

## WHEAT

04<sup>th</sup> - 11<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
- Wheat Stock Under GOI is Higher Around 12.01 Million Tonnes
- Govt. Likely to Release 3 LT Wheat in Open Market

### MARKET FUNDAMENTALS:

Wheat prices recovered later of the week in the wholesale grains market on account of increased offtake by rolling flour mills. However, demand continued to be lower from South Indian flour mills. Total arrivals in Delhi (Lawrence Road) remained up at 20,000 qtls and prices quoted between Rs.1020-1025 per quintals (truck delivery). At Narela and Najafgarh markets the price remained around 977-980/qrtl, and 960-975/qrtl (loose basis) on the back of higher arrivals around 4000 qtl and 3000 qtl respectively. The price of different wheat products remained steady as, Atta quoted at Rs.1073/90kg. Maida and sooji traded at Rs.1256/90 kg and Rs.700 a 50 kg bag respectively. The wheat stock with government higher around 12.01 million tonnes this year as on August 1 as compared to 7.33 million tonnes corresponding period of last year. Production likely to be higher around 74.89 million tons, exceeding the 73.7 million tons forecast in April. India produced 69.35 million tons last year. Moreover, on July the country purchased 511,000 tonnes from Cargill Inc. and the imported assignment is likely to arrive in November, the festive month. Government is closely monitoring the global wheat market to take further decision on wheat import. Wheat prices continued to be boom in CBOT and surpassed 11-year highs following the talk of new export business for US suppliers and the surge in European prices. Government is looking keen to check the wheat prices in the festive months. On this connection, Government is about to sell wheat from its reserves to wheat product makers to prevent a rise in prices ahead of the peak festival season beginning next month. Further, the taxes on import of wheat flour likely to be abolish to boost supplies. Roller flour millers are against the government's plan to scrap customs duty on wheat flour from the current 30 per cent level. According to them, the movement would adversely affect the industry, especially those mills located in south India. There are 800-1,000 flour mills across the country. The country such as Sri Lanka, Pakistan and Malaysia has a surplus milling capacity and they can downpour the wheat flour in India because of cost advantage and consequently the domestic flour millers would be most affected as they are running at 45-50% of their capacities. However, the plan would no doubt help in lessening in prices of wheat flour with an increase in supply in the country.

### OUTLOOK:

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

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

Markets	04.08.07	11.08.07
Delhi (Lawrence Road) truck loaded ready delivery	1030-1035	1020
Haryana (Karnal)	1015-1020	1003-1008
Punjab (Khanna)	1035-1040	1055-1060
Rajasthan (Kota)	1068-1072	1070-1075
Uttar Pradesh (Kanpur)	1055-1060	1050-1055
Madhya Pradesh (Indore)	1045-1055	1045-1050
Uttar Pradesh (Bareilly)	1035-1040	1035-1040
Punjab (Sunam) Loose	920-930	920-925
Ludhiana (Jagraon) Loose	925-930	920-925
Rajkot Loose Price	1000-1005	1010-1015
Madhya Pradesh (Bhopal) Loose	1005-1010	1010-1015

Wheat Products	04.08.07	11.08.07
Atta (90kg)	1073	1073
Maida Grade 1(90kg)	1256	1256
Suji (50kg)	700	700
Chokar (50 kg)	311	326
Chokar (35 kg)	202	207
Chakki Atta (90kg)	980	960

**Following was the status in other mandis, with active millers and private trade buying: (11.08.07)**

Place	Arrivals	Price
Mathura	2000 Qtls	Rs.950 per qtl
Kosi	1500 Qtls	Rs. 940 per qtl
Hodal	300 Qtls	Rs. 955 per qtl
Palwal	700 Qtls	Rs. 940-945 per qtl
Narella	2500 Qtls	Rs. 975-980per 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.
- ✓ Wheat stock under Indian government is reportedly higher around 12.01 million tonnes this year as on August 1 as compared to 7.33 million tonnes corresponding period of 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.
- ✓ Roller flour millers are against the government's plan to scrap customs duty on wheat flour from the current 30 per cent level.
- ✓ Pakistan is showing their interest to export wheat flour in India.
- ✓ 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
- ✓ 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:**

**Wheat Stock Under GOI is Higher Around 12.01 Million Tonnes**

Wheat stock under Indian government is reportedly higher around 12.01 million tonnes this year as on August 1 as compared to 7.33 million tonnes corresponding period of last year.

**Flour Millers are Against the Plan to Cut Import Duty on Wheat Flour**

Roller flour millers are against the government's plan to scrap customs duty on wheat flour from the current 30 per cent level. According to them, the movement would adversely affect the industry, especially those mills located in south India. There are 800-1,000 flour mills across the country. The country such as Sri Lanka and Malaysia has a surplus milling capacity and they can downpour the wheat flour in India because of cost advantage and consequently the domestic flour millers would be most affected as they are running at 45-50% of their capacities. However, the plan would no doubt help in lessening in prices of wheat flour with an increase in supply in the country.

