

Domestic Market Recap:

- **NAC finalises draft for food security to the poor.**
- **India allows an additional 5.0 million tonnes of grains for subsidised sales to the poor.**
- **Stock lying in the open sky under CAP is prone to degrade with additional moisture level in the air.**
- **Export parity turns negative with decreased overseas market.**
- **Wheat is loaded for Gujarat from M.P. and Rajasthan.**
- **More diversion from PDS to physical market is feared in months ahead.**
- **Arrivals decline in major markets of north India.**
- **Wheat market is likely to remain under extreme pressure with additional allocation of food grains.**

Market Fundamentals:

The overflowing granaries now are a result of a bumper crop, especially of wheat, and remunerative procurement prices paid by Government agencies, supported by bonus of Rs 50 per Qtl..Wheat during this week traded at Rs 1,100-1,175 a quintal in most northern mandis and below Rs 1,100 in Gujarat, against Rs 1,230-1,250 at the same time a year ago. Prices in Gujarat are lower since most arrivals are over and only inferior quality wheat is brought to the market by farmers. Private trade and flour mills, especially from the South, this time bought most of their requirement from Gujarat.

In Madhya Pradesh, the procurement has been 4.9 lakh tonnes against total arrivals of 6.1 lakh tonnes. In Punjab and Haryana, the wheat granaries of the country, procurement has been nearly 98 per cent of the total arrivals of over 17.5 lakh tonnes. Currently, wheat from Gujarat at the gate of a flour mill in South costs Rs 1,350-1,400 a quintal. During the peak arrival period in April-May, open market prices ruled well below the official price of Rs 1,180 a quintal, leading to the FCI and State agencies buying nearly 27.5 mt or a third of this year's total estimated production of 85.1 mt.

Last time round, the then National Democratic Alliance Government addressed the 'problem of plenty' mainly by resorting to exports. This year govt will consume it through food security channel with hefty subsidy .However, it is unlikely to serve the desired result in months ahead. Diversion from PDS to physical market is feared and may distort market force.

Private trade opportunity:

With up and down in prices trade destinations from producing states and centres have been changing amid changes in margin. Wheat is available cheaper in states like Rajasthan, M.P. ,Bihar, U.P. and to some extent in Gujarat. Traders/ brokers interest of buying is seen in these states .However, destination keeps changing frequently. The following table shows the parity and disparity for various states and centres and indicates opportunities for private trade. Slight variation in parity may be seen with change in freight and tax structure.

Wheat Trade Channel Markets Expenses from production Centers to Consumption centers

Sourcing Market	Rajkot	Kota	Kanpur (UP)	alab Bagh (Bihar)	Bhopal (MP)
Consumption Centers	Hyderabad	Coimbatore	Orissa (center)	issa (Sambhalp)	Pune
Loose prices (Rs/Qtl)	1130	1115	1130	1030	1110
Pukka Aadatiya Commission %	11.30	11.15	11.30	10.30	11.10
Market Fee % (as applicable for different mandi)	0	0	22.6	20.6	17.76
Other mandi expenses /Hamali	0	0	11.3	15.45	16.65
Cleaning/Loading Charges (Rs/Qtl)	5	5	5	5	5
Gunny Bag Cost (@ 35 and can be used for 4 times)	40	40	40	40	40
Market expenses borne by purchaser/miller/crusher	56.30	56.15	90.20	91.35	90.51
Transportation Cost (Rs/Qtl)	160	180	115	125	150
Insurance (if any)	2.83	2.79	2.83	2.58	2.78
Unloading at destinations (Rs/Qtl)	5	5	5	5	5
Total transport cost + loading/unloading	167.83	187.79	122.83	132.58	157.78
Total cost at factory gate (Rs/Qtl)	1354.13	1358.94	1343.03	1253.93	1358.29
Local Prices at Consumption Center (Rs/Qtl)	1362.50	1450.00	1365	1305	1425
Parity/Disparity (Rs/Qtl)	8.38	91.06	21.97	51.08	66.71

The table shows that wheat loading from Kota to Coimbatore, Bihar to Orissa and M.P. to Pune (Maharashtra) will continue with better profit margin. However, any increase in freight charges and wheat price will directly impact the current parity.

