

## WHEAT

08-13 October, 2007

### MAJOR ACTIVITY HIGHLIGHTS

- Australian Wheat Crop Production Around 10 MM Tonnes: GNC.AU
- Russian Govt Imposes Wheat and Barley Export Duty
- Govt. Worries About Holding Back Stocks By Traders and Millers: T Nandakumar
- Pakistan Inflation 8.37% on Wheat Prices
- IGC Wheat Production Forecast 601 Million Tonnes

### MARKET FUNDAMENTALS:

Initially, wheat traded mostly steady to lower in domestic markets on lower offtake from the consuming units amidst steady arrivals. However, midweek onwards, wheat prices surged on government approval of Rs.1000/qlt MSP for wheat. Purchase price for wheat was raised to Rs.1,000 per 100 kg from Rs.850 for the current rabi season. 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 last year. Market sentiment further supported by Government's ban of export 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. The government has also allowed restriction-free imports of wheat for an indefinite period. Prices have jumped 69% this year in CBOT and set record highs 23 times in the three months ended 28 September.

In southern markets, wheat prices touched the record high of Rs.1200-1300/qlt as roller flour millers increased the prices on the news of Empowered Group of Ministers decision on import of 4.5 lakh tonnes of wheat flour with the value around Rs.8,000 crore. In Delhi (Lawrence Road), prices quoted up Rs.1070 from the previous level of Rs.995-1000 against the restricted arrival of 7000 qtls. In Punjab, (Sunam) and (Khanna) loose basis traded up at Rs.970 and Rs.1055-1060/qlt against last week's Rs.915-920 and Rs.1005-1010/qlt respectively against a steady arrival. Meanwhile, Pakistan's inflation, as measured by the consumer price index, accelerated to a nine-month high in September because of higher wheat costs. As of October 1, Country's wheat stocks totaled at 10.12 million metric tonnes. On global tight supply, crop damage in Canada and Australia, higher MSP along with good domestic demand during festive and winter season, wheat prices may prop up. During the week, various wheat products mostly traded up.

### OUTLOOK:

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

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

| Markets   | 06.10.07  | 13.10.07  |
|---|-----------|-----------|
| Delhi (Lawrence Road) truck loaded ready delivery | 995-1000  | 1050      |
| Haryana (Karnal)                                  | 985-988   | 1020-1030 |
| Punjab (Khanna)                                   | 1005-1010 | 1070-1075 |
| Rajasthan (Kota)                                  | 1015-1020 | 1045-1050 |
| Uttar Pradesh (Kanpur)                            | 1020-1025 | 1035-1040 |
| Madhya Pradesh (Indore)                           | 1030      | 1080      |
| Uttar Pradesh (Bareilly)                          | 1005-1010 | 1015-1020 |
| Punjab (Sunam) Loose                              | 915-920   | 980-985   |
| Ludhiana (Jagraon) Loose                          | 905       | 975-980   |
| Rajkot Loose Price                                | 970       | 1005      |
| Madhya Pradesh (Bhopal) Loose                     | 960       | 980-990   |

| Wheat Products      | 06.10.07 | 13.10.07 |
|---------------------|----------|----------|
| Atta (90kg)         | 1028     | 1055     |
| Maida Grade 1(90kg) | 1220     | 1247     |
| Suji (50kg)         | 695      | 730      |
| Chokar (50 kg)      | 375      | 392      |
| Chokar (35 kg)      | 244      | 253      |
| Chakki Atta (90kg)  | 940      | 980      |

Following was the status in other mandis, with active millers and private trade buying: (13.10.07)

| Place   | Arrivals  | Price      |
|---------|-----------|------------|
| Mathura | 2000 Qtls | Rs.990/qlt |
| Kosi    | 500 Qtls  | Rs.970/qlt |

|           |           |             |
|-----------|-----------|-------------|
| Najafgarh | 3000 Qtls | Rs.1005/qlt |
| Palwal    | 300 Qtls  | Rs.960/qlt  |
| Narella   | 2000 Qtls | Rs.1000/qlt |

## INTERNATIONAL AND DOMESTIC NEWS:

### Russia May Impose Wheat, Barley Export Duty

Ministry of Trade and Economic Development, Russia submitted a draft decree to the cabinet providing for an increase in the export duty on wheat and barley. Government's concern is the current increase in the rate of inflation, which is threatening to exceed the planned 8% this year as higher agricultural products prices as the main reason. The Ministry cited the reason of increasing demand from the fast-developing economies of China and India, as well as the recent cuts in government subsidies to farmers in the European Union, had contributed to rising prices of agricultural products. To keep prices stable at home was to impose higher export duty on grain. According to officials, the ministry was proposing to impose a 10% wheat export duty and 30% barley export duty in November.

