

Domestic Market Recap:

- **Procurement seen over 26.5 MMT in current marketing season 2011-12.**
- **Wheat prices likely to crash on over supply amid stable demand.**
- **Private trade unwilling to hold on stock on bearish outlook.**
- **Arrivals in Punjab, Haryana Markets at fag end.**
- **Arrivals in M.P., Bihar and Rajasthan to continue.**
- **Federal govt.'s stock to touch record once again.**
- **Managing additional stock will pose challenge in months ahead.**
- **Area shifting from wheat to sugarcane in south and U.P. is feared.**

Market Fundamental:

Wheat prices in cash and future market continued to rule under pressure on various factors like higher supplies, dwindling possibility of export due to indecisions on Ministry's level and slower procurement pace in U.P., Bihar, M.P. and Rajasthan. Prices of wheat are expected to come down unexpectedly in weeks ahead as private procurements are getting slowed and with bearish outlook private stock is likely to be pumped in the open market. It will further encourage bearish sentiments. Govt.'s stocks in M.P., Punjab, Haryana, U.P. and in some other non major contributing states are over flowing now and there is an alarming possibility of rotting of the newly stored out crop as monsoon is expected in time in northern states. It has already hit in Kerala. If govt. (likely) plans to offload some stocks in open market it will further aggravate pressure on the market.

Prices of wheat in Bihar, Rajasthan, M.P., U.P. and Gujarat have come down by Rs 10 to Rs 20 per qtl. during the week under review. Traders and stockists have started releasing stock in the market on minimum margin and are trying to sell it to govt.'s agencies wherever it is possible. If the Govt.'s agencies continue to buy procurement may touch 27 million tons. Sources say that in AP and some other states stocks have been stored out in school and college campus and these stocks have to be shifted some where before the opening of school and colleges. Thus the overall situation is alarming and wheat stocks are bound to rot in lack of proper storage. Traders are reluctant to buy wheat in U.P. and offering prices much below the set MSP. Farmers are in need of money for the preparation of field and kharif sowing and they have no option to retain stock. The benefit of price difference (whatever it is) is directly going to the brokers and agent in Bihar and U.P. 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 0.31 and 0.24 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. Higher supply, lower offtake and comparatively slower procurement amid changed market dynamics will keep market at least Rs 50 per qtl. down from current level and govt.'s agencies will have to procure more till June, 2011. 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. However, it too is expected to remain under pressure due to higher supply from other grade (wheat common). Prices of these varieties have been either stable or decreased by Rs 10 to Rs 20 per qtl. in Rajasthan, Gujarat and M.P.

Storage problem in Punjab and Haryana, Rajasthan, M.P. and U.P. persists despite some stock shifting out of the states due to record procurement (Punjab: 111 lakh tons, Haryana: 69.8 lakh tons and M.P. 50 lakh tons). This might force state trading agencies to liquidate some of the stock in the domestic markets which will further ease the supply side. Earlier Punjab had demanded movement of almost 25 lakh tonnes per month of wheat and rice to other states to tide over the existing storage crisis, but FCI could only shift 15 lakh tonnes 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 remain 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. Export should be opened to sort out the emerging challenge at least through private channels in time otherwise more stock will rot in govt.'s agencies amid decreasing prices of wheat. This will directly impact the overall area of wheat in next season and in south some wheat area has been shifted to sugarcane and this possibility in U.P. can't be ruled out.

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 started offloading stock and they are selling it on 2 to 3 percent margins as their margin is decreasing fast and there is a possibility of turning it into negative in next two-three weeks. Traders in Bihar are loading wheat for Orissa and Bengal while some illegal trades to Bangladesh and Nepal through various routes have also been reported.

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. Monsoon has already hit Kerala and is expected to hit northern India by last week of June. 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 80 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. However, this situation is likely to change in weeks ahead in changed sentiments and outlook for wheat.

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 27 million tonnes of wheat this season having already procured over 26.18million T by 1st June.

Progressive procurement status:

States	2010-11 (figure in lakh ton)	2011-12 (Progressive)
Punjab	102.08	109.18
Haryana	63.47	68.67
U.P.	16.45	23.14
M.P.	35.38	47.37
Bihar	1.83	1.29
Rajasthan	4.75	10.87
Gujarat	0.62	0.76
Others	-	-

Total	225.13	261.85
--------------	---------------	---------------

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. such arbitrage with transportation costs can yield around 2 to 3% gross margins. But it is expected to go down soon.

