

## WHEAT

27<sup>th</sup> August -1<sup>st</sup> September, 2007

### MAJOR ACTIVITY HIGHLIGHTS

- 4th Advance Estimate: Wheat Production Up
- Government to Import 7.95 lakh tonnes at an Average Price of \$389.45/Tonne
- Import Duty (30%) Likely to cut on Wheat Flour
- Wheat Stock Under GOI is Higher Around 12.01 Million Tonnes
- Glencore International AG will Supply 7.4 Lakh Tonnes

### MARKET FUNDAMENTALS:

Wheat traded mostly steady to firm in the domestic markets during the week starting August 27 on normal offtake from the consuming units against a restricted supply. The floating of tenders by STC on behalf of GOI to import wheat further supported the upward movement of the market as bidders offered the higher price in the range of \$385-434/tonne for 5.3 lakh tonnes. The market also found support in rising global prices as CBOT futures edged up on good demand from Cuba, Iraq, Taiwan and India along with lower harvesting in England and Wales, lower production estimation for Australia and Canada. USDA predicted the wheat prices for 2007-2008 are set to hit record highs. Domestic roller flourmills too are accelerating purchases prior to the festive season. Total arrivals in Delhi (Lawrence Road) have been slightly increased from previous week's 9000 qtls to 11-12,000 qtls and prices quoted at 1010-1020/qlt. In Narela and Najafgarh markets the price quoted up around 975-980/qlt, and 970-975/qlt (loose basis) on the back of restricted arrivals around 2000 qtls and 3000-4000 qtls respectively. The south market traded steady to firm, as consuming units are more eager to buy at the current price level in fear of price rise due to higher import price. The price of different wheat products traded steady to down as, Atta quoted at Rs.1055/90kg. Maida and sooji traded at Rs.1256/90 kg and Rs.710 a 50 kg bag respectively.

This year, the government had 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. 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. Due to growing demand during the festive season and winter season coupled with import at higher prices may see the wheat trading on higher side.

### OUTLOOK:

**Short Term (One Week):** Steady to up on tight supply against a good festive demand.

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

Markets	25.08.07	01.09.07
Delhi (Lawrence Road) truck loaded ready delivery	1015	1010-1012
Haryana (Karnal)	995-1000	1000
Punjab (Khanna)	1030	1020
Rajasthan (Kota)	1065-1070	1050-1055
Uttar Pradesh (Kanpur)	1035	1030-1035
Madhya Pradesh (Indore)	1030-1035	1030-1035
Uttar Pradesh (Bareilly)	1005-1015	1010-1020
Punjab (Sunam) Loose	885-890	915
Ludhiana (Jagraon) Loose	910	900
Rajkot Loose Price	960	-
Madhya Pradesh (Bhopal) Loose	980-990	970-980

Wheat Products	25.08.07	01.09.07
Atta (90kg)	1073	1055
Maida Grade 1(90kg)	1256	1256
Suji (50kg)	710	710
Chokar (50 kg)	343	329
Chokar (35 kg)	234	220
Chakki Atta (90kg)	945	945

Following was the status in other mandis, with active millers and private trade buying: (01.09.07)

Place	Arrivals	Price
Mathura	1300 Qtls	Rs.940 per qtl

Kosi	800 Qtls	Rs. 935 per qtl
Hodal	100 Qtls	Rs. 945per qtl
Palwal	500 Qtls	Rs. 930 per qtl
Narella	3500 Qtls	Rs. 970-972 per qtl

