

Domestic Market Recap:

Wheat prices continued to rule steady to weak in major and minor wheat producing states despite procurement support on MSP with bonus during the last week. Week started with firm tone on declining arrivals but could not sustain at higher level and came down by Rs 10 to Rs 20 per qtl. in major markets of U.P., Bihar, Rajasthan, M.P. and Gujarat. Arrival pressure started to ease in Punjab and Haryana from the third week of May and now it is approaching at fag end. Unlike Punjab and Haryana wheat arrivals in M.P. and U.P are continuously flowing in and procurement in these states have surpassed the previous year's level. Arrivals in Bihar, Rajasthan and Gujarat too have come down during the week under review.

However, Prices of wheat (loose) in Bihar, U.P. and Gujarat are ruling below MSP and the downward pressure is likely to continue on cash and future market even in the next week. Prices of wheat in wholesale and retail markets have come down by 0.21 and 0.14 percent respectively in comparison to the previous week. Higher procurement, better supply prospects supported by lower demand, doubt over commercial export are weighing on the market. However, higher grade wheat like Lok-1, Tukri and Sharbati in various producing zones are ruling at higher level despite bumper production amid normal supply side. Prices of these varieties are unlikely come down due to regular demand from branded consumers who prefer the high protein staple. Prices of these varieties have been either stable or improved by Rs 50 per qtl. in Rajasthan, Gujarat and M.P.

Storage problem in Punjab and Haryana persists despite some stock shifting out of the states due to record procurement (Punjab: 109 lakh tons, Haryana: 67.8 lakh tons and M.P. 41 lakh tons). This might force state trading agencies to liquidate some of the stock in the domestic markets which will ease the supply side. Earlier Punjab had demanded movement of almost 25 lakh tonne per month of wheat and rice to other states to tide over the existing storage crisis, but FCI could only shift 15 lakh tonne of food grains.

Traders and market experts are of the opinion that the export ban by government in spite of comfortable stocks accompanied by huge carryout stock this year is creating the pressure on wheat prices and increasing the problem of stocking space. Farm minister Sharad Pawar opined that having enough stocks, India can easily export 2.5 to 3 million tonnes of wheat if international prices remains favourable in June and July and in third quarters of this current marketing year. But the government is reluctant to take this step given the inflation in essential commodities, requirements for proposed food security and of course, the political need to control it.

The EGOM again sits to discuss export

As the EGOM of the government again sits to discuss export of wheat, the chances are that this time they will allow some exports. The regular news of prospects of dropping yields in Europe, the

rising international prices and the successful procurement in this season, has provided enough ammunition for the pro-export lobbies. There seems little arguments against.

Private traders have been procuring and storing wheat for this possibility since the beginning of the season. Since Gujarat and East UP and Bihar had prices depressed due to lack of government procurement mechanism, the prices were attractive enough for private traders. There is said to be over 150,000 T stocked in Gujarat awaiting the opening of exports of this year's crop.

Weather – Monsoon

There are predictions of a normal monsoon in most of the country, which should provide a good base for the kharif crops especially paddy, maize and oilseeds. India's June-September monsoon rains are expected to withdraw on schedule, the chief of the weather office said on Wednesday, unlike last year when late end-season in August/September rains hit Kharif Pulses output and delayed Rabi sowing. A timely withdrawal of the monsoon, which delivers more than 70 percent of annual rainfall, will boost output. State governments have a crucial role to play, not only in ensuring adequate availability of inputs (seeds, fertilisers, agrochemicals, etc.), but also in closely monitoring the progress of farm operations. On its part, the Union Agriculture Ministry must announce the minimum support price (MSP) for various kharif season crops well ahead of actual planting so that growers can decide which crops to plant and source appropriate inputs.

Private trade activity

Private trade including MNCs are mostly active in Gujarat, Bihar and U.P. Almost 70 percent wheat from newly harvested crop is being loaded for southern states and Orissa. Lower tax structure and prices (below MSP) in these states ensures good return to the traders and brokers. As per local brokers almost 20 percent wheat is being retained for stocking under private trade locally and almost 10 percent by farmers to take advantage of higher prices in lean season when wheat prices remain at higher side traditionally. Unlike Bihar, U.P., Gujarat and Rajasthan where private traders seen active on the other hand private bodies are virtually absent from Punjab, Haryana and M.P. primarily due to higher tax structure, adequate procurement centres, bonus (Rs 100 per qtl. offered by state govt. in M.P). Higher costing of procurement has kept private trade away from Punjab, Haryana and M.P. which are the major contributor to the central pool.

