

## WHEAT

28<sup>th</sup> JULY -04<sup>th</sup> AUGUST, 2007

### MAJOR ACTIVITY HIGHLIGHTS

- 4th Advance Estimate: Wheat Production Up
- Wheat Procurement Remained Around 11.1 Million Tonnes
- Import Duty Likely to cut on Wheat Flour
- PEC to Sell 21,478 tonnes of Imported Russian wheat in Domestic Market
- Govt. Likely to Release 3 LT Wheat in Open Market

### MARKET FUNDAMENTALS:

Wheat sentiments remained mostly steady to slightly up on lower arrivals amidst some buying support from local millers. However, slump in the demand from South Indian flour mills have pressurised the sentiments. The price of different wheat products remained steady to marginally up as, Atta quoted at Rs.1073/90kg. Maida and sooji traded at Rs.1256/90 kg and Rs.700 a 50 kg bag respectively. Total arrivals in Delhi (Lawrence Road) remained down at 10,000 qtls and prices quoted at Rs.1030 per quintals. The arrivals are declining as stockists as well producers are optimistic that the sentiments will recover soon due to upcoming festivals season. The wheat stock with government is satisfactory this year. Government has already bought around 11.1 million tonnes from farmers and now has total stocks of 13 million tonnes. Further, the country would likely to import total around 5 million tonnes wheat this marketing season. The 5.11 lakh tonnes of wheat imports clinched finally are likely to arrive only in November. The government India may abolish customs duty on wheat flour from the current 30% level. This will facilitate the private sector to import wheat flour from global market economically at internationally competitive rates. That could help India to take advantage of surplus milling capacity in countries, such as Sri Lanka and Malaysia. This decision is also looking favourable to open the way for American wheat as a value-added product to entering in Indian market. The upcoming festive season will drive up the wheat demand and prices also. Therefore, the competitive import can reduce the supply pressure to some extent. However, the step will not yield much benefit as international prices of wheat are still bullish and higher than domestic prices. On the other hand, Government of India is likely to release around 3 lakh tonnes of wheat into the open market to control the high retail prices. The decision will no doubt help the market to reduce the supply demand ratio. Wheat prices is about to increase in the coming days due to upcoming festive demand.

### OUTLOOK:

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

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

Markets	28.07.07	04.08.07
Delhi (Lawrence Road) truck loaded ready delivery	1035-1040	1030-1035
Haryana (Karnal)	1007-1012	1015-1020
Punjab (Khanna)	1057-1062	1035-1040
Rajasthan (Kota)	1074-1079	1068-1072
Uttar Pradesh (Kanpur)	1065-1070	1055-1060
Madhya Pradesh (Indore)	1060-1065	1045-1055
Uttar Pradesh (Bareilly)	1050-1055	1035-1040
Punjab (Sunam) Loose	930-935	920-930
Ludhiana (Jagraon) Loose	930-940	925-930
Rajkot Loose Price	1000-1010	1000-1005
Madhya Pradesh (Bhopal) Loose	1010-1015	1005-1010

Wheat Products	28.07.07	04.08.07
Atta (90kg)	1068	1073
Maida Grade 1(90kg)	1256	1256
Suji (50kg)	700	700
Chokar (50 kg)	311	311
Chokar (35 kg)	202	202
Chakki Atta (90kg)	970	980

**Following was the status in other mandis, with active millers and private trade buying: (04.08.07)**

Place	Arrivals	Price
Mathura	500 Qtls	Rs.970-974 per qtl
Kosi	700 Qtls	Rs. 960 per qtl
Hodal	300 Qtls	Rs. 960 per qtl
Palwal	700 Qtls	Rs. 950 per qtl
Narella	2000 Qtls	Rs. 990 per qtl