**Pakistan is Showing Interest to Export Wheat Flour in India**

Pakistan is showing their interest to export wheat flour in India. Indian government's plan to abolish 30 percent import duty on wheat flour is encouraging Pakistan wheat flour millers to supply the commodity. Near about 0.6 million tonnes of wheat flour was being exported to neighbouring country Afghanistan annually and that brought large amount of foreign money for the country and also helped local flour mills industry to flourish. The price of Pakistani wheat flour is comparatively cheap than other regional countries including India and Bangladesh. Pakistan's wheat output this year is estimated higher around 23 million tonnes against last year's 21.7 million tonnes. Economic Coordination Committee (ECC) of Pakistan had imposed complete ban on exports of wheat for an indefinite period in June 2007 due to rise in prices at local market. However the export of the flour and other by-products was allowed.

**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.

#### **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**

Net sales of 890,900 metric tons were 49 percent below the previous week and 38 percent under the prior 4-week average. Increases reported for South Africa (110,000 MT), Taiwan (102,400 MT), Japan (97,000 MT), Indonesia (74,000 MT), including 55,000 MT switched from unknown destinations), Mexico (65,900 MT), and Spain (63,000 MT), were partially offset by decreases for unknown destinations (54,000 MT) and Bangladesh (5,000 MT). Exports of 832,100 MT--a marketing-year high--were 81 percent above the previous week and 97 percent over the prior 4-week average. The primary destinations were Egypt (120,800 MT), Nigeria (99,600 MT), Japan (67,000 MT), Mexico (65,300 MT), Taiwan (52,800 MT), and the Philippines (52,300 MT).

This summary is based on reports from exporters for the period July 27-August 2, 2007.

Source: USDA

### **WEATHER WATCH**

An upper air cyclonic circulation lay over north Bay of Bengal extending upto mid-tropospheric levels and tilting southwestwards with height on 3rd August. Under its influence, a low pressure area formed over northwest Bay of Bengal off North Orissa-West Bengal coast on 4th. It concentrated into a depression at 0530 hrs IST of 5th August over the same area near Lat 20.0° N and Long 88.5° E, about 230 Km southeast of Balasore. It moved westwards and intensified into a deep depression and lay centred at 2330 hrs IST of the same day, near Lat 20.0° N / Long 87.5° E about 100 km southeast of Chandbali. It further moved west-northwestwards, crossed Orissa coast to the north of Paradeep between 0630 & 0730 hrs IST of 6th August and lay centred at 0830 hrs IST of same day over coastal Orissa, close to Cuttack. It continued to move west-northwestwards and weakened into a depression and lay centred at 0830 hrs IST of 7th August over Chhattisgarh, close to Raipur. The system moved west-northwestwards and further weekend into a well marked low pressure area over central Madhya Pradesh and neighbourhood at 1730 hours IST of the same day. It lay over West Madhya Pradesh and



neighbourhood on 8th August. An off-shore trough extended from Konkan coast to Kerala coast on 2nd and from south Gujarat coast to Kerala during remaining days of the week. The last week's upper air cyclonic circulation over south coastal Andhra Pradesh & neighbourhood between 1.5 to 5.8 km a.s.l. lay over west-central Bay of Bengal and adjoining north Coastal Andhra Pradesh on 2nd and became less marked on 3rd. Last week's trough in westerlies ran from central Pakistan to northeast Arabian Sea during 2nd -6th in lower tropospheric levels and became less marked on 7th. An embedded cyclonic circulation lay over central Pakistan and adjoining Punjab on 2nd & 3rd and became less marked on 4th. However, another cyclonic circulation lay over southeast Pakistan and neighbourhood in lower tropospheric levels during 4th-7th. The axis of the monsoon trough lay in its normal position or to the south during the week.

#### Rainfall:

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

The southwest monsoon entered into an active phase causing enhanced rainfall activity over central parts of the country and peninsular India during the week. Widespread/fairly widespread rainfall occurred over Orissa during 5-7th, Chhattisgarh during 6th-8th and Madhya Pradesh during 7 & 8th. Widespread/fairly widespread rainfall occurred over Gujarat state during 4-8th, Madhya

Maharashtra during 5th-8th and west coast throughout the week. Widespread/fairly widespread rainfall occurred over Interior Karnataka, Lakshadweep, Coastal Andhra Pradesh, Telangana and Vidarbha during many days of the week. Rainfall activity was subdued over northeastern states, east India outside Orissa, southeast Peninsula, Andaman & Nicobar Island where isolated /scattered rainfall occurred on many days during the week. Widespread to fairly widespread rainfall occurred over Himachal Pradesh, West Uttar Pradesh, Uttarakhand, Haryana, Chandigarh & Delhi and east Rajasthan during first half of the week. Isolated/scattered rainfall occurred over remaining parts of northwest India during the week.

#### Outlook for the week ending on 15<sup>th</sup> August 2007

A low pressure area is likely to form over north Bay of Bengal around 10th August causing increase in rainfall activity over east India & central India.

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 13<sup>th</sup> August, 2007):

Foreign Currency	Rs. per unit
1 US \$	40.67
1 Euro	55.60
100 Yen	34.44

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