

Executive Summary:**Domestic Market Scenario:**

With the highest ever production of wheat at 85.93 M MT, India is quite comfortable for this season. Prices are likely to stay stable, ending stocks high and availability to all including those depending on the public distribution system should be good.

International Trade Scenario:

While the Agriculture Ministry is still pushing for exports given the comfortable scenario, the food ministry is still wary pending the Food Security Bill. A draft bill has now been presented to the Cabinet for discussions. The draft covers fewer citizens than proposed by the National Advisory council (who initiated the bill).

However, even if exports were to be allowed, the market is hardly conducive to Indian wheat. With harvests from the US, Ukraine, Russia and France now in the market at competitive rates, Indian wheat will not have any buyers.

Feed grade wheat to Asian nation looks viable from Gujarat compared with other producing centers in case of any policy changes by the government.

At the same time, Food Ministry is not in favour of opening of export keeping in view the grains requirement for proposed Food Security Bill.

Storage:

Government is mulling to augment 4 million tonnes of storage capacity by March, 2012.

Wheat production – all time high:

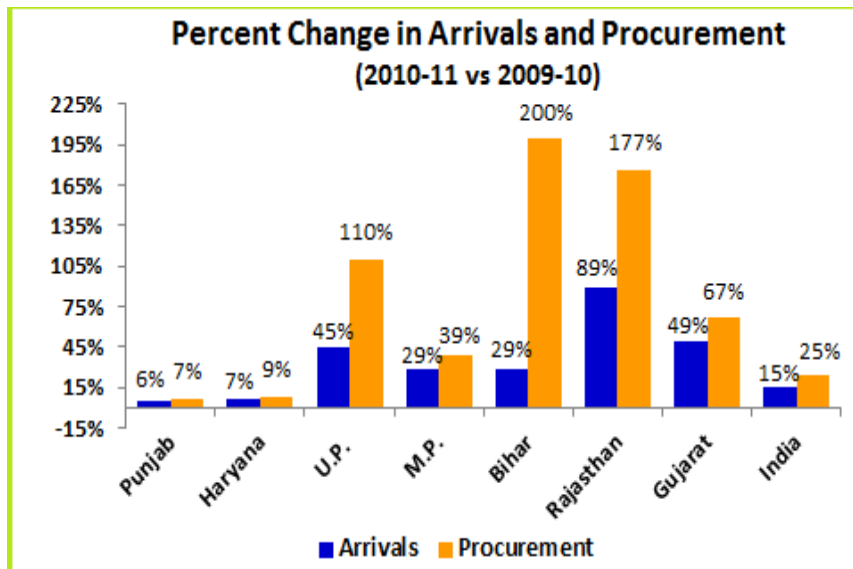
Though Agriwatch had always been predicting over 85.1MMT for this season, the government has only recently revealed its final estimate as 85,93 MMT in its 4th Advance Estimate against the 84.21 MMT in the 3rd Advance Estimate.

Favourable weather, higher acreage, higher support prices fixed by the government and better agriculture practices are the factors for record production during 2010-2011. All time higher production during the current season ensures ample domestic supply with relatively better stocks y-o-y which exceed the government norms.' Higher procurement, lower offtake and diminishing export opportunity amid shortage of storage space signal emerging challenge on storage front, especially when arrivals from kharif paddy are round the corner. Offloading from FCI godowns (including govt.'s other procurement agencies granaries) in next two months will not up to the mark. Right now it is almost 15 million tonnes per month. So govt. will release higher quantity of stock in local markets for creating storage space, Higher quantity of wheat is expected to impact the market sentiment in months ahead and to restrict any uptrend.

Even in lean season (Nov., Dec., Jan.) higher stock, allotment and govt.'s policy to contain prices will weigh on the market fundamentals. Bumper kharif production is expected this year despite below normal monsoon and if it translated into reality it will work as a cap for any uptrend. Following chart shows the percentage arrival and procurement in various states amid increasing contribution by non major contributors to the central pool kitty.



Arrivals vs Procurement (% change) from April – June (y-o-y):



Sharp improvement in production during 2010-11 compared to the previous years resulted in marked improvement in arrivals. Maximum percent change could be seen in U.P, Bihar, Rajasthan and Gujarat as shown in the adjacent chart. In line with higher arrivals into the market procurement surpassed all the previous records and final procurement figure was close to 28 million tonnes compared to 22.51 million tonnes previous year.