#### PRICE DRIVERS:

- ✓ Government had procured 11 million tonnes wheat from farmers, 1.8 million tonnes more than the last year
- ✓ Six suppliers have offered to sell 5.3 lakh tonnes wheat in a price range of \$385-434/tonne
- ✓ Government of India chalked out the month-wise and port-wise import of wheat from November 07 to April 08.
- ✓ 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.
- ✓ Roller flour millers are against the government's plan to scrap customs duty on wheat flour from the current 30 per cent level.
- ✓ By Wednesday, around 80 per cent wheat harvest is completed in England and Wales but production is lower
- ✓ Production estimates for Australia remain mostly in a range of 20 million to 22 million metric tonnes.
- ✓ South Africa's Crop Estimates Committee predicted wheat production for the 2008/09 seasons around 1.664 million tonnes, the lowest production since 2003.
- ✓ 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.
- ✓ By July 31, India had 30 percent less wheat stocks and stood at 12 million tonnes, less than the targeted 17.1 million tonnes targeted for July 1.
- ✓ In CBOT, wheat prices surged up on the growing wheat demand from India, Taiwan, Cuba and Iraq.
- ✓ CBOT wheat futures continuously closed higher
- ✓ The domestic prices are likely to rise as the high prices quoted in the recent wheat import tender.
- ✓ IGC forecasts global wheat production to be unchanged at 614 million tonnes this Month
- ✓ 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 accounts 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 Prices may Rise with Lower Stocks: IGC

Wheat prices is likely to rise following the International Grains Council's announcement of the fall of the carryover stock in 2007-08. Council said the global 2007-08 wheat carryover stocks would fall to a 28-year low of 111 million tonnes. Although the global wheat output this year is seen at 607 million tonnes, up 16 million tonnes from last year, but down 7 million tonnes from the council's previous estimate due to lower output in European Union and Canada. Lower output has pushed up global wheat prices, which resulted the global wheat demand lowered at 614 million tonnes, down 3 million tonnes from the Council's last estimate in July.

##### The Prices of Flour May Reach New Highs with the Global Declining of Wheat Stocks

With the global declining of the carry over stock, the prices of flour cloud reach new heights by Christmas. This means consumers have to pay more for bread and cakes, doubles and roti and a range of other products made from flour. Officials of National Flour Mills and Nutrimix Flour Mills both said that the expected price rise will continue because a sharp drop in the production of wheat in the US and Canada. Due to torrential rains and intense summer heat, wheat farmers expected that the drop will be by 20 per cent in Canada and up to 50 per cent in the USA. Apart from bad weather, the world market for wheat has suffered another blow from a severe drought in Australia. The increasing demand for wheat from India, Brazil and China had been sucking up supplies from the market. The US farmers have been converting wheat plantations to corn explaining that corn was currently being used in the manufacture of ethanol and good return.

##### Surge in Glboal Wheat Prices may Hit French Flour Market

The surge in global wheat prices hit the French flour markets after English breadmakers and Italian pasta makers. With international wheat prices at a 10-year high, bakeries across France are expected to raise the price of the baguette by about 5 cents in the coming weeks. The move comes after Italy's Association of Pasta Manufacturers announced last month that it would increase domestic pasta prices by 20 per cent. In Europe, wheat prices have nearly doubled from €130 to €237 a tonne this year. In North America, corn and wheat prices are putting upward pressure on other food items, such as poultry and dairy food. French farmers and supermarket groups met last month to discuss ways of curbing an expected increase in food prices, but the meeting ended in deadlock.

##### China Sold 757,900 Tonnes of Old Wheat

This week, China's new wheat prices outlook remains stable despite the possibility of a slight fall in prices. In Shandong province, a major wheat-producing region, prices of new wheat traded lower, as farmers offloaded the stocks to buy necessary commodities. Buyers remained sidelined with the relatively high prices of new wheat and preferred to buy old wheat. Last Thursday, China sold 757,900 tonnes of old wheat, which it had procured under the minimum purchase price. Government sold 64% of the 1.19 million tonnes to be sold.

##### Australian Wheat Export under Non-Bulk Wheat Quality

The arrangements for exporting wheat in bags and containers under Non-bulk wheat quality starts on Monday with Wheat Exporting Authorities formally accrediting an initial batch of 44 packer sites, 26 testing laboratory locations and five superintendence companies across five states under the scheme in Australia.

Accreditation is an ongoing process with individuals and companies able to apply at any time. Companies accredited as packers include Australian Bulk Alliance and Sumitomo Corporation.

### **Egypt Issued Tender to Import 55,000 to 60,000 Tonnes of Wheat**

The main wheat buying agency of Egypt has issued the tender to buy 55,000 to 60,000 tonnes of US, French, Australian, Canadian, German, Argentine and Kazakhstan wheat for shipment of October 16-31. As per the news, tenders will have to reach to Egypt's General Authority for Supply Commodities by 12 pm Tuesday and the result will be declared around 4.30 pm same day. The bidders were also asked to submit separate freight tender.

