

Executive Summary:

Wheat cash market traded weak in the first half of Dec. on better sowing progress report supported by congenial weather and lower demand. Even interstate trading remained sluggish on fear of higher allocation for PDS and OMSS on price lower than physical market and resultantly a crash was expected in the cash market. However, market sentiments started changing with dwindling arrivals and improved demand from bulk users in the second half of Dec. Weather concerns, lower offtake from central pool stock and higher MSP for next season supported the prices to get firmer despite higher stock in govt.'s granary. Wheat prices in various markets increased in the range of Rs 75 to 100 per qtl. during Dec. Steady to firm sentiments are likely to continue in Jan, Feb and March on seasonality factors.

Sowing of wheat has entered in the last phase in Uttar Pradesh, Bihar and in some pockets of Rajasthan. It is almost over in Punjab, Haryana, M.P. and Gujarat. Wheat has been sown in 276.43 lakh hectare against 277.95 lakh hectare last year as on 31st Dec. Higher coverage has been reported from Madhya Pradesh (4.69 lakh hectare), Rajasthan (3.20 lakh hectare), Bihar (0.72 lakh ha.) Chhattisgarh (0.18 lakh hectare) and Jharkhand (0.37 lakh hectare). Going by present sowing pace total wheat area coverage may touch last year's level. Recent rains in major producing states are beneficial for wheat crop and it will ensure better growth.

International Markets have been unfavourable almost through the year due to logistic and price factors. Cheaper and ample availability in world market has restricted export chance and Indian exporters have to confine themselves only to Bangladesh, Malaysia, Nepal and Afghanistan. Major exporters like Russia, Ukraine, Australia supply wheat at least \$20 per T cheaper than India. Since Asian buyers are price sensitive, they prefer cheaper and regular source with assured and timely delivery. India is unable to assure them on the regular supply as production here is dependant mostly on rains amid higher domestic consumption and unsteady production and export restrictions. It is unlikely to ship out allocated quantity of 2 million T before the new marketing year.

Stock in India is ample and has been increasing for the last three years on account of bumper production led by favourable weather and higher area coverage. Even after meeting the proposed food security obligations (likely to be implemented 1st April this year) India should have exportable surplus in the range of 2 to 3 million tonnes if normal weather conditions prevail.

Bumper wheat production is likely once again and as per preliminary field survey and area coverage so far we can assume 85 million T production this year. However, temperature in Feb. and March will be a driving force for final output.

Wheat market is likely to trade steady to firm in weeks ahead. Besides, improving domestic demand, MSP's difference between two consecutive years (Rs 1120 + Rs 50 bonus and Rs 1285 for MY 2012-13) and so price gap, is expected to be levelled in due course.

Rabi wheat area, production last year and targeted/covered for this year:

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State	Area 2010-11(lakh ha.)	Production 2010-11(lakh T)	Targeted Area 2011-12 (Lakh ha.)	Targeted Production 2011-12(lakh T)	Area covered till 28 thDec.2011(lakh ha.)	Area covered last year till date
Punjab	35.10	164.00	35.00	165.00	34.95	34.98
Haryana	25.00	116.30	25.00	117.00	24.78	24.90
Uttar Pradesh	96.37	300.01	95.00	317.73	82.00	86.25
M.P.	39.00	85.00	40.00	80.00	46.00	38.20
Rajasthan	30.36	60.00	28.00	50.00	27.10	27.60
Gujarat	15.98	25.00	16.00	25.00	13.35	16.00
Uttarakhand	3.79	8.78	4.03	7.29	3.95	3.97
Bihar	24.00	47.00	24.00	45.00	22.10	23.22
Others	24.00	53.10	23.00	42.00	22.00	21.90
All India Total	291.59	859.19	290.03	849.00	276.23	277.02

Note:(10 lakh ha. is equivalent to one million ha.)

As evident from the above table, wheat sowing is lagging behind in Uttar Pradesh due to late harvesting of paddy crop. Sowing of late variety will continue even in Jan. Area under wheat has decreased in Gujarat as farmers opted for cash crops like cumin, castor, garlic and cotton. Wheat area has increased considerably in M.P. Higher MSP, bonus over MSP given last year and the increasing procurement in the state has encouraged local farmers (M.P.) to cover more area under wheat. We expect wheat area to touch last year level by the end of Jan.

