

WHEAT

17-22 September, 2007

MAJOR ACTIVITY HIGHLIGHTS

- ABARE estimates Australia's Wheat at 15.5 MT
- Canada's Wheat Supplies Pegged at 6.828 MT: Statistics Canada.
- Government May Slow Down Wheat Import
- Recent Rainfalls Over Argentina Boosted Wheat Crop Yield.
- Australia's Victoria Wheat Production Around 4.4 MT

MARKET FUNDAMENTALS:

Wheat traded steady to firm in domestic markets on week starting September 17 on good demand from roller flour millers ahead of festive season amidst restricted supply. World ending stocks already pegged at 112 million tonnes, the lowest since 1977 and further tightening of world supply are seen as bullish force for wheat market. Crop damage in Australia, Canada and lower yield in EU countries along with good export demand from Pakistan, Egypt, Taiwan, etc. further added positive tone. However, during midweek, prices tumbled at most major mandis on news of government's decision to slow down wheat import process. Farmers' unloading of stocks on some parts of the country to give storage to soy crops which will be harvested early next month further added negative tone.

However, towards weekend, prices recovered midweek losses on good demand from the southern roller flour millers. The week witnessed Delhi (Lawrence Road) Ready Delivery traded in the range of Rs.1000-1010/ql and daily arrivals stood around 11000 to 19000 qtls. Further, government's decision to supply sufficient wheat to check open market prices (where 70 per cent consumers are dependant) and the CACP's (Commission for Agricultural Costs & Prices) recommendation of MSP for wheat from 2006-07 level of Rs.850/ql to Rs.1000 in 2007-08 further boosted the market sentiment. In Uttar Pradesh (Bareilly) Mill delivery quoted down Rs.990-995 from last week's level of Rs.995-1005 on subdued demand against steady daily arrivals of 1000-1200 bags. Prices of different wheat products also traded steady to up as, Atta quoted at Rs.1057/90kg. Maida and sooji traded down at Rs.1238/90 kg and Rs.700 a 50 kg bag respectively where as Chokar ruled higher at Rs.346 for 50 kg. The U.S.D.A estimated Argentina's wheat production at 14 million metric tonnes in 2007-08, down from 14.6 million tonnes last season.

OUTLOOK:

Short Term (One Week): wheat may rule range bound at higher side.

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

Markets	14.09.07	22.09.07
Delhi (Lawrence Road) truck loaded ready delivery	990-1000	1010-1012
Haryana (Karnal)	990	980-985
Punjab (Khanna)	1035	1035-1040
Rajasthan (Kota)	1060	1035
Uttar Pradesh (Kanpur)	1005-1010	1000
Madhya Pradesh (Indore)	1030-1035	1025-1030
Uttar Pradesh (Bareilly)	995-1000	985-990
Punjab (Sunam) Loose	920	940-945
Ludhiana (Jagraon) Loose	900	917-920
Rajkot Loose Price	950-955	960
Madhya Pradesh (Bhopal) Loose	990	950

Wheat Products	14.09.07	22.09.07
Atta (90kg)	1055	1057
Maida Grade 1(90kg)	1256	1238
Suji (50kg)	710	700
Chokar (50 kg)	338	355
Chokar (35 kg)	224	232
Chakki Atta (90kg)	950	940

Following was the status in other mandis, with active millers and private trade buying: (22.09.07)

Place	Arrivals	Price
Mathura	1600 Qtls	Rs.955/ql

Kosi	300 Qtls	Rs.935/qtl
Hodal	350 Qtls	Rs.950/qtl
Palwal	300 Qtls	Rs.935/qtl
Narella	4000 Qtls	Rs.980-985/qtl

INTERNATIONAL AND DOMESTIC NEWS:

ABARE estimates Australia's Wheat at 15.5 MT

Government of Australia's last estimate made in June provided another boost to wheat futures, which have doubled in the past year. The Australian Bureau of Agricultural and Resource Economics said output in the harvest that begins in October might be only 15.5m tonnes, compared with its earlier forecast of 22.5m. Australia is the second largest exporter of wheat after the US. Prices have soared on the back of fast-growing demand and a series of poor harvests in countries around the world. Stockpiles are close to a 26-year low. According to a trade analyst, Mr. Chaouky, with ending stocks reaching historical low levels, rising costs of production and the comeback of inflation in the real economy, agricultural commodities prices should reach levels never seen before. Among the emerging countries in the market to increase purchases of wheat include Egypt, Morocco, Algeria, Iraq and India at the time when world harvest is declining. France, Europe's largest producer, cut its forecast on Monday, while exports from around the Black Sea have all but stopped