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. Wheat procurement season is now about to over with the end of this month i.e. 30th June 2011. Total procurement is expected to cross 27.5 million tonnes (record higher) this season.

Procurement Status: Wheat procurement as on 19.06.11

States	2010-11	2011-12 (P)	% Change
Punjab	102.08	109.45	7.22%
Haryana	63.47	68.85	8.48%
U.P.	16.45	30.8	87.23%
M.P.	35.38	48.94	38.33%
Bihar	1.83	2.49	36.07%
Rajasthan	4.75	12.51	163.37%
Gujarat	0.62	0.96	54.84%
Others	0.55	0.59	7.27%
Total	225.13	274.59	21.97%
Units in million tonnes; P - progressive			

Source: FCI

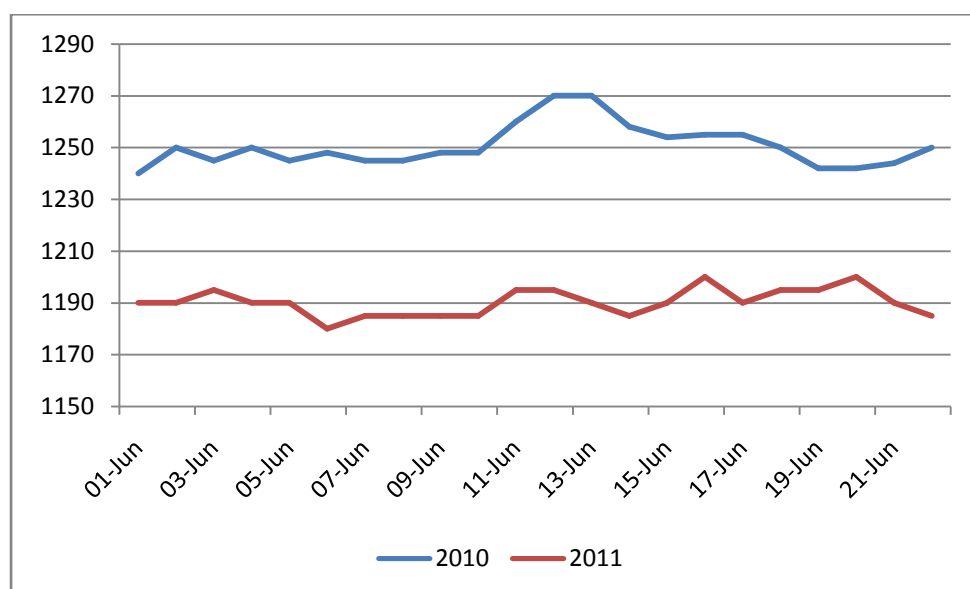
Higher stocks – government dilemma!

Government fixed its selling prices for wheat under OMSS which is currently fixed at Rs 1239.89 to 1315.38 /Qtl for northern region which is valid till Sep 11. This is quite high when compared with domestic market price which is ruling at Rs 1100 to 1125/Qtl. This result into negligible off-take of wheat from the government held stock from northern region.

At the same time prices fixed under OMSS for southern zone varies from Rs 1380.17 to 1659.04/Qtl while the average domestic wheat prices in local market stay in the range of Rs 1340 to 1350/Qtl. Similarly, wheat prices under OMSS for west region lies in the range of Rs 1310.61 to 1376.38/Qtl while open market wheat prices stay in the range of Rs 1300 to 1325/Qtl.

This clearly indicates government set prices are higher than the open market prices which shall stand discouraging for the bulk buyers to buy wheat from government agencies. This will continue to keep stock levels on the higher side unless government takes adequate steps to make their offered prices competent when compared to open market prices.

Comparative Price trend in June: Quantity: Rs /Qtl.



Keeping in view the seasonal price trend of wheat as shown in the adjacent chart, prices most often tend to rise from September onwards and usually peak during January depending on crop production year on year. Given the considerable wheat stock available we do not expect any major price rise during year end though marginal spike is inevitable as depicts the given line chart.

