

### Domestic Market Recap:

- Downward pressure on cash and future wheat market continues.
- Export Parity turns into negative with dwindling overseas market.
- India lost export opportunity to cash in overseas market despite huge stock.
- Lack of adequate storage spaces pose problem going ahead with Kharif harvest.
- Total storage space Covered/CAP is not enough for procured wheat & rice during current season.
- If government announce freight subsidy to encourage wheat export as it was during 2002 it will unable to fetch exporters attention as export parity vanish at current market prices.
- Wheat price for medium to long term depends on government policies as major chunk of stock is lying with the government.
- Higher production y-o-y and lower net realization by the farmers compared with its competing crops shall stand discouraging for wheat are for 2011-12 owing to possible crop substitution.

### Market Fundamentals:

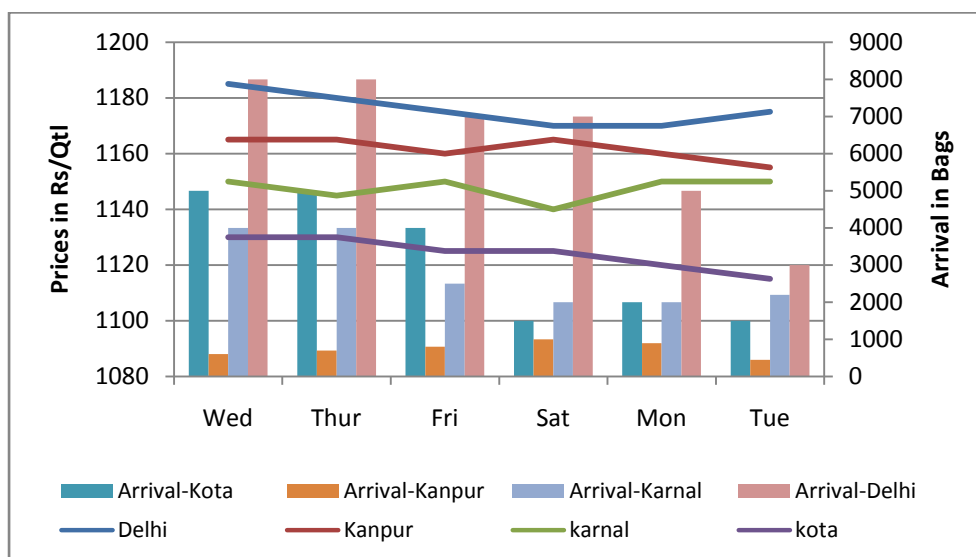
India's 2011 wheat production crossed over 85 million tonnes this year against the govt.'s estimate of 84.2 million tonnes, a new record, supported by higher area (294 lakh ha./last year 283 lakh ha.), yield and the favourable weather during the growing to harvesting season this year. Procurement also reached all time record (almost 275 lakh tonnes, till June 25, 2011) with further get response from the market with announcement of bonus of Rs 50 per qtl. over MSP of Rs 1120 per qtl. States like M.P, Rajasthan, U.P. and Gujarat contributed much more than expectation to the central pool kitty, besides major contributors Punjab and Haryana.

Higher arrivals even during lean season, hefty stocks and lower demand are weighing on wheat market fundamentals. Govt. is not ready to allow export from its bulging food grains stocks under compulsion of securing foods to the poor under food security bill and fear of inflation that has been haunting the govt. from last two and a half year. Under food security bill, the govt. needs almost 800 lakh tonnes of food grains as against 610 lakh tonnes at present.

While on domestic front, prices of wheat are ruling below MSP in Rajasthan, Gujarat, M.P., Bihar and Uttar Pradesh on higher supply and weak fundamentals. Allocation of additional 5 million T food grains to the poor through PDS is expected to enhance supply further in physical market as the wheat supply through PDS is likely to trickle down in the cash market as well which might increase the supply directly or indirectly. Besides, more supply is expected in months ahead with adoption of food security bill during October end.

Prices of wheat in various markets during the week under review remained subdued due to higher supply and weak fundamentals. However, recent rains in various states have slowed down arrivals. Wheat prices (loose) in Bihar, Rajasthan, M.P., Gujarat and M.P. are ruling below MSP and comparatively higher supply is weighing on the market. The bearish trend is likely to continue in the first week of July despite declining arrivals.

Following chart shows prices and arrivals trends in major markets during this week and denotes that prices have come down despite declining arrivals in major markets. Wheat is arriving in markets from private trade's stock now on bearish outlook.



## Future Market:

Prices in future market remained under pressure on seller's active participation. Weak tone in cash market and expected higher supply in months ahead weigh on current market sentiments. Stakeholders reduced their position in nearby months.