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 \$340-350 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. If prices goes down (likely) in domestic market and govt. allow export possibility of export will increase. International market is going through uncertain weather conditions with possibility of Russia entering into the export market and it will be a driving force to guide the overseas wheat market. If crude prices goes up from current level it too will support wheat prices in the international market.

Export Parity Calc. on Expected CBOT Prices (As on 01.06.11)

Component	Khanna@MS P	Khanna@CM P	Gujarat (Rajkot)	MP (Bhopal)
Ruling Mkt price@ Khanna	11200	11300	11400	12750
Mandi Expenses (loading/unloading, Bagging, Grading etc)	12712	12826	11799	13515
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	113	114	128

Total Handling cost	2162	2163	1364	2228
Esti. FOB Prices (INR)	14874	14989	13163	15743
Esti. FOB Prices in US \$/MT	331	334	293	351
Current CBOT Wheat Futures Prices	318	318	318	318
CBOT Futures Price in INR	14291	14291	14291	14291
Parity	-583	-698	1128	-1452

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. Downward move will continue to rule the market in lack of export opportunity. International market too have dipped and overall export scenario is not very encouraging. Russia will start wheat export July onward supported by US wheat harvesting due in the last week of June. It will escalate negative parity in weeks ahead.

In future market volume and open interest are sowing mixed trend and stakeholders are reducing their positions on bearish outlook. It shows that market will trade range bound with weak bias in next week with lower trade volumes.

Contract	Volume	Change	OI	Change
Jun-11	640	-2590	27350	-510
Jul-11	1900	680	16730	1100
Aug-11	570	-240	4830	-60
Sep-11	20	690	2040	0

Spread table too is not very supportive to the market as shown below.

Spread	June-11	July-11	Aug-11	Sept-11
Basis	-6.2	-28.4	-47	-68
June-11	-	22.2	40.2	63.4
July-11	-	-	18.6	41.2
Aug-11	-	-	-	19.6

The following table shows the latest and cumulative procurement status as on 01.06.2011:

Wheat Prices at Key Spot Markets:

Centre	Market	Variety	Prices (Rs/Qtl)		Change
Delhi			01-06-2011	31-05-2011	
	Lawrence Road	Mill Quality	1185-1190	1190	unch
	Narela	Mill Delivery Loose	closed	closed	
	Nazafgarh	Mill Delivery Loose	closed	closed	
Gujarat	Rajkot	Mill Delivery	1135-1140	1140	Unch



	Ahmadabad	Mill Delivery	1150	1150	
M.P.	Bhopal	Mill Quality Loose (Lokwan)	1250-1300	1250-1300	unch
	Indore	Mill Delievery	1200-1290	1300	-10
Rajasthan	Kota	Mill Quality	1250-1270	1250-1300	-5
U.P.	Kanpur	Mill Delivery	1160	1165	-5
Punjab	Khanna	Mill Quality Loose	1120-1130	1130	-10
Haryana	Karnal	Mill Quality	1170	1171	1
	Sirsa	Mill Delivery loose	1170	1170	-Unch
	Rewari	Mill Quality Loose	1170	1170	-Unch
	Panipat	Mill Quality Loose	NA	NA	-Unch
Bihar	Barauni	Mill Delivery	1100	1110	-10
	Khagaria	Mill Delivery	1115-1120	1130	-10
	Samastipur	Mill Delivery	1110	1120	-10
	Patna	Mill Delivery	1000	1010	-10
	Buxar	Mill Delivery	1050-1060	1060-1070	-10

Wheat Arrivals in Key Centers

Centre	Market	Variety	Arrivals (Bags/Qtl)		Change
Delhi			01-06-2011	31-05-2011	
	Lawrence Road	Mill Quality	8000	10000	-2000
	Narela	Mill Delivery Loose	closed	3000	-
	Nazafgarh	Mill Delivery Loose	closed	500	-
Gujarat	Rajkot	Mill Delivery	3500	4000	-500
	Ahmadabad	Mill Delivery	1000	1200	-200
M.P.	Bhopal	Mill Quality Loose (Lokwan)	2000	2000	Unch
	Indore	Mill Delievery	8000	10000	-2000
Rajasthan	Kota	Mill Quality	14000	15000	-1000