Meanwhile, trading activities have come down in most of the major centers with declining arrivals. However, flour millers, small traders and Atta chakkis are actively buying wheat for fulfilling their immediate requirements. Even higher availability of wheat in Punjab and Haryana local flour millers are sourcing wheat from U.P. and Rajasthan due to cheaper availability

Traded wheat status in different states and percentage participation by govt.&trade

States	Procurement by Private Trade	Stock Retained buy Private Trades from the Procured Quantity	Govt. Participation in Procurement	Stock retained by farmers	Stock being loaded for various destination (Private & Govt.)
Bihar	95%	20%	5%	10%	Orissa
Gujarat	70%	30%	20%	15%	Southern states
U.P.	85%	30%	15%	20%	Punjab, Orissa and A.P.
Rajasthan	75%	25%	25%	18-20 %	Punjab, Guj., Orissa and A.P.
Punjab	1-2 %	10%	98%	10-15 %	PDS
Haryana	1-2 %	10%	98%	10%	PDS
M.P.	10%	8%	90%	Appx 10-12 %	PDS

Note: These are private trade estimates expressed by various local grains merchants.

Current Market Dynamics and Outlook

Procurement

As in the past, the Indian Government holds the key to the wheat market in India. With almost a fourth of the wheat produced in the country being procured by the central and state governments and their agencies, the price of wheat in different parts of India, currently is driven by the procurement network of these agencies. The Government is well on its way to procuring over 26 million tonnes of wheat this season having already procured over 24.5 million T by 21th May.

Trade margin

Areas with higher density of procurement centers find the local market prices close to the government announced MSP of Rs. 11200 per Tonne plus Rs. 500 per tonne bonus. Other places find the markets ending closer to Rs. 10500-11000 per tonne. This provides arbitrage opportunities to private players who can procure from such areas (mainly in East UP, Bihar, Rajasthan and Gujarat) and transport the same to the southern states where no wheat is grown. Currently such arbitrage with transportation costs can yield around 3 to 4% gross margins.

Bids for exporting wheat and rice

Government-run trading agencies STC and PEC have invited bids for export of 3 lakh tonne of non-basmati rice and 2 lakh tonne of wheat to Bangladesh. Although India has banned export of wheat since 2007 and export of non-basmati rice from April 2008, the government has allowed overseas sale of these two commodities to the neighbouring country through the diplomatic route. According to the tender floated by STC, the trading firm has invited bids for export of 2 lakh tonne of non-basmati rice and 1 lakh tonne of wheat. In a separate bid, PEC has invited bids for export of 1 lakh tonne each of non-basmati rice and wheat. Bids floated by STC and PEC will close on May 30, and the decision on awarding the export contract will be taken on the same day. Wheat bidders should export wheat stocked in FCI godowns in Punjab region. Additionally, the rice and wheat consignments should be loaded at Kakinada and Kandla port in Gujarat, respectively.

Export parity

Export parity is not very attractive right now and India can export wheat when prices in the international market go above \$320-325 per ton. Currently CBOT July contract 814.6 cent per bushel (almost \$300 per ton). It may come down to 800 cent per bushel and is likely to go up once again and may touch 850 cent per bushel in weeks ahead. It may test the level of \$325 per ton. If prices go up beyond this level India can export in desired destination. Right now export parity is only from Gujarat and Bihar. But commercial export in bulk quantity is unlikely at current prices.

Export Parity Calc. on Expected CBOT Prices (As on 24.05.11)

Component	Khanna@MSP	Khanna@CMP	Gujarat (Rajkot)	MP (Bhopal)
Ruling Mkt price@ Khanna	11200	11200	11500	12000
Mandi Expenses (loading/unloading, Bagging, Grading etc)	12712	12712	11902.5	12720
Local Transportation & Rake loding charges	400	400	400	400
Freight chareges to Kandla	1200	1200	400	1250
Unloading, Shiploading and misc. handling exp.	450	450	450	450
Transit losses@1%	112	112	115	120
Total Handling cost	2162	2162	1365	2220
Esti. FOB Prices (INR)	14874	14874	13268	14940
Esti. FOB Prices in US \$/MT	328	328	293	330
Current CBOT Wheat Futures Prices	327	327	327	327
CBOT Futures Price in INR	14816	14816	14816	14816
Parity	-58	-58	1549	-124

Wheat Prices at Key Spot Markets:

Prices in various cash markets remained subdued despite decreasing arrivals. Higher govt. stock, procurement and lower demand against supply supported by bearish outlook and normal monsoon forecast are weighing on the market: below given prices table depicts the declining trend

