

## WHEAT

14-20 October, 2007

### MAJOR ACTIVITY HIGHLIGHTS

- Policies of Developed Countries Favouring Agri-Business are Threatening the World's Food Security
- Pakistan is expecting a 25 per cent wheat shortage due to less water availability
- Indian Farmers May Plant Wheat Around 29 Million Ha This Year
- Govt. to allocate 98,000 tonnes wheat to Cool Down Prices
- IGC Wheat Production Forecast 601 Million Tonnes

### MARKET FUNDAMENTALS:

During the week, wheat mostly traded at higher side after reaching its record high prices in domestic markets last week after government increased the MSP from Rs.850 to Rs.1,000/qrtl for the current rabi crop season. The lower domestic wheat stock and confusion over government's further wheat import propped up the prices. However, during the midweek, prices slightly dipped on sustained supply against a lower demand. Meanwhile, Pakistan government is planning to increase the support price of wheat to Rs 475 per 40 kg from its existing price of Rs 425 per 40 kg for the coming Rabi season in order to encourage the farmers to grow wheat crop on more land. Pakistan government is expecting to achieve the target of 24 million tonnes of the grain during the next crop season from 23.5 million tonnes wheat during the last year's crop. Government of India also wants farmers to produce 75.5 million tonnes of wheat in the year that ends in June, compared with 74.9 million tonnes in the last year. In Indian southern markets, wheat prices mostly traded steady after reaching record high of Rs.1200-1300/qrtl. In Delhi (Lawrence Road), prices quoted down Rs.1060-1065 from the previous level of Rs.1070 against the increased arrival of 7000 qtls. Prices quoted steady at Delhi (Narella) and (Najafgarh) on loose basis against the steady arrival of 2000 and 3000 qtls respectively. But in Punjab, (Sunam) and (Khanna) loose basis, prices firmed up on good demand from the consuming units against a slightly tight supply. Government of Iraq wants to buy wheat from Australia, including supplies from the exporter that paid kickbacks to Saddam Hussein's regime. According to government's forecaster, Australia's wheat crop may be 15.5 million metric tonnes, down 31 percent from its June estimate. In the domestic markets, wheat may trade range bound with firm bias.

### OUTLOOK:

**Short Term (One Week):** wheat may rule range bound at higher side on good festive demand as well as global tight supply.

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

Markets	13.10.07	20.10.07
Delhi (Lawrence Road) truck loaded ready delivery	1050	1065

Haryana (Karnal)	1020-1030	1050-1055
Punjab (Khanna)	1070-1075	1085-1088
Rajasthan (Kota)	1045-1050	1080-1085
Uttar Pradesh (Kanpur)	1035-1040	1030-1035
Madhya Pradesh (Indore)	1080	1097-1100
Uttar Pradesh (Bareilly)	1015-1020	1020-1025
Punjab (Sunam) Loose	980-985	960-963
Ludhiana (Jagraon) Loose	975-980	960
Rajkot Loose Price	1005	1030
Madhya Pradesh (Bhopal) Loose	980-990	975-977

Wheat Products	13.10.07	20.10.07
Atta (90kg)	1055	1073
Maida Grade 1(90kg)	1247	1256
Suji (50kg)	730	735
Chokar (50 kg)	392	391
Chokar (35 kg)	253	265
Chakki Atta (90kg)	980	1000

Following was the status in other mandis, with active millers and private trade buying: (20.10.07)

Place	Arrivals	Price
Mathura	1100 Qtls	Rs.986/qrtl
Kosi	300 Qtls	Rs.995-1003/qrtl
Najafgarh	3000 Qtls	Rs.1005-1025/qrtl
Palwal	300 Qtls	Rs.990/qrtl
Narella	1800 Qtls	Rs.1015-1035/qrtl

## **INTERNATIONAL AND DOMESTIC NEWS:**

### **Policies of Developed Countries Favouring Agri-Business are Threatening the World's Food Security**

The recent data compiled by World Bank shows that the net cereals imports by developing countries in Asia, Africa and Latin America are projected to increase to 265 million tonnes by 2030 from 85 million tonnes in 2000. Although the world granaries have enough stocks to meet the requirement but as a chunk of these food crop are now being used for bio-fuel production may unable to satiate the hunger of people. Climate is adversely affecting farming not only of developing countries but also of big exporters like the USA, Australia and the European Union. To increase the crop production, some of developed countries like the USA are producing genetically engineered crops, which is having serious health hazards. According to the data compiled by World Bank in 2004, the market share for the four largest agrochemical and seed companies reached 60 per cent for agri-chemicals and 33 per cent for seeds. The World Bank also says, when an industry's CR4 (concentration of top four) exceeds 40 per cent, it is widely believed that market competitiveness begins to decline. Under such circumstances, the going can be tough for farmers of developing countries as they are fast integrated to an increasingly globalised economy. Countries like USA and EU have repackaged their agricultural subsidies so that they appear to be legitimate under WTO rules, allowing them to continue dumping products such as rice, corn, milk, sugar and cotton at prices far below their actual costs of production. So very serious threats to food security are emerging in developing countries and a lot of caution is needed. Source: Deccan Herald

