

Wheat Fortnightly Report

MARKET FUNDAMENTALS

Steady to firm market:

Wheat market remained stable to firm on expectation of Rs 50 per qtl. bonus likely to be announced soon. It will keep market up and support govt.'s procurement activity that remained sluggish during last two weeks. In current scenario prices of wheat in local market will remain at higher level despite all time record production. Govt would have to open up export for removing the heavy burden of stock. But with higher procurement and economic cost amid bearish international market export parity is shrinking and it is not a good sign for overall wheat conditions in India. Delayed decision, wrong timing of giving bonus and crunch for storage space will cost dear this year again.

As wheat harvesting picks up in Punjab and Haryana, recent rain and windy weather has left farmers in the states worried. The Meteorological Department has forecast light to moderate rains or thunder showers are likely to occur in parts of Punjab and Haryana over the next two days. It may damage wheat crop if continues three four days. Threshing and harvesting works have been hampered and farmers are waiting for sunny days for starting normal farming days. There are some reports of hailstorm too but no significant damage has been reported so far. The rain at early stage of wheat crop is beneficial, but rain and windy weather during these days can cause great damage to the ripe crop. With produce reaching various grain markets for procurement, rains at this stage can also increase the problems of storage. Keeping the weather forecast in view, the farmers of the state were advised to make necessary arrangements to prevent any possible damage to their crops. "The most important crop of Rabi season is wheat and the harvesting, threshing and other operations are in full swing.

MNC Buying:

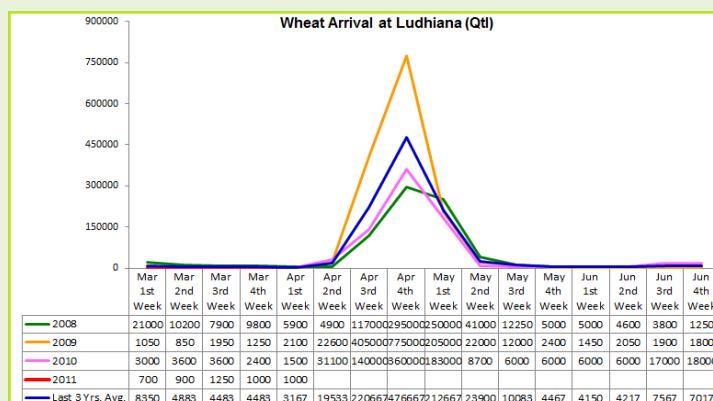
International wheat companies Cargill, Louis Dreyfus, Olam India and Glencore (Agri Core) have started procuring wheat from Gujarat and Rajasthan mandis. A bumper production and an increase in supplies have pushed prices down by 10% in the past fortnight to 1,025 a quintal in the Rajkot mandi. Across Uttar Pradesh, Madhya Pradesh, Punjab and Haryana supplies are yet to pick up pace.

Slower Pace of arrivals:

Arrivals remain substantially lower during 2011 compared with its 3 years average as depicted from the above charts; therefore it should not be a matter of concern for the procuring agencies as active procurement from principal wheat growing regions is bound to pick up. Given expected record production of wheat during 2010-11 we expect that FCI can procure higher quantity compared with previous year's procurement. The following table shows if FCI procures wheat in the same ratio as that of previous year (procurement vs production) at MSP, this would result into marked improvement in the total procurement by nearly 10% during MY 2011-12.

If the total quantum of procurement is in the same ratio as last year at 28% of production, the procurement will touch 23 million tonnes and if the procurement follows the same percentage in each state, it could go up to 25 million tonnes.

While the current pace of procurement in major centers is yet to pick up there is no cause for worry. We expect



arrivals to increase gradually from April end onwards and to pick up pace during 1st to 2nd week of May which enable state/central agencies to go for active procurement. And given the record production during 2010-11 season, we expect FCI can easily procure nearly 24 to 25 million tonnes of wheat for central pool by mid-June. However, if the government announces bonus of additional Rs 50/Qtl during coming week the target can be extended towards 27 million tonnes. Following chart shows the pickup time in Ludhiana.

Above normal sowing:

India's wheat planting until Feb. 4 rose 3% from a year earlier to a record, brightening prospects of a bumper crop. The wheat sowing area increased to 29.44 million hectares from 28.32 million hectares. India aims to produce 83.69 million tons of wheat in 2010-11, up 1.8%

from the previous year, subject to favourable weather till harvest in April 2011.

