

WHEAT

20th - 25th AUGUST, 2007

MAJOR ACTIVITY HIGHLIGHTS

- 4th Advance Estimate: Wheat Production Up
- Wheat Procurement Remained Around 11.1 Million Tonnes
- Import Duty (30%) Likely to cut on Wheat Flour
- Wheat Stock Under GOI is Higher Around 12.01 Million Tonnes
- Government to Import 50 Lakh tonnes of Wheat

MARKET FUNDAMENTALS:

During the week starting August 20, wheat traded steady to firm in the domestic markets on normal buying support against the restricted supply. The news of the floating of tenders for the wheat import induced the stockists not to release the stocks in anticipation of the further price rise, which further imparted bullishness into the market. During the week, domestic market sentiments also got support from the rising global wheat prices as CBOT wheat futures continuously closed higher on good export demand from the importing countries like India, Taiwan and Japan. According to an estimate from the United States Department of Agriculture, wheat prices for 2007-2008 are set to hit record highs. However, roller flour millers are in the mood of accelerating their purchase in the prior of festive season. Total arrivals in Delhi (Lawrence Road) remained down from previous week's 12,000 qtls to 9000 qtls this week and prices quoted at Rs.1000-1015/qlt. At Narela and Najafgarh markets the price remained steady to down around 965-975/qlt, and 960-970/qlt (loose basis) on the back of normal arrivals of around 4000-5000 qtl and 4000 qtls respectively. South market traded steady on weak demand from the consuming units. The price of different wheat products traded steady to rise as, Atta quoted at Rs.1073/90kg. Maida and sooji traded at Rs.1256/90 kg and Rs.710 a 50 kg bag respectively. Wheat stock under Indian government is reportedly higher around 12.02 million tonnes this year as on August 1 as compared to 7.33 million tonnes corresponding period of last year.

Pakistan is planning to impose 35 per cent export duty on wheat export to check the domestic prices where as India is planning to cut the present import duty of 30 per cent to nil to keep the price stabilize during the winter and festive season. India floated the tenders to import wheat of about 50 lakh tonnes to build up buffer stock for meeting any exigencies like natural calamities along with to meet the demand to distribute under the PDS system. The total procurement of wheat in the private sector stood at 18.76 lakh tonnes as on July 30 in the current marketing season. However, it is lower as compared to last year purchase of around 20 lakh tonnes. To meet the demands of wheat product, Government is about to sell wheat from its reserves to prevent a rise in prices ahead of the peak festival season. For the coming festive season as well as winter consumption in north India, growing demand for

wheat is very likely to support the market to trade at higher side.

OUTLOOK:

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

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

Markets	18.08.07	25.08.0
Delhi (Lawrence Road) truck loaded ready delivery	1020	1015
Haryana (Karnal)	995-1000	995-1000
Punjab (Khanna)	1050-1055	1030
Rajasthan (Kota)	1060-1065	1065-1070
Uttar Pradesh (Kanpur)	1035-1040	1035
Madhya Pradesh (Indore)	1045-1050	1030-1035
Uttar Pradesh (Bareilly)	1010-1015	1005-1015
Punjab (Sunam) Loose	920	885-890
Ludhiana (Jagraon) Loose	920	910
Rajkot Loose Price	1010-1015	960
Madhya Pradesh (Bhopal) Loose	1010-1015	980-990

Wheat Products	18.08.07	25.08.07
Atta (90kg)	1073	1073
Maida Grade 1(90kg)	1256	1256
Suji (50kg)	700	710
Chokar (50 kg)	326	343
Chokar (35 kg)	207	234
Chakki Atta (90kg)	960	945

Following was the status in other mandis, with active millers and private trade buying: (25.08.07)

Place	Arrivals	Price
Mathura	1200 Qtls	Rs.940 per qtl
Kosi	700 Qtls	Rs. 941 per qtl
Hodal	150 Qtls	Rs. 940 per qtl
Palwal	600 Qtls	Rs. 938 per qtl
Narella	4500 Qtls	Rs. 968-975 per qtl

