

WHEAT

24-29 September, 2007

MAJOR ACTIVITY HIGHLIGHTS

- Fortified Atta Should Be Extended To BPL Cardholders: Roller Flour Millers
- Wheat Prices May Fall By 30% Within A Year: Analyst
- EGoM Nodded Import of 10 Lakh Tonnes of Wheat
- FMC May Pressure Govt. to Lift Ban on Wheat Futures Trading
- IGC Wheat Production Forecast 601 Million Tonnes

MARKET FUNDAMENTALS:

During the week starting September 24, wheat traded mostly steady to firm in domestic markets on good demand from roller flour millers ahead of festive season amidst restricted supply. 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. USDA's estimation in September that global stocks of wheat would touch 112.4 million tonnes at the end of May 2008, their lowest in 30 years is seen as a bullish force for wheat market. Government's wheat procurement by July 19 was at 11.1 million tonnes, which was way below the 16.8 and 14.8 million tonnes recorded in 2004-05 and 2005-06 respectively. As offtake remains high, buffer stocks fall below the comfort level, adds positive tone to the market sentiment. In southern markets, wheat ruled steady to up at Rs.1200-1265/ql on good demand from the consuming units.

However, in northern markets, wheat firmed up on good demand from south's roller flour millers along with local needs. In Bareilly, Kanpur (UP) and Rajkot (Gujarat) mill quality ruled higher at Rs.1005-1010, Rs.1010-1015 and Rs.965/ql compared to last week's Rs.985-990, Rs.1000 and Rs.960 respectively against the steady daily arrival. Various wheat products also traded mixed as Atta (90kg) quoted down Rs.1037 from 1057/ql, Suji (50kg) Rs.695 from Rs.700/ql while Chokar (50kg) ruled higher at Rs.366 from last week's Rs.355. In Delhi (Lawrence Road), wheat ready delivery almost traded steady at Rs.1008-1010 whereas daily arrivals stood around 10000 to 15500 bags. Meanwhile, Roller Flour Millers Federation of India requested the govt. to exempt wheat and wheat products from taxes especially VAT, which at present ranges from 0-9 percent in different states. In short, tight supply and increasing domestic demand ahead of festive and winter season may boost the wheat prices.

OUTLOOK:

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

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

Markets	22.09.07	29.09.07
Delhi (Lawrence Road) truck loaded ready delivery	1010-1012	1008
Haryana (Karnal)	980-985	995
Punjab (Khanna)	1035-1040	1010-1015
Rajasthan (Kota)	1035	1045
Uttar Pradesh (Kanpur)	1000	1015-1020
Madhya Pradesh (Indore)	1025-1030	1040-1045
Uttar Pradesh (Bareilly)	985-990	1005
Punjab (Sunam) Loose	940-945	935-945
Ludhiana (Jagraon) Loose	917-920	910
Rajkot Loose Price	960	970
Madhya Pradesh (Bhopal) Loose	950	975-980

Wheat Products	22.09.07	29.09.07
Atta (90kg)	1057	1037
Maida Grade 1(90kg)	1238	1220
Suji (50kg)	700	695
Chokar (50 kg)	355	369
Chokar (35 kg)	232	238
Chakki Atta (90kg)	940	945

Following was the status in other mandis, with active millers and private trade buying: (29.09.07)

Place	Arrivals	Price
Mathura	1500 Qtls	Rs.950/ql

Kosi	350 Qtls	Rs.925-930/qtl
Hodal	200 Qtls	Rs.935-945/qtl
Palwal	300 Qtls	Rs.925/qtl
Narella	3000 Qtls	Rs.975-985/qtl

INTERNATIONAL AND DOMESTIC NEWS:

Fortified Atta Should Be Extended To BPL Cardholders: Roller Flour Millers

Shri Prem Gupta, President, Roller Flour Millers Federation of India at 67th Annual General Body Meeting at New Delhi said that India is the second largest producer of wheat after China in the world. This year saw a record wheat production at 74 million tonnes compared to last year's 69.35 million tonnes. This year, there is a generous hike in MSP of Rs.150/qtl. There is a comfortable opening stock of 4.68 million tonnes against the buffer norm of 4 million tonnes. Millers federation also requested the government of India to withdraw the stock limit, which was at present imposed by states like Delhi, Maharashtra and Tamil Nadu because the millers are vital link between the farmer and the ultimate consumer through trade and secondary processing. Due to stock limits, the flour millers cannot plan their procurement and production.