## NCDEX Wheat July Contract

Expiry, July 20, 2011

### Technical Analysis:

- Candlestick chart formation hints weakness in the market.
- RSI is moving down in neutral zone indicating caution to the bulls.
- Price band for July contract is Rs 1150 to Rs 1200.
- Market is expected to get first support at 1127 and second 1111 respectively.
- Likewise first resistance is at 1225 and second at 1241.
- Wheat market fundamental is unsupportive.
- Players are advised to go for buying below 1150 in July contract.

**Strategy: Buy on dip**



## Export parity turns negative:

Government un-willingness to open the wheat export resulted closing of the export opportunity window which existed till May end. Sharp decline in global wheat prices owing to better global wheat supply and better production prospect from the northern hemisphere continue to extend weakness in global prices. Since most of the market players are waiting for notification from the government for wheat export to en-cash export opportunity from Gujarat ports but no major shift in export policy by the government stands discouraging for the Indian exporters. With significant decline in wheat prices

in its bench mark market of CBOT the parity which was seen till May end was turn into disparity at current market prices. With expectation of domestic prices to inch up going ahead couple with supplies from US, Russia and Ukraine we expect disparity to widen further.

**Export Parity over current CBOT prices:**

Component	Khanna (Punjab)	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
<b>Parity/Disparity</b>	<b>-2425</b>	<b>-609</b>	<b>-1956</b>

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 15<sup>th</sup> June when there were parity of nearly Rs 600/MT could be seen.

CBOT Futures Prices (USD per Metric Tonnes)				
Futures Month	% Change Over Previous Month	Today (27.06.11)	WeekAgo (20.06.11)	MonthAgo (23.05.11)
July'11 (\$/MT)	<b>-22.45</b>	228.80	242.21	295.02
July'11 (INR/MT)	<b>-22.45</b>	10318.81	10923.60	13305.50
Sept'11 (\$/MT)	<b>-23.03</b>	239.09	255.62	310.64
Sept'11 (INR/MT)	<b>-23.03</b>	10782.76	11528.40	14009.72
Dec'11 (\$/MT)	<b>-22.63</b>	255.34	273.80	330.02
Dec'11 (INR/MT)	<b>-22.63</b>	11515.97	12348.60	14883.77
March'12 (\$/MT)	<b>-21.41</b>	268.11	288.04	341.13
March'12 (INR/MT)	<b>-21.41</b>	12091.77	12990.68	15385.00

**CBOT future contract July chart:**

**Commentary:** US wheat futures closed lower on seasonal pressure from the harvest and continued broad-based commodity selling. The market's slide is due in part to the harvest and talk that yields in

Kansas have been better than expected. Outside markets, particularly corn, also weighed, and traders note that reports of cheap Russian exports added to the pressure. CBOT July wheat drops 13c, or 2%, to \$6.22 3/4 per bushel. KCBT July wheat falls 20c to \$7.28 1/2 and MGEX ends down 20 1/4c, or 2.5%, to \$8.05 3/4.



### Private trade opportunity:

On domestic trading front, Wheat is being loaded from Bihar (a land locked state where prices are ruling below MSP) to Orissa and West Bengal (both states are having port facilities and having facilities to handle cargo). Meanwhile, wheat from North Indian region also started moving to south owing to higher price differential. States which reports shipment of wheat to south are M.P., U.P. and Rajasthan with absolute gain of 2% from a single trade with signifies annualized return of 24% during the current period.

Traders and brokers are supplying wheat to south India from Gujarat too as they get higher margin due to cheaper availability. Wheat (mill delivery) sells at Rs 1,125-1,150 a quintal in most of the northern market (Rajasthan, UP and MP) and below Rs 1,100 in Gujarat, Bihar and eastern UP, when compared with Rs 1,200-1,250 at the same time a year ago.

Wheat price in Gujarat continues to rule weak despite end of the arrival season with continued arrivals of inferior quality wheat. Lower protein content which is stated to be below 9% from the region is weighing on the market sentiments. Millers are not seen active to buy the current quality of wheat from Gujarat and most of the new arrivals are going to the feed industry. Currently, wheat (mill quality) from Gujarat at mill gate in southern states (Pune and Hyderabad) costs Rs 1,350-1,400 a quintal at current market price.