Centre	Market	Variety	Prices (Rs/Qtl)		Change
Delhi			24-05-2011	19-05-2011	
	Lawrence Road	Mill Quality	1195	1205	-10
	Narela	Mill Delivery Loose	1190	1195-1200	-10
	Nazafgarh	Mill Delivery Loose	1175-1190	1175-1185	-5
Gujarat	Rajkot	Mill Delivery	1150	1165	-15
	Ahmadabad	Mill Delivery	1160	1175	-15
M.P.	Bhopal	Mill Quality Loose (Lokwan)	1200-1205	1230	-25
	Indore	Mill Delievery	1190	1200	-10
Rajasthan	Kota	Mill Quality	1200	1220	-20
U.P.	Kanpur	Mill Delivery	1160	1170	-10
Punjab	Khanna	Mill Quality Loose	1170	1170	Unch.
Haryana	Karnal	Mill Quality	1170	1170	-Unch
	Sirsa	Mill Delivery loose	1170	1170	-Unch
	Rewari	Mill Quality Loose	1170	1170	-Unch
	Panipat	Mill Quality Loose	1170	1170	-Unch

Wheat Arrivals in Key Centers

Centre	Market	Variety	Arrivals (Bags/Qtl)		Change
Delhi			19-05-2011	24-05-2011	
	Lawrence Road	Mill Quality	10000	15000	+5000
	Narela	Mill Delivery Loose	12000	14000	+2000
	Nazafgarh	Mill Delivery Loose	700	700	Unch
Gujarat	Rajkot	Mill Delivery	9000	6000	-3000
	Ahmadabad	Mill Delivery	-	-	-

M.P.	Bhopal	Mill Quality Loose (Lokwan)	2000	4000	2000
	Indore	Mill Delievery	5000	7000	2000
Rajasthan	Kota	Mill Quality	25000	20000	-5000
U.P.	Kanpur	Mill Delivery	800	600	-200
Punjab	Khanna	Mill Quality Loose	2500	1000	-1500
Haryana	Karnal	Mill Quality	11000	8000	-3000
	Sirsa	Mill Delivery loose	2500	1500	-1000
	Rewari	Mill Quality Loose	3500	2500	-1000
	Panipat	Mill Quality Loose	3000	1500	-1500

The following table shows the latest and cumulative procurement status as on 21.05.2011:

STATE/UT	TOTAL PROC. 2010-11 (APR- MARCH)	2011-12/MARKETING SEASON 2011-12				2010-11/MARKETING SEASON 2010-11			
		18th May 11		CUMULATIVE		18th May 11		PROGRESSIVE	
		ARRIVAL	Procured	ARRIVAL	PROCURED	ARRIVAL	PROC.	ARRIVAL	PROC.
Punjab	1,02,08,851	32,906	13,516	1,08,94,356	1,08,30,810	0	0	1,02,17,197	1,01,65,872
Haryana	6,347,403	8,054	8,054	67,75,050	67,70,966	2,049	2,049	63,32,293	63,28,355
U.P.	16,45,142	1,04,502	1,04,502	16,29,142	16,29,142	0	36,699	22,04,000	14,73,149
M.P.	35,38,409	84,074	67,259	49,00,286	39,43,045	30,622	24,498	41,91,284	33,41,052
Bihar	1,83,336	3,192	3,192	36,353	36,353	11,200	11,200	61,654	61,654
Rajasthan	4,75,843	17,981	14,882	11,42,862	9,35,762	4,084	2,280	7,12,078	2,69,466
Uttarakhand	86,238	4,524	1,103	1,38,912	33,960	3,850	1,213	1,69,885	85,583
Chandigarh	9,111	0	0	7,590	7,125	0	0	9,711	9,111
Delhi	9,526	463	45	29,028	7,769	994	0	41,768	9,524
Gujarat	624	1,830	43,630	7,406	5,90,107	10,017	0	3,00,713	600
Jharkhand	158	0	0		0	0	0		
Maharashtra	0	0	0	0	0	0	0	0	0
Himachal Pr.	420	21	14	586	418	9	9	425	375
J & K	0	0	0		0	0	0		
West Bengal	8,550	0	0		0	0	0		
All India Total	2,25,13,611	2,99,347	2,19,973	2,61,44,272	2,42,51,183	62,825	77,948	2,42,41,008	2,19,44,741

Wheat procurement during the Rabi marketing season of 2011-12 has crossed to 244 lakh tonne, surpassing total wheat procurement of 225 lakh tonne during previous Rabi season. Procurement agencies may achieve procurement target of 26MMT set for current marketing year. Punjab has led the states by making record procurement of 108,47,828 tonne wheat followed by Haryana with 67,84,124 tonne. Madhya Pradesh have also surpassed the previous marks by procuring 40,04,477 tonne wheat. This year Uttar Pradesh and Rajasthan have also made significant procurement by purchasing 17, 04,338 tonne and 9,49,065 tonne respectively. Total stock with Govt.as on 05.05.11 was 313.75 lakh tons.