Federation also requested the govt. that the industry should be treated as partner in the National Food Programme and be allowed direct procurement of wheat from the farmers on the same terms and conditions offered to state agencies. If government allows duty free wheat import, this would assure sustained supplies of wheat for the industry as well as a price-monitoring move for the rising prices in domestic market. The federation also requested the distribution of wheat be replaced by wheat products which can be duly fortified with essential micronutrients such as iron and folic acid. Presently conversion of wheat into fortified wheat products has been available to the APL family and not to BPL. Fortified atta should be extended to BPL cardholders. Industry also suggested that government may go in for decentralised procurement or even imports round the year and thus projecting itself as an impulsive buyer and not a compulsive buyer. Industry also requested the government for the exemption of wheat and wheat products from taxation, which at present ranges from 0-9 per cent in different states.

Wheat Prices May Fall By 30% Within A Year: Analyst

In USA, farmers are sowing the seeds for an end to the biggest rally in wheat since the former Soviet Union cornered the US market in the 1970s. Farmers from Kansas to India are preparing the world's largest wheat crop in 10 years to meet the growing demand. The cereal has risen 78% this year—the most of any farm commodity. According to some commodity analyst, farmers will harvest at least 3.3 per cent more acres next year than they did this year. This year's record prices will drive the farmers to plant more acres, which will ultimately lead to the down of prices. In the meantime, government of India is considering the recommendation of CACP's proposal of Rs.1000/qtl wheat for the current crop year. According to the analyst, this will boost the farmers' morale and they will plant more wheat crops. US farmer, the biggest wheat exporters, have until 1st October to lock in government-funded crop insurance,

which guarantees a record pre-planting price of almost \$6/bushel at harvest - 50 per cent higher than the average of the past two seasons. According to an analyst, growers in the northern hemisphere in USA are seeding crops that may result in the largest harvest acreage in any year since 1997. Traders are optimistic in an increased acreage in EU countries, USA, India and Canada this year. In this season, wheat plantings rose 2.9% to 214 million ha. Generally, farmers respond to high prices and will plant accordingly. In the meantime, at the face of global price rise, India's Union Agriculture Minister said no need to import wheat at present prices citing enough wheat stocks. Net wheat importing countries like South Korea have been buying more corn to replace wheat in meeting the domestic consumption demand. According to some analyst, the higher acreage may lead the fall of prices by 30 percent to \$6 (240) per bushel within a 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.

Turkey To Import 800,000 Tonnes Of Wheat By May End

According to the Ihlas News Agency, the Turkish government has asked the state-owned grain board to import 800,000 metric tonnes of wheat by the end of May. The agency will not pay any customs taxes. Agriculture Minister Mehdi Eker said Turkey's 2007 wheat crop will be around 17.6 million tons, compared with an annual requirement of 18 million tonnes. Severe drought hit the Turkey's wheat crop this year.

China's 200,000 Tonnes Of Wheat For Public Sale By Oct 12

As per the report of National Grain & Oil Trade Center on Tuesday, China will auction 200,000 metric tonnes of wheat from its state reserves on October 12. The centre also said that wheat, which was imported for state reserves, will be sold in six provinces and Dalian city. China is planning to sell more wheat and paddy to the market at lower prices to contain the prices. Due to volatility in food prices, the inflation rate rose to 6.5% growth in August, the highest in more than a decade. But the analyst believed that the wheat auction may not have much impact on the market prices as the markets are experiencing a very weak demand.

EGoM Nodded Import of 10 Lakh Tonnes of Wheat

Contrary to the view of Union Agriculture Minister, the empowered group of ministers (EgoM) headed by Pranab Mukherjee has recommended import of 10 lakh tonne of wheat before the end of this financial year. But Agriculture Minister said in public that government will not import at a global higher price and cited that govt. has enough stocks to meet domestic demand. But the EGoM concluded that the central pool stocks could fall to 31.14 lakh tonnes, much below 40 lakh buffer norm by the end of this financial year. However, the UPA government

is reeling under pressure because of the decision to buy 8 lakh tonnes at \$390/tonne after cancelling an earlier tender at \$263. Now the government may find it more difficult to buy at the high global price, which has been surged up more than 50% in last two months. Due to crop damage in some of the major producing countries along with lower stocks with the biggest exporting countries against a strong global demand, prices may further surge up. The government has also decided that Mineral and Metal Trading Corporation along with PEC Ltd., another public sector company in addition to State Trading Corporation would import wheat. But a senior government official said that govt. is not importing wheat in near future.