Pakistan to Buy 1 Million Tonnes of Wheat

Pakistan's Trading Corporation, a state-owned commodities buyer, has invited bids for 1m tonnes of wheat to increase its stock-piles. Like other developing countries, Pakistan is fighting food-fuelled inflation. A 30pc rise in wheat prices last month helped stoke inflation to 8pc over the past year.

Government May Slow Down Wheat Import

Due to attack for buying wheat at record high prices, the government is planning to go-slow on import and will watch rates in the international market. Whatever policy decisions we had adopted, we would be able to manage it and if required we would review, Agriculture Minister said. But as on date there is no requirement. First the government scrapped the bid at a rate of \$263 a tonne, then government contracted to import over 13 lakh tonnes at a price ranging between \$325 to \$390 a tonne. Minister also said not to disturb the domestic prices since there is subsidized wheat supply to 30 per cent of the population while 70 per cent depends on open market. The minute we start to purchase from the open market it will affect the consumers.

Recent Rainfalls Over Argentina Boosted Wheat Crop Yield.

In Argentina, after more than a week of solid rainfall, crop conditions are excellent. This rainfall is very likely to boost crop yield and will facilitate corn and sunseed planting. The young wheat crop had been struggling due to dry weather and a series of sharp frosts. But temperatures rose sharply this month and the rainfall has replenished soil moisture levels. According to the Buenos Aires Exchange, 65% of the wheat area is in good or very good condition, 27% is in average condition, 7% is in poor condition and 1% is in very

poor condition. The U.S.D.A estimated Argentina's wheat production at 14 million metric tonnes of wheat in 2007-08, down from 14.6 million tonnes last season. However, AgriPac Consultores analyst Pablo Adreani forecast 16 million tonnes of wheat coming from the Pampas this season.

Canada's Wheat Supplies Pegged at 6.828 MT: Statistics Canada.

Statistics Canada pegged all-wheat supplies in Canada at the end of the 2006-07 (August/July) crop year at 6.828 million metric tonnes compared with the pre-report estimates that ranged from 7.000 million to 8.000 million tonnes. All-wheat supplies at the same time in 2005-06 totalled 9.638 million tonnes. According to the government agencies, the lower wheat stocks were the result of above-average export demand brought on by the tight world supply and demand situation. There is also talk in some quarter that the supply tightness in Canada may be offset by report of higher-than-expected yield potential from wheat crops in central and northern Alberta. However, the problem is that the crop is late in maturity and in turn the quality may be downgraded by frost. Stats Canada pegged canola supplies as of July 31 at 1.820 million tonnes, which was at the high end of pre-report ideas that ranged from 1.300 million to 1.800 million tonnes. Canola supplies at the end of the 2005-06 crop year totaled 2.007 million tonnes.

Iraq Plans to Import Australian Wheat

Government officials from Iraq have started talks with Australian wheat exporter AWB (AWB.AU) to purchase large quantities of hard wheat. The Trade Ministry in cooperation with the AWB has started talks with senior government officials to purchase Australian wheat, Trade Minister said. The two country had no commercial relationship since February, 2006, following revelations at an Australian inquiry investigating kickbacks of U.S. \$221.7 million paid by AWB to Saddam Hussein's regime to secure wheat sales under the U.N. oil-for-food programme. The requirement for Iraq to buy annually is about 3.8 million tonnes of wheat.

Australia's Victoria Wheat Production Around 4.4 MT

According to an Agronomist with the Department of Primary Industries, production from a new wheat crop in Australia's Victoria state could reach a record 4.4 million metric tonnes. If there is a poor finish, wheat production would be around 2.5 million tonnes and if there is good finish; yield could be around 5.5 million tonnes. Since 1996-97, the country generally produces above 20 million tonnes or around 10 million tonnes, which shows when Australia misses, misses in a big way. This year, Australia's wheat production would be around 18 million tonnes. At present, good rainfall is required to maintain current crop yields.