### **Pakistan is expecting a 25 per cent wheat shortage due to less water availability**

Pakistan is expecting a 25 per cent wheat shortage due to less water availability between October 1 and April 30 during Rabi season. Federal Committee on Agriculture (FCA) was expected to finalise next year's crop estimates on October 24. It would, however, find it difficult to fix for next year higher wheat production target than official claims of 23.5 million tonnes output this year. The sources also reported that the Indus River System Authority (Irsa) had yet to officially communicate estimates of water shortage to the FCA. Irsa's technical committee said that water shortage would be about 25 per cent.

### **Centre to Release More Wheat To Meet Festive Demand**

To meet the growing demand during the festive season, government of India will release from its stocks an ad hoc additional quantity of about one lakh tonnes of wheat to all states for distribution to Above Poverty Line (APL) card holders under the targeted public distribution system (TPDS). The government has authorized the Food Corporation of India to make another ad hoc additional allocation of about one lakh tonnes of what to all states and Union Territories for November and December. The allocation will be sold at the TPDS rate for the APL category, which is Rs.6.10 a kg.

### **Indian Farmers May Plant Wheat Around 29 Million Ha This Year**

The high MSP of Rs.1000/qlt for the current rabi season may see a record planting. Farmers in India are forecast to

plant a record crop, helping cap world prices that have soared 64% this year. Area sown to the cereal may exceed 29 million ha, up from 28.5 million ha last year, head of directorate of research said. A record crop will ease pressure on the government to import the grain at record prices. According to USDA, global reserves will fall to 107 from 122.7 million tonnes last year. Record prices prompted the Indian government to raise the minimum prices it pays growers by 18% to Rs.1000/qlt. US farmers are responding to high prices by sowing more wheat. Some 73% of the winter crop was planted as of 14 October compared to last year's 58%. According to US Foreign Agricultural Service, government imported 6.7 million tonnes of wheat in the marketing year ended 1 June, making the nations the world's third largest buyer of wheat.

### **Govt. to allocate 98,000 tonnes wheat to Cool Down Prices**

In an attempt to check the increasing wheat prices, the government has made a festival allocation of 98,000 tonnes of wheat to the states and promised another 98,000 tonnes each for November and December.

### **India Bans Wheat Flour Exports**

Government has banned exports of wheat flour for an indefinite period and has also extended the ban on exports of wheat for an indefinite period, the ban was to lapse on Dec. 31, 2007. This ban will be valid till further orders. The government has also allowed restriction-free imports of wheat for an indefinite period, which was earlier allowed until Dec. 31, 2007. Indian mills had plans to export up to 100,000 metric tonnes of wheat flour by March 2008.

### **Russian Govt Imposes Wheat and Barley Export Duty**

The Russian cabinet of ministers decided to approve the imposition of seasonal export duty on wheat and barley. The exact figures and the duration of the new export duties for wheat and barley have yet to be announced officially. However, officials said earlier the duty for wheat would be 10% and for barley 30%. The wheat export duty isn't prohibitive, designed to keep wheat exports in the current marketing year within 12 million- 14 million metric tonnes.

### **Wheat Stocks Totaled At 10.12 Million Metric Tonnes As Of Oct. 1**

According to Chairman, Food Corporation of India, Country's wheat stocks totaled at 10.12 million metric tonnes as of Oct. 1.

### **Government Wants Farmers To Produce 75.5 Million Tonnes Wheat**

Wheat futures in CBOT declined on speculation that farmers will increase global planting to capitalize on the highest prices ever. India, second largest wheat consumer, on Tuesday increased the Wheat MSP to encourage the farmers for more wheat planting. Prices have jumped 69% this year in Chicago and set record highs 23 times in the three months ended 28 September. India raised the minimum purchase price of the grain by 18% to encourage domestic planting, finance minister P. Chidambaram said on Wednesday in New Delhi. India had bought 1.3 million tonnes wheat at record prices since July. Government wants farmers to produce 75.5 million tonnes of wheat in the year that ends in June, compared with 74.9 million tonnes in the last year.