FMC May Pressure Govt. to Lift Ban on Wheat Futures Trading

Seven months after the ban on wheat futures, market regulator Forward Markets Commission (FMC) is planning to push the government to resume futures trading in these commodities. The government had banned futures contracts on wheat on February 28 to control inflation. Government took such decisions after receiving complaints that futures trading in these commodities were fuelling prices. Following this, many studies have been conducted and found that the rise in prices was a result of supply-demand mismatches rather than futures trading. This has made the FMC to review its decision. According to the FMC, they are waiting for Sen Committee report to be submitted soon. The Sen Committee is widely expected to endorse the view that prices are determined by factors such as demand and supply. The FMC, meanwhile, had appointed IIM-Bangalore to study the impact of futures on prices. Wheat-sowing season will begin by October end and farmers should have a hedging facility.

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.

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 601 Million Tonnes

Production is now forecast at 601million 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 Up

CBOT wheat futures settled up Friday. December Wheat finished up 6 cent at \$939.00 per bushel; this was 22.75 cent to the high and 3 up from the low. July Wheat closed up 10.5 cent at \$681.00 per bushel. This was 11 up from the low and 13 off the high. The close below the opening after positing a new high could spark some technical selling in the overbought wheat market early next week. Weakness in the other grains and profit-taking at the end of the month and the end of the quarter helped spark the set-back into the mid-session, however, fund buying emerged to support. The USDA pegged September 1st wheat stocks at 1.717 billion bushels as compared with trade expectations at 1.833 billion bushels. This is also below last year's stocks at 1.751 billion. Other spring wheat production was pegged at just 479.05 million bushels as compared with the average trade estimate of 506 million bushels. This compares with 500 million as the August estimate. All wheat production came in at 2.067 billion bushels from expectations near 2.118 billion bushels and came in well under the August USDA estimate of 2.114 billion. The flooding during the winter wheat harvest in Oklahoma and Kansas caused producers to sell wheat as feed grain. Iraq finalized a deal to buy 200,000 tonnes of US wheat in addition to the 500,000 tonnes bought last week.

USDA Wheat Weekly Export Sales Up

Net sales of 1,513,800 metric tons were 5 percent over the previous week and 10 percent above the prior 4-week average. Increases reported for Iraq (700,000 MT), Algeria (148,600 MT, including 99,600 MT switched from unknown destinations), Japan (115,000 MT), Mexico (107,700 MT), Taiwan (93,500 MT), South Korea (85,700 MT), Peru (63,900 MT, including 26,000 MT switched from unknown destinations), and Nigeria (61,800 MT), were partially offset by decreases for unknown destinations (230,400 MT), Cuba (26,000 MT), and France (25,000 MT). Net sales of 49,800 MT for delivery in 2008/09 resulted as increases for Algeria (50,000 MT), were partially offset by decreases for Nigeria (200 MT). Optional origin sales of 10,000 MT were reported for Nigeria. Exports of 1,034,400 MT were 12 percent above the previous week and 9 percent

over the prior 4-week average. The primary destinations were Egypt (177,800 MT), Algeria (99,700 MT), Nigeria (96,900 MT), Spain (55,400 MT), Brazil (53,100 MT), South Korea (51,700 MT), Iraq (48,900 MT), and the Philippines (48,300 MT). This summary is based on reports from exporters for the period September 14-20, 2007.