Punjab and Haryana-the main contributors to the central pool:

Punjab and Haryana are expected to exceed their target for acreage under wheat cultivation in the current rabi season. The sowing of crop is almost complete in both states, except in the cotton growing belts where sowing will continue till second week of January. Area under wheat may surpass the target set by the state govt..The current sowing trend indicates that farmers do not want to bring down acreage under the winter crop, which ensures minimum support price (MSP) and marketing of the crop.

Punjab had targeted an area of 35 lakh hectares under wheat in current season against 35.10 lakh hectare last season. The government this year hiked wheat MSP by Rs 115 per quintal to Rs 1,285 per quintal. Similarly, Haryana expects acreage under wheat to cross targeted area of 25 lakh hectares. Area will certainly cross the target of 25 lakh hectares for this season. Area under wheat in Haryana stood at 25.15 lakh hectare in last season. Punjab and Haryana are eyeing crop output of 273.75 lakh tonne in Rabi season (2011-12), three per cent lower than what they produced last season. Punjab lowered its wheat output estimates to 155.40 lakh tonne in current season against highest ever crop output of 164.72 lakh tonne achieved last season.

On export front:

Wheat export from India has not been possible due to cheaper availability from major exporting countries and ample supply in overseas markets. Bangladesh and Malaysia remained major

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buyers so far. Despite uptrend in the International markets, Indian export disparity is expanding due to uptrend in domestic market. Wheat prices in domestic market have increased by Rs 75 to Rs100 per qtl in last two to three weeks and uptrend is likely to continue further with dwindling stock in private hands and arrivals in states having port facility. In this background total allocated quantity of two million tonnes is unlikely to be shipped out before March. As of now official and unofficial wheat shipment is in the range of 11 to 12 lakh T. Export may be possible only if the govt. provides freight subsidy (which is unlikely).

Exporters are not buying wheat from Punjab and Haryana even at Rs 1150 per qtl as recently offered by the govt. due to freight disparity. Punjab wheat for kandla delivery will cost Rs 1250 while the same is available in Gujarat (FOR kandla at Rs 1250 per qtl.) So there is no possibility of export from govt.'s granary without freight subsidy. Table given below denotes disparity from various centers.

Export Parity/Disparity (FOB basis)

Parity Calculation Sheet	Rajkot (Kandla)	Rajkot (Gandhidham)	Rajasthan (Baran/Bundi)	Punjab
FOR (Rs/ton)	12500	12400	13225	12500
Port and Handling Charges /Loading /Unloading /Clearing (Rs/ton)	500	500	500	500
Local transport, port warehousing, labour charges, shortage	500	500	500	500
Indian FOB (Rs/MT)	13500	13400	14225	13500
Indian FOB (USD/MT)	253	251	267	253
Insurance @ 0.1%	0.25	0.25	0.27	0.25
Freight Charges (US \$/ton) to Chittagong	20	20	20	20
CIF (kandla to Chittagong)	274	272	287	274
INR	53.3	53.3	53.3	53.3
Russian Wheat FOB (USD/MT)	230	230	230	230
Parity on FOB Basis (USD/MT)	-23	-21	-57	-44

Monthwise stock and offtake details:

Going by an average monthly offtake around (22.5 lakh T) in Jan, Feb and March we assume that total stock with govt. agency should be around 205 lakh T on 1st April 2012. It would be much higher than actual requirement of set buffer norm. India needs 40 lakh T wheat as buffer stock as well as 30 lakh T as strategic reserve i.e total 70 lakh T. Against this total availability will be almost three times higher. We expect higher procurement this year due to higher MSP (Rs1285 per qtl.) for MY 2012-13, starting from 1st April 2012. As per internal trade feedback we assume that wheat procurement will cross 32 million T, almost 40 lakh T higher than last year irrespective of final crop size. Wheat procurement starts in April and ends in June and during these months offtake from govt. stock remains minimal. Total wheat stock in July 2012 may be in the range of 500 to 510 lakh T besides rice stock. With ongoing smooth paddy procurement from bumper crop combined wheat and rice stock is expected to reach at an unmanageable level.