Interestingly, sharp jump in procurement during 2010-11 could be seen from non-conventional procurement regions such as U.P., Bihar, Rajasthan and Gujarat where wheat production improved significantly y-o-y. On an average total wheat arrivals increase by 15% during the current season, procurement by the government remains in line with the enhanced supply and witnessed marked improvement by 25%.

Supply and Demand

Incorporating wheat production figure as per the 4th advance estimates in our balance sheet, we see that while production increased by nearly 1% (compared with our previous estimates) with all other factors constant, ending stocks will improve by nearly 4%.

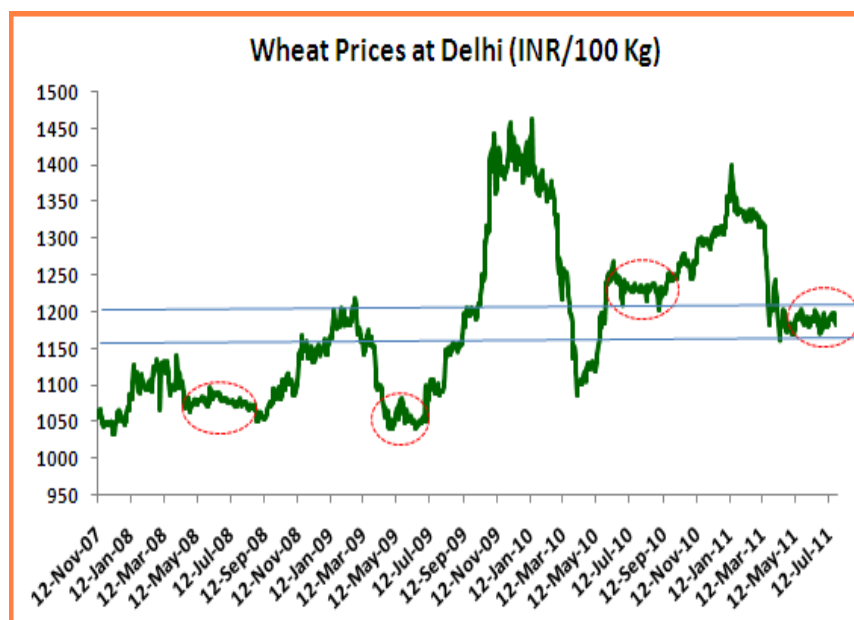
All units in million tonnes	2009-10	AW Previous Est 2010-11	Based on 4 th advance estimates 2010-11
Carry in	13.42	16.12	16.12
Production	80.80	85.12	85.93
Imports	0.15	0.00	0.00
Total Availability	94.37	101.24	102.05
Consumption	78.15	79.00	79.00
Exports	0.10	2.24*	2.24*
Total Usage	78.25	81.24	81.24
Carry out	16.12	20.00	20.81
Av Monthly Consumption	6.51	6.58	6.58
Stock to Month Use	2.48	3.04	3.16
Stock to Consumption Ratio	0.21	0.25	0.26

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We continue to hold our view on export front despite the Government ruling out immediate opening export. Bulging stocks and lack of adequate storage structure might allow government to take decision regarding opening of export. However, if government were to allow exports, a minimum of 2.24 million tons can easily be exported from India under favourable condition.

Considering revised balance sheet, there would be ample wheat stocks available during the season end. With no clear indication on opening wheat exports as of now, the domestic supply will remain good, which is likely to keep domestic prices at lower levels.

Seasonal Wheat Price Trend:



Wheat prices at principal consumption centers show seasonality in trend. Prices soften towards Feb –March and continue to decline there after and hit the lows during May. However, when new crop arrivals end in June, prices improve as shown in the adjacent chart. Considering this past trend from 2008 to till date, we could see that wheat prices during July to Sep stay range bound for these three months. Similar trend is expected during the current period as well, where the price is likely to stay in the

range of INR 1150 at the lower level and INR 1200-1250 might considered its higher levels till September. Post September might see a short rally but the magnitude of the rally during current period seems to be short as government is not likely to allow wheat prices to go up. Any near term surge in prices might prompt the government to release stocks to contain the wheat prices.

