

## WHEAT

30<sup>th</sup> JUNE -07<sup>th</sup> JULY, 2007

### MAJOR ACTIVITY HIGHLIGHTS

- Wheat Prices Bullish at Spot on Lower Arrivals
- India has Issued 1 Mln Tonnes Wheat Import Tender
- India Received Wheat bids Ranging \$317.95-\$370/tonne Cost & Freight
- Wheat Procurement Remained Around 11090106 tonnes
- Wheat buffer Stock Stood Down as against Norms

### MARKET FUNDAMENTALS:

Wheat prices increased in major domestic markets in the country on rising demand from flour millers amidst lower arrivals. Wheat for ready delivery (truck loaded) traded up between Rs.975-985/qlt in Delhi's Lawrence Road mandi, as against last week. Flour millers have accelerated their buying due to strong demand for bakery products. The price of different wheat products have also increased. Flour millers are interested to pile up their stocks in order to make profit in off season. It is learnt that flourmillers are not able to get required stocks directly from the market because despite the good stocks the food grain is offered at higher prices from private trading firms. The situation has turned murky as private players enter the market and purchasing at higher prices. As a result, the cost of wheat that will be supplied to the mills of South India will be around Rs.1150/qlt including freight rates. Total wheat arrivals in the rabi marketing season 2007-08 are increased to over 15363361 tonnes and total procurement by government agencies stood around 11090106 tonnes so far as on 30.06.07. Government decision to scrap an import tender for one million tonnes of wheat in the month of May because of higher prices has not yield favourable result as global wheat prices jumped up further on erratic weather disrupting the US winter wheat harvest, and drought in Ukraine and Russia amidst sharply decreasing wheat stocks. In the latest tender of STC to import 1 million tonnes of wheat the country has received bids ranging between \$317.95 and \$370 per tonne cost & freight. The lowest bid of \$317.95 per tonne has come from Alfred C. Toepfer is nearly 40 percent above an average \$230 paid for the imports in 2006. This is also near about 20% above the \$265.5 a tonne that was received in its earlier tender issued on April 30 this year. Presently, wheat is available from Europe, France, and Canada. Ukraine, chief low-cost supplier to India, is unlikely to exporting wheat this year due to low output. Pakistan, which could also have supplied wheat at lower rates to India due to its proximity to the country, has recently banned export of the food grain. Australia's crop won't be available until November and U.S. wheat is unlikely to meet phytosanitary standard of India's requirement. Further, according to the latest estimate of IGC, global wheat production in 2007-08 is forecast at 614 million tonnes against the global consumption of 619 million tonnes. Market sources believe that India won't go for importing of full amount of wheat that is called in tender because of higher rate. It is unlikely that global wheat prices

will cool down at significantly lower side in coming months. Therefore further wait for global supplies and prices to ease in coming months may be futile. It is now very unlikely to fall in wheat prices in domestic markets as big private houses that are procuring wheat in market prices have to pay a good amount for storage charge per month. Therefore, in the time of release their stocks they will count the storage charge in addition. The rising prices of wheat products will no doubt add firmness in the wheat sentiments in coming days.

### OUTLOOK:

**Short Term (One Week):** Up on lower arrivals amidst some buying support.

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

Markets	30.06.07	07.07.07
Delhi (Lawrence Road) truck loaded ready delivery	972-975	975-980
Haryana (Karnal)	965-970	982-987
Punjab (Khanna)	1035-1040	1032-1037
Rajasthan (Kota)	1028-1032	1060-1066
Uttar Pradesh (Kanpur)	990-995	998-1002
Madhya Pradesh (Indore)	988-993	1050-1056
Uttar Pradesh (Bareilly)	980-985	1015-1020
Punjab (Sunam) Loose	885	915-920
Ludhiana (Jagraon) Loose	885	915-920
Rajkot Loose Price	930	955-960
Madhya Pradesh (Bhopal) Loose	920	960

Wheat Products	30.06.07	07.07.07
Atta (90kg)	1005	1005
Maida Grade 1(90kg)	1193	1193
Suji (50kg)	665	665
Chokar (50 kg)	285	270
Chokar (35 kg)	193	181
Chakki Atta (90kg)	910	910

Following was the status in other mandis, with active millers and private trade buying: (07.07.07)