**PRICE DRIVERS:**

- ✓ 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.
- ✓ Government of India is likely to release around 3 lakh tonnes of wheat into the open market
- ✓ The government of India is considering on the cut of import duty on wheat flour from the current 30% 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.
- ✓ Government of India decided to import 511,000 tonne wheat at a higher weighted average price of \$325 a tonne
- ✓ Government is likely to import around 4-5 Mln Tonnes of wheat during Aug-Dec to build buffer stocks
- ✓ IGC forecasts global wheat production to be unchanged at 614 million tonnes this Month
- ✓ 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.
- ✓ MMTC Ltd. has reportedly postponed the 50,000 tonnes wheat import tender that had floated on June 7.
- ✓ Global wheat prices up, India may take phased approach in imports
- ✓ Wheat futures at CBOT remained at higher side
- ✓ Wheat production in U.S. likely to be higher this year.
- ✓ 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:**

**Import Duty Likely to cut on Wheat Flour**

The government of India is considering on the cut of import duty on wheat flour from the current 30% level. This will facilitate the private sector to import wheat flour from global market economically at internationally competitive rates. The upcoming festive season will drive up the wheat demand and prices also. Therefore, the competitive import can reduce the supply pressure. This decision is also looking favourable to open the way for American wheat as a value-added product to entering in Indian market. Since wheat flour will not be tested for the same phytosanitary specifications as wheat grain, it will find a way around the objections raised by the agriculture ministry against US wheat.

**Govt. Likely to Release 3 LT Wheat in Open Market**

Government of India is likely to release around 3 lakh tonnes of wheat into the open market to control the high retail prices. The decision will no doubt help the market to reduce the the supply demand ratio. Wheat prices is about to increase in the coming days due to upcoming festive demand.

**PEC to Sell 21,478 tonnes of Imported Russian wheat in Domestic Market**

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 foodgrain from Tuticorin.

**4th Advance Estimate: Wheat Production Up**

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.

**India Likely to Float Regular Wheat Import Tender**

Government of India is seen very desperate this time to increase the buffer stocks of wheat so that it can intervene in the market when price will rise. In the last week, the government decided to import 511,000 tonne wheat at a higher weighted average price of \$325 a tonne, hardly a month after it rejected offers to buy about 300,000 tonne at \$263 per tonne from global market because of higher prices. The country would like to import total around 5 million tonnes wheat this marketing season. For that, government will regularly float tenders to import wheat through the State Trading Corp despite higher global prices. This year government started with 4.7 million tonnes as carry forward wheat and procured around 11.1 million tonnes. The amount is enough to cover its requirement of 16

million tonnes till March, including 12 million tonnes for PDS system, and a carry-over of 4 million tonnes for next year.

### **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 11.1 Million Tonnes**

Wheat procurement by Government stood up around 11.1 tonnes so far, 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.

### **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

### **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 raised 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 production. 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 FSU-12 with reductions for Ukraine and Moldova only partly offset by an increase for Kazakhstan.

World exports for 2007/08 are increased only slightly this month as increases for Australia, Kazakhstan, and the United States are nearly offset by reductions for Canada, Ukraine, and Syria. World wheat feeding is lowered 0.9 million tons mainly reflecting reductions in Canada and EU-27. Global ending stocks are projected 4.5 million tons higher this month, mostly reflecting a projected 4.4-million-ton increase for China. Global ending stocks remain at their lowest level since 1981/82.

Source: WASDE.

### **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 carryin 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 is forecast at 614m. tons, unchanged from last month, and 23m. 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. tons, 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. tons, unchanged from last month, and 2m. 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. tons, 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 Down by 16%**

Net sales of 1,741,400 metric tons were 16 percent below the previous week, but 53 percent above the prior 4-week average. Increases were reported for unknown destinations (447,700 MT), the Philippines (241,000 MT), Iraq (200,000 MT), Morocco (111,900 MT, including 25,000 MT switched from unknown destinations), Algeria (100,000 MT), Mexico (77,900 MT), and South Africa (75,200 MT). Exports of 458,700 MT were 6 percent above the previous week and 2 percent over the prior 4-week average. The primary destinations were Japan (88,000 MT), Morocco (48,900 MT), Mexico (41,300 MT), Chile (32,400 MT), and South Africa (30,200 MT).

This summary is based on reports from exporters for the period July 20-26, 2007.

