

Wheat Fortnightly Report

MARKET FUNDAMENTALS

Steady to weak market:

Wheat cash markets remained on higher side during last two weeks on back of bonus and aggressive purchase from govt.'s agencies in Punjab, Haryana and M.P. despite higher arrivals and record crop coming into the markets supported by the expectation of opening up export. However at the same time wheat prices ruled below MSP in eastern U.P., Bihar, Rajasthan and Gujarat during the period under review. But hope of export dashed down when govt. deferred export and insisted on the need for food security for the poor. With this background prices of wheat could not sustain at higher level and weakness was seen in both future and cash markets.

Pressure on wheat market is likely to continue in weeks ahead despite expectation of lower arrivals. Recent rains too have affected arrivals in many markets. However no major impact reported from any major growing states. Procurement is still smooth and it will go up this year on back of higher production and may cross 25.5MMT. Large stocks are still kept in the open and early handling is necessary to avoid any damage. Monsoon is round the corner and if monsoon comes in time, problem will increase like previous year.

MNC Buying:

International companies like Cargill, Louis Dreyfus, Olam India and Glencore (Agri Core) are procuring wheat from Bihar, U.P. and Gujarat and supplying it in A.P. and Orissa on better margin.

2010-11 Revised Production Estimate (Wheat):

India is growing more wheat than it ever has. Better agronomical practices with supportive weather during critical stages of wheat which starts from CRI (crown root initiation) to harvest was attributed to higher yield and record production during 2011.

Backed by huge arrivals in principal wheat growing states despite initial sluggishness from Punjab and Haryana (two principal state) it is evident that wheat supply is more y-o-y. This prompted Agriwatch to conduct a telephonic survey to assess the actual yield. Farmers and traders/commission agents were interviewed to assess yield and the production figure.

Based on the information gathered on yield we are revising upward the production of wheat for 2010-

11 season. The following table shows the revised area production and yield of wheat compared with the earlier estimate (1st estimate) and last year's final estimate.

States	2010-11 1st AW Estimate for Yield (Kg/Ha)	2010-11 1st AW Production on Estimate (In Million Tonnes)	2010-11 Revised AW Estimate for Yield (Kg/Ha)	2010-11 Revised AW Production Estimate (In Million Tonnes)
Bihar	2075	4.51	2190	4.67
Gujarat	2950	1.86	3190	2.01
Haryana	4400	9.83	4655	10.40
Karnataka	925	0.19	945	0.19
Madhya Pradesh	2250	7.57	2295	7.72
Maharashtra	1650	1.04	1650	1.04
Punjab	4500	15.08	4785	16.03
Rajasthan	2900	5.37	2900	5.37
Uttar Pradesh	3324	24.47	3800	27.19
India	2872	83.69	2892	85.1

The increase in wheat production is mainly attributed to increased production estimates for Punjab, Haryana and Uttar Pradesh followed by Gujarat and Bihar due to higher yield on favourable climatic condition throughout the season. Ministry of Agriculture in 3rd advance estimate also revised up its wheat production output from 81.47 million tonnes (2nd advance estimate) to 84.27 million tonnes.

Harvest Progress and Weather:

The table below shows the state-wise comparative wheat harvesting during 2010-11 season:

States	% Harvest Completed as on May 3, 2011	% Harvest Completed Same Period Last Year	Expected % Harvest Progress by May 15, 2011
Bihar	90	78	100
Gujarat	100	100	-

Haryana	90	58	100
Karnataka	98	100	-
Madhya Pradesh	85	68	100
Maharashtra	82	55	100
Punjab	90	60	100
Rajasthan	82	54	100
Uttar Pradesh	90	70	100
India	95	75	100

As evident from the above table wheat harvest is slow in Haryana, Madhya Pradesh, Maharashtra, Punjab, Rajasthan and Uttar Pradesh. Extended winter this year coupled with rains during February-March 2011 delayed harvest by almost 15 days in Haryana, Punjab, Rajasthan and Uttar Pradesh while delayed/late sowing in Maharashtra and Madhya Pradesh delayed harvesting.