Food ministry likely to oppose wheat export in next meeting:

Wheat export from India is not possible for more than one reason despite bumper production and hefty stock stored out from 2010-11 crop year. Firstly, food ministry is not in favour of allowing export on the basis of meeting food security obligation. Secondly, wheat export is commercially not viable at current international prices. Thirdly, wheat exports may also be difficult as India is returning to the foreign market after a gap of four years. Agriculture ministry and CACP are favouring export after considering bumper production (85.9 million T), record procurement (28.03 million T) and subdued wheat prices in various states like Gujarat, Bihar, U.P., M.P. and Rajasthan. Under various welfare schemes govt. is distributing 5 million tonnes wheat to BPL category, another 5 million tonnes to APL category and additional 5 million tonnes to the needy districts (almost 150 in numbers). Besides, additional wheat is being distributed through

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OMSS at the rate of MSP. As per food ministry official, even subsidy cannot serve the purpose of export if allowed as it will be meagre against current disparity.

India's domestic wheat prices are higher than international quotes by around \$100 per T and exports can be possible only with the help of subsidies to the same extent that is unlikely. Wheat is currently being loaded at around \$244-250 per tonne in the Black Sea region, while Food Corporation of India (FCI) wheat at economic cost is at \$350-355 per tonne, showing a gap of more than \$100. Black Sea region has come out with huge stocks as Russia and Ukraine have opened up wheat exports, so prices have fallen. The situation for wheat exports will be bleak even if a subsidy is given, as the news of the subsidy will make the foreign market lessen prices further. So food ministry is likely to oppose wheat export in the next meeting, which is not scheduled as yet but expected soon.

The following table shows parity and disparity for Indian wheat from Indian port (Kandla):

Export Parity Calc. on Expected CBOT Prices

Component	On FCI economic cost (Khanna)	Punjab (Khanna)	Gujarat (Rajkot)	MP (Bhopal)
Wheat Prices (INR/MT)	15300	11300	10750	11500
Mandi Expenses (loading/unloading, Bagging, Grading etc)	17366	12826	11126	12190
Local Transportation & Rake Loading Charges	400	400	400	400
Freight charges to Kandla	1200	1200	400	1250
Loading –un-loading and misc. handling exp.	450	450	450	450
Transit losses@1%	153	113	108	115
Total Handling cost	2203	2163	1358	2215
Esti. FOB Prices (INR)	19569	14989	12484	14405
Esti. FOB Prices in US \$/MT	441	338	281	325
Current CBOT Wheat Futures Prices	284	284	284	284
CBOT Futures Price in INR	12614	12614	12614	12614
Parity/Disparity	-6955	-2375	130	-1791

Export disparity gap has widened during the current period with dwindling international prices and relatively stable domestic wheat prices. Marginal parity is being seen from Kandla in Gujarat as the trader's stocked wheat below MSP during peak harvest period.

Limited scope could be seen by the government agencies to go for wheat export if they get government approval. Relatively higher procurement cost (MSP) lead to higher economical cost which result into very high disparity when compared to the private trades. Most of the government stocks are lying in Punjab (near Khanna) and transporting the same to its nearest port Kandla and subsequent shipment do not seems feasible. Widening disparity for mill-grade wheat except from Gujarat could be seen from the above table.

Even private trade will not be able to export wheat, if allowed without subsidy as disparities from Khanna and Bhopal to Kandla are Rs 2375 and Rs 1791 per T respectively. With carry over cost is likely to increase month on month coupled with marginal increase in prices during the festival season, we expect disparity to extend further with limited scope for private traders to go for wheat export. Meanwhile, keeping in view the additional requirement of wheat (nearly 35 million

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tonnes) for food security bill, government will not be in haste to announce immediate opening of export.

At the same time, satisfactory wheat harvest progress by US, Russia, Ukraine and beginning of the start of wheat harvest from France, wheat price at international front is likely to stay weak going ahead with the harvest in northern hemisphere.

Wheat Products Export Scenario:

Govt had earlier allowed 650,000 T wheat products for exports, out of which 148,000 T was exported till 31-3-2011. Wheat products export was banned later to curb the rising prices in domestic market. Given the record production and growing demand for wheat products abroad Govt has now extended the time frame for export of the balance 500,000 T wheat products and validity has been extended up to 31.03.2012.

Prevailing wheat product prices in the neighbourhood are 15 to 20 percent higher in Pakistan, Bangladesh and Nepal. While wheat product prices at domestic market is ruling at Rs15000 to Rs16000 per T. This indicates that prevailing prices of wheat product in domestic market is relatively cheaper when compared with the destinations mentioned above. This gives Indian exporters an edge for exporting wheat products to these destinations including other Asian nations where we can compete with European suppliers.

