

Executive Summary:

Wheat market continued to rule firm in the first half of Jan, 2012. However, firm sentiment could not sustain in the second half on positive reports of higher area coverage, favourable weather and higher production estimates for standing wheat crop. Besides, FCI started releasing higher stock on lower prices (Rs 1170 per qtl.) for millers and resultantly higher supply in the market impacted inner tone of the market.

Wheat is unlikely to trade higher in the month of Feb. Supply side will remain ample on back of higher release and record stock, supported by good crop prospects (87.3 MMT estimated by Agriwatch against govt. estimate of 88.3 million tonnes). Yield is expected to be higher from last year in states like U.P., Gujarat, Haryana, Rajasthan, Bihar and M.P.

Export from India is not feasible at current prices and lower demand for Indian wheat. International market too is not favourable for India despite recent improvement in prices. It would be very difficult to export at least one million tonne by the end of March 2012 out of allocated two million tonnes.

New crop started trickling in Gujarat and pressure may be felt in the third-fourth week of current month. Harvesting in major states is expected to start after Holi or in mid March and will pick up in the beginning of April. Weather remains favourable as of now. However, any abnormal fluctuation in temperature may impact the final size of production.

Market latest update:

Sowing of wheat is almost over now and total area covered so far is 0.13 million ha. higher than previous year (29.4 million ha.). Wheat has been sown in 29.5 million Ha. Higher coverage has been reported from Madhya Pradesh (6.02 lakh hectare), Rajasthan (3.11 lakh hectare) and Jharkhand (0.65 lakh hectare). Aided by a drop in temperature, higher area coverage and scattered rains across Northern States during the beginning of Jan the country may achieve wheat output of 87.32 million tonnes in 2011-12 against the govt. target of 84-85 million tonnes and last year production of 85.9 million tonnes.

Domestic wheat markets continue to reel under pressure on higher supply from govt.'s granaries, higher percentage (25 to 30 %) of diversion of wheat meant for PDS in open market and govt.'s intention to augment supply continuously for next two-three months. New arrivals in Gujarat from Gondal region add further pressure. Export opportunity for Indian exporters has been non-existent so far due to the disparity and ample availability worldwide. India is unlikely to ship out any of its allocated quota of 2 million tonnes at the end of March 2012.

Weather throughout the country has been favourable for wheat crop currently in the tillering to sprouting stage and it is expected to remain congenial in the weeks ahead. There is no report of yellow rust or pest infestation from any pockets of wheat growing regions so far.. Higher moisture level in the field of Uttar Pradesh is favourable for late variety sowing. A fresh spell of winter rain in major states is awaited and can boost up crop size.

Wheat production and yield estimates for the crop year 2011-12

Wheat Monthly Report 31ST Jan , 2012

State	Area 2010-11(lakh ha.)	Production 2010-11(lakh T)	Target ed Area 2011-12 (Lakh ha.)	Target ed Production 2011-12(lakh T)	Area covered till 27 th Jan.2012(lakh ha.)	Area covered last year till date	Expected yield in 2011-12/kg -per ha.	Expected production in 2011-12/in lakh tonnes	Last year yield 2010 -11	Perc entage Ch. Over previ ous year
Punjab	35.1	164	35	165	35	34.98	4670	163450	4672	0.0
Haryana	25	116.3	25	117	25	24.9	4620	115500	4652	-0.7
Uttar Pradesh	96.37	300.01	95	317.73	96.25	96.25	3150	303188	3113	1.2
M.P.	39	85	40	80	46	38.2	2185	100510	2179	0.3
Rajasthan	30.4	60	28	50	30.5	27.6	1975	60237.5	1974	0.1
Gujarat	16	25	16	25	11.1	16	1560	17316	1563	-0.2
Uttarakhand	3.79	8.78	4.03	7.29	3.9	3.97	2350	9165	2317	1.4
Bihar	24.4	47	24	45	24.4	23.22	2050	50020	1926	6.4
Others	24	53.1	23	42	23.6	21.9	2300	54280	2213	3.9
All India Total	294.06	859.19	290.03	849	295.6	277.02	2954	873223	2734	