### **Pakistan Inflation 8.37% on Wheat Prices**

Pakistan's inflation, as measured by the consumer price index, accelerated to a nine-month high in September because of higher wheat costs. Consumer prices rose 8.37 percent from a year earlier after gaining 6.45 percent in August, Federal Bureau of Statistics, Islamabad. September inflation rose because of higher wheat prices. Although Pakistan had a bumper wheat crop in 2007, but hoarding and smuggling pushed prices up 30 percent in August from July. The government plans to import 1 million tonnes of wheat this year to keep prices affordable until the new crop arrives in May.

#### **IGC Wheat Production Forecast 601 Million Tonnes**

Production is now forecast at 601 million tonnes, 11 million tonnes more than last year, but 6 million tonnes down from last month because of fast-deteriorating prospects in Australia. Estimates for the EU, Morocco and South Africa are also reduced but there are increases for Argentina, China, India and Kazakhstan. Total consumption is projected at 612 million tonnes, 2 million tonnes less than last month and only 3 million tonnes more than in 2006/07. Limited supplies and escalating prices reduce feed use to 93 million tonnes, 4 million tonnes less than last year: despite steeply increasing wheat prices and transportation costs, total food use is still forecast to rise by 3 million tonnes to 444 million tonnes. To soften the impact of the high prices, some countries have relaxed import tariffs or increased consumer subsidies. Stocks of wheat in the five major exporters are forecast to tumble by 13 million tonnes to a 34-year low of 25 million tonnes, 4 million tonnes less than last month. Projected US stocks, at less than 9 million tonnes, would be the lowest since 1951/52. World trade is now forecast at 105 million tonnes, 2 million tonnes less than last month. High prices are leading some importing countries such as Iraq and Egypt to draw on their stocks, while in others, such as Nigeria, consumption is being reduced. Forecast exports by Argentina, the US, Russia, Kazakhstan and China are higher than last month but, because of limited supplies, sales by Australia, the EU and Pakistan are lower. First indications are for an increase in wheat plantings for the 2008 harvest as growers respond to record prices. Winter wheat planting conditions in the northern hemisphere is generally favourable and the overall area expansion may be comparable to the 3% (6 million ha.) increase in 2007. However, the extent of sowings will depend on weather conditions and likely returns from other crops.

Source: IGC, 27.09.2007

#### **CBOT Wheat Futures Settled Down**

CBOT wheat futures settled up Friday. December Wheat finished up 30 cent at \$855.50 per bushel; this was equal to the high and 22.5 cent up from the low. July Wheat closed up 17.25 cent at \$692.75 per bushel. This was 12.75 up from the low and 1.75 off the high. The U.S. wheat futures settled higher on a short covering after recent setbacks from all time highs. Bullish export demand supports the bullish sentiment. Reports indicated that Russia, an aggressive exporter on the world wheat market, was considering raising its export tariff on wheat, which encouraged ideas that more importers will buy from the U.S. Russia has already approved a 10% duty on wheat exports to take effect next month but may hike it to 30%. There also were ideas U.S. wheat is more competitive on the world market following the pullbacks. With the report of Egypt bought more US wheat this week and Morocco issued import licenses for 500,000 tonnes of wheat added

to the positive tone. US cumulative export sales have already reached 82.6% of the USDA forecast for the entire marketing year as compared to 51.3% on average over the last five years. Sales of just 164,000 metric tonnes per week are needed to reach the USDA estimate but sales have averaged 1.29 million tonnes in the past five weeks. In other words, if the US sells more than 5.44 million tonnes of wheat in the next 33 weeks, the export projection will be met. The chief economist for the USDA presented projections to the House Agriculture Committee yesterday and indicated planted acreage for wheat for the 2008-09 season at 64 million acres from 60.4 million this year. Ending stocks were pegged at 515 million bushels from 307 million this season. Source: *CBOT*

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

Net sales of 984,500 metric tons were 5 percent over the previous week, but 28 percent below the prior 4-week average. Increases reported for Iraq (400,000 MT), the Philippines (226,500 MT), South Korea (158,800 MT), Japan (92,800 MT), Mexico (73,800 MT), Spain (43,000 MT, including 23,000 MT switched from unknown destinations), and Chile (38,000 MT), were partially offset by decreases for unknown destinations (350,500 MT). Net sales of 107,000 MT for delivery in 2008/09 were for unknown destinations (50,000 MT), the Philippines (45,000 MT), and Nigeria (12,000 MT). Optional origin sales of durum wheat for Nigeria (6,000 MT) were reported for delivery in 2008/09. Exports of 990,400 MT were 12 percent over the previous week, but 1 percent under the prior 4-week average. The primary destinations were Egypt (149,200 MT), Chile (78,000 MT), Mexico (72,700 MT), Colombia (72,400 MT), Spain (55,800 MT), South Korea (48,700 MT), and Italy (44,000 MT). This summary is based on reports from exporters for the period October 5-11, 2007.