Current Price Scenario:

Spot price movement at major markets during last one month

Markets	This week (24.05.11)	Week ago(16.05.11)	Two weeks ago(08.05.11)	Month ago(22.04.11)
Delhi	1195	1190	1200	1170-1175
Indore	1260	1250	1250	1200-1210
Bhopal	1175-1200	1175	1200-1210	1100-1120
Kota	1225	1205	1190	1175
Khanna	1170	1170	1170	1120
Rajkot	1170	1160	1170	1150
Karnal	1170	1170	1170	1170

Expected Spot Price Range:

Months	Expected Price Range at Spot
June	1150-1200
July	1175-1225

Higher procurement costing will keep wheat prices in the range of Rs1150to1200 per qtl.in June where as in July it may move in the range of Rs1175 toRs1225 per qtl.

Price of wheat improved y-o-y on account of announcement of bonus of Rs 50/Qtl despite record production, coupled with hike in government set MSP to Rs. 1120 during ensuing season. In the states/regions where government agencies are active in procurement such as Punjab, Haryana, MP, Gujarat and Rajasthan prices hover near the support prices and are ruling firm compared to previous year. However, prices of wheat are ruling below MSP in Bihar, Gujarat (interior Saurashtra) and eastern Uttar Pradesh (Balliya, Gorakhpur, Kushinagar, Deoria, Ghazipur etc) due to lack of adequate procurement centres. Possibility of export so far ruled out by the government which might weigh on the market sentiments moving forward in one direction.

World Market Updates

- Hedge funds cut their bullish bets on wheat to the lowest this year on speculation that supplies would be adequate to meet global demand. The funds and other money managers slashed wheat net-long positions by 54 percent
- Rains are delaying planting of spring wheat in the northern US Plains.
- CBOT July wheat falls 5.5c to \$8.06 a bushel; KCBT July fell 11.5c to \$9.33 3/4; MGEX July ended lower by 7.5c to \$9.11 3/4.
- The IGC pegged 2011/12 global wheat production at 672 MMT, a 1.0 MMT lower.



International Market Fundamental:

Hedge funds cut their bullish bets on wheat to the lowest this year on speculation that supplies would be adequate to meet global demand. Speculation on higher corn and soybean prices also declined. The funds and other money managers slashed wheat net-long positions by 54 percent to 11,206 futures and options contracts on the Chicago Board of Trade in the week ended May 17, as data from the U.S. Commodity Futures Trading Commission show. That's the lowest since speculators were net-short in late November. Wheat prices, down 4.4 percent in the week through May 17, have slumped 12 percent since reaching a peak on Feb. 14 of \$9.1675 a bushel, the highest since August 2008. On May 11, the U.S. Department of Agriculture said domestic inventories will total 702 million bushels next year, more than analysts forecast.

CBOT Price Chart



Wheat Prices (International & Domestic)

CBOT Futures Prices (USD per Metric Tonnes)				
Futures Month	% Change Over Previous Month	Today (24.05.11)	WeekAgo (18.05.11)	MonthAgo (25.04.11)
July'11 (\$/MT)	-9.51	286.48	300.17	316.57
July'11 (INR/MT)	-9.51	13000.47	13621.52	14365.96
Sept'11 (\$/MT)	-8.22	304.39	278.67	331.67
Sept'11 (INR/MT)	-8.22	13813.26	12646.18	15051.20
Dec'11 (\$/MT)	-6.22	322.85	331.67	344.25
Dec'11(INR/MT)	-6.22	14651.06	15051.20	15622.24
March'12 (\$/MT)	6.12	336.08	341.59	316.70
march'12 (INR/MT)	6.12	15251.27	15501.36	14371.79

Note:1 Bushel=27.216kg. CBOT market remained closed on Saturday (One dollar value Rs 45.)

Price Expectation

At international front, wheat price at the bench mark market of CBOT is likely to stay in a tight range during the coming week. At the lower side prices might find support towards 720 cents/bushel which might find trend line support and attract traders to go long in exchange platform. At the higher levels it is likely to test towards its key resistance zone of 820 cents/bushel and any decisive close above the same shall turn the sentiments firm which is likely to lead a bull run. Meanwhile, price is likely to stay range bound in the range of 720 to 820 during coming week.

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