Source: State Agriculture Depts. (Agriwatch concludes preliminary yield and production estimates based on farmer's initial views)

Wheat production is likely to go up almost by 2.4 million tonnes in the crop year 2011-12. States like M.P., Rajasthan, Bihar and Uttar Pradesh are expected to contribute more wheat in total production due to higher area, conducive weather conditions and expected higher yield. Production in Punjab and Haryana will remain almost steady as further increase in yield is quite difficult at this stage in these states. Yields in these states are already at its highest level. Yield and production in Gujarat may decline due to higher than normal temperature during tillering stage and lower area coverage. Overall wheat area has increased by one lakh ha. To 29.5 million ha. We expect higher yield in all states except Punjab, Haryana and Gujarat. Yield average may go up from 2734 kg to 2954 kg per ha. this year given the normal weather conditions.

Current Wheat Stock in Central Pool and Expectation in Feb- and March-2012

Wheat	Jan	Feb	March	April	May	June	July	Aug	Sep	Oct	Nov	Dec
2007	57.29	53.85	51.0	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	176.92	241.23	249.12	243.8	232.59	220.25	209.61	195.98
2009	182.12	167.74	152.76	134.29	298.26	331.22	329.22	316.23	300.73	284.57	268.88	251.61
2010	230.92	206.23	183.88	161.25	337.13	351.62	335.84	320.47	298.62	277.77	255.58	239.14
2011	215.4	193.73	171.57	153.64	313.75	378.32	371.49	358.75	336.2	314.2	296.71	276.56
2012	256.76	232.76	207.76									

Note:Fig in lakh tonne(one lakh tonne is equivalent to 0.1 million T)

Wheat Monthly Report 31ST Jan , 2012

With continuation of lean season, offtake from central pool has been on the increase as usual as the above table shows. We expect 2.4 million T offtake in Feb. and 2.5 million T in March 2012 as per current offtake trend and higher domestic demand amid govt.'s intention to augment supply and vacate storage space for the new crop. Thus the new procurement season may start with 20.77 million tonnes in stock against the minimum requirement of 7 million tonnes (buffer norm 3 million T and Strategic Reserve 4 million T) as on 1st April 2012, much higher than actual requirement. Wheat procurement will start on 1st April and continue till June.

Current Rice stock with Govt.'s granary and Projection for Feb-March:

With bumper production this year rice stock is also continuously increasing. Procurement process is very smooth and going by current procurement trend target of 35 million tonnes seems very much within reach despite lower rabi coverage area. As of now 20 million tonnes procurement has been recorded and it will continue till Sept. Rice stock starts rising from Nov. and continue to increase till March. We expect rice stock to touch 31.7 million tonnes in Feb and it may cross 33.5 million tonnes by the end of March. Offtake will remain low during April, May, June and July as usual with new arrivals from rabi crop. Combined stock of wheat and rice during July 2012 may touch unmanageable level. April 2012 should start with almost 54 million tonnes rice and wheat stock. Buffer norms for rice on 1st April is 12.2 million T and 2 million T reserve stock which collectively comes to 14.2 million T against the rice availability of 33.5 million tonnes.