PRICE DRIVERS:

- ✓ Government of India floated the tenders to import around 50 lakh tonnes of wheat
- ✓ Government of India chalked out the month-wise and port-wise import of wheat from November 07 to April 08.
- ✓ To keep the domestic prices stable, government is planning to curb the present 30 per cent export duty on wheat import
- ✓ Pakistan government is planning to impose 35 per cent export duty on wheat to keep the price check on domestic markets.
- ✓ In CBOT, wheat prices surged up on the growing wheat demand from India, Taiwan and Japan.
- ✓ CBOT wheat futures continuously closed higher
- ✓ According to the fourth advance estimate of government of India the wheat production in the year of 2006-07 stood up around 74.89 million tonnes as against the production of 69.35 million tonnes during last year.
- ✓ Wheat purchase by private companies stood at 18.76 Lakh Tonnes
- ✓ Wheat stock under Indian government is reportedly higher around 12.02 million tonnes this year as on August 1 as compared to 7.33 million tonnes corresponding period of last year.
- ✓ Roller flour millers are against the government's plan to scrap customs duty on wheat flour from the current 30 per cent level.
- ✓ PEC to Sell 21,478 tonnes of imported Russian wheat in domestic market
- ✓ This year, government has so far procured 11.1 million tonnes.
- ✓ IGC forecasts global wheat production to be unchanged at 614 million tonnes this Month
- ✓ CBH has estimated Australia's wheat crop to be harvested in November/December to be around 6 million to 9 million metric tonnes from 5 million to 9 million tonnes a month ago
- ✓ Wheat production in U.S. likely to be higher this 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.
- ✓ Russian wheat reached in Tuticorin port
- ✓ 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 Re-works Wheat Import Plans

The Prime Minister's Office turned down the Food Ministry's request for domestic wheat tender. The official in the Ministry said that a tender of would be floated for the month-wise and port-wise supply of wheat. According to the Ministry's plans, near about 20 lakh tonnes of wheat would be delivered at the Mundra port. Close to 7 lakh tonne would be contracted for Kakinada and Kandla ports whereas Chennai port would receive 6 lakh tonnes. Tuticorin, Vizag and Mumbai ports are the other ports where delivery can be taken place. The entire 50-lakh tonnes amount will be delivered in maximum 120 shipments through the contracted months. Last year, the government had imported 54.54 lakh tonnes of wheat in 143 vessels. The ministry has worked out a tentative delivery of 5.93 lakh tonnes of the wheat in November, 8.5 lakh tonnes in December, 7.15 lakh tonnes in January, 8.45 lakh tonnes in February, 8 lakh tonnes in March and 8.14 lakh tonnes in April. This adds up to 46.17 lakh tonne. The balance has been already contracted for supply with 1.28 lakh tonnes delivery in September and 2.56 lakh tonne in October.

Wheat Imports will be Continued: Union Agriculture Minister

According to the Union Agriculture Minister, India's wheat import process will be continued to raise the reserves. The state-run reserves run a deficit of 4 million tonnes after the government bought 11.1 million tonnes of wheat from the local farmers. Central government buys rice and wheat at assured prices from farmers for sale at subsidized rates.

Government Invited Tenders for Wheat Import Today

India today has floated a tender to buy near about 50 lakh tonnes of wheat. The State Trading Corporation (STC) has floated the wheat import tender on behalf of the government. This is the third tender being floated by the STC this year. The tender closes on August 29 and the company will decide the quantity on September 23. As of July 1, this year, the buffer stock stood around 130 lakh tonnes against the bofor norm of 171 lakh tonnes. Keeping in mind the international prices, Pakistan may be suitable option before the Indian importers but Pakistan is planning to impose 35 per cent export duty on wheat to keep the domestic prices stable. India is also planning to curb present 30 per cent import duty on wheat.