Place	Arrivals	Price
Mathura	1500 Qtls	Rs.900.912 per qtl
Kosi	600 Qtls	Rs. 907-910 per qtl
Hodal	200 Qtls	Rs. 906-910 per qtl
Palwal	500 Qtls	Rs. 892 per qtl
Rajkot	-	Rs. 955-962 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 11.09 million tonnes as on 30.06.07.
- ✓ Government is likely to import around 4-5 Mln Tonnes of wheat during Aug-Dec to build buffer stocks
- ✓ India has issued a wheat tender to import of 1 million tonnes
- ✓ India received seven bids so far for the wheat import tender at higher prices between \$317.95 and \$370 per tonne cost & freight
- ✓ The wheat market is in turmoil, worldwide stocks are either low or not there
- ✓ Wheat purchases by big private firms remained lower to 1.4 million tonnes this year compared with 2 million tonnes purchased in last year.
- ✓ Total wheat arrivals are increased to over 15363361 tonnes so far as on 30.06.07
- ✓ MMTc Ltd. has reportedly postponed the 50,000 tonnes wheat import tender that had floated on June 7.
- ✓ IGC lowered its forecast for world wheat output in 2007/08 to 614 million tonnes down by 7 mln tn from May forecast.
- ✓ 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
- ✓ Pakistan government has suspended the export of wheat
- ✓ Ukraine will not allow wheat exports from July
- ✓ 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.
- ✓ 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:

##### India Received Wheat bids Ranging \$317.95-\$370/tonne Cost & Freight

India has issued a wheat tender to import of 1 million tonnes of the food grain. The bids would open on July 4 and would be valid until July 10. Shipments would be made between August and November. The quality specifications remained same as in previous tenders. Earlier in the month of May an identical amount of wheat tender was cancelled due to higher global prices. However, global wheat price has increased steadily in the recent period. Wheat futures at the Chicago Board of Trade are tested 11-years high and remained at around \$6 per bushel, up more than 28 percent against three to four weeks ago. India received seven bids so far for the wheat import tender at prices between \$317.95 and \$370 per tonne cost & freight. Alfred C. Toepfer International of Germany, Cargill Inc of the US, Glencore AG of Switzerland, Concordia Agritrading and Louis Dreyfus of France are among the bidders. However totals quantity of bids remained lower around 9.2 lakh tonnes. The lowest bid of \$317.95 per tonne has come from Alfred C. Toepfer to supply 1.28 lakh tonnes for the delivery at Mundra. The bid is nearly 40 percent above an average \$230 paid for imports in 2006.

##### Wheat Procurement by Ten Govt Agencies has Increased

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 3031320 tonnes so far as on 30.06.07. The other agencies have procured like, St. Govt. 2215355 tonnes, CSC 156,282,4 tonnes, FCI 1539458 tonnes, AGRO 1134369 tonnes, SWC 1071231 tonnes, CONFED 266,574 tonnes, NAFED 199591 tonnes, USS 35780 tonnes, SFC 33604 tonnes, in descending order. SFC and USS have procured wheat only from Uttar Pradesh. CONFED only from Haryana and CSC from Punjab. FCI procures wheat from Punjab, Haryana, U.P., M.P., Bihar, Rajasthan, Uttarkhand and Delhi. Wheat procurement from Bihar increase to 7856 tonnes this week as against 6689 tonnes and in Delhi remained flat around 873 tonnes as compared to last week. There was no procurement of wheat by government

agencies from the states during last year. St. Govt. has purchased its maximum quantity around 127,464,9 tonnes from Punjab followed by 813,724 tonnes from Haryana. CO-OP has procured its largest amount around 1664027 from Punjab followed by 1289158 tonnes from Haryana. NAFED has procured its largest amount around 145818 tonnes from U.P. so far as on 30.06.07.

### **Wheat Procurement Remained Around 11090106 tonnes**

Wheat procurement by Government stood up around 11090106 tonnes so far as on 30.06.07, against 9,231,004 tonnes a year ago. In Bihar, procurement operations continue until Jul 15. Different government agencies of Punjab have procured the lower amount of 6,756,756 tonnes as against the last year procurement around 6,951,404 tonnes. The target this year is stood around 75 lakh tonnes. However, in the states of Haryana, U.P., M.P. and Rajasthan it is higher as compared to last year. The total procurement in Haryana stood up around 3,346,460 tonnes as against the previous year procurement of 2,228,725 tonnes. U.P. has contributed larger amount of wheat around 535731 tonnes to the central pool so far as compared to 48,873 tonnes last year. The procurement in M.P. and Rajasthan remained up around 57308 tonnes and 383288 tonnes respectively as against the total procurement of last year's 20 tonnes and 1582 tonnes respectively. Delhi contributed a good amount of 873 tonnes as compared to nil procurement last year. Bihar also witnessed good procurement around 7856 tonnes by the government agencies as against zero procurement last year. The arrivals are declining in the states of U.P. and M.P., Rajasthan, Chandigarh, Delhi, Bihar. It is learnt that Government is keen on building a wheat buffer of at least 6.5 million tonnes by Apr 1 as against the buffer norms of 4 million tonnes. Therefore, the government is planning to import around 5 million tonnes of wheat by the month of March next year.