Nevertheless, currently clear and dry weather over central and NW part of country would favour crop harvesting and post harvesting process consequently increase fresh crop arrivals in markets. However, recent rains over eastern part of the country particularly over Bihar and eastern Uttar Pradesh hindered harvesting by few days (2-3 days).

Overall quality of new seeds is good this year in all the key producing regions of the country and there has been no incidence of pest and disease in any of the growing regions.

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			
(In lakh tons)			
	Wheat	Rice	Total
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.
- 5.

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	13.5 % + Rs 5 per qtl.

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 85.1 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
Total 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):

Pressure on wheat prices is likely to increase with deferred export decision and rising arrivals. Arrival pressure may slow down in the second fortnight. Prices of wheat in Bihar and eastern up are ruling below MSP. Higher arrival and lower offtake are visible proposition everywhere. Finally arrivals have picked up in Punjab and Haryana and situation may worsen in weeks ahead. Wheat market may trade in the range of Rs1150 to Rs 1200 per Qtl. in weeks ahead.

Wheat SPOT Market (Prices In RS/QUINTAL)

Markets	18.04.11	05.05.11
Delhi (Lawrence Road) truck loaded ready delivery	1175	1170
Punjab Khanna	1120	1170
Rajasthan (Kota) Loose	1100-1120	1200-1225
Uttar Pradesh (Kanpur) Loose	1100	1140
Madhya Pradesh (Indore) Loose	1200-1210	1200
Ludhiana (Jagraon) Loose	1225	1170
Rajkot Loose	1075-1100	1160

Madhya Pradesh (Bhopal) Loose	1150-1175	11190-1200
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SPOT MARKET PRICE FOR WHEAT PRODUCTS:

Wheat Products	18.04.11	05.05.11
Atta (50kg)	675	660
Maida Grade 1(90kg)	1520	1501
Suji (50kg)	840	835
Chokar (50 kg)	530	521
Chokar (34 kg)	345	335
Chakki Atta (50kg)	710	690

Following was the status in other markets, with active millers and private trade buying: (as on 05.05.2011)

Place	Arrivals	Price (Rs/Qtl)
Mathura loose	5000	1070-1130
Kosi loose	2000	1085-1120
Najafgarh	2000	1170-1171
Sirsa	10000	1170
Narella	10000	1165-1170

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:

Global Scenario:

The International Grains Council (IGC) released their latest wheat projections for 2011/12. The IGC pegged 2011/12 global wheat production at 672 MMT, a 1.0 MMT reduction from last month's projection due to ongoing dry conditions in the U.S. and spring planting delays in Russia. The IGC currently pegs the 2011/12 U.S. wheat crop at 57.5 MMT.

Less than ideal conditions for some crops lower the projection of world wheat production in 2011/12 by 1m. tons, to 672m., but this is still 22m. more than the year before. Winter wheat in the US has been affected by dry conditions and rains are also needed in the EU and China. Spring wheat sowing is being hindered by wet soils in the US, Canada and Russia. This year's bigger global harvest is expected to be matched by higher consumption: the world total is placed slightly above last month's, at 672m. tons. World stocks are projected to remain steady, at 186m. tons. World trade will be lifted by larger milling imports in North Africa and Near East Asia as well as by anticipated strong global demand for competitively priced wheat for feed. Shipments in 2011/12 are forecast at 126m. tons (122m.).

Agricultural prices are rising on the back of rampant speculation and weather conditions that have slammed output worldwide. This isn't just hitting market, but is pushing up prices at grocery stores and restaurants too. And with the USDA forecasting a 10% decline in global inventories, due to reduced planting in Russia, those making wheat should continue to benefit from higher prices. Many of the top exporters consume large amounts domestically, and foresee weak harvests in 2011 due to bad weather.