**Wheat Trade Channel Market Expenses from Production Centers to Consumption Centers:**

Sourcing Market	Rajkot	Kota	Kanpur (UP)	Gulab Bagh (Bihar)	Bhopal (MP)
Consumption Centers	Hyderabad (A.P)	Coimbatore (T.N)	Ambikapur/Baikunthpur (Orissa)	Sambhalpur (Orissa)	Pune (Maharashtra)
<b>Loose prices (Rs/Qtl)</b>	<b>1130</b>	<b>1115</b>	<b>1130</b>	<b>1030</b>	<b>1110</b>
Puccka Aadatiya Commission %	11.30	11.15	11.30	10.30	11.10
Market Fee % (as applicable for different' mandi)	0.00	0.00	22.60	20.60	17.76
Other mandi expenses /Hamali	0.00	0.00	11.30	15.45	16.65
Cleaning/Loading Charges (Rs/Qtl)	5.00	5.00	5.00	5.00	5.00
Gunny Bag Cost ( @ 35 and can be used for 4 times)	40.00	40.00	40.00	40.00	40.00
<b>Market expenses borne by purchaser/miller/crushers</b>	<b>56.30</b>	<b>56.15</b>	<b>90.20</b>	<b>91.35</b>	<b>90.51</b>
Transportation Cost (Rs/Qtl)	160.00	180.00	115.00	125.00	150.00
Insurance (if any)	2.83	2.79	2.83	2.58	2.78
Unloading at destinations (Rs/Qtl)	5.00	5.00	5.00	5.00	5.00
<b>Total transport cost + loading/unloading</b>	<b>167.83</b>	<b>187.79</b>	<b>122.83</b>	<b>132.58</b>	<b>157.78</b>
<b>Total cost at factory gate (Rs/Qtl)</b>	<b>1354.13</b>	<b>1358.94</b>	<b>1343.03</b>	<b>1253.93</b>	<b>1358.29</b>
<b>Local Prices at Consumption Center (Rs/Qtl)</b>	<b>1362.50</b>	<b>1450.00</b>	<b>1365.00</b>	<b>1305.00</b>	<b>1425.00</b>
<b>Parity/Disparity (Rs/Qtl)</b>	<b>8.38</b>	<b>91.06</b>	<b>21.97</b>	<b>51.08</b>	<b>66.71</b>

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. 30<sup>th</sup> June 2011. Total procurement is expected to cross 27.7 million tonnes (record higher) this season.

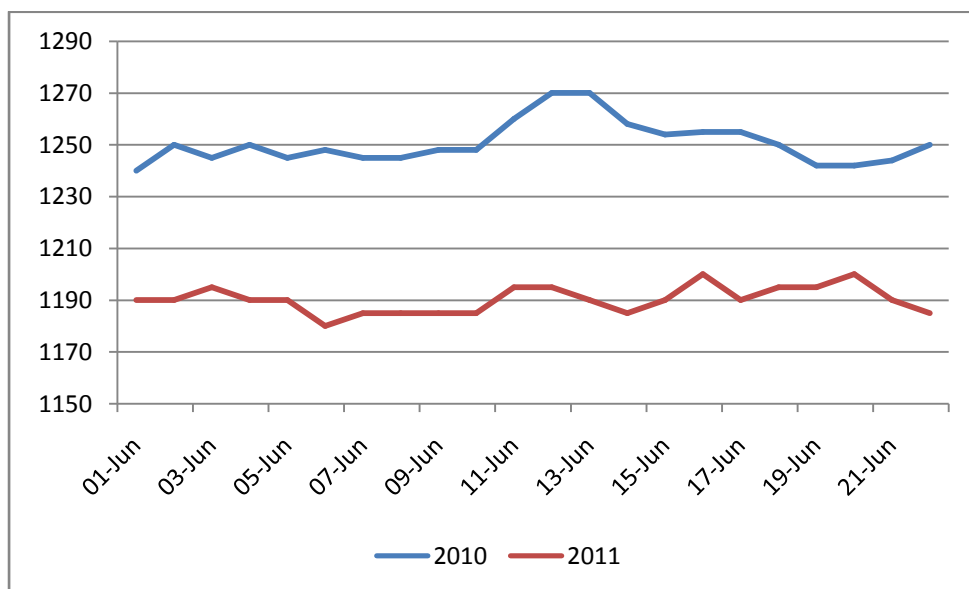
**Procurement Status:** Wheat procurement as on 28.06.11

States	2010-11	2011-12 (P)	% Change
Punjab	102.08	111.00	7.42%
Haryana	63.47	68.91	8.51%
U.P.	16.45	32.8	88.23%
M.P.	35.38	48.94	38.33%
Bihar	1.83	2.49	36.07%
Rajasthan	4.75	12.91	163.37%
Gujarat	0.62	0.96	54.84%
Others	0.55	0.69	7.29%
<b>Total</b>	<b>225.13</b>	<b>277.49</b>	<b>22.17%</b>