### **Wheat buffer Stock Stood Down as against Norms**

The wheat buffer stock in FCI reportedly stood down at 129.39 lakh tonnes as on July 1, against the buffer norms of 171 lakh tonnes. However, the stock is satisfactory to meet the country's requirement for PDS system. The government requires 10 lakh tonnes of wheat every month for PDS.

### **MMTC Ltd. Postponed the 50,000 tonnes Wheat Import Tender**

MMTC Ltd. has reportedly postponed the 50,000 tonnes wheat import tender that had floated on June 7. The reason behind that may be of higher global prices on concerns about the lagging domestic harvest of U.S. winter wheat and unfavourable weather such as drought in Ukraine and Russia coupled with shrinking global supplies. Global wheat price has increased steadily in the recent period. Wheat futures at the Chicago Board of Trade are tested 11-years high and remained at around \$6 per bushel, up more than 28 percent against three to four weeks ago. Presently, India has to pay around \$300 per tonne for the grain that is much higher from the bids of around \$263 per tonne received in the earlier tender of STC.

### **Govt. is Looking for Higher Buffer Stocks of Wheat**

Government is keen on building a higher wheat buffer of at least 6.5 million tonnes by Apr 1 as against the buffer norms of 4 million tonnes. Therefore, the government is planning to import around 5 million tonnes of wheat by the month of March next year. Government already procured more than 11.05 million tonnes wheat and 4.7 million tonnes as

beginning stocks in addition. Total requirement for PDS system is around 12 million tonnes annually. Therefore, stock position is good and government is looking for a higher reserve so that it keeps wheat prices under control this year as well as the next. Earlier, government decision to scrap an import tender for one million tonnes of wheat because of higher prices is unlikely to yield favourable result as global wheat prices jumped up further on erratic weather disrupting the US winter wheat harvest, and drought in Ukraine and Russia amidst sharply decreasing wheat stocks. USDA has projected global year-ending wheat stocks for 2007-08 at 112.03 million tonnes – a 30-year-low. Further it is learnt that, government would hold a tender to import 2 million tonnes of the grain by the end of June. India will now have to pay around to \$290-300 a tonne to buy wheat as prices have been soaring at the CBOT. CBOT rose to 11-year highs of above \$6 a bushel last week and continued at higher levels. However, the stock position of wheat in central pool is satisfactory to meet domestic demand on higher production, higher beginning stocks and higher procurement as compared to last year. Wheat spot prices likely to increase in the coming months on restricted arrival amidst increased offtake from roller flour mills. However, higher wheat availability in the market will restrict the rallies

### **Further Waiting in Wheat Import May not Yield Premium**

Government decision to scrap an import tender for one million tonnes of wheat in the month of May because of higher prices is unlikely to yield favourable result as global wheat prices jumped up further on erratic weather disrupting the US winter wheat harvest, and drought in Ukraine and Russia amidst sharply decreasing wheat stocks. Despite the price towering to 11-year highs at CBOT and remained at around \$6 per bushel, up more than 28 percent against three to four weeks ago, India a few days ago has issued a wheat tender to import of 1 million tonnes of the food grain. Government procures around 11.08 million tonnes wheat so far as on 27.06.07 and had 4.7 million tonnes as beginning stocks in addition. However, government is looking for a higher reserves at least 6.5 million tonnes by Apr 1 next year so that it keeps wheat prices under control this year as well as in the next year. Presently, wheat is available from Europe, France, and Canada. Australia's crop won't be available until November and U.S. wheat is unlikely to meet phytosanitary standard of India's requirement. Ukraine and Russia are facing a drought. Further, according to the latest estimate of IGC, global wheat production in 2007-08 is forecast at 614 million tonnes against the global consumption of 619 million tonnes. Moreover, USDA has projected global year-ending wheat stocks for 2007-08 at 112.03 million tonnes – a 30-year-low. It is assuming that bids for the latest tender could range between \$300 and \$320 per tonne, including cost and freight, about 20 percent higher than prices of around \$263 it received for its May tender. Market sources believe that India won't go for importing of full amount of wheat that is called in tender because of higher rate. It is unlikely that global wheat prices will cool down at significantly lower side in coming months. Therefore, it may not yield premium over further waiting.