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Year	Jan	Feb	March	April	May	June	July	Aug	Sep	Oct	Nov	Dec
2006	61.88	48.74	34.49	20.09	89.93	93.2	82.07	73.3	67.17	64.12	59.94	55.94
2007	57.29	53.85	51.00	45.63	116	133.08	129.26	120.19	110.08	101.21	90.25	83.58
2008	77.12	71.62	65.06	58.03	176.9	241.23	249.12	243.8	232.59	220.25	209.61	195.98
2009	182.12	167.74	152.76	134.29	298.3	331.22	329.22	316.23	300.73	284.57	268.88	251.61
2010	230.92	206.23	183.88	161.25	337.1	351.62	335.84	320.47	298.62	277.77	255.58	239.14
2011	215.4	193.73	171.57	153.64	313.8	378.32	371.49	358.75	336.2	314.2	296.7	276.6
Monthly offtake 2011	23.74	21.67	22.16	17.93	-	-	6.83	12.74	22.55	22.00	17.5	20.21

Demand, supply details and production estimates:

Supply-demand table denotes higher carry in stock around 45 lakh tonnes in 2011-12. Higher stock is attributed to higher production in 2010-11 and lower offtake from govt's agencies. Carry in stock has been increasing during last three years despite higher consumption. Here in this supply demand table we have assumed 15 lakh T export next year and production at 850 lakh T, given the normal weather condition. If temperature increases in the month of Feb- and March, production and yield may decline in the range of 1.5 to 2.0 percent.

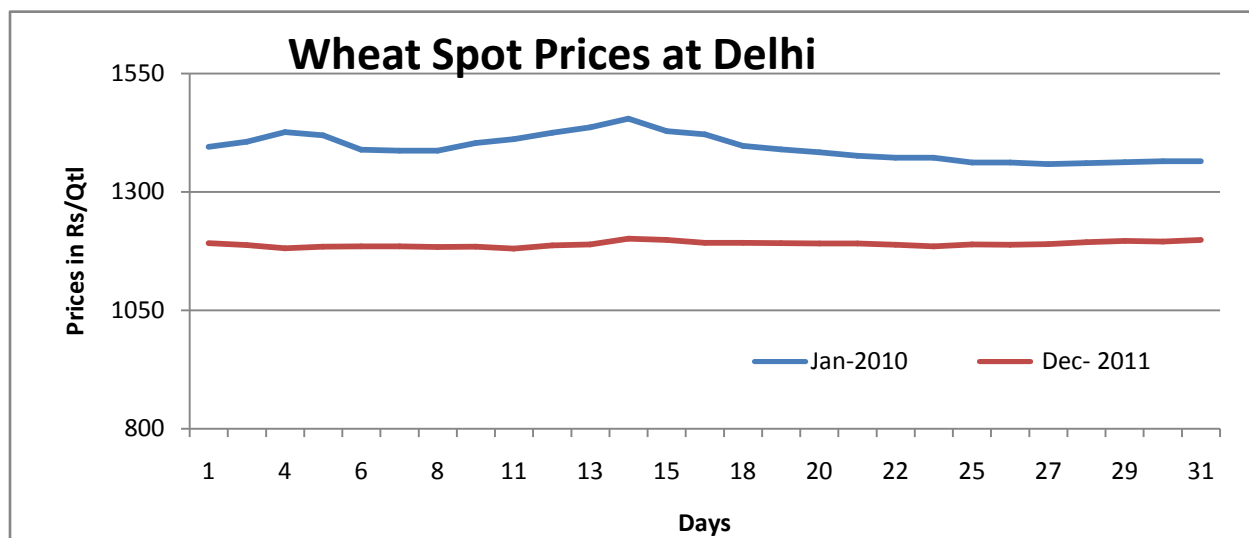
All units in million tonnes	2009-10	2010-11	2011-12*
Carry in	13.42	16.12	20.55
Production	80.8	85.93	85
Imports	0.15	0	0
Total Availability	94.37	102.05	105.55
Consumption	78.15	80	80.5
Exports	0.1	1.5	1.5
Total Usage	78.25	81.5	82
Carry out	16.12	20.55	23.55
Av Monthly Consumption	6.52	6.79	6.83
Stock to Month Use	2.47	3.03	3.45
Stock to Consumption Ratio	0.21	0.25	0.29

Spot market price trend Jan2010 and Dec2011:



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Following line chart shows price difference in Jan2010 and Dec2011. The gap will sustain even if wheat prices are firming up in domestic market. Higher stock and offloading intention may restrict prices to one way go. Export demand will remain sluggish despite improved international market. New crop will hit the market in February end in Gujarat. So more space for uptrend from a certain level (Rs 1200-1275) is unlikely in short term.