Buffer stock requirements:

Buffer stocks of food grains in the Central Pool are required for (i) feeding the Targeted Public Distribution System, (ii) catering to the requirements of other welfare schemes of the Government, (iii) maintaining a minimum food security reserve for emergencies, and (iv) undertaking price stabilization or market intervention operations. As per the existing buffer stockings norms, minimum stocks of foodgrains to be maintained in the Central Pool on 1st day of each quarter in a year are as follows:

MINIMUM BUFFER NORMS			
	Wheat	Rice	Total
	(In lakh tons)		
1 st April	70	142	212
1 st July	201	118	319
1 st October	140	72	212
1 st January	112	138	250

Possible Impact of Bonus if Government Announces:

1. Open market prices for wheat is likely to move up at least by Rs 50/Qtl
2. Export parity will shrink further from Gujarat and adjoining region
3. During lean season of arrivals coinciding with the festival season during Sep - Oct prices likely to rule firm.
4. Export parity from Punjab and Haryana which are already negative (calculated v/s CBOT prices) will sink further into negative territory and reduce export possibilities of North Indian wheat.

At the same time, farmers are believed to be awaiting announcement of bonus which they expect to be announced during last week of April. This results into holding back the stocks by farmers in Gujarat and Rajasthan where arrivals started from March. It is evident from the fact that on dated 14.04.2011, when wheat prices in Rajkot Mandi fell to Rs 1100 -1125 from Rs 1200/Qtl compared to previous week prices with farmers returning with their produce instead of selling at MSP as they learn that govt will announce bonus of Rs 50/Qtl in near term.

Scenario of Rajasthan is no more a different as farmers started holding their produce in Barmer, Udaipur and Banswara region of Rajasthan on the wake of bonus above MSP. Any official notification for bonus of Rs 50/Qtl as it is approved by the government shall

encourage farmers to bring their produce to the FCI procuring centers.

Possibility of export:

An important component to the decision of bonus will also be the possibility of export of wheat since there is a window of opportunity given the high international prices and demand. Therefore, the decision on bonus should be based on the following facts:

Costing on purchasing wheat for traders and millers in Punjab and Haryana:

Tax for flour millers		Tax for traders	
Commission	2.5 %	Market fee	2 %
Vat	4.0%	PRD	2 %
Labour(wages)	Rs 5 per qtl.	Commission	2.5 %
		Vat	4.0 %
		Infrastructure Tax	3 %
		Labour	Rs 5 per qtl.
Total Qtl.	6.5 % +Rs 5 per	Total per qtl.	13.5 % + Rs 5

This type of differences is keeping traders away from purchasing and govt should provide level playing field for everyone and it will help govt. in containing stock in Punjab and Haryana.

Total storage space:

There are three agencies in the public sector which are engaged in building large scale storage/warehousing capacity namely, Food Corporation of India (FCI), Central Warehousing Corporation (CWC) and 17 State Warehousing Corporations (SWCs). Over a period of time sizeable scientific storage/warehousing capacity has been developed by these Public Sector agencies and they are implementing plans to increase it further. However, storage space crunch is still intact given the higher expected procurement this year. Punjab has storing capacity of 137.68 lakh tons of foodgrains including CWC and SWC. Just the same way Haryana has collective storage capacity is 46.6 lakh tons, Rajasthan has 27.81 lakh tons and U.P. has 70.83 lakh tons. Total capacity at all India level is 603 lakh tonnes.

Production target up:

Keeping in view the overall expectation of record production of wheat to the tune of 84 million tonnes and delayed wheat harvest in major growing states owing to late rains during Feb and March, arrivals remain sluggish compared with previous year. Delay in harvest from states like Punjab and Haryana results into slow procurement from these states.

There is always variation in sowing to harvesting in different states due to weather conditions.

Element-wise break-up of economic cost of Qty.sold

	WHEAT		
Sales Quantity(lakh tonnes)	250		
	Rate	Amt.	%
Pooled cost of Grain	1106.06	27651	69.98
Procurement Incidentals			
Statutory/Obligatory Cost			
Mandi charges & VAT/Purchase tax	133.23	3331	8.43
Milling Charges & Drriage Allowance			
Gunny Cost	64.26	1606	4.06
Total	197.49	4937	12.49
Labour & Transport charges			
Mandi Labour	13.34	333	0.84
Forwarding charges			
Internal Movt.	22.34	559	1.42
Total	35.38	892	2.26
Storage&Int.charges paid to state agencies			
Storage Charges	0.88 0.05	22	
Interest	4.69	117	0.30
Previous year Arrears Exp.			
Total	5.57	139	0.35
Administrative charges to State/Agencies	12.03	301	0.76
Other (Guarantee Fee etc.)	1.19	30	0.08
Toatl Procurement Incidentals	251.96	6299	15.94
Acquisition cost	1358.02	33950	85.92
Distribution cost			