Source: USDA

#### **CROP- WEATHER ANALYSIS**

Land preparation and sowing of wheat is going on in Arunachal Pradesh, HP and Kashmir division. Irrigation is needed for land preparation and sowing of the crop.

#### **WEATHER WATCH (WEEK ENDING ON 17<sup>th</sup> October, 2007)**

- Southwest monsoon further withdrew from more parts of Bihar, Jharkhand, Chhattisgarh, Maharashtra and some parts of Gangetic West Bengal and Orissa on 12th October. It further withdrew from some more parts of Chhattisgarh, most parts of Maharashtra and some parts of Telangana and north Interior Karnataka on 15th October.
- The withdrawal line passed through Forbesganj, Bankura, Angul, Jagdalpur, Ramagundam, Nizamabad, Gulbarga, Bijapur, Vengurla, Lat. 16.0°N/ Long. 70.0°E, Lat. 16.0°N/ Long. 65.0°E and Lat. 16.0°N/Long. 60.0°E on 15th October.
- Last week's upper air cyclonic circulation extending upto 3.1 km above mean sea level over Bangladesh & neighbourhood lay over Gangetic West Bengal & neighbourhood on 11th, over Gangetic West Bengal and adjoining Jharkhand extending upto 4.5 km a.s.l. on 12th, over Jharkhand and neighbourhood between 2.1 and 4.5 km a.s.l. on 13th and became less marked on 14th October.
- Last week's upper air cyclonic circulation extending upto 3.1 km a.s.l. over South-West Bay of Bengal off Tamil Nadu coast lay over Tamil Nadu &

neighbourhood extending upto 0.9 km above mean sea level on 11th and became less marked on 12th.

- An upper air cyclonic circulation extending upto 1.5 km a.s.l. lay over North-West Bay of Bengal off north Orissa and West Bengal coasts on 13th & 14th . Under its influence, a low pressure area formed over north Bay of Bengal off Bangladesh-West Bengal coast on 15th. It lay over north Bay of Bengal & neighbourhood on 16th morning and became less marked on the same day evening. However, the associated upper air cyclonic circulation extending upto 3.6 km a.s.l. lay over the same area on 16th and became less marked on 17th October.
- An upper air cyclonic circulation extending upto 2.1 km a.s.l. lay over north-eastern states on 11th and moved away eastwards on 12th October.
- An upper air cyclonic circulation extending upto 4.5 km a.s.l. lay over west central Bay of Bengal on 14th , over southwest Bay of Bengal off Tamil Nadu coast on 15th and became less marked on 16th October.

#### Rainfall:

Under the influence of the above systems:

- Fairly widespread rainfall occurred on many days of the week over northeastern States and on a few days of the week over Andaman & Nicobar Islands.
- Scattered to fairly widespread rainfall occurred over Kerala and Tamil Nadu on many days of the week. Isolated rain/thundershowers occurred over remaining parts of peninsula on few days of the week.
- Scattered rainfall occurred over West Bengal & Sikkim on many days of the week. Isolated rainfall occurred over Orissa, Jharkhand, Bihar, East Uttar Pradesh on a few days of the week and over Western Himalayan region during second half of the week.
- Weather was mainly dry over the remaining parts of the country during the week

#### Outlook for the week ending on 24<sup>th</sup> October 2007

- ✓ Southwest monsoon is likely to withdraw from northeastern States and the remaining parts of East & Central India and Maharashtra during middle of the week.
- ✓ Northeast Monsoon rain is likely to commence over Tamil Nadu and adjoining states during second half of the week.

Source: IMD

#### IGC WORLD WHEAT ESTIMATES (27.09.07)

	2004-05	2005-06	2006-07 Est.	2007-08 (Forecast)	
				23.08	27.09
Production	628	620	590	607	601
Trade	110	109	111	107	105
Consumption	617	624	610	614	612
Stocks	140	136	117	111	107
Year-Year Change	+12	-4	-19	-	-11
5 Major Exporters <sup>#</sup>	58	57	36	29	25

(Million tons)

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

Source: International Grains Council

**FOREX (As on 22<sup>nd</sup> October, 2007):**

Foreign Currency	Rs. per unit
1 US \$	39.79
1 Euro	56.87
100 Yen	34.60
1 British £	81.41

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