper air systems affected Western Himalayan region during the week. An induced cyclonic circulation lay over Punjab and neighbourhood

on 25th, Himachal Pradesh and neighbourhood on 26th, Uttarakhand & neighbourhood on 27th & 28th and became less marked thereafter. Another cyclonic circulation lay over south Pakistan on 25th, south west Rajasthan and neighbourhood on 26th, Haryana & neighbourhood on 27th-29th and became less marked on 30th. An upper air trough ran from Sub-Himalayan West Bengal & Sikkim to north Orissa/ north Bay of Bengal in lower tropospheric level embedded with cyclonic circulation over Sub-Himalayan West Bengal & Sikkim on 24th and 25th. It became less marked on 26th. A cyclonic circulation at 0.9 km asl lay over East Uttar Pradesh on 25th, Jharkhand & neighbourhood on 26th, Jharkhand and adjoining Bihar and West Bengal on 27th and over Sub-Himalayan West Bengal & Sikkim and adjoining Assam & Meghalaya during 28th - 30th.

MONSOON WATCH

Southwest monsoon set in over Kerala on, the 28th May 2007. It covered south Arabian Sea, entire Kerala, extreme southern parts of Tamil Nadu and some more parts of south Bay of Bengal on 28th. It further advanced into some parts of central Arabian Sea, most parts of Coastal Karnataka, some parts of South Interior Karnataka and some more parts of Tamil Nadu and south Bay of Bengal on 29th. The northern limit of monsoon as on 29th May 2007, passed through Lat. 14° N / Long. 60° E, Lat. 14° N / Long. 70° E, Karwar, Chitradurg, Pamban, Lat. 10° N / Long. 85°, Lat. 13° N / Long. 90° E, Lat. 15° N / Long. 92° E, and Lat. 17° N / Long. 95° E.

Rainfall:

FOREX (As on 4th JUNE, 2007):

Foreign Currency	Rs. per unit
1 US \$	40.54
1 Euro	54.51
100 Yen	33.24
1 British £	80.21

Fairly widespread/widespread rainfall with isolated heavy to very heavy falls occurred over Kerala and Lakshadweep during 27-30th and over Coastal Karnataka and Andaman & Nicobar Islands during 28-30th. Scattered rain/thundershowers occurred over these regions during remaining days of the week and over remaining parts of the south India throughout the week. Fairly widespread/ widespread rainfall occurred over northeast India and Sub-Himalayan West Bengal & Sikkim during many days of the week. Isolated heavy to very heavy falls also occurred over these regions during a few days. Isolated rain/thundershower occurred over remaining parts of east India during many days of the week. Isolated to scattered rain/thundershower occurred over western Himalayan region during many days of the week. Isolated duststorm/thundershowers occurred over plains of northwest India and Rajasthan during 26-30th May. Isolated to scattered rain/thundershower occurred over Konkan & Goa during many days of the week. Isolated rain/thundershower occurred over central India and remaining parts of west India during second half of the week.

Outlook for the week ending on 6th June 2007

Scattered/ fairly widespread rainfall along the west coast and northeast India. Rise in day temperature over northwest & east 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 [#]	55	56	36	38	34

*Argentina, Australia, Canada, EU, United States

Source: International Grains Council

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