Freight	77.44	1936	4.90
Handling Charges	43.64	1091	2.76
Storage Charges	31.88	797	2.02
Int.	39.44	986	2.5
Shortages	2.76 0.17	69	
Administrative Overhead	27.40	685	1.73
Total Distribution cost	222.56	5564	14.08
Economic cost	1580.58	39514	100
Sales realisation	508.08	12702	
Subsidy	1072.5	26812	

OUTLOOK:

Short Term (One fortnight):

Prices of wheat are likely to remain at higher level due to expected bonus of Rs 50 per qtl and increased hope for green signal to export. Expert says that prices of wheat may trade in the range of Rs 1100 to 1175 per qtl. in cash market. However, in states like Bihar and U.P where there is a lack of procurement centers, wheat may rule below MSP despite expected bonus. If export is allowed wheat may get more support for uptrend in spite of all time record production. Pressure from new crop in Punjab,Haryana and U.P.is likely to be felt in the end of this month. Farmers are waiting for bonus announcement. Prices in future market may trade in the range of RS1175 to 1210 in May contract.

Wheat SPOT Market (Prices In RS/QUINTAL)

Markets	18.04.11	28.03.11
Delhi (Lawrence Road) truck loaded ready delivery	1175	1200
Punjab Khanna	1120	1130
Rajasthan (Kota) Loose	1100-1120	1080-1085
Uttar Pradesh (Kanpur) Loose	1100	1205
Madhya Pradesh (Indore) Loose	1200-1210	1175-1200
Ludhiana (Jagraon) Loose	1225	1175
Rajkot Loose	1075-1100	1160
Madhya Pradesh (Bhopal) Loose	1150-1175	1150-1175

SPOT MARKET PRICE FOR WHEAT PRODUCTS:

Wheat Products	18.04.11	28.03.11
Atta (50kg)	675	680
Maida Grade 1(90kg)	1520	1655
Suji (50kg)	840	920
Chokar (50 kg)	530	480

Chokar (34 kg)	345	310
Chakki Atta (50kg)	710	725

Following was the status in other markets, with active millers and private trade buying: (as on 18.04.2011)

Place	Arrivals	Price (Rs/Qtl)
Mathura loose	25000	1070-1110
Kosi loose	1000	1085-1100
Najafgarh	2000	1125-1145
Sirsa	10000	1120
Narella	10000	1145

Review procurement policy:

India doesn't have policies that will allow the country to use the wheat efficiently. It doesn't even have enough place to store it. There is also no surety that wheat production will be equally robust in the coming years. The current state of plenty is just two seasons old. The last couple of years, we have had a good monsoon and hence the production was good. But if we have even one bad monsoon, we will have a shortage.

What to do

Encourage Private Players

Experts believe that encouraging private players in the procurement and storage process will enable the government to absorb the production from states where FCI infrastructure is inadequate. In its attempts at increasing storage capacity, last year the FCI started a scheme to invite private participation in building more warehouses. The plan invites private players to build granaries and the FCI guarantees at least 10 years of rent for them.

Limited Procurement:

The government should set a quota for how much wheat it will buy from farmers, and let them export the rest or sell in the domestic market itself. Countries such as Russia and China, which are large producers of wheat, have had a poor harvest and are not exporting their produce. If we start exporting now, and then realise we will be falling short later, we will face a problem where availability and price of wheat in the import market is concerned."

Build Strategic Reserves:

For safety from fluctuations in supply, globally as well as domestically, maintain a constant stock of wheat by creating long-term storage facilities. This will ensure food security. It will also give clarity on the possibilities of exporting wheat when international demand is high. The global wheat scenario is already raising concerns in

many countries. Russia, the world's third largest exporter, stopped wheat exports after it lost a quarter of its crop last year to its worst drought in 50 years. China, the world's largest producer, too may lose about two-thirds of its crop after an exceptionally dry winter in its wheat growing region. The impending shortage in the import market has pushed global prices close to their all-time high of 2008.