CBH Estimated Australia's Wheat Oouput Around 6 to 9 Million Metric Tonnes

Concerns are mounting on Western Australia's winter wheat whether it will meet the production forecasts as some wheat growing areas received light rains in the past week. The heavy falls in northern New South Wales and southern Queensland in the recent weeks have helped the water requirement of the crops, which is very unlikely lower the production. CBH has estimated the Western Australia's wheat crop to be harvested in November/December to be around 6 million to 9 million metric tonnes from 5 million to 9 million tonnes a month ago.

Pakistan to Impose 35% Export duty on Wheat Flour

Pakistan government is planning to impose export duty on wheat flour in the expectation of proposal coming from Indian government. To keep the prices reasonable during the festive season, Indian government plans to allow duty free wheat flour

imports. If India cuts the import duty of present 30 per cent to nil, then Pakistan will be the most viable option for the wheat import. As the industry officials, India may get wheat from Pakistan at \$270-280/tonne and refined wheat flour at \$293-295/tonne at western ports, which is much cheaper, then import from western countries. Pakistan's wheat output is seen at 23.5 million tonnes. Pakistan government's plan to impose export duty as the large-scale export of wheat may hike the domestic prices.

Russian Wheat Unloaded at Tuticorin Port

Tuticorin port created a new record by unloading a volume 10,140 tonnes of wheat in bulk from the vessel, MV Emperor, at berth no. VIII on August 20 (on a single day). As per the tuticorin press release, the Russian wheat has been imported by Cargill (I) Pvt. Let., New Delhi.

Southern Hemisphere To Decide US Wheat Price

PEC, State-owned trading firm likely to sell 21,478 tonnes of imported wheat of Russian origin that was imported last year. The wheat stored in several warehouses of Tuticorin will be sold in domestic market by August 3. According to PEC, the last date of submission of bids is July 30 and the price quotations would be opened on the same day. The decision will no doubt benefit flour millers in the south, as they would have to pay less on transport of the food grain from Tuticorin.

Wheat Production Stood at 111 Metric Tonnes

According to Agriculture Ministry, although there is a record production this year, but the import is only undertaken to ensure food security. The production of wheat this year was 111 lakh tonnes, up from 92 lakh tonnes last year. However, the Ministry said the requirement for the domestic consumption somewhere around 150 million tonnes, the import will fill the remaining gap. Ministry also said that to increase the agriculture production, the irrigation needs to be increased from current level of 35 per cent.

STC Appointed NCMSL to Study Global Wheat Markets

As per the report of government official, India is likely to issue a series of tenders for the import of less than 500,000 MT wheat each in next few months. The State Trading Corporation of India Ltd. has appointed National Collateral Management Services Ltd. (NCMSL) to gather market intelligence and make recommendations on the volumes and timing of tenders. At present, India is keenly watching the global wheat prices. The tenders are likely to be issued after the NCMSL's recommendation and the tenders may be open-ended. The open-ended tenders are likely to be issued because seeking between 1.0 million tonnes and 2.0 million of tonnes wheat in a tender and then buying only around 500,000 tonnes contributes to pushing up global prices. The government is planning to seek some of the shipments in containers instead of cargoes in bulk as these might be a little cheaper in terms of freight costs. The quality standard of the imported wheat will not be compromised, official reported. Although Egypt is a leading importer of wheat but doesn't make purchase in single tenders of large volumes. NCMSL will study global wheat markets in greater detail including crop conditions in producing countries before submitting its recommendations to STC.