Units in million tonnes; P - progressive

**Source: FCI**

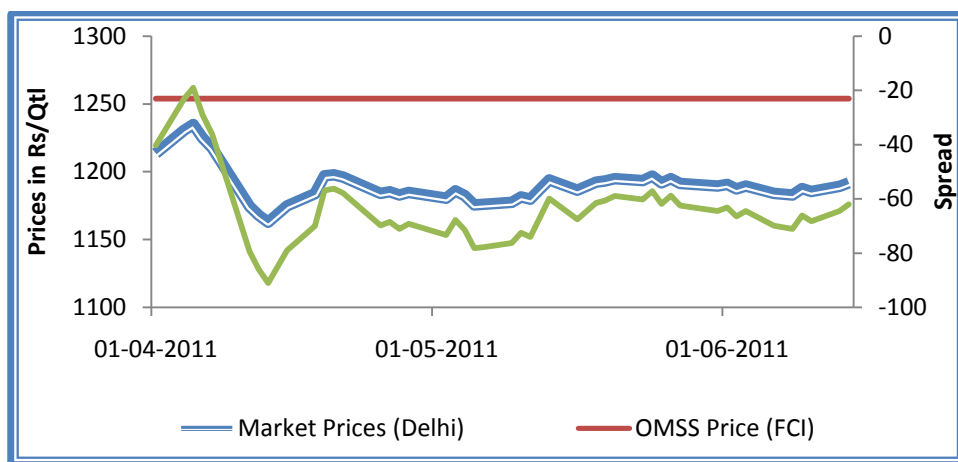
**Comparative Price trend in June: Quantity: Rs /Qtl.**



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 might take adequate measure:**

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.



- 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

#### 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
<b>Monthly Rainfall</b>			
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			28-06-2011	27-06-2011	
	Lawrence Road	Mill Quality	1170	1170	unch
	Narela	Mill Delivery Loose	1160	1160-1170	-10
	Nazafgarh	Mill Delivery Loose	1135-1150	1130-1140	10

<b>H.Gujarat</b>	Rajkot	Mill Delivery	1140	1140	Unch
	Ahmadabad	Mill Delivery	1140	1150	-10
<b>M.P.</b>	Bhopal	Mill Quality Loose (Lokwan)	1040	1025-1050	-10
	Indore	Mill Delievery	1150	1170	-20
<b>Rajasthan</b>	Kota	Mill Quality	1125-1130	1125-1130	unch
<b>U.P.</b>	Kanpur	Mill Delivery	1165	1160-1165	unch
<b>Punjab</b>	Khanna	Mill Quality Loose	1120	1130	-10
<b>Haryana</b>	Karnal	Mill Quality	1150-1160	1140	10
	Sirsa	Mill Delivery loose	1130	1125	5
	palwal	Mill Quality Loose			
	Panipat	Mill Quality Loose	1130-1140	1130-1140	unch
	Khagaria	Mill Delivery loose	1090-1100	1100-1105	-5
<b>Bihar</b>	Gulabbagh	Mill Quality Loose	1030-1040	130-1050	-10
	Samastipur	Mill Quality Loose	1100-1110	1100-1115	-5
	Barauni	Mill Quality loose	1090-1100	1095-1105	-5

### Wheat Arrivals in Key Centers

Centre	Market	Variety	Arrivals (Bags/Qtl)		Change
<b>Delhi</b>			<b>27-06-2011</b>	<b>28-06-2011</b>	
	Lawrence Road	Mill Quality	5000	7000	2000
	Narela	Mill Delivery Loose	300	500	200
	Nazafgarh	Mill Delivery Loose	150	400	250
<b>Gujarat</b>	Rajkot	Mill Delivery	2000	2000	unch
	Ahmadabad	Mill Delivery			
<b>M.P.</b>	Bhopal	Mill Quality Loose (Lokwan)	50-60	200	150
	Indore	Mill Delievery			
<b>Rajasthan</b>	Kota	Mill Quality	2000	2000	unch
<b>U.P.</b>	Kanpur	Mill Delivery	900-1000	1000-1200	200

<b>Punjab</b>	Khanna	Mill Quality Loose	200	100	<b>100</b>
<b>Haryana</b>	Karnal	Mill Quality	2000	3000-4000	<b>2000</b>
	Sirsa	Mill Delivery loose	100	100	<b>unch</b>
	Rewari	Mill Quality Loose			
	Panipat	Mill Quality Loose	200	200	<b>unch</b>
<b>Bihar</b>	Khagaria	Mill Delivery loose	500	600	<b>-100</b>
	Gulabbagh	Mill Quality Loose	700	700	<b>unch</b>
	Samastipur	Mill Quality Loose	600	550	<b>50</b>
	Barauni	Mill Quality Loose	300	400	<b>-100</b>

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