INTERNATIONAL NEWS & ANALYSIS:

France raised its forecast for the 2010-11 ending stocks:

Noting high imports of grain and farmers inventory movements, the French government agency for agriculture and fisheries, France AgriMer raised its forecast for the 2010-11 ending stocks for the country's soft wheat, despite a surge in exports and stable production. As of early February, the agency has raised the ending stocks total for this key cash crop to 2.21 million metric tons from a 20-year low estimate of 1.96 million metric tons a month earlier, a gain of 12.8%. Also, Europe's top wheat producer expects to ship a record 12.1 million metric tons outside the European Union in .

IGC increases wheat production estimate:

International Grains Council has increased its estimate for global wheat production by 23 million tons next season. In its latest report, the influential intergovernmental group mainly attributed better Russian weather for the newly projected target of 670 million tones. The figure represents an improvement of 3.6% year on year, although leaves production short of the record 683m ton set three years ago, and reflected a rise in area greater than the 2% forecast last month, with farmers expected to stretch even further to exploit soaring grain markets.

The global wheat area is projected to rise by about 3%, boosted by higher prices and a return to more normal abandonment rates, especially in Russia," the IGC said, adding that the outlook for northern hemisphere grains crops "generally appears favourable at this early stage". Russia's grains output fell by nearly 40% last year, dented by the worst drought on record

Russia seen keeping wheat export ban till late 2011

Russia's ban on wheat exports, imposed after drought ravaged crops, could very well be extended until the end of 2011 if mounting worries about the next crop are confirmed, exporters,. Moscow said in August it would suspend all grain exports until the end of the year and officials have hinted the ban was likely to be extended until the end of the 2010/11 season on July 1.

They expressed a widespread feeling the market had to be ready to do without grains from the world's former No. 3 wheat exporter for even longer, possibly until the end of the 2011 calendar year."Since they are sown on dry land the plants will be more fragile than usual, and on

top of that the area (of winter wheat) is smaller, so lower crop is expected and it will reduce the exporting surplus in the local market.

Therefore seeing something (in exports) out of Russia before 2012 seems unlikely. Russian brokers and traders agreed the jury was still out on whether Russia would produce enough wheat to convince the government to lift the ban next summer. The country would need to harvest at least 80 million ton of grains next year to cover domestic needs, compared with 2010 grain output of 60.5 million.

Global cereal production likely to increase-FAO:

The global cereal production for 2010-11 is expected to be 2,239 million tonnes compared to 2,261 million tonnes recorded in 2009-10, about 1 per cent lower than last year. Reduced output of wheat in the CIS (Commonwealth of Independent States) countries due to drought, as well as smaller crops in the European Union and North Africa, account for the decline. Even so, at the current level, the 2010 cereal production, coupled with large carryover stocks, "should be adequate to cover the projected world cereal utilisation in 2010-11," says the Food and Agriculture Organisation (FAO) in its latest

Australia 2010-11 Wheat Crop Forecast Raised To 23.8MMT

National Australia Bank Ltd. upgraded its wheat production forecast for this crop year to 23.8 million metric tonnes, but said it couldn't go as high as the mid-September forecast of 25.1 million tonnes by the government's Australian Bureau of Agricultural and Resource Economics. The latest forecast by the bank, a major agricultural lender, represents an upward revision by 700,000 tons from last week and 1.4 million tons since August, and is up 2.1 million tons on actual output of 21.7 million tons in the last crop year ended March 31, 2010. "While a crop of 25.1 million tons certainly is possible, at this stage we feel it is too early to call such a large crop Western Australia, which usually accounts for 40% of national wheat output, could also face further downward revisions depending on weather conditions, NAB reported. Higher national wheat harvest estimates have improved export prospects, with the bank forecasting last week exports from the new crop could swell to 17 million tons, compared with 15 million tons from the previous crop, maintaining Australia's position as a major supplier to the global trade.

PRICE BEHAVIOUR

Prices are likely to trade in the range of Rs 1175 to Rs1210 in May,11 contract with steady to weak bias in near term. New arrivals in many states and bumper crop prospects will keep market under pressure in weeks ahead. Expected bonus will support prices in domestic

market. But in UP Rajasthan, Bihar, prices are ruling below MSP due to lack of procurement centers.

EXCHANGE RATE (SOURCE: RBI)

Foreign Currency	March 28,2011 Rs. per unit	April 18,2011 Rs. per unit
1 US \$	44.78	44.52
1 British £	73.63	72.71
1 Euro	62.96	64.41
100 Yen	55.45	53.48

Procurement status

With delay in wheat harvesting in key growing states of Haryana and Punjab because of prolonged winter, the government's decision to give R20 a quintal bonus on the declared minimum support price has not been implemented because of pending nod from the election commission. Recently, the Cabinet Committee of Economic Affairs (CCEA) had approved a bonus for boosting wheat procurement by Food Corporation of India (FCI) and state agencies.