WASDE Projected Higher Global Wheat Out Put by 2.1 Mln Tonnes

Global 2007/08 wheat production is projected 2.1 million tons higher this month, mostly reflecting higher expected production for China. Harvested area and yield are both rose this month for China leaving projected production up 5 million tons. Production in the four major export competitor countries, however, is projected 1.8 million tons lower with major reductions for Canada and EU-27 more than offsetting an increase for Australia. A 2-million-ton reduction for Canada is based on reduced planted area this spring and is consistent with a similar downward revision to 2006/07 productions. EU-27 production for 2007/08 is projected 0.7 million tons lower reflecting reduced production prospects mostly in Eastern Europe and Greece. Australia production is raised 0.9 million tons reflecting improved rainfall, particularly in the eastern growing areas of the country since early June. Production is lowered for Demand and production potential in the Southern Hemisphere is the key factors in future US wheat prices. The world buyers are optimistic about the Southern Hemisphere's wheat to meet their demands. Due to drought in Australia last year, world export market was severely affected. As per the Cropcast Agricultural Weather report, there is little relief from the drought in Argentina. Deficit in rainfall in recent weeks, country's wheat belt is definitely lack moisture, which may hamper the yield potential. Cold climate in recent weeks over the wheat growing areas in Argentina may hamper the crop growth as crop is only in the vegetative stages of growth.

WASDE Forecasts Lower Winter Wheat Production in U.S.

U.S. wheat supplies for 2007/08 are projected 10 million bushels higher this month as higher carrying more than offsets a 29-million-bushel reduction in forecast production. Forecast winter wheat production is lowered 48 million bushels as heavy June rains reduced yields in Kansas and Oklahoma. Lower hard red winter (HRW) wheat production is partly offset by higher soft red winter (SRW) wheat production. The first survey-based forecast of spring wheat (including durum) production is 576 million bushels, up 8 percent from last year, and up 18 million bushels from last month's projection. Wheat feed and residual use is lowered 15 million bushels this month based on higher expected prices. Exports for 2007/08 are raised 50 million bushels as reduced supplies in major exporting countries provide more opportunities for U.S. wheat sales. The projected season-average farm price range is raised 30 cents on each end to \$4.80 to \$5.40 per bushel, well above the 2006/07 estimate of \$4.26 per bushel and the 1995/96 record of \$4.55 per bushel.

Source: WASDE

IGC Forecasts Global Wheat Production to be Unchanged at 614 MMT this Month

Production forecast is at 614m. tonnes, unchanged from last month, and 23m. tonnes more than in 2006. Higher estimates for China, India and Kazakhstan balance further reductions in the EU and Canada. Bad weather in Europe, as well as reducing yields, affected crop quality. Weather conditions in North America raised concern for premium wheat supplies, but the US harvest forecast is unchanged at 58m. tons, 9m. more than last year. Planting in Argentina was delayed by cold, dry weather and fertiliser shortages may affect yields, but conditions in Australia remain much better than last season. Forecast consumption is down 2m. tons from last month at 617m. tons

because of smaller supplies of wheat for animal feed in the EU. World food use is stable as high prices suppress demand, but industrial use is increasing as more ethanol plants come into use. Although the total stocks forecast has been increased by 1m. tonnes, it remains, at 112m., the lowest for 28 years. Stocks of Hard Red Winter wheat in the US will be particularly tight. Trade in 2007/08 is forecast at 107m. tonnes, unchanged from last month, and 2m. tonnes less than the (increased) estimate for 2006/07. Compared with last year, imports by the EU, Morocco and Iraq are expected to be larger, while less will be bought by the US, Brazil and India. With less competition US exports are forecast to increase to 28.5m. tonnes, 3.6m. more than last year and the highest since 2003/04.

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

USDA Wheat Weekly Export Sales

Net sales of 1,052,500 metric tons were 11 percent below the previous week and 29 percent under the prior 4-week average. Increases reported for Egypt (275,700 MT), Yemen (246,100 MT, including 50,000 MT switched from

unknown destinations), Spain (94,400 MT), Italy (63,000 MT, including 15,000 MT switched from unknown destinations), and Nigeria (61,200 MT, including 7,200 switched from unknown destinations), were partially offset by decreases for unknown destinations (172,200 MT). Exports of 1,151,400 MT--marketing-year high--were 75 percent above the previous week and 94 percent over the prior 4-week average. The primary destinations were Egypt (185,700 MT), Yemen (98,100 MT), Iraq (97,400 MT), Bangladesh (94,300 MT), and Brazil (90,200 MT).