America:

US wheat futures fall to the lower end of their recent trading range, dropping more than 2% on a broad commodity selloff and reports of less-fearful crop conditions from the Kansas winter wheat. Investors broadly are reducing risk exposure, overshadowing supportive crop concerns as the threat of smaller production prospects amid declining winter wheat crop conditions and wet weather idling spring wheat seedings in the northern Plains. The market was overvalued based on world supply and demand futures had little to support them. However, lower production estimate will not impact total export from U.S. due to higher carryover stock.

Russia, India Wheat Exports Won't Calm World Markets

Deteriorating prospects for U.S. and European wheat crops mean even the return of exports from Russia and India to world markets this year would be unlikely to lower prices. Futures markets for the world's second-most consumed grain have soared to within sight of record highs this year after a succession of natural disasters, including a historic drought in Russia, spurred fears of a shortage of supplies. But now even hopes that India will ship its first wheat abroad in five years and speculation that the Kremlin will lift a ban on Russia's exports as early as this summer look unlikely to calm nervous markets. We don't expect that the Black Sea region will be able to come into the market in the way it did after the 2008 price rally to supply the world with a significant amount of cheap exports. India may delay export for various reasons. Grain dealers in Russia are starting to move stocks to ports in the hope that the government will allow exports as early as July. Forecasts for Russia's 2011-12 exports range from around 3 million tons to as high as 10 million tons.

Australia

Drought and parched soils in Western Australia--historically the source of up to 40% of national wheat output--could again crimp production this year, reduced the chance of a record Australian crop. While Australian wheat production surged 20% in last crop year ended March 31 to 26.3 million metric tons, output in Western Australia slumped 42% to 4.7 million tons, or just 18% of national output, Abares forecast national wheat output this crop year at 24.3 million tons. It didn't estimate Western Australian production, though it would likely have been around or above a five-year annual average of 7.3 million tons.

After annual national domestic consumption of around 6.0 million tons is met, the balance of output is available for export, usually making Australia a major supplier to the global trade. Western Australia can be a major global supplier in its own right. When the state's production reached a record 11.1 million tons of wheat in 2003-04, it was the source of about 10% of the year's global traded wheat. Tight physical supplies of wheat, and indeed most traded farm commodities, means global markets remain on a knife edge, with any significant production disappointments likely to cause another step-up in prices from already high levels. Southwest Western Australia experienced its driest year on record in 2010, and it has since missed out on the record rains that have fallen in many other places in Australia this year, including grain-growing areas in the eastern states.

Africa – a mixed picture

Prospects for the 2011 May-June harvests of winter wheat and coarse grains in North Africa are generally favorable, except in Tunisia where dry conditions in January dampened hopes for a robust wheat production recovery. The current situation in North Africa has resulted in the displacement of large numbers of people and disruption to the flow of goods and services in this heavily cereal-import dependent region.

Asia and South America

In Asia, good 2011 wheat harvests are forecast in India and Pakistan. In China, the drought situation in the North Plain has been eased by recent precipitation but the outlook for the wheat crop still remains uncertain. In the Asia CIS sub-region, where Kazakhstan is the major producer, the bulk of the crop is yet to be sown but in view of current strong prices plantings are expected to be in line with the relatively high level of the past two years. Assuming a recovery in yields after last year's drought-reduced level, a significant increase in production could be achieved.

Russia

Russia is not going to lift its ban on grain exports before July 2011. The expert says that harvest will still not be large enough to warrant allowing exports before the Russian summer. The upcoming harvest at 75-80 million tons, below the government's estimate, and only 5-10 million tons above domestic consumption of an estimated 70 million tons. Quota system related to export is expected to continue. Prices have come down in Russian market with expectation of higher supply in 2011-12 season. If export is allowed Russia can export 5 to 10 MMT wheat based on Quantity allowed under quota.

