

## WHEAT

11<sup>th</sup> - 18<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
- Wheat Purchase by Private Companies Stood at 18.76 Lakh Tons

### MARKET FUNDAMENTALS:

Wheat generally ruled flat in the wholesale grains market on steady to lower buying support. Demand continued to be lower from South Indian flour mills. Total arrivals in Delhi (Lawrence Road) remained down at 12,000 qtls and prices quoted at Rs.1020 per quintals (truck delivery). At Narela and Najafgarh markets the price remained steady to up around 975-988/qtl, and 960-975/qtl (loose basis) on the back of higher arrivals around 6000 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. 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. The stock position in the warehouses is the prominent factor that would determine the further imports of the grain. However, the global market is moving up. According to the latest estimates from the United States Department of Agriculture, wheat prices for 2007-2008 are set to hit record highs. India's federal government has plans to import up to 5 million tons of wheat this year but has so far purchased only 511,000 tons from the international market and the imported assignment is likely to arrive in November, the festive month. After the termination of government wheat procurement this year, the private companies have started to purchase vigorously from the local markets. The total procurement of wheat in the private sector stood at 18.76 lakh tons as on July 30 in the current marketing season. However, it is lower as compared to last year purchase of around 20 lakh tonnes. 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. However, the coming festive demand will no doubt support the market to trade at higher side.

### OUTLOOK:

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

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

Markets	11.08.07	18.07.0
Delhi (Lawrence Road) truck loaded ready delivery	1020	1020
Haryana (Karnal)	1003-1008	995-1000
Punjab (Khanna)	1055-1060	1050-1055
Rajasthan (Kota)	1070-1075	1060-1065
Uttar Pradesh (Kanpur)	1050-1055	1035-1040
Madhya Pradesh (Indore)	1045-1050	1045-1050
Uttar Pradesh (Bareilly)	1035-1040	1010-1015
Punjab (Sunam) Loose	920-925	920
Ludhiana (Jagraon) Loose	920-925	920
Rajkot Loose Price	1010-1015	1010-1015
Madhya Pradesh (Bhopal) Loose	1010-1015	1010-1015

Wheat Products	11.08.07	18.08.07
Atta (90kg)	1073	1073
Maida Grade 1(90kg)	1256	1256
Suji (50kg)	700	700
Chokar (50 kg)	326	326
Chokar (35 kg)	207	207
Chakki Atta (90kg)	960	960

**Following was the status in other mandis, with active millers and private trade buying: (18.08.07)**

Place	Arrivals	Price
Mathura	1000 Qtls	Rs.935 per qtl
Kosi	800 Qtls	Rs. 950-955 per qtl
Hodal	400 Qtls	Rs. 945-950 per qtl
Palwal	600 Qtls	Rs. 945 per qtl
Narella	4000 Qtls	Rs. 975-982per 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 purchase by private companies stood at 18.76 Lakh Tons
- ✓ 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.
- ✓ 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
- ✓ 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.

- ✓ 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 Purchase by Private Companies Stood at 18.76 Lakh Tons**

After the termination of government wheat procurement this year, the private companies have started to purchase vigorously from the local markets. The total procurement of wheat in the private sector stood at 18.76 lakh tons as on July 30 in the current marketing season. However, it is lower as compared to last year purchase of around 20 lakh tonnes.

**Iran to Join Wheat Export Countries**

Iran is going to join wheat exporting countries this year. The country likely to export wheat to Azerbaijan Republic, Iraq and Oman. According to the forecast of United Nations Food and Agriculture Organization country's wheat production to reach 15 million tons in 2007. Iran used to be the major wheat import country before the year 2004 and after that it attained self sufficiency in the food grain.

**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 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.

#### **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 Increase by 33%**

Net sales of 1,186,100 metric tons were 33 percent above the previous week, but 13 percent below the prior 4-week average. Increases reported for Egypt (174,600 MT, including 120,000 MT switched from Spain), Japan

(132,100 MT), Nigeria (130,500 MT, including 22,500 MT switched from unknown destinations), unknown destinations (106,100 MT), the Philippines (96,900 MT), Venezuela (87,000 MT), and Italy (84,700 MT), were partially offset by decreases for Spain (99,400 MT) and Madagascar (9,500 MT). Exports of 656,700 MT were 21 percent below the previous week, but 20 percent over the prior 4-week average. The primary destinations were Egypt (134,600 MT), Japan (88,200 MT), Nigeria (71,900 MT), South Africa (56,900 MT), and the Philippines (53,400 MT).

This summary is based on reports from exporters for the period August 3-9, 2007.

Source: USDA

### **WEATHER WATCH**

Last week's well marked low pressure area over West Madhya Pradesh and neighbourhood lay as a low pressure area over Kutch and adjoining south Rajasthan on 9th. It moved away westwards on 10th. A fresh low pressure area formed over northwest Bay of Bengal off Orissa-West Bengal coast on 10th. It persisted over the same area and became well marked on 12th. It lay over Gangetic West Bengal and neighbourhood on 13th. It lay as a low pressure area over Bihar and neighbourhood on 14th and became less marked on 15th. However, the associated upper air cyclonic circulation lay over Bihar and neighbourhood extending upto 3.6 km above mean sea level with an upper air trough extending from the centre of cyclonic circulation to north Bay of Bengal. An off shore trough ran from Gujarat coast to Kerala coast during first half of the week and from Gujarat coast to Karnataka coast during second half of the week. The axis of the monsoon trough lay to the south of its normal position in the beginning of the week. The western end of the monsoon trough gradually shifted northward and lay north of its normal position or close to the foothills of the Himalayas from 11th onwards. With the movement of the low pressure area over northwest Bay of Bengal to Bihar, the eastern end of the monsoon trough also shifted northward and lay close to the foothills of the Himalayas during 14-15th August. A trough in westerlies at lower and mid tropospheric levels embedded with cyclonic circulation moved over western Himalayan Region during second half of the week.

### **Rainfall:**

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

Widespread/fairly widespread rainfall occurred over Orissa during 11-13th and over Gangetic West Bengal during 12-14th. Widespread/fairly widespread rainfall occurred over northeastern states, Sub-Himalayan West Bengal & Sikkim, Bihar, Jharkhand and East Uttar Pradesh during second half of the week. Widespread/fairly widespread rainfall occurred over Gujarat Region, Konkan & Goa and Coastal Karnataka during many days of the week and over Saurashtra & Kutch, Madhya Maharashtra, South Interior Karnataka and Kerala during first half of the week. Widespread/fairly widespread rainfall occurred over Uttarakhand, Himachal Pradesh during second half of the week and over Jammu & Kashmir during last two days of the week. The rainfall was subdued over remaining parts of the country where isolated/scattered rain/thundershower occurred during many days of the week.

### **Outlook for the week ending on 22<sup>nd</sup> August 2007**

Widespread rainfall with isolated heavy to very heavy falls are likely over northeastern States during first half of the week and decrease thereafter. A low pressure area is likely to form over north Bay of Bengal and adjoining north Orissa-West Bengal

coast around 18th August. Under its influence, rainfall activity is likely to increase over Orissa, Chhattisgarh and north Andhra Pradesh during 18th-20th August. Subdued rainfall activity is likely over northwest India and remaining parts of Peninsular 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 20<sup>th</sup> August, 2007):

Foreign Currency	Rs. per unit
1 US \$	41.57
1 Euro	55.74
100 Yen	36.92
1 British £	82.14

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