Average weekly spotprices for major markets:(Rs/qtl)

Markets	Dec-1 st week	Dec-2 nd week	Dec-3 rd week	Dec-4 th week
Delhi	1183	1185	1187	1192
Kota	1145	1147	1144	1175
Coimbatore	1400	1375	1400	1410
Chennai	1380	1375	1360	1375
Madurai	1400	1375	1375	1385
Rajkot	1170	1175	1180	1245

Future market:



Technical Commentary:

- Monthly chart formation shows market is likely to move up.
- RSI is steady in neutral region hints sideways movement in the future market for medium term.
- Volume, price and open interest are increasing hints long build up.
- Fundamental is supportive amid improving demand and dwindling arrivals.

Trading Strategy:

1230 the lower side is the capable support whereas 1264 holds importance as an immediate resistance. 1230-1264 is the immediate trading range for the price; drift in either direction is likely to take it further in the respective same direction.

International market:

Market updates:

US wheat futures ended mixed as CBOT futures followed corn higher while MGEX retreats in late trading. The market lacks fundamental direction and is following corn prices higher. A correction in the CBOT/MGEX spread, which has grown historically wide this year, is mainly due to speculative funds carrying a big net-short position in CBOT wheat and a big long position in MGEX.

European wheat rose for an 11th straight session, ending on a high note a volatile year marked by adverse weather in Europe and America, a wave of Arab purchases fuelled by political unrest, the triumphant return of Russia on the grain export market and darkening economic prospects. Bloomberg

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Syria's state grains agency has issued a new international tender to purchase 100,000 tonnes of soft milling wheat, European traders said. The bidding deadline is Jan. 9, with shipment sought within two months from the opening of a letter of credit on the deal. CME

Russia's FOB prices of ordinary milling wheat with 11.5 percent protein content rose to \$237 per tonne at Black Sea ports from \$236 the week before, while wheat with 12.5 percent protein content rose to \$243 per tonne from \$242. Reuters

Australian 2011/12 wheat production is projected 2.3 million tons higher this month at 28.3 million, the largest wheat crop in the country's history. Wheat production for the previous 2010/11 crop year is also revised up 1.9 million tons to 27.9 million, the second-highest on record, the highest in a decade. Abare

Millers in Vietnam bought Australian feed wheat at \$248-\$246 a tonne, including cost and freight, (C&F) for shipment in February/March and more deals are likely with processors in the region getting active. Bloomberg

World global wheat production forecast for 2011/12 soared 5.7 million tons this month to 689.0 million, to exceed the record of 2009/10 by 3.5 million tons and surpassing the global record yield of 2008/09 by 0.07 tons/hectare. USDA

IGC revised down world wheat production estimate by 1 million tonne: The second largest world wheat crop ever and ample carry-in stocks from last year, have sharply boosted global availabilities in 2011/12. While use is rising at a faster than normal pace, world stocks at the end of the season are still expected to climb to their highest level in a decade. Compared with last month, the estimate of world production is 1m. tonne lower, at 683m., including a slight downward revision in the US, where the spring wheat crop was even smaller than expected.

Stronger than previously projected feed use adds another 2m. tonnes to the global consumption forecast, at 679m., boosting the annual percentage increase to about three times the longer-term trend. Because of the increased demand figure, the forecast of global carryover stocks is 2m. tonnes lower than last month, at 200m., but these would still be the largest since 2001/02. The world trade forecast is lifted by 3m. tons from before to nearly 135m., only slightly below the 2008/09 record. Rather than reflecting a supply shortfall in any one country or region (as it did in 2008/09, when Iran's imports were higher than usual, import demand appears strong in a wide range of countries, aided by competitive pricing in the major exporters, especially for lower and medium grades.