Govt. is in position to contain price at any stage

In case of any significant price jump government might take adequate measures to contain the prices as inflation during July to October remains a concern for the government. Any sharp jump in prices during the period might encourage government to liquidate more wheat through OMSS at reduced prices which will translate to the domestic market prices.

Export Parity over current CBOT prices

Component	Khanna @CMP	Gujarat (Rajkot)	MP (Bhopal)
-----------	----------------	---------------------	----------------

Ruling market price (Rs per MT)	11200	11300	11500
Mandi Expenses (including taxes and fees)	12712	11695.5	12190
Local transportation & Rake loading charges	400	400	400
Freight charges to Kandla (port at Gujarat) (Rs per MT)	1200	400	1250
Port and handling charges (Rs per MT) – for bulk shipment	450	450	450
Transit losses @ 1%	112	113	115
Total handling cost	2162	1363	2215
Estimated FOB Prices (INR)	14874	13059	14405
Estimated FOB Prices in US \$/MT	331	291	321
Current CBOT Wheat Futures Prices (US \$/MT)	277	277	277
CBOT Futures Price in INR (1 USD = 44.93)	12449	12449	12449
Parity/Disparity	-2425	-609	-1956

Considering the current market prices both at domestic market and bench mark market of CBOT there is disparity seen for wheat exports from Indian ports. Disparity is primarily attributed to sharp decline in wheat prices at CBOT. Export opportunities vanish from Rajkot market of Gujarat during recent past till 15th June when there were parity of nearly Rs 600/MT could be seen.

With little hope of parity from India ports during coming couple of months amid aggressive wheat shipment from US, Ukraine and Russia, export opportunities seen minimal going ahead with wheat harvest in the above mentioned nations.

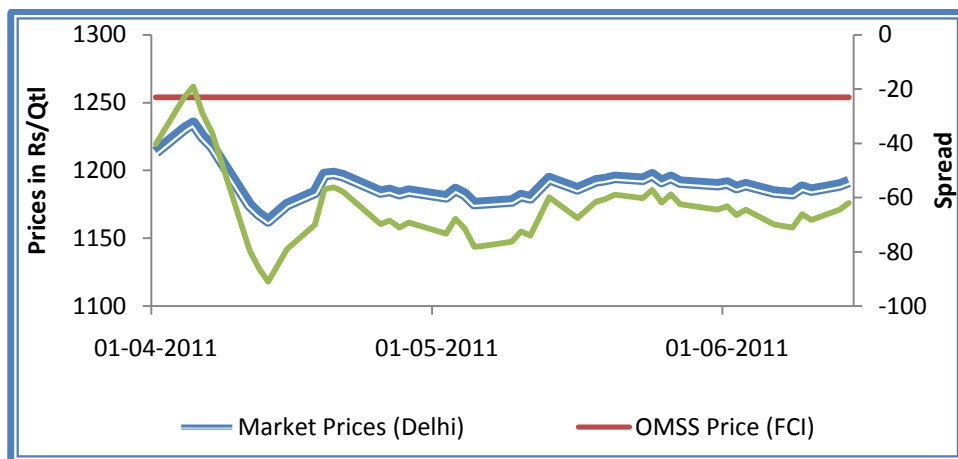
Current government stance on opening of wheat export:

Besides, The present Congress-led United Progressive Alliance regime is yet to take a call on allowing export of grain. The Union Food and Consumer Affairs Minister, Prof K.V. Thomas, has ruled out any exports till a final shape is given to the proposed National Food Security Bill, which could generate an annual off-take demand to the tune of 62-63 million tonnes. Ambiguous position with respect to food security bill and opening of wheat exports left limited option for the government to liquidating surplus stocks except domestic market through various schemes.

Rising gap between OMSS and cash market prices:

Following chart shows wide gap between OMSS and cash market prices. Wheat is available abundantly at lower prices in cash market and traders /brokers prefer to lift stock directly from open market. Flour millers are sourcing wheat from U.P. @ of Rs1080-1100 per qtl. on loose basis. However, wheat is comparatively ruling higher in Rajasthan and M.P.It is being loaded for south India at minimum margin with declining prices.