Opportunity for feed grade wheat:

Estimated FOB Kandla prices of feed grade wheat:

Component	Rajasthan (Kota)	Gujarat (Rajkot)
Ruling Market# (including taxes upto warehouse delivery)	9000	7500
Local transportation & rake loading charges	400	400
Freight charges to Kandla	900	400
Loading, un-loading and misc. handling exp.	450	450
Transit losses @ 1%	90	75
Total Handling cost	1840	1325
Esti. FOB Prices (INR)	10840	8825
Esti. Indian FOB Prices in US \$/MT	243	197
Russian Feed Wheat FOB	178	178
Comparative difference from Russia	65	19
Prices are in INR/MT except specified; 1 USD = 44.70 as notified by Central Excise Dept. for export		

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Feed grade wheat export to neighbouring Asian nation might be considered viable as the difference between Russian FOB (feed grade) and estimated Indian FOB prices are nearly USD 19/MT. This narrow difference might give an edge to the Indian feed grade wheat owing to freight advantage to adjoining Asian nations if government opens wheat export. Feed grade wheat export from other states like Rajasthan, M.P. is unlikely as prices in local markets are higher with limited availability of stock. Russian feed grade wheat is competitive (\$165 to 180 per T) with ample availability of stock. The following table illustrate comparative Indian prices:

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 in July: Markets	Short term (15 days)	Medium Term(30 days)
Cash	Rs 1100-1150	Rs 1150-1200
Future	Rs 1150-1180	Rs 1175-1200

Future Market:



Technical Analysis:

Wheat price trend remain range bound. Neither bulls nor bears are in majority. Trend to take shape in the sessions ahead.

1170, on the lower side is the capable support whereas 1210 hold importance as an immediate resistance.

1170-1210 is the immediate trading range for the price; drift in either direction is likely to take it further in the respective same.

Positioning of RSI in Daily Chart becomes favourable for bulls.

Strategy: Wheat price remain capped inside the above trading range and hence any major move is only likely beyond these levels. While low risk traders may wait for the break outside the range, high risk takers may play according to support, resistance levels, while being buyers near the lower support and alternatively seller near the resistance levels.

Weather update:

Monsoon rains in August will be crucial for India for sugarcane, rice, maize and pulses after rainfall was 23 percent below normal in the week to July 27 in a sharp reversal from the previous week. The monsoon, essential for the 60 percent of the country that does not have



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irrigation, was below normal in particular over rice and cotton growing areas of south and western India, data from the weather office on Thursday showed.

Cane growing areas in the north and west also received poor rains, but soybean growing areas in central India had good rainfall. The weather office had forecast rains 7 percent below the average for July, but the latest data put the shortfall in the monsoon so far this month at 14 percent. Rains at regular intervals are important for growth. Now August rains will be very crucial.

There is a growing fear that the below-average rainfall could continue in early August that is not a good sign for Indian kharif crop. The current weak phase is expected to prevail early next week, and (rains) could then revive in the south, northeast and northern foothills. The monsoon rains were 5 percent below average from June 1 to July 28, mainly due to poor rains over rice-growing areas of eastern India and cotton-growing areas of south India.

Forecasting the monsoon is notoriously difficult. In 2009, India had its worst drought for over three decades, forcing it to buy sugar and boosting international prices, after the weather office had predicted a normal monsoon. If poor rains continue for the next two weeks, then there could be a problem, while rains at regular intervals will ensure enough moisture in the soil to keep crops healthy.

International Market:

- **IGC raises its wheat production estimates from 666 to 764 million T.**
- **US wheat futures ended down from their recent one-week high.**
- **Profit-taking and concerns about demand weighed on prices.**
- **The US is facing increased competition for export business from Russia and Ukraine.**
- **Overall, the supply and demand situation looks a little more bearish.**
- **Russia and Ukraine are selling wheat into markets that traditionally buy from the US.**
- **Egypt bought 60,000 tonnes of Russian wheat from Glencore at \$249.47 per tonne and 60,000 tonnes of Russian wheat from Cargill at \$250.40 per tone.**
- **World wheat output is expected to hit 674 million tons, up from 651 million tons last year and 8 million tons higher than expected in June .**
- **World wheat stocks are expected to decline to 185m. Tons (189m.) due to rising demand, especially for feed.**
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IGC Revised its Production Forecasts:

Better than expected harvest results lift the forecast of 2011/12 world wheat production by 8m. tons from last month, to 674m. (651m.). Crop estimates are increased for the EU, Russia, the US, Australia and Morocco. A record outturn has been harvested in India. Competitive costs for feed use relative to other grains lift the forecast of consumption by 6m. tons, to 676m. (657m.). Taking into account a larger carryover from last year, the rise in use only partly absorbs the increase in estimated supplies. The forecast of the global carryover at the end of 2011/12 is therefore raised by 5m. tons, to 190m., only slightly lower than the level at the start of the year. The projection of world trade is little changed from last month: at 126.7m. tons, it is up by 2.3m. from the previous year, mainly due to stronger demand for feed and milling wheat in Asia.