### Australian Wheat Crop Production Around 10 MM Tonnes: GNC.AU

According to chairman of agribusiness GrainCorp Ltd. (GNC.AU), Australia's arid wheat crop to be harvested by year-end will likely yield a little more than last year's drought-reduced crop. Also very little time left for major improvements. The chairman also said that the new wheat crop could be marginally bigger than the 10 million metric tonnes produced in 2006, which was down about 60% from the 25 million tonnes produced in 2005, which may reduce wheat export quantity.

### Govt. Worries About Holding Back Stocks By Traders and Millers: T Nandakumar

According to food and public distribution secretary T Nandakumar, govt. is worried about the holding of stocks by millers and wheat flour traders for prices to rise. He said if prices of wheat and wheat flour rise, the Government may intervene by removing the 37% import duty on wheat flour. The earlier proposal to remove the import duty on wheat flour seems to be a move to pressurise such domestic players to release their stocks. He also said government is considering removal of the 37% import duty on wheat flour since it did not make sense to have it while wheat has a zero import duty. In reply, millers claim that they are holding stocks only to meet their existing contractual commitments, as there may be no open sale of wheat by Food Corporation of India (FCI) during the lean season this year. According to millers and traders, given the already falling prices of wheat and holding costs such as interest rates, warehousing charges and shrinkage, the industry has no reason to be holding back stocks. Nandakumar also said that on the issue of floating domestic tenders for the procurement of wheat rather than importing, there have been demands for local procurement of wheat rather than imports. Local procurement would push up domestic prices, which would benefit only the traders who are now holding stocks.

### Government Raised MSP Of Rs.1000 For Wheat

Government also decided to pay farmers a higher price for wheat and rice paddy to ensure enough supplies of grain in the domestic market. The purchase price for wheat was

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raised to Rs.1,000 per 100 kg from Rs.850. Wheat is sown in November and harvested in the summer months from April. India this year has so far imported 1.3 million tonnes of wheat to build buffer stocks. It had imported 5.5 million tonnes in 2006, the first time in six years, to meet a shortfall in domestic output.

### Cabinet Committee on Economic Affairs Approved MSP Rs.1000/ For Wheat

The Cabinet Committee on Economic Affairs today gave its approval, on the recommendations of CACP, for the MSPs of wheat Rabi Crops for 2007-08 season to be marketed in 2008-09 is Rs.1000/qlt, an increase of Rs.250/qlt (33.33%)

### 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 down Friday. December Wheat finished down 25.5 cent at \$857.50 per bushel; this was 21.5 to the high and 4.5 cent up from the low. July Wheat closed down 5.5 cent at \$680.50 per bushel. This was 15.5 up from the low and 1.5 off the high. U.S. wheat futures closed sharply lower after a government crop report failed to offer the markets any bullish surprises. Due to aggressive selling and lack of new buying interest, wheat futures closed lower. The USDA pegged US 2007/08 all wheat production at 2.067 billion bushels, down from 2.114 last month. US ending stocks were pegged at 307 million bushels as compared with the average trade estimate at 289 million bushels as compared with 362 million estimated in the September USDA report. World wheat production came in at 600.47 million tonnes from 606.24 million predicted last month. The USDA lowered its Australian production estimate to 13.5 million tonnes from 21 million last month. World wheat ending stocks came in at 106.97 million tonnes as compared with 112.36 million tonnes predicted last month and 122.72 million tonnes last year. This is the lowest world ending stocks figure since 1975. Weekly US export sales for wheat came in at 1.343 million tonnes as compared to trade expectations between 1.1 -1.4 million. Cumulative sales have reached 79.5% of the USDA forecast as compared to 49.9% on average over the last five years.

## USDA Wheat Weekly Export Sales Down

Net sales of 934,000 metric tons were 42 percent under the previous week and 44 percent below the prior 4-week average. Increases reported for Mexico (252,900 MT), Japan (116,300 MT), unknown destinations (110,500 MT), Cuba (100,000 MT), Indonesia (79,900 MT, including 55,000 MT switched from unknown destinations), South Korea (72,800 MT), and Spain (63,600 MT, including 38,500 MT switched from unknown destinations), were partially offset by decreases for Peru (55,000 MT). Net sales of 409,000 MT for delivery in 2008/09 were for unknown destinations (209,000 MT) and Algeria (200,000 MT). Exports of 882,100 MT were 23 percent below the previous week and 8 percent under the prior 4-week average. The primary destinations were Egypt (129,000 MT), Spain (123,600 MT), Iraq (102,100 MT), Yemen (93,300 MT), Nigeria (53,500 MT), Taiwan (46,800 MT), and Mexico (40,500 MT).