Source: USDA

### **WEATHER WATCH**

The axis of the monsoon trough ran close to the foothills of the Himalayas on 26th. It ran north of its normal position across Punjab, Haryana, Uttar Pradesh, Bihar and Assam during remaining days of the week. Last week's upper air cyclonic circulation in the lower tropospheric levels lay over Assam & adjoining Arunachal Pradesh persisted on 26th and moved away eastwards on 27th. The other cyclonic circulation over Tamil Nadu & neighbourhood became less marked on 26th. An off-shore trough extended from south Maharashtra coast to Kerala coast during 26-29th and from south Gujarat coast to Kerala from 30th July to 1st August. An upper air cyclonic circulation extending upto mid-tropospheric level lay over southwest Bay of Bengal and adjoining coastal areas of north Tamil Nadu and south Andhra Pradesh during 30th July to 31st July. It lay over south Coastal Andhra Pradesh & neighbourhood between 1.5 to 5.8 a.s.l. on 1st August. Last week's trough in westerlies extending from Jammu & Kashmir to northeast Arabian Sea across Pakistan persisted in lower tropospheric levels during 26 - 29th and became less marked thereafter. An embedded cyclonic circulation lay over north Pakistan and adjoining Punjab during 27 to 29th. Another trough in westerlies ran from north Pakistan to northwest Arabian Sea on 30th & 31st in lower troposphere levels. It ran from Jammu & Kashmir to northeast Arabian Sea on 1st August with embedded upper air cyclonic circulation over north Pakistan and adjoining Punjab.

### **Rainfall:**

#### **Under the influence of the above systems:**

The central, west and adjoining northwest and peninsular India continued to experience subdued rainfall activity with isolated to scattered rainfall during many days of the week. Widespread

to fairly widespread rainfall continued to occur over northeast India, West Bengal & Sikkim, Bihar, Jharkhand and East Uttar Pradesh during the week. Southwest Monsoon was active/vigorous over Arunachal Pradesh, Assam & Meghalaya, Sub-Himalayan West Bengal & Sikkim on many days and over Nagaland, Manipur, Mizoram & Tripura, Bihar, Jharkhand and East Uttar Pradesh on a few days. Widespread to fairly widespread rainfall occurred along the west coast during many days of the week. Tamil Nadu & Puducherry and Rayalaseema experienced vigorous monsoon condition on last day of the week.

#### Outlook for the week ending on 08<sup>th</sup> August 2007

The current meteorological conditions and interpretation of various numerical weather prediction models suggest the revival in monsoon activity over central & adjoining peninsular India, as a low pressure area is likely to form over northwest Bay of Bengal on 4th August along with a southward shift in monsoon trough. The low pressure area is likely to become more marked and move slowly in a

west-northwesterly direction. Under this scenario, the enhanced rainfall with isolated heavy to very heavy falls are likely over Orissa, north Andhra Pradesh and Chhattisgarh during 4th to 7th August. Subsequently, the enhanced rainfall belt is likely to shift to Madhya Pradesh, Maharashtra, Gujarat and south Rajasthan during 8th -11th. Gujarat, Konkan & Goa and Madhya Maharashtra are also likely to receive extremely heavy rainfall (>25cm) particularly on 10th & 11th. Fairly widespread rainfall with isolated heavy to very heavy fall is likely along the west coast. Decrease in rainfall activity over Bihar, Sub-Himalayan West Bengal & Sikkim and northeastern states during the week.

Source: IMD

### IGC WORLD WHEAT ESTIMATES (26.07.07)

	2004-05	2005-06	2006-07 Est.	2007-08 (Forecast)	
				28.06	26.07
Production	628	620	591	614	614
Trade	110	109	109	107	107
Consumption	617	624	611	619	617
Stocks	140	136	116	111	112
Year-Year Change	+12	-4	-20		-4
5 Major Exporters <sup>#</sup>	58	57	36	31	30

(Million tons)

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

Source: International Grains Council

#### FOREX (As on 06<sup>th</sup> August, 2007):

Foreign Currency	Rs. per unit
1 US \$	40.36
1 Euro	55.31
100 Yen	33.87
1 British £	82.18

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