### **India has to Pay More for Wheat Import**

India, one of the largest wheat importers has to import more wheat at the record high prices to boost emergency stockpiles. By July 31, India had 30 percent less wheat stocks and stood at 12 million tonnes, less than the targeted 17.1 million tonnes targeted for July 1. India has to buy at a time when the global wheat prices are at their highest amid a drop in output in the world's leading growers. State Trading Corporation owned by the government, bought wheat from Cargill Inc., Toepfer International and Riaz Trading last month for a record \$317 a tonne to \$330 a tonne. Now India is likely to pay between \$375 to \$400/tonne. As per the US Foreign Agricultural Service, India was the world's third-biggest wheat importer in the year ended June 1, with purchases of 6.7 million tonnes.

### **South Africa's Wheat Production Pegged At 1.664 Million Tonnes for 2008-09**

South Africa's Crop Estimates Committee predicted wheat production for the 2008/09 seasons around 1.664 million tonnes, the lowest production since 2003 and 441,000 tonnes lower than last season. The crop is likely to be planted on 629,500 hectares; the lowest acreage since 1934 and 135,300 hectares lower than last season. Due to the dry climate in the central part, the Free State and North West, the wheat production predicted lower whereas Western Cape, the biggest grain grower has good soil moisture favourable for wheat production.

### **Japan's Weekly Wheat Tender Next Week**

According to the Ministry officials, Japan's Ministry of Agriculture will not hold the weekly wheat purchase tender this week instead will be resumed in next week. Ministry imports wheat from the U.S., Canada and Australia through weekly tenders and sells to domestic flour millers. Private traders are not allowed to import wheat.

### **Glencore Quoted Lowest at \$385/Tonne for Wheat Import**

According to a senior government official, among the bids offered by the companies, Glencore is the lowest in a tender issued by India's State Trading Corporation to import wheat. Parts of the cargoes offered by Glencore were around \$385/tonne, cost and freight, for delivery at Mundra. Hamburg-based Alfred C. Toepfer International has offered 70,000 tonnes of wheat at around \$390/tonne for delivery at Mundra port.

### **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.

### **80 Per cent Wheat Harvest Completed in England & Wales**

By Wednesday, around 80 per cent wheat harvest is completed in England and Wales but production are likely to be lower due to weather extremes, reported by National Farmer's Union. NFU further reported that if current dry and sunny weather continues then the majority of the wheat harvest will be finished soon. NFU also said that most farmers need four to five weeks to recover from this summer's record rainfall, especially to prepare land for autumn sowing.

### **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.

### **India is Planning to Buy more Wheat: Government Official**

As per a government official, India is interested to buy more wheat from the current suppliers from the present level of 530,000 metric tonnes. Due to continuous surge in global wheat prices, government is planning to buy more wheat and approximately around 700,000 tonnes. Apart from bulk cargoes, particularly those in panamax vessels offered for delivery to the

western port of Mundra, the government is considering the viability of buying the 5,000 tons offered in containers by Singapore-based Starcomm Resources. In the last seven tenders issued since February 2006, the government has purchased only wheat delivered through bulk shipments.

#### **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

#### **USDA Wheat Weekly Export Sales**

Net sales of 1,231,900 metric tonnes were 17 percent above the previous week and 1 percent over the prior 4-week average. Increases reported for Egypt (322,000 MT), unknown destinations (197,200 MT), Cuba (102,400 MT), the Dominican Republic (76,300 MT), Yemen (71,600 MT, including 66,600 MT switched from unknown destinations), and Spain (70,200 MT, including 24,000 MT switched from unknown destinations), were partially offset by decreases for Colombia (20,200 MT), Jamaica (18,000 MT), and Mexico (12,100 MT). Exports of 1,011,900 MT were 12 percent below the previous week, but 31 percent over the prior 4-week average. The primary destinations were Egypt (181,500 MT), Nigeria (123,200 MT), Yemen (71,600 MT), Spain (65,200 MT), and Japan (61,800 MT, including 41,200 MT late reporting).

This summary is based on reports from exporters for the period August 17-23, 2007.