IGC Wheat Balance Sheet:

IGC/28.07.11	2007-2008	2008-09	2009-10	2010-11 est.	2011-12 Forecast	Million T
Wheat					30/06/2011	28/07/2011
Production	607	685	679	651	666	674
Trade	110	137	128	124	126	127
Consumptions	603	646	652	657	670	676
Carryover stocks	132	172	199	192	185	190
YOY ch.	5	40	27	-7		-2
Major exporters	47	68	76	67	61	61

World balance sheet highlights:

- World grain production is expected to rise to a record 1.82 billion metric tons in 2011-12.
- The London-based body raised its previous forecast by 9 million tons due to improving prospects for wheat crops in Europe, Russia, the U.S. and India.
- World wheat output is expected to hit 674 million tons, up from 651 million tons last year and 8 million tons higher than expected in June.
- It still forecast a fall in world carryover stocks in 2011-12, as consumption will still outpace supply at a projected 1.83 billion tons as feed consumption increases.
- The outlook for grains in 2011-12 remains very tight, even though the world carryout projection is lifted from last month.
- In the major exporters the total carryover is forecast to fall by 10 million tons, to 115 million tonnes.

World wheat market outlook:

Downward pressure will continue to rule world wheat market in the month of August and supply is expected to remain at higher side. Russia and Ukraine will remain the cheapest supply source with hefty carryout and bumper crop this year. Major exporters like US and Australia are facing tough challenge and export demand from both these countries will come down due to cheaper availability in black sea regions. Wheat is expected to trade in the range of \$250 to 300 per T in August depending on sourcing nations. However, overall outlook seems to be bearish for short and medium term.

Future Market:

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CBOT Futures Prices (USD per Metric Tonnes)				
Futures Month	% Change Over Previous Month	Today (28.07.11)	Week Ago (18.07.11)	Month Ago (24.06.11)
Sept'11 (\$/MT)	4.99	254.98	253.32	242.85
Sept'11 (INR/MT)	4.99	11203.63	11130.98	10670.89
Dec'11 (\$/MT)	4.11	269.86	263.89	259.20
Dec'11 (INR/MT)	4.11	11857.44	11595.11	11389.28
Mar'12 (\$/MT)	4.10	281.98	275.83	270.87
Mar'12 (INR/MT)	4.10	12390.18	12119.77	11901.84
May'12 (\$/MT)	3.92	287.67	282.90	276.84
May'12 (INR/MT)	3.92	12640.40	12430.54	12164.17

CBOT Chart:



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Commentary:

US wheat futures closed higher on spillover support from rising corn and soybean prices. Gains in the other markets lift wheat because the grains are all used for livestock feed. Yet, demand news wasn't supportive for wheat. Egypt, often the world's top wheat importer, booked Russian wheat in a tender and none from the US. Competition for business has increased since Russia resumed grain exports this month. CBOT September wheat rises 5 1/2c to \$6.94 a bushel; KCBT September gains 10c to \$7.80 1/2; MGE September advances 8 1/4c to \$8.39.

International FOB Indicative Prices (As on 28.07.11)

Country	Variety	% Change over Prev. Year	(28.07.11)	Week Ago (18.07.11)	Month Ago (01.06.11)	Year Ago (25.12.10)
USA (Chicago)	2srw milling grade	6.87	281.7	281.8	239.2	263.6
France	FCW3	-2.21	282.8	270.2	273.5	289.2
U.k	Feed wheat	-11.61	252	264.8	323.6	285.1
Canada (Thunder Bay)	Q2cw	23.72	278	288.8	309	224.7
Russia	Milling grade	35.47	249	244	245	183.81
Ukraine	Milling grade	60.00	248	245	238	155
Argentina	Milling grade	12.59	287	301	318	254.91
Australia	Feed wheat	1.85	276	274	298	271

As per FOB indicative prices Russia and Ukraine seems to be very competitive for milling grade wheat and differences are extensively wide. Prices of wheat in USA, France, Canada, Argentina, Australia, France, Canada, Argentina, Australia are higher and these countries will lose market share in export due to Russia and Ukraine. It is clear from above given table.

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