This summary is based on reports from exporters for the period August 9-16, 2007.

Source: USDA

WEATHER WATCH

A cyclonic circulation lay over Gangetic West Bengal and adjoining Bangladesh extending upto mid-tropospheric level on 17th. Under its influence, a low-pressure area formed over North Bay of Bengal and adjoining West Bengal and Bangladesh on 18th morning. It became well marked over the same area on 18th evening. The well-marked low-pressure area lay over Gangetic West Bengal and neighbourhood on 19th. It lay as a low-pressure area over Jharkhand and adjoining areas of north Orissa and Gangetic West Bengal on 20th and over East Madhya Pradesh and neighbourhood on 21st. It became less marked on 22nd. However, the associated upper air cyclonic circulation lay over northwest Madhya Pradesh and adjoining East Rajasthan extending upto 4.5 km above sea level. The axis of the monsoon trough at mean sea level gradually shifted southwards from its last week's position along the foothills of the Himalayas. It lay to the south of its normal position towards the end of the week. Last week's off shore trough from Gujarat coast to Karnataka coast ran from Gujarat coast to Konkan coast during 16-19th, from Gujarat coast to Karnataka coast on 20th and from Gujarat coast to Kerala coast on 21st and 22nd. Last week's upper air trough running from Bihar to north Bay of Bengal with embedded cyclonic circulation at lower levels over Bihar persisted on 16th and became less marked on 17th. A trough in westerlies at times embedded with cyclonic circulation extending upto lower/mid tropospheric levels affected western Himalayan region and adjoining plains during 16-20th.

Rainfall:

Under the influence of the above systems:

Widespread/fairly widespread rainfall with scattered/ isolated heavy to very heavy falls occurred over Sub-Himalayan West Bengal & Sikkim during 16th-19th, Gangetic west Bengal and Jharkhand during 16-20th, Orissa during 19th-21st, Chhattisgarh and East Madhya Pradesh during 20-21st, West Madhya Pradesh on 21st, East Rajasthan on 21st-22nd and Gujarat Region on 22nd. Extremely heavy rainfall (>25 cm) was recorded over Bihar, Gangetic West Bengal and Orissa on 16th, 18th and 20th August respectively. Widespread/fairly widespread rainfall occurred over northeastern States during first two days of the week and decreased thereafter. Widespread/fairly widespread rainfall occurred over Himachal Pradesh, Uttar Pradesh, and Uttarakhand during 19-20th. Widespread/fairly widespread rainfall occurred over Konkan & Goa, Coastal Karnataka and Andaman & Nicobar islands during many days of the week. The rainfall was subdued over remaining parts of the country where isolated/scattered rain occurred during many days of the week.

Outlook for the week ending on 29th August 2007

Numerical Weather Prediction Models suggest gradual shifting of monsoon trough towards foothills of the Himalayas during next 2-3 days. Under this scenario, enhanced rainfall activity with fairly widespread rainfall with isolated heavy to very heavy falls is likely over northeastern states, Sub-Himalayan West Bengal & Sikkim, Bihar and Uttar Pradesh. Scattered rainfall activity is likely over peninsula India. Subdued rainfall activity is likely over remaining parts of the country.

Source: IMD

IGC WORLD WHEAT ESTIMATES (23.08.07)

	2004-05	2005-06	2006-07 Est.	2007-08 (Forecast)	
				26.07	23.08
Production	628	620	591	614	607
Trade	110	109	111	107	107
Consumption	617	624	610	617	614
Stocks	140	136	117	112	111
Year-Year Change	+12	-4	-19	-4	-6
5 Major Exporters [#]	58	57	36	30	29

(Million tons)

*Argentina, Australia, Canada, EU, United States

Source: International Grains Council

FOREX (As on 25th August, 2007):

Foreign Currency	Rs. per unit
1 US \$	41.18
1 Euro	55.85
100 Yen	35.53
1 British £	82.41

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