Source: USDA

#### **WEATHER WATCH**

The western end of the monsoon trough gradually shifted northward and lay north of its normal position till 27th. It then gradually shifted southwards and lay south of its normal position on the last day of the week. The eastern end of the monsoon trough lay near its normal position during the week. However, a secondary trough extended from East Uttar Pradesh to Northeast Assam during this period. A cyclonic circulation lay over West-Central Bay of

Bengal off Andhra Pradesh coast between 3.1 km and 5.8 km above sea level on 23rd. It persisted over the same area extending up to mid-tropospheric level on 24th. It lay over south Telangana and adjoining areas of Coastal Andhra Pradesh and Rayalaseema on 25th over North Interior Karnataka and neighbourhood on 26th; over South Madhya Maharashtra and neighbourhood on 27th; over north Madhya Maharashtra and neighbourhood on 28th and over southwest Madhya Pradesh and neighbourhood on 29th. An off shore trough extended from Konkan coast to Kerala coast during 23rd 24th August and from south Gujarat coast to Kerala coast thereafter. Last week's upper air cyclonic circulation over northwest Madhya Pradesh and adjoining East Rajasthan extending upto 4.5 km above sea level lay over West Rajasthan and neighbourhood at lower tropospheric level on 23rd August and moved away westwards on 24th. An upper air cyclonic circulation lay over Gangetic West Bengal extending between 1.5 and 5.8 km above sea level on 27th. It lay over Jharkhand and neighbourhood on 28th extending upto 5.8 km above sea level and over East Uttar Pradesh and neighbourhood extending upto 3.1 km above sea level on 29th. An upper air cyclonic circulation lay over North Pakistan and adjoining Jammu & Kashmir in the lower levels on 23rd and over Jammu & Kashmir and adjoining Himachal Pradesh on 24th & 25th. It moved away Eastwards on 26th. A fresh upper air cyclonic circulation in the lower levels lay over North Pakistan and adjoining Jammu & Kashmir on 26th and over Himachal Pradesh and adjoining areas on 27th. It moved away eastwards on 28th. Another upper air cyclonic circulation in lower levels lay over Central Uttar Pradesh on 25th; over Bihar and neighborhood on 26th, over Sub-Himalayan west Bengal and adjoining Assam & Bangladesh on 27th and over North-East Assam and neighbourhood on 28th. It moved away eastwards on 29th.

#### **Rainfall:**

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

Widespread/fairly widespread rainfall occurred over northeastern States and Sub-Himalayan West Bengal & Sikkim during many days of the week. Fairly widespread rainfall also occurred over remaining subdivisions of east India during 28-29th. Fairly widespread rainfall occurred over Andaman & Nicobar Islands, Lakshadweep, Kerala, Coastal Karnataka and Konkan & Goa during many days of the week. Fairly widespread/scattered rainfall occurred over remaining parts of Peninsula, Chhattisgarh, Vidarbha, Marathwada and Madhya Maharashtra during many days of the week. Fairly widespread rainfall occurred over Gujarat Region and Madhya Pradesh during second half of the week. The rainfall was subdued over remaining parts of the country where isolated/scattered rainfall occurred during many days of the week.

#### **Outlook for the week ending on 5<sup>th</sup> September 2007**

A low-pressure area is likely to form over West-Central & adjoining North-West Bay of Bengal around 2nd September. Under its influence, fairly widespread rainfall with isolated heavy to very heavy falls is likely over Andhra Pradesh and adjoining Orissa upto 3rd September and decrease thereafter. Subsequently, the fairly widespread rainfall with isolated heavy to very heavy falls is likely over Chhattisgarh and East Madhya Pradesh. Fairly widespread rainfall with isolated heavy to very heavy falls is likely along the West coast and northeastern states. Subdued rainfall activity is likely over North-West India.

Source: IMD



## IGC WORLD WHEAT ESTIMATES (23.08.07)

(Million tons)

	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 <sup>#</sup>	58	57	36	30	29

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

Source: International Grains Council

### FOREX (As on 3<sup>rd</sup> September, 2007):

Foreign Currency	Rs. per unit
1 US \$	40.96
1 Euro	55.85
100 Yen	35.53
1 British £	82.41

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