China's Wheat Output Around 107 MT in 2007

Central government expects China's wheat output in 2007 to stand around 107 million tonnes, up 2.54 million tonnes from last year. The increased production is due to increase in output per hectare following the promotion of good quality wheat seeds.

Australia Winter Wheat Crop Estimation at 20 to 22 Million Tonnes

There is growing concern in Australia of the impact on wheat crop due to lack of rain in some areas. Production estimates for now remain mostly in a range of 20 million to 22 million metric tons. For the domestic consumption, Australia needs around 6 million-7 million tonnes and the balance go for export. Industry concerns also are playing out in trading of ASX January 2008 futures, the most active local milling wheat contract, which traded early Wednesday at A\$343 a metric tonne, down A\$6 from Tuesday's close, but still 60% higher than a low of A\$215 early in April. Rainfall in the recent weeks in northern New South Wales and southern Queensland wheat lands has helped buttress industry estimates. More rainfall is needed soon because when the weather warms up crops grow faster and use more soil moisture.

Domestic Wheat Price May Surge As Bids Quote Higher Rates

In the latest tender floated by the State Trading Corporation for wheat import for the unspecified quantity, six suppliers have offered to sell 5.3 lakh tonnes in a price range of \$385-434/tonne. Earlier, government cancelled the tender of 4.09 lakh tonnes at the price of \$370/tonne. If the government had bought the above quantity with the above rate, could have saved around Rs.25 crore. The bidders for the current tender and the quantity to be supplied as follows: Glencore (3 lakh tonnes), Cargill (80,000 tonnes), Toepfer (70,000 tonnes), PEC (50,000 tonnes), Ameropa (25,000 tonnes) and Starcom (5,000 tonnes). The purchase will be finalized by September 3. Although the government procured 11 million tonnes from farmers, 1.8 million tonnes more than the last year, but it is lower than the projected requirement of 15 million tonnes for the year. Currently the domestic wheat prices surged by Rs.70-85/mt due to high import prices in the last import tender. Further, the domestic prices are likely to rise as the high prices quoted in the recent wheat import tender.

Argentina June Wheat Exports Down 22%

In June, Argentina exported 659,794 tonnes of wheat, down by 22% from the 847,175 tonnes exported in June 2006. Brazil was the major buyer of Argentine wheat in June with the quantity of 560,986 tonnes followed by Mozambique with 35,901 tonnes.

Four S Korea Flour Mills Buy 24,400 Tonnes US No.1 Wheat

Four South Korean flour mills, namely Dongah, Daehan, Youngnam and CJ Corporation have bought 24,400 metric tonnes of U.S. No.1 wheat from trading house Cargill. The shipment is expected to reach South Korea during the month of October.

IGC Wheat Production Forecast

The forecast of world wheat production is reduced by 7m. tonnes, to 607m., but is still 16m. higher than in 2006. The EU crop is placed 3.9m. tonnes lower than before, and the estimate for Canada is reduced by 2m. tonnes. Because of a cut in the feed use forecast, largely due to high prices, world consumption is placed at 614m. tonnes (610m.), down by 3m. from July. Although much of the reduction in the world crop estimate is offset by lower consumption, forecast wheat stocks at the end of 2007/08 are placed 2m. tons lower than previously, at 111m. (117.2m.), the smallest since 1979/80, with those in the five major exporters

expected to be especially tight. World trade in wheat and wheat flour in 2007/08 is expected to dip by 3.3m. tonnes, to 107.4m, following bigger crops in India and Brazil. However, the total is 0.5m. higher than last month, with milling wheat demand in several importers appearing more robust than anticipated, despite high prices and record ocean freight rates. Reduced availabilities in several exporters have significantly boosted US export prospects.

Source: IGC, 23.08.2007

CBOT Wheat Futures Settled Up

CBOT wheat futures settled up Friday. December Wheat finished up 24 cent at \$874.00 per bushel; this was 6 off the high and 22 up from the low. July Wheat closed up 17 cent at \$629.00 per bushel. This was 15 up from the low and 1 off the high. December wheat settled up with the news of solid export demand along with continued dry spell over Australia helped gain in the early session. Funds were active buyers on the session and commercial traders were noted sellers on a scale-up basis. USDA confirmed a sale of 700,000 tonnes of US hard red winter wheat to Iraq. In addition, Algeria bought 100,000 tonnes of US hard red winter wheat. Russia is planning to limit wheat exports if prices reach near \$219/tonne. Poor production in Europe this summer has made European customers coming to the US supported the positive sentiment. Cumulative US export sales have reached 69.6% of the USDA forecast for the entire season as compared to 43.6% on average over the last five years. Good rains are expected across the southeast US into early next week, which might provide improved moisture for planting of new crop.