Source: USDA

WEATHER WATCH (WEEK ENDING ON 26th September, 2007)

- Last week's well marked low pressure area over West-Central Bay of Bengal and adjoining Coastal Andhra Pradesh lay over West-Central Bay of Bengal and adjoining north coastal Andhra Pradesh & south coastal Orissa on 20th. It lay over West-Central and adjoining North-West Bay of Bengal off south Orissa - north Andhra Pradesh coasts in the morning of 21st and concentrated into a depression and lay centred at 1730 hours IST of 21st September 2007 over the same area near Lat. 18.0 °N and Long 86.5 °E, about 230 km southeast of Puri. The system moved north-northwestward and lay centred at 0830 hours IST of 22nd September 2007 over North-West and adjoining West-Central Bay of Bengal near Lat. 19.0 °N and Long 86.0 °E, about 100 km southeast of Puri. It then moved northward and crossed Orissa coast near Puri around 1830 hours IST of 22nd September. It then moved northwestward and lay centred at 0830 hours IST of 23rd September over Interior Orissa near Angul. It further moved north north westward and lay centred at 0830 hours IST of 24th September over north Chhattisgarh, close to Ambikapur. The system weakened into a well-marked low-pressure area and lay over north Chhattisgarh and adjoining East Madhya Pradesh at 1730 hours IST of 24th September. The well-marked low-pressure area lay over East Uttar Pradesh and neighbourhood in the morning of 25th. It lay as a low-pressure area over the same region in the evening of 25th and became less marked on 26th. However, the associated upper air cyclonic circulation lay over West Uttar Pradesh and neighbourhood extending upto mid-tropospheric level on 26th.
- An upper air cyclonic circulation lay over North-East Arabian Sea off Gujarat and north Maharashtra coasts on 22nd September 2007. Under its influence, a low-pressure area formed over the same region on 23rd September. It persisted over North-East Arabian Sea off Saurashtra coast and became well marked on 24th. It lay as a low-pressure area over North-East Arabian Sea and adjoining areas of Gujarat and Konkan on 25th and over north Gujarat region and adjoining southwest Madhya Pradesh on 26th.
- An offshore trough extended from Konkan coast to Kerala coast on 20th and from south Gujarat coast to Kerala coast thereafter.

- A trough in lower tropospheric levels ran from north Pakistan to north Arabian Sea during first two days of the week and became less marked thereafter. However, a trough in mid-tropospheric levels ran from north Pakistan to north Arabian Sea during 23rd to 26th.
- A cyclonic circulation lay over north Pakistan and adjoining Jammu & Kashmir in lower tropospheric levels on 24th and over Jammu & Kashmir & neighbourhood on 25th. It moved away eastwards thereafter.
- The axis of the monsoon trough ran to the south of its normal position during many days of the week.

Rainfall:

Under the influence of the above systems:

- Widespread/ fairly widespread rainfall with scattered/isolated heavy to very heavy falls occurred over Coastal Andhra Pradesh and Telangana during 20th to 23rd, over Orissa during 20-24th, over Gangetic West Bengal during 22nd to 25th, over Jharkhand on 24th & 25th, over Bihar & East Uttar Pradesh on 25th and 26th and over West Uttar Pradesh and Uttarakhand on 26th.
- Widespread/ fairly widespread rainfall occurred over Gujarat State, Konkan & Goa, Coastal Karnataka, Kerala and Lakshadweep during many days of the week.
- Fairly widespread/ scattered rainfall occurred over Madhya Pradesh and Chhattisgarh during many days of the week.
- Fairly widespread/ scattered rainfall also occurred over Andaman & Nicobar Islands and remaining parts of Maharashtra and south peninsula outside Tamil Nadu and Rayalaseema during many days of the week. Isolated/ scattered rainfall occurred over Northwest India, Rajasthan Tamil Nadu and Rayalaseema during many days of the week.
- Weather was mainly dry or isolated rainfall occurred over northeastern states and adjoining Sub-Himalayan West Bengal & Sikkim during many days of the week.

Outlook for the week ending on 3rd October 2007

- ✓ Scattered to fairly widespread rainfall activity is likely over east and adjoining central India during first half of the week and decrease thereafter.
- ✓ Withdrawal of southwest monsoon is likely to commence from parts of Rajasthan and northwest India during first half of the week.

Source: IMD

IGC WORLD WHEAT ESTIMATES (27.09.07)

(Million tons)

	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 [#]	58	57	36	29	25

*Argentina, Australia, Canada, EU, United States

Source: International Grains Council

FOREX (As on 1st October, 2007):

Foreign Currency	Rs. per unit
1 US \$	39.74
1 Euro	56.30
100 Yen	34.48
1 British £	80.34

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