Wheat trade to double by 2050

Global wheat demand in 2010 reached an estimated 666 million tonnes. If the demand rate were to remain constant, global wheat consumption would surpass 880 tonnes by 2050, a 40% increase that will mirror population growth over that 40-year period. Without

question, international trade will play an essential role in meeting this increase in consumption. In fact, an analysis released in January by Chad Weigand, market analyst for the U.S. Wheat Associates (USW), found that the rate of world wheat trade will likely grow much faster than overall consumption, doubling to 240 million tonnes or more by 2050. That's because the regions where the biggest population gains will take place over the next 40 years – mainly in the mid-latitude countries – are not where most of the world's wheat is grown.

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,

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	May 05,2011 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

Wheat procurement in the marketing year started with sluggish note due to delayed harvesting in states like Punjab, Haryana, Uttar Pradesh, Bihar and Rajasthan. Procurement started on 15th March in Gujarat as early arrival and harvesting while in other states it started as scheduled on 1st of April. However, it started literally in the third week of April when arrivals started picking up in Haryana,Punjab,Uttar Pradesh,Rajasthan and Bihar.It is now on full swing and major markets are chocked with

heavy arrivals.Procurement agencies are unable to handle the pressure from the new crop. As on 03.05.2011,Govt. agencies have procured 20 MMT against21.7MMT total arrival.

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 1175to Rs1210.If it breaches the resistance level Of Rs 1210, it may go up to a little extent Fundamental is not very supportive to the wheat market so far. Market indicators also show bearish outlook. Players should go for short at higher level.