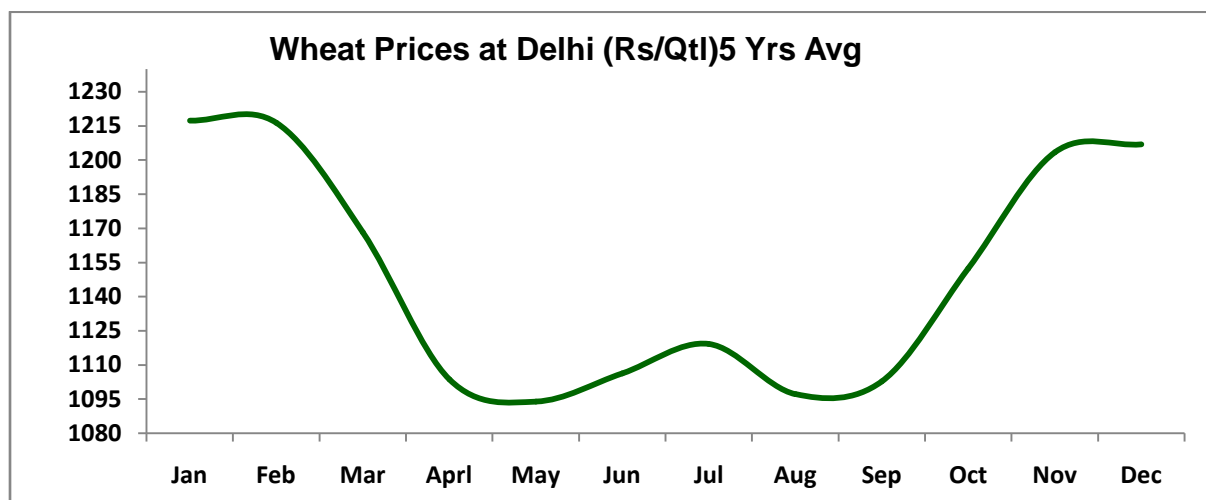
IGC Wheat Balance Sheet:

IGC/24.11.11	2007-2008	2008-09	2009-10	2010-11 est.	2011-12 Forecast	Million T
Wheat					27/10/2011	24/11/2011
Production	607	685	679	653	684	683
Trade	110	137	128	126	132	135
Consumptions	602	645	652	656	677	679
Carryover stocks	132	172	199	195	202	200
YOY ch.	5	40	27	-3		+4
Major Exporters	47	69	77	71	74	71



Overseas Seasonal Wheat Price Trend:

Wheat prices in India start declining during post February owing to approaching harvesting which most of the time starts from March as shown in following seasonal price chart:



Wheat prices start declining from Feb onwards coinciding with maturity and pre-arrivals time when market participants start talking about production and subsequent arrivals. New crop arrival during April makes bottom during April to May period as reflected in the chart. Official procurement starts from 1st April and continues till the end of June which might lend underlying support to the falling wheat prices. During the month of July farmers, traders start selling wheat once again to avail the benefit of short term spike to make a low again during Sep. Lean season demand during Sep and onwards results in a gradual surge in prices. At the same time festival demand for wheat product lends additional support to the prices till Dec. Being lean arrival time during Jan and Feb coupled with limited availability leads the prices to peak during the period as per the price seasonality shown in the above chart.

Indicative FOB Price during Dec.

Country	Variety	% Change over Prev. Year	(28.12.11)	Week Ago (20.12.11)	Month Ago (28.11.11)	Year Ago (28.12.10)
USA (Chicago)	RTRS 2srw	-6.50	260.5	244.8	257.5	278.6
France	SRW	-10.26	261.4	253.4	247.9	291.3
U.k	SRW	-17.31	233.6	228.2	229.3	282.5
Canada (ThunderBay)	1 CW SWS BASE GRADE	-5.74	253	246.6	243.3	268.4
Russia	Milling grade	12.38	236	231.6	240	210
Ukraine	Milling grade	10.90	234	230.8	238	211
Argentina	Milling	-6.46	245	243.5	249.2	261.91



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	grade					
Australia	HRW No-1	-19.67	225	221	232.21	280.11

Prices of wheat in the international market are expected to rule stable to firm in Jan as demand at lower level may increase for feed grade wheat. However, supply side and stock are higher and it will restrict one way gain despite increasing demand for feed grade wheat world over. Weather in Dec and Jan will direct international market and experts say that market should move up from current level. Weather concerns in USA and Ukraine remains intact and higher corn prices will support overseas wheat market.

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