This summary is based on reports from exporters for the period September 28-October 4, 2007.

Source: USDA

## WEATHER WATCH (WEEK ENDING ON 10<sup>th</sup> October, 2007)

- Southwest monsoon further withdrew from remaining parts of West Uttar Pradesh & Gujarat some more parts of East Uttar Pradesh & Madhya Pradesh, northern parts of Maharashtra and entire north Arabian Sea on 8th October. It further withdrew from entire East Uttar Pradesh, some parts of Bihar, Jharkhand, and north Chhattisgarh and most parts of Madhya Pradesh on 10th October.
- The withdrawal line passed through Supaul, Hazaribagh, Pendra, Betul, Jalgaon, Dahanu, Lat. 20.0°N/ Long. 70.0°E, Lat. 20.0°N/ Long. 65.0°E and Lat. 20.0°N/ Long. 60.0°E on 10th October.
- Last week's upper air cyclonic circulation extending upto mid-tropospheric level over West-Central Bay of Bengal off Coastal Andhra Pradesh persisted over the same region on 4th October. Under its influence, a low-pressure area formed over West-Central Bay of Bengal off north Coastal Andhra Pradesh on 5th. It persisted over the same area on 6th and became less marked on 7th. However, the associated upper air cyclonic circulation lay over the same region extending upto 3.1 km above mean sea level on 7th and became less marked on 8th.
- Another low pressure area formed over North-East Bay of Bengal and neighbourhood on 7th morning and became well marked in the same evening. The well marked low pressure area lay over Bangladesh and adjoining north Bay of Bengal on 8th. It lay as a low-pressure area over Bangladesh & neighbourhood on 9th and became less marked on 10th. However, the associated upper air cyclonic circulation extending upto 3.1 km above mean sea level lay over Bangladesh & neighbourhood on 10th.
- Last week's upper air cyclonic circulation over northeastern states persisted over the same area in the lower levels on 4th and moved away eastwards on 5th October.
- An upper air cyclonic circulation lay over north Pakistan and adjoining Jammu & Kashmir in the lower levels on 4th and over Jammu & Kashmir and

neighbourhood on 5th & 6th and moved away eastwards on 7th October.

- Another upper air cyclonic circulation extending upto mid-tropospheric levels lay over north Pakistan and neighbourhood on 8th and 9th and moved away eastwards on 10th October.
- An upper air cyclonic circulation lay over southwest Bay of Bengal off Tamil Nadu coast extending upto 3.1 km a.s.l. on 10th October.

#### Rainfall:

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

- Fairly widespread rainfall occurred over Coastal Andhra Pradesh and Coastal Orissa during first half of the week. Isolated heavy to very heavy rainfall occurred over Coastal Andhra Pradesh during this period. Scattered rainfall occurred over remaining parts of Andhra Pradesh & Orissa and over Chhattisgarh during this period.
- Fairly widespread rainfall occurred over northeastern states and West Bengal & Sikkim during 2nd half of the week. Isolated heavy to very heavy rainfall occurred over northeastern States during this period.

- Isolated rainfall occurred over the remaining parts of peninsula & south Konkan during many days and over south Madhya Maharashtra & Vidarbha during a few days of the week.
- Isolated rain/thundershowers occurred over Bihar, Jharkhand, East Uttar Pradesh, East Madhya Pradesh and Western Himalayan region on one or two days of the week.
- Weather was mainly dry over the remaining parts of the country during the week

#### Outlook for the week ending on 17<sup>th</sup> October 2007

- ✓ Scattered rainfall activity is likely over extreme south Peninsula during the week.
- ✓ Scattered rainfall activity is likely over northeastern States during first half of the week and decrease thereafter.
- ✓ Further withdrawal of southwest monsoon is likely from some more parts of Eastern, Central and Western India.

Source: IMD

#### IGC WORLD WHEAT ESTIMATES (27.09.07)

|                                   | 2004-05 | 2005-06 | 2006-07<br>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<br>Change               | +12     | -4      | -19             | -                  | -11   |
| 5 Major<br>Exporters <sup>#</sup> | 58      | 57      | 36              | 29                 | 25    |

(Million tons)

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

Source: International Grains Council

**FOREX (As on 15<sup>th</sup> October, 2007):**

| Foreign Currency | Rs. per unit |
|------------------|--------------|
| 1 US \$          | 39.33        |
| 1 Euro           | 55.74        |
| 100 Yen          | 33.54        |
| 1 British £      | 79.74        |

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