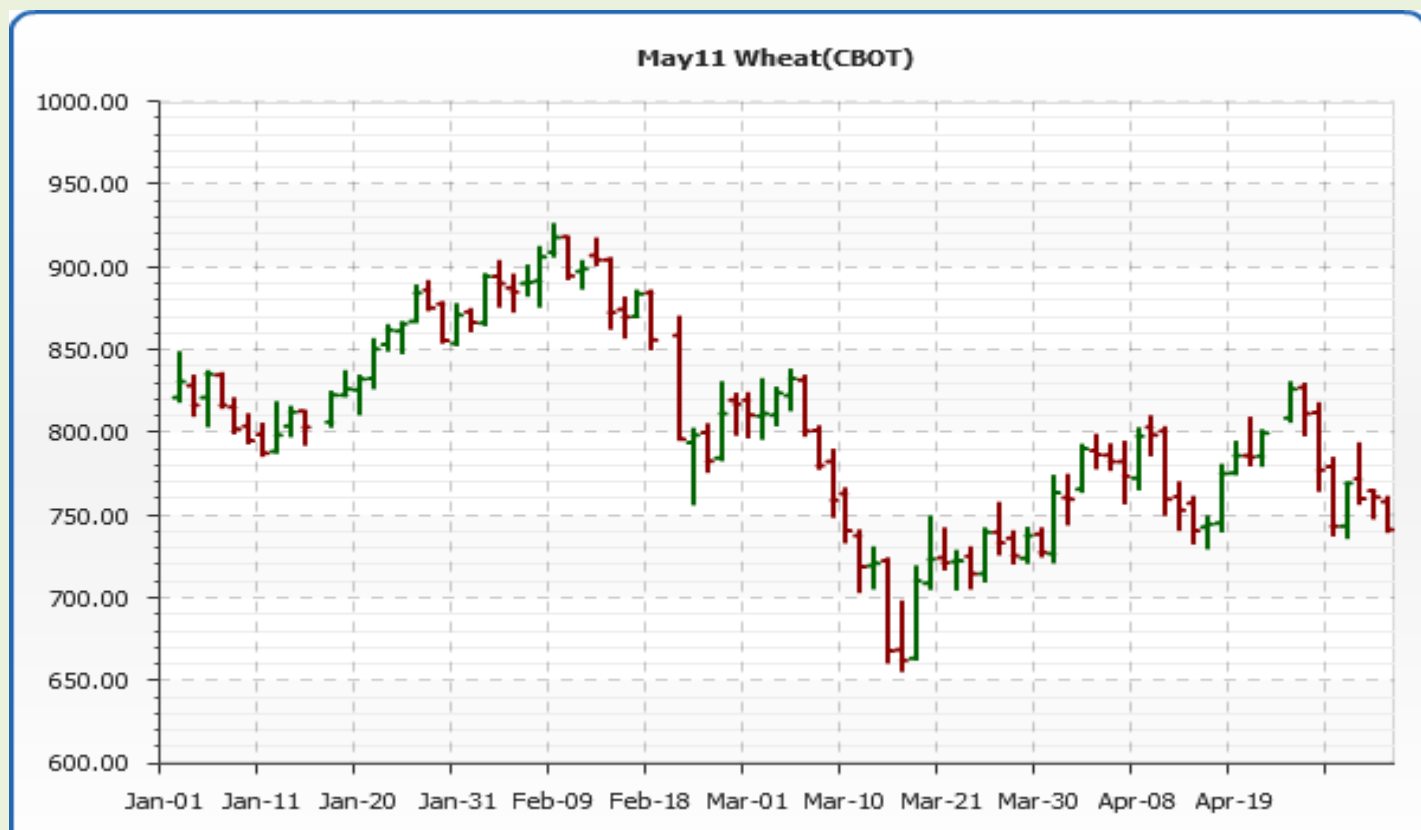


TRADE RECOMENDATION (Medium Term)

Contract	Call	Entry	T1	T2	SL
NCDEX, May	Sell	<1200	1185	1170	1208

SUPPORT & RESISTANCE

S2	S1	PCP	R1	R2
1165	1175	1192	1205	1215



CBOT Wheat Futures (Soft Red Winter):

CBOT Futures Prices (USD per Metric Tonnes)				
Futures Month	% Change Over Previous Month	Today (05.05.11)	WeekAgo (28.04.11)	MonthAgo (04.04.11)
May'11 (\$/MT)	-5.68	265.26	272.98	281.24
May'11 (INR/MT)	-5.68	11878.47	12223.96	12594.14
July11 (\$/MT)	-8.80	277.02	285.65	303.75
July'11 (INR/MT)	-8.80	12404.94	12791.56	13601.83
Sept'11 (\$/MT)	-7.91	292.91	302.09	318.08
Sept'11(INR/MT)	-7.91	13116.49	13527.80	14243.47
Dec'11 (\$/MT)	-5.50	309.17	317.62	327.17
Dect'11 (INR/MT)	-5.50	13844.50	14222.90	14650.66

Note:1 Bushel=27.216kg.

Weather Update

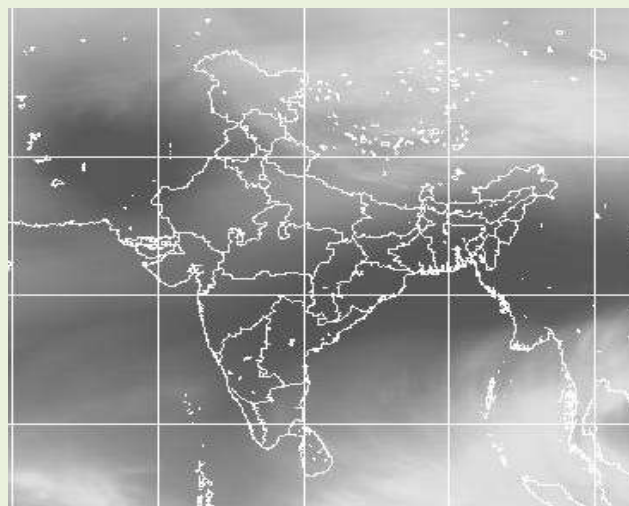
♦ Isolated light rain/snowfall has occurred over Jammu & Kashmir and Himachal Pradesh. Isolated rainfall has occurred over Haryana, north Rajasthan, Sikkim, Assam and Arunachal Pradesh. Mainly dry weather prevailed over rest of the country. 1 cm of rainfall has been recorded at north Lakhimpur at 0830 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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