OMSS Prices Vs Domestic Prices:



- OMSS prices remain higher than the prevailing cash market prices.
- The spread remains in the range of Rs 60-80/Qtl.
- The offtake may increase in the lean season (October-February) when prices may rise above the OMSS Base Price

Price Outlook:

Prices of wheat will remain under pressure on higher stock and supply side in the month of July. Additional supply (likely) through PDS will weigh on the market. However, demand from feed industry at lower level may restrict further loss. Govt.'s policy will be the driving force to direct the market fundamentals in months ahead.

Prices expectation for next week:

Markets	Short term (15 days)
Cash	Rs 1100-1150
Future	Rs 1150-1180

Future Markets:

Technical Analysis:

- Formation of candle stick chart supports sellers for short term.
- RSI is moving down in neutral region, hints weakness in the market.
- Volume is not increasing on bearish outlook.
- If price breeches the level of 1180, it may test 1200. Price band for the next week is 1150 to 1180.
- Traders may go for selling at higher level.



Weather/Monsoon Update:

Comparison of long range forecast update for 2010 and 2011

Region	LPA 2010 (mm)	LPA 2011(mm)	Change %
All India	890	887.5	-0.28
Northwest India	612	615	0.49
Central India	994	975.5	-1.86
Northeast India	1429	1438.3	0.65
South Peninsula	725	715.5	-1.31
All India (July)	293	289.2	-1.30
All India-August	262	261.3	-0.27

*long period average (LPA)

Comparison between the latest LPA forecast for 2011 vs 2010 reveal marginal decline in precipitation over major regions of India with July rainfall forecast projected at 289.2 mm with deficit of 1.30 percent when compared with the previous year LPA forecast during June 2010.

However, latest weather forecast reveals improvement of precipitation in North West and North East region of India when compared with the LPA forecast of 2011 vs 2010.

There is much hype regarding monsoonal precipitation as most of the market participants are comparing LPA forecast with the actual precipitation received during July – Sep period during 2010 as mentioned in the following table:

Comparison of previous year (2010) actual Monsoon and LPA Forecast for Monsoon 2011

Region	Actual (mm)2010	LPA 2011(mm) Forecast	Change %
All-India	912.8	887.5	-2.77
North West India	688.2	615	-10.63
Central India	1027.9	975.5	-5.097
South Peninsula	853.6	715.5	-16.17
North East India	1175.8	1438.3	22.32
Monthly Rainfall			
All India (July)	301.79	289.2	-4.17
All India (August)	277.72	261.3	-5.91

The above data reveal that LPA 2011 forecasts are lagging behind the actual forecast of 2010 except for North East region primarily on account of more than higher rainfall realized when compared to the LPA forecast. However, since IMD forecast says total rainfall during June to Sep is expected to stay normal i.e. 98% of the LPA we expect normal showers in most of the regions with marginal deviation with model error of 5%.

Since Kharif planting is in progress in most of the growing regions but actual rainfall received during July and Aug might define the productivity and get reflected on the total Kharif production.

Wheat Prices at Key Spot Markets:

Centre	Market	Variety	Prices (Rs/Qtl)		Change
Delhi			23-06-2011	15-06-2011	
	Lawrence Road	Mill Quality	1180	1190	-10
	Narela	Mill Delivery Loose	1160-1165	closed	-
	Nazafgarh	Mill Delivery Loose	1150-1170	closed	-
Gujarat	Rajkot	Mill Delivery	1130	1135	-5

	Ahmadabad	Mill Delivery	1140	1140	unch
M.P.	Bhopal	Mill Quality Loose (Lokwan)	1050-1100	1050-1100	Unch
	Indore	Mill Delievery	1135-1140	1145	-5
Rajasthan	Kota	Mill Quality	1070	1050	20
U.P.	Kanpur	Mill Delivery	1165	1160	-5
Punjab	Khanna	Mill Quality Loose	1120-1125	1120-1120	-5
Haryana	Karnal	Mill Quality	1120	1120	Unch
	Sirsa	Mill Delivery loose	1120	1130	-10
	palwal	Mill Quality Loose	1100	1120	-20
	Panipat	Mill Quality Loose	1120	NA	-
Bihar	Barauni	Mill Delivery loose	1090	1100	-10
	Khagaria	Mill Quality Loose	1100-	1110	-10
	Samastipur	Mill Quality Loose	1100	1110	-10
	Gulabgh	Mill Quality loose	1030	1040	-15