The decision on bonus on wheat would have to be cleared by the EC as it may violate code of conduct. However, till Friday, only 2.1 million tonne of wheat has been procured for the current (2011-12) rabi marketing season against 8.5 million tonne lifted during the same period last year.

Procurement up to 15th April,2011

State	1010-11	2011-12
Punjab	10.7MT	81081 tons
Haryana	6.5MT	8.1 lakh tons
M.P.	3.5MT	11.7 lakh tons
U.P.	4MT	21000 tons
Bihar	0.07MT	00
Gujarat	1.2MT	20000 tons
Maharastra	0.09 MT	00

NCDEX WHEAT (CONTRACT: May,11):

Candle stick chart shows Seller's support in the future market. Wheat may trade range bound in the price band of Rs 1150 to Rs1200. If it breaches the resistance level of Rs 1201, it may go up to a little extent. Fundamental is not very supportive to the wheat market so far. Bonus is still awaited and it may support market. Market indicators also show bearish outlook. Players should go for short at higher level.



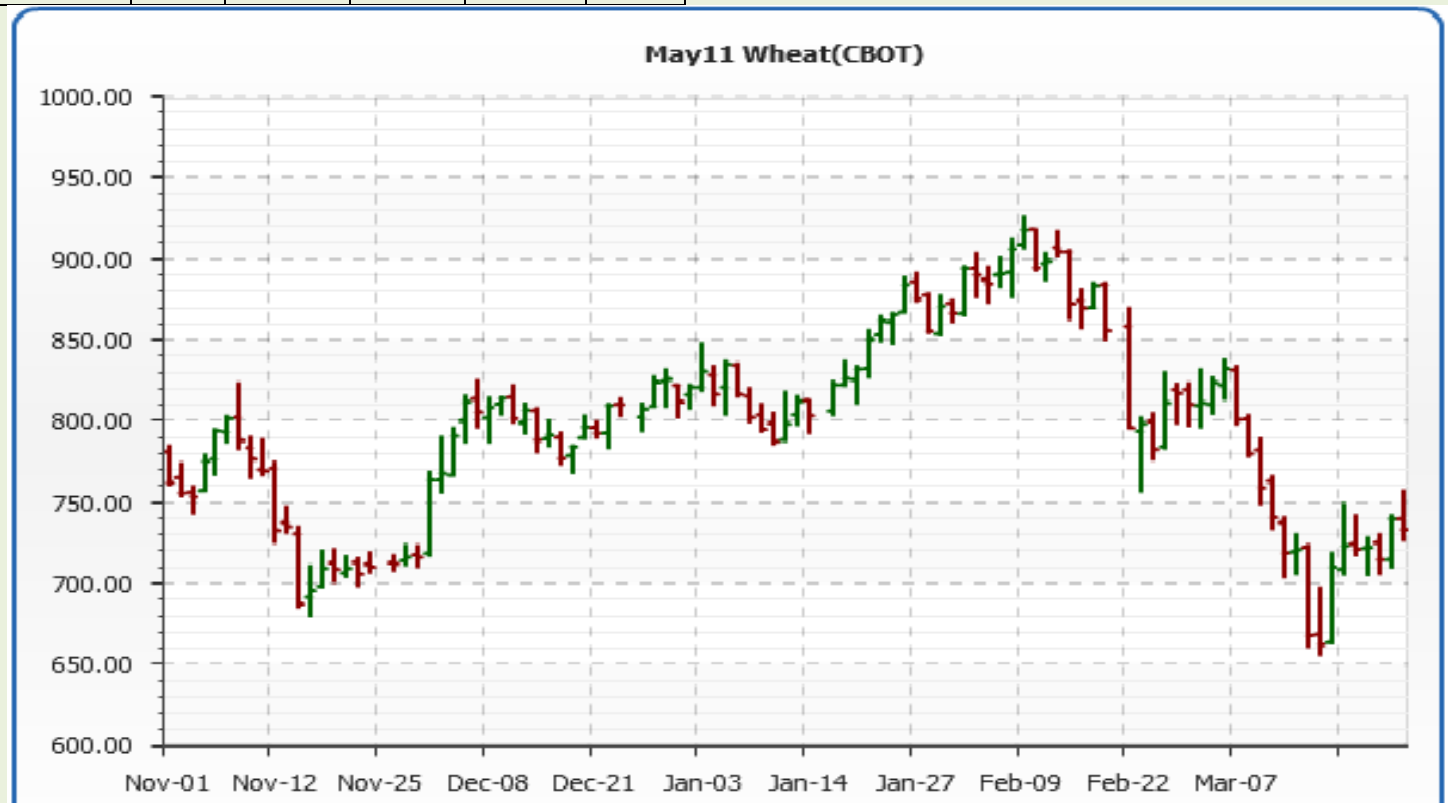
SUPPORT & RESISTANCE

S2	S1	PCP	R1	R2
1150	1165	1180	1201	1215

CBOT Wheat Futures (Soft Red Winter):

TRADE RECOMENDATION (Medium Term)

Contract	Call	Entry	T1	T2	SL
NCDEX, May	Sell	<1188	1170	1160	1198



CBOT Wheat Futures (Soft Red Winter):

CBOT Futures Prices (USD per Metric Tonnes)

Futures Month	% Change Over Previous Month	Today (15.04.11)	WeekAgo (07.04.11)	MonthAgo (11.03.11)
May'11 (\$/MT)	3.03	272.06	284.09	264.07
May'11 (INR/MT)	3.03	12112.10	12647.78	11756.34
July11 (\$/MT)	-6.50	285.19	297.23	305.03
July'11 (INR/MT)	-6.50	12696.85	13232.53	13580.11
Sept'11 (\$/MT)	3.43	299.34	310.54	289.42