### **Global Wheat Production Forecast Down by 7 Mln Tonnes**

WHEAT: Forecast production is 7m. tons lower than last month at 614m. tons (593m. last year). This follows hot, dry conditions in Ukraine, southern Russia and south-east Europe. While heavy rains in some northern member States may affect wheat quality, EU production should increase from last year. Spring plantings in Canada were lower than expected and the quality of some US hard winter wheat is below normal, leading to concerns about premium milling wheat supplies. Encouraged by

high prices, plantings should increase in Argentina and rains significantly improved prospects in Australia. Projected world wheat consumption is down 5m. tons from last month at 619m. because of reduced feed use estimates, especially in the CIS and EU. The forecast of closing stocks is reduced by 4m. tons to 111m., including 31m. in the five major exporters, the lowest for 12 years. With tighter availabilities, world trade is now forecast to be lower than last year, at 107m. tons, 2m. less than last month. Forecast purchases by Sub-Saharan Africa are reduced because of high import costs. With less wheat available from the Black Sea region, shipments by Argentina, Australia and the US are placed higher than before, but tight supplies will constrain exports by Canada and the EU.

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

### **Global Wheat prod Projected Lowered 6.7 MT from Last Month**

Global 2007/08 wheat production is lowered 6.7 million tons from last month. FSU-12 output is projected 7.3 million tons lower as dry weather and heat in Ukraine and Russia sharply reduce crop prospects. The most adverse

conditions coincided with key reproductive stages of winter wheat development in both countries. Production for Moldova is also lowered. Production is lowered 0.6 million tons this month for Morocco as severe drought sharply reduced winter wheat output. Partly offsetting these reductions is an increase in Argentina production, raised 1.2 million tons reflecting higher expected area as producers respond to high world prices. With reduced 2007/08 global production and tighter supplies this month, global imports, exports, and consumption are all projected lower. The largest import reduction is projected for EU-27, down 1 million tons due to tighter FSU-12 supplies. The largest export declines are projected for Russia and Ukraine, down 2 and 3 million tons, respectively. A projected 1-million-ton increase in exports for Argentina still leaves world exports down 2.9 million tons this month. Even with a projected 3.8-million-ton reduction in global consumption, ending stocks decline 1.3 million tons. At 112.0 million tons, global stocks are projected down 8 percent from 2006/07, the lowest in 30 years.

Source: WASDE

### **USDA Wheat Weekly Export Sales Down by 14%**

Net sales of 538,400 metric tons were 14 percent below the previous week. Increases reported for Egypt (118,400 MT, including 60,000 MT switched from unknown destinations), Yemen (48,000 MT), Mexico (47,400 MT), Peru (42,500 MT), South Africa (37,000 MT, including 34,000 MT switched from unknown destinations), Colombia (33,900 MT), and Indonesia (30,100 MT), were partially offset by decreases for unknown destinations (41,500 MT). Exports of 590,500 MT were 33 percent above the previous week and 50 percent over the prior 4-week average. The primary destinations were Egypt (108,400 MT), the Philippines (67,000 MT), Nigeria (61,300 MT), Japan (61,100 MT), and Peru (54,000 MT).

This summary is based on reports from exporters for the period June 22-28, 2007.

Source: USDA

### **MONSOON WATCH**

Southwest monsoon further advanced into the remaining parts of Arabian sea, most parts of Saurashtra & Kutch, some parts of Gujarat region, the remaining parts of Madhya Maharashtra & Marathawada, some more parts of Vidarbha, Orissa and Jharkhand on 24th June. It advanced into remaining parts of Gujarat, some parts of southeast Rajasthan and south Madhya Pradesh, some more parts of Chhattisgarh and remaining parts of Vidarbha, Orissa and Jharkhand on 25th June. It further advanced into some more parts of East Uttar Pradesh, remaining parts of Uttarakhand, entire Himachal Pradesh, Jammu & Kashmir and northern parts of West Uttar Pradesh, Haryana and Punjab on 26th June. Northern limit of monsoon passed through lat. 25.0 °N/ long. 60.0° E, lat. 25.0 °N/ long. 65.0° E, Deesa, Idar, Hoshangabad, Pendra, Ambikapur, Varanasi, Sultanpur, Lucknow, Bareilly, Ambala and Amritsar (Map Enclosed).