U.P.	Kanpur	Mill Delivery	600	800	-200
Punjab	Khanna	Mill Quality Loose	1500	1600	-100
Haryana	Karnal	Mill Quality	4000	5000	-1000
	Sirsa	Mill Delivery loose	700	800	100
	Rewari	Mill Quality Loose	-	-	-
	Panipat	Mill Quality Loose	2500	3000	-500
Bihar	Barauni	Mill Delivery	3500	4000	-500
	Khagaria	Mill Delivery	5000	5500	-500
	Samastipur	Mill Delivery	3000	3400	-400
	Patna	Mill Delivery	4000	5000	-1000
	Buxar	Mill Delivery	2000	3000	-1000

International Market Recap:

- **US wheat futures finished sharply lower on expectations exporters will lose business to Russia when it returns to the global market.**
- **Russia's government confirmed it will lift a nearly year-long grain-export ban July 1 amid expectations for large harvests.**
- **Russia's move followed Ukraine's decision last week to abolish existing grain export quotas.**
- **CBOT July wheat falls 37 1/2c to \$7.82 1/4 a bushel; KCBT July wheat loses 35c to \$9.08; MGE July sinks 31 1/4c to \$10.25.**
- **Russia is expected to produce 55 MMT wheat this year.**
- **The IGC has slashed its forecast for the 2011/12 global wheat crop by 5 million tonnes to 667 million.**
- **Global wheat production was now expected to fall slightly shy of anticipated record demand in 2011/12 of 669 million.**
- **U.S. wheat production was forecast at 56 million tonnes, down from a previous projection of 57.5 MMT**

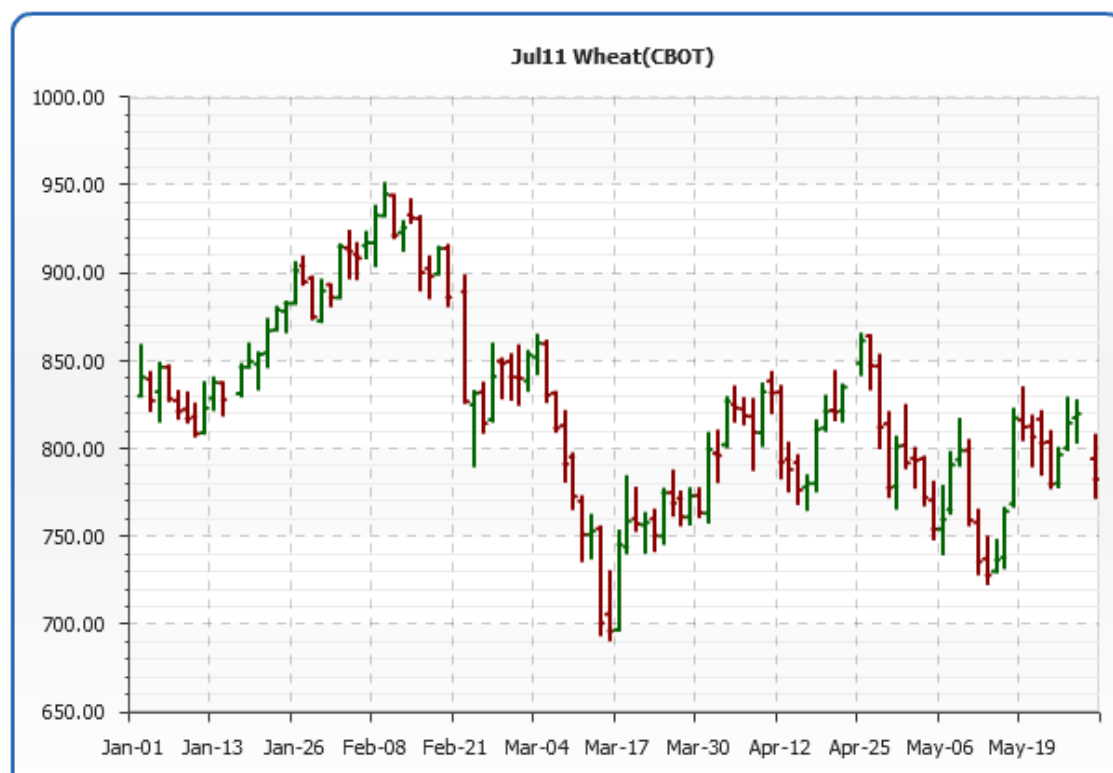
International Market Fundamental:

Bearish sentiments are emerging in international market with expected Russian entry in world wheat export market in July, US crop hitting market and likely increase of 0.6 M Ha. area in Argentina supported by Ukraine's surplus. In this back ground market is likely to remain under pressure in weeks ahead. Buyers may move onto Russian market as cheaper source. Stock at world market is sufficient to take care of any emerging demand.