Wheat Arrivals in Key Centers

Centre	Market	Variety	Arrivals (Bags/Qtl)		Change
Delhi			23-06-2011	15-06-2011	
	Lawrence Road	Mill Quality	8000	9000	-1000
	Narela	Mill Delivery Loose	800	closed	
	Nazafgarh	Mill Delivery Loose	300	closed	
Gujarat	Rajkot	Mill Delivery	4000	4500	-500
	Ahmadabad	Mill Delivery	1000	800	-200
M.P.	Bhopal	Mill Quality Loose (Lokwan)	1000	700	-300
	Indore	Mill Delievery	10000	10000	Unch
Rajastha n	Kota	Mill Quality	1000	1000	Unch
U.P.	Kanpur	Mill Delivery	800	1000	-200
Punjab	Khanna	Mill Quality Loose	1500	1000	500

Haryana	Karnal	Mill Quality	4000	4000	Unch
	Sirsa	Mill Delivery loose	150	100	50
	Rewari	Mill Quality Loose	50	50	Unch
	Panipat	Mill Quality Loose	-	-	-
	Barauni	Mill Delivery loose	1800	2000	-200
Bihar	Khagaria	Mill Quality Loose	3000	3500	-500
	Samastipur	Mill Quality Loose	1700	2000	-300
	Gulabgh	Mill Quality Loose	7000	6500	500

International Market:

- US wheat futures closed sharply lower as heavy selling hits grain markets.
- Commodity funds were unloading positions.
- A sell off in European wheat futures added pressure to US prices.
- Slide should attract buyers, with traders predicting Egypt will issue a tender.
- Tunisia's state grains agency bought 75,000 tonnes of optional-origin soft wheat for shipment in July and August.
- Russia ends its grain export ban on July 1 and Ukraine has relaxed its export restrictions as a large crop approaches.
- Australia wheat exports set to jump 9 pct to record.
- The International Grains Council forecasting a crop of 667 million tons, 5 million tons below its outlook from two weeks earlier.
- Global wheat production was now expected to fall slightly shy of anticipated record demand in 2011/12 of 664 million.T

Market Fundamental:

International wheat market heading southward due to ongoing harvest in US supported by recent rains in major wheat growing areas. Russia, Ukraine are ready to supply additional wheat on very competitive prices. Supply in the world market is at high side and at lower prices buyer is expected to return in the market once again. However, one upward correction is expected this week.

CBOT Futures Prices (USD per Metric Tonnes)				
Futures Month	% Change Over Previous Month	Today (22.06.11)	WeekAgo (16.06.11)	MonthAgo (23.05.11)
July'11 (\$/MT)	-20.52	234.49	284.09	295.02
July'11 (INR/MT)	-20.52	10535.77	12764.26	13255.35
Sept'11 (\$/MT)	-20.37	247.35	260.21	310.64
Sept'11 (INR/MT)	-20.37	11113.53	11691.28	13956.91
Dec'11 (\$/MT)	-19.90	264.34	276.93	330.02
Dec'11(INR/MT)	-19.90	11876.99	12442.36	14827.67
March'12 (\$/MT)	-14.32	292.27	292.27	341.13
March'12 (INR/MT)	-14.32	13131.54	13131.54	15327.01

Note:1 Bushel=27.216kg. (One dollar value Rs 44.93)

CBOT Price Outlook (July'11 Contract)**Market commentary**

US wheat futures closed sharply lower as heavy selling hits grain markets. Commodity funds were unloading positions, including an estimated 8,000 wheat contracts at CBOT. Nearby July contract settles down 5.3%, or 36c, at a seven-month low of \$6.38 1/4 a bushel. A selloff in European wheat futures added pressure to US prices. Slide should attract buyers, with traders predicting Egypt will issue a tender. Most-active CBOT Sep wheat drops 32 1/4c to \$6.73 1/4; KCBT Sep loses 32 3/4c to \$7.88 3/4; MGE Sep drops 33 3/4c to \$8.51 1/2.

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.