Sept'11 (INR/MT)	3.43	13326.58	13825.46	12884.95
Dec'11 (\$/MT)	-0.76	310.64	321.48	313.02
Dect'11 (INR/MT)	-0.76	13829.55	14312.07	13935.86

Note:1 Bushel=27.216kg.

PROGRESS OF PROCUREMENT AS ON 26.09.10

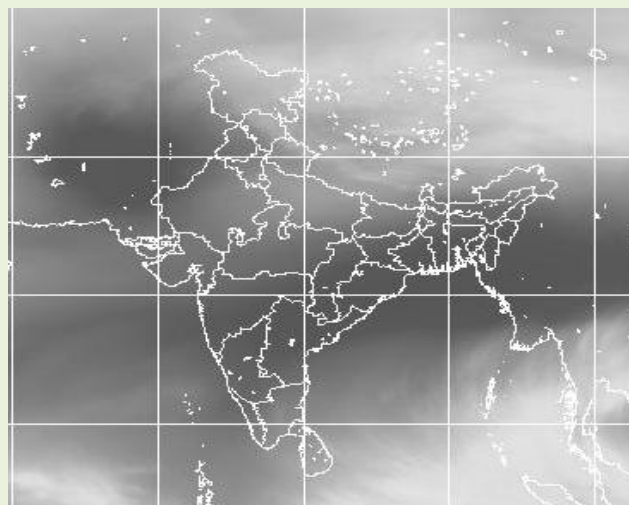
	State	2010-11	2009-10	2008-09
1	Punjab	101.80	107.47	99.39
2	Haryana	63.35	69.12	52.31
3	Uttar Pradesh	16.42	38.82	31.23
4	Madhya	35.77	19.56	23.37
5	Rajasthan	4.73	11.52	9.35
6	Gujarat	2.30	---	---
7.	All India	225.80	252.92	225.44

Weather Update

- ♦ Isolated light rain/snowfall has occurred over Jammu & Kashmir and Himachal Pradesh. Isolated rainfall has occurred over Haryana, north Rajasthan, Sikkim, Assam and Arunachal Pradesh. Mainly dry weather prevailed over rest of the country. 1 cm of rainfall has been recorded at north Lakhimpur at 0830 hours IST of today.
- ♦ Minimum temperatures were below normal by 2-3°C over isolated pockets of central, east and south peninsular India and above normal by 2-3°C over some parts of Maharashtra and isolated pockets of north Rajasthan, Uttar Pradesh, Bihar, west Madhya Pradesh, Assam and Gujarat. They were near normal over rest parts of the country. The lowest minimum temperature of 8.6°C was recorded at Adampur (Punjab) in plains of the country.
- ♦ Kalpana-1 cloud imagery at 1430 hours IST shows convective clouds over parts of east Jammu & Kashmir, southeast Bay of Bengal and Andaman Sea. Low/medium clouds are seen over parts of rest northwest, east, northeast and extreme south peninsular India

Weather Warnings

Nil



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