CBOT Futures Prices (USD per Metric Tonnes)				
Futures Month	% Change Over Previous Month	Today (31.05.11)	WeekAgo (20.05.11)	MonthAgo (26.04.11)
July'11 (\$/MT)	-7.64	287.40	296.31	311.19
July'11 (INR/MT)	-7.64	12901.33	13301.27	13969.22
Sept'11 (\$/MT)	-6.52	305.68	317.16	326.99
Sept'11 (INR/MT)	-6.52	13721.83	14237.22	14678.40
Dec'11 (\$/MT)	-4.88	324.05	328.09	340.67
Dec'11 (INR/MT)	-4.88	14546.46	14727.88	15292.75
March'12 (\$/MT)	-3.93	336.54	338.01	350.32
march'12 (INR/MT)	-3.93	15107.21	15173.18	15725.68

Note:1 Bushel=27.216kg. CBOT market remained closed on Monday (One dollar value Rs 44.89)

CBOT Price Outlook (July'11 Contract) (Prices in Cents/bushel)



US wheat futures finished sharply lower on expectations exporters will lose business to Russia when it returns to the global market. Russia's government confirmed it will lift a nearly year-long grain-export ban July 1 amid expectations for large harvests. They tend to be the low price leaders in the world wheat trade. Russia's move followed Ukraine's decision last week to abolish existing grain export quotas. CBOT July wheat falls 37 1/2c to \$7.82 1/4 a bushel; KCBT July wheat loses 35c to \$9.08; MGE July sinks 31 1/4c to \$10.25.

Landed Cost Wheat (As on Date: 31.05.2011)

Cost Component		Australia	USA	France	UK
FOB Value		301.10	304.40	339.30	315.20
Freight		55.00	60.00	60.00	62.00
Export tax		0.00	0.00	0.00	0.00
C&f Value		356.10	364.40	399.30	377.20
Int. charge for one month	0.01	3.56	3.64	3.99	3.77
Risk premium-risk of rejectionnat Indian port	10	10.00	10.00	10.00	10.00
C & F Value plus risk premium&int. charges		369.66	378.04	413.29	390.97
Landing charges	0.01	3.70	3.78	4.13	3.91
Landed cost at Indian port(USD/MT)		373.36	381.82	417.43	394.88
Landed cost at Indian port(NRI/T)	44.89	16760.02	17140.10	18738.25	17726.24
Port handling charges		800.00	800.00	800.00	800.00
Local transport		110.00	110.00	110.00	110.00
Warehousing charges (for 1 Month)		75.00	75.00	75.00	75.00
Transit Insurance		12.00	12.00	12.00	12.00
Gunny bags		500.00	500.00	500.00	500.00
Transit loss	0.05	9.25	9.25	9.25	9.25
Loading &unloading		200.00	200.00	200.00	200.00
Market price of wheat		18466.27	18846.35	20444.50	19432.49
profit margin	2%	369.33	376.93	408.89	388.65
Total cost		18835.60	19223.28	20853.39	19821.14

Note: The internal cost of marketing has been worked out in consultation with port and market experts to arrive at the actual market cost of imported wheat. This calculation would help in finding out the feasibility of import/export.

DISCLAIMER

The information and opinions contained in the document have been compiled from sources believed to be reliable. The company does not warrant its accuracy, completeness and correctness. Use of data and information contained in this report is at your own risk. This document is not, and should not be construed as, an offer to sell or solicitation to buy any commodities. This document may not be reproduced, distributed or published, in whole or in part, by any recipient hereof for any purpose without prior permission from the Company. IASL and its affiliates and/or their officers, directors and employees may have positions in any commodities mentioned in this document (or in any related investment) and may from time to time add to or dispose of any such commodities (or investment). Please see the detailed disclaimer at <http://www.agriwatch.com/Disclaimer.asp> © 2005 Indian Agribusiness Systems Pvt. Ltd.