USDA Wheat Weekly Export Sales

Net sales of 1,440,000 metric tons were 33 percent below the previous week, but 12 percent over the prior 4-week average. Increases reported for unknown destinations (368,100 MT), Nigeria (182,400 MT), Algeria (115,200 MT, including 68,900 MT switched from unknown destinations), Japan (93,900 MT), Cuba (75,000 MT), Egypt (65,300 MT), and Spain (58,600 MT, including 58,400 MT switched from unknown destinations), were partially offset by decreases for Kenya (50,000 MT). Net sales of 160,200 MT for delivery in 2008/09 were primarily for Kenya (130,000 MT). Exports of 920,600 MT were 26 percent above the previous week, but 9 percent under the prior 4-week average. The primary destinations were Egypt (125,300 MT), South Africa (117,600 MT) Algeria (106,000 MT), Spain (76,000 MT), Italy (71,800 MT), Indonesia (69,200 MT), and Mexico (54,900 MT).

This summary is based on reports from exporters for the period September 7-13, 2007.

Source: USDA

WEATHER WATCH

- A low-pressure area formed over northwest Bay of Bengal and adjoining coastal areas of north Orissa and West Bengal on 13th morning. It persisted over the same region on 14th and became less marked on 15th. However, the associated upper air cyclonic circulation lay over northwest and adjoining West-Central Bay of Bengal off Orissa and Andhra Pradesh coasts on 16th. Again, under the influence of this cyclonic circulation, a low-pressure area formed over west-central Bay of Bengal and adjoining Coastal Andhra Pradesh on 17th. It lay as a well-marked low-pressure area over the same region on 18th and 19th.

- While the western end of the monsoon trough lay to the north of its normal position or near normal position, the eastern end of the monsoon trough shifted gradually from north to south during the week in association with the low pressure area over the Bay of Bengal.
- A feeble offshore trough at mean sea level ran from Konkan coast to Kerala coast during many days of the week.
- A trough in lower tropospheric levels ran from north Pakistan to north Arabian Sea during the week.

Rainfall:

Under the influence of the above systems:

- Widespread /fairly widespread rainfall with isolated heavy to very heavy falls occurred over Orissa during 14-17th and over Andhra Pradesh during 15-19th. Widespread /fairly widespread rainfall with isolated heavy to very heavy falls also occurred over Kerala, Karnataka and Andaman & Nicobar Islands during many days of the week.
- Scattered/fairly widespread rainfall occurred over Konkan & Goa, Madhya Maharashtra, Marathwada and Lakshadweep during many days of the week. Scattered/fairly widespread rainfall also occurred over Sub-Himalayan West Bengal & Sikkim and northeastern states during many days of the week.
- Isolated to scattered rainfall occurred over remaining parts of the peninsula, most parts of

central India and remaining parts of East India during many days of the week.

- The rainfall activity was sub-due over remaining parts of the country, where isolated rainfall occurred during many days of the week.
- Scattered rainfall occurred on 6th, 10th & 11th and isolated rainfall on many days of the week over Punjab, Haryana and Himachal Pradesh. Isolated rainfall occurred during 9-11th and mainly dry weather prevailed on remaining days of the week over the rest regions of North West India.

Outlook for the week ending on 26th September 2007

- ✓ The well marked low pressure area over West-Central Bay of Bengal is likely to concentrate into a depression and cause widespread rainfall with isolated heavy to very heavy falls over Orissa and north Andhra Pradesh during first half of the week. The enhanced rainfall activity is likely to shift towards central and west India during second half of the week
- ✓ Scattered fairly widespread rainfall activity is likely over northwest India during second half of the week.
- ✓ Decrease in rainfall activity over the peninsular India during second half of the week.

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 24th September, 2007):

Foreign Currency	Rs. per unit
1 US \$	39.47
1 Euro	56.19
100 Yen	34.74
1 British £	80.11

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