### **WEATHER WATCH**

Last week's well marked low pressure area over east-central & adjoining west-central Bay of Bengal concentrated into a depression at 0830 hrs. IST on 21st over west-central Bay of Bengal near lat. 15.5 °N/ long. 86.0° E about 430 km east-southeast of Kakinada. It moved west-northwestwards and intensified into a deep depression around the same evening. Moving further west-northwestwards, it crossed Andhra Pradesh coast near Kakinada around 0430 hrs. IST of 22nd June. Continuing its west-northwestward movement, it weakened into



a depression and lay centred over Marathawada close to Osmanabad in the morning of 23rd June. It further moved north-westwards and weakened into a well marked low pressure area and lay over northeast Arabian Sea and adjoining Saurashtra & Kutch on 24th morning. The system again concentrated into a depression and lay centred at 0830 hrs. IST on 25th June near lat. 23.5°N/ long. 67.5° E about 150 km west-northwest of Naliya. Continuing its west-northwestward movement, it further intensified into a deep depression in the same evening near lat. 23.5°N/ long. 66.5° E about 250 km west-northwest of Naliya. The system moved north-westwards and crossed Pakistan coast near long. 64.0° E between 0730 and 0830 hrs. IST of 26th. A cyclonic circulation lay over north Bay of Bengal on 25th extending upto mid-tropospheric levels. Under its influence a low pressure area formed over northwest Bay of Bengal off Orissa coast on 26th June. It lay as a well marked low pressure area over north and adjoining central Bay of Bengal on 27th. An off-shore trough extended from Gujarat coast to Kerala coast during 21st to 23rd June and from Gujarat to Karnataka coast from 24th to 27th. A Cyclonic Circulation lay over north Pakistan and adjoining Jammu & Kashmir extending upto 2.1 km a.s.l. from 22nd to 25th June. An upper air cyclonic circulation extending upto mid-tropospheric levels lay over northwest Rajasthan & neighbourhood on 21st; over East Rajasthan & neighbourhood on 22nd and became less marked on 23rd. A cyclonic circulation extending upto 1.5 km a.s.l lay over west Assam & neighbourhood on 22nd & 23rd June and over east Assam & Neighbourhood during 24th to 26th.

#### Rainfall:

Southwest Monsoon was vigorous/active along the west coast during many day of the week. It was also vigorous/active over Andhra Pradesh during first half and

over Interior Karnataka and Maharashtra during 2nd half of the week. Scattered heavy to very falls with isolated extremely heavy falls occurred over south Coastal Andhra Pradesh, Rayalaseema, Telangana, Kerala, Karnataka, Konkan & Goa and Madhya Maharashtra during the few days of the week. Southwest monsoon was also active over Orissa during the last two days of the week. Rain/thundershowers occurred at many places over Andaman & Nicobar Islands, Lakshadweep, Gangetic West Bengal & Orissa on many days; Chhattisgarh, east Madhya Pradesh, Vidarbha, Marathawada & Gujarat state on a few days of the week. Isolated to scattered rain/thundershower occurred over remaining parts of the country during many days of the week..

#### Outlook for the week ending on 04<sup>th</sup> July 2007

The well marked low pressure area over north & adjoining central Bay of Bengal is likely to concentrate into a depression. Under its influence, widespread rainfall with scattered heavy to very heavy falls and isolated extremely heavy falls (> 25 cms.) are likely over Orissa, Chhattisgarh and north Andhra Pradesh during next 2-3 days. The enhanced rainfall activity is likely to extend into Vidarbha, Madhya Pradesh, Madhya Maharashtra, Konkan & Goa and Gujarat from 29th onwards. Decrease in rainfall activity over Orissa, Andhra Pradesh, Chhattisgarh during second half of the week. Conditions are favourable for further advance of southwest monsoon in some more parts of west, central and northwest India.

Source: IMD.

#### IGC WORLD WHEAT ESTIMATES (28.06.07)

(Million tons)

	2004-05	2005-06	2006-07 Est.	2007-08 (Forecast)	
				24.05	28.06
Production	628	620	593	621	614
Trade	110	109	108	109	107
Consumption	617	624	613	624	619
Stocks	140	136	116	115	111
Year-Year Change	+12	-4	-20		-5
5 Major Exporters <sup>#</sup>	58	57	35	34	31

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

Source: International Grains Council

#### FOREX (As on 09<sup>th</sup> JULY, 2007):

Foreign Currency	Rs. per unit
1 US \$	40.41
1 Euro	55.00
100 Yen	32.69
1 British £	81.23

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