Rice	Jan	Feb	March	April	May	June	July	Aug	Sep	Oct	Nov	Dec
2007	119.77	126.39	139.67	131.71	134.81	126.14	109.76	91.65	69.37	54.89	106.51	100.52
2008	114.75	140.39	147.34	138.35	128.64	121.29	112.49	97.93	84.72	78.63	141.39	155.78
2009	175.76	201.94	212.57	216.04	214.07	204.03	196.16	187.92	172.11	153.49	216.21	229
2010	243.53	256.58	269.5	267.13	262.25	252.66	242.66	228.77	204.8	184.44	231.73	245.27
2011	255.8	278.02	287.26	288.2	277.6	276.41	268.57	252.71	234.71	217.71	260.83	270.63
2012	297.18	317.18	335.18									

Wheat Balance Sheet:

All units in million tonnes	2009-10	2010-11	2011-12*
Carry in	13.42	16.12	20.55
Production	80.8	85.93	87.32
Imports	0.15	0	0
Total Availability	94.37	102.05	107.87
Consumption	78.15	80	80.5
Exports	0.1	1.5	2.0
Total Usage	78.25	81.5	82.5
Carry out	16.12	20.55	25.37
Av Monthly Consumption	6.51	6.67	6.71
Stock to Month Use	2.48	3.08	3.78
Stock to Consumption Ratio	0.21	0.26	0.32

Wheat Monthly Report 31ST Jan , 2012

Crop year 2011-12(MY 2012-13) would start with 20.55 million tonnes carry in stock due to bumper production and ample availability. If we add expected production of 87.32 million tonnes in carry in stock it comes to a record 107.87 million tonnes. If we assume 80.5 million tonnes domestic consumption and 2.0 million tonnes export, the total usage comes to 82.5 million tonnes leaving a stock of 25.37 million tonnes. Due to higher availability, monthly Av consumption and stock to month use ratio will continue to increase. Av monthly consumption is expected to increase from 6.67 million t to 6.71 million tonnes. Similarly, stock to consumption ratio is likely to increase from 0.26 to 0.32.

Expected Wheat Procurement in MY 2012-13:

Wheat procurement under normal conditions supported by higher MSP of Rs 1285 per qtl., may increase at least by 6 percent from previous level of almost 28 million tonnes to 29.8 million tonnes. If bonus is given over and above MSP in M.P. like previous years and procurement network in remote area of U.P. and Bihar is established as planned, actual procurement figure may exceed further by one million T. Area in Rajasthan, M.P and Uttarkhand have increased considerably and these states are going to contribute more wheat to the central pool kitty in MY 2012-13. However, weather conditions in Feb and March will play a very crucial role and will determine the actual size of the production and thereafter the procurement. As of now weather and temperature have been favourable and crop is in excellent condition throughout the country.

Fig in Lakh T	Production		Expected production	Procurement		Expected procurement
States	2009-10	2010-11	2011-12	2009-10	2010-11	2011-12
Bihar	46.23	50.00	50.02	1.83	2.66	2.82
Gujarat	26.48	28.30	17.31	0.62	1.05	1.11
Haryana	105.00	114.00	115.50	63.47	68.91	73.04
Madhya Pradesh	78.46	88.57	100.51	35.38	49.85	52.84
Punjab	152.63	168.25	163.45	102.08	109.9	116.49
Rajasthan	68.28.	65.00	60.23	4.75	13.77	14.60
Uttar Pradesh	278.10	290.20	303.18	16.45	34.9	36.99
Others	50.5	52.12	54.28	0.55	2.69	2.85
India	807.10	859.30	873.22	225.13	281.44	298.33

Export from India is not feasible due to disparity from various centers as depicts the following table. Disparity gap is almost 42 from Gujarat, 46 from Rajasthan and 15 from Punjab. Virtually no export is taking place from India as prices in domestic market is higher in comparison to other exporting sources. The disparity gap will continue as new crop is still two months away from now and wheat will continue to trade at current level with likely sideways move.

Export Parity:

Wheat Monthly Report 31ST Jan , 2012

Parity Calculation Sheet	Rajkot (Kandla)	Rajkot (Gandhidham)	Rajasthan (Baran/Bundi)	Punjab
FOR (Rs/ton)	12800	12750	13000	13600
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)	13800	13750	14000	13500
Indian FOB (USD/MT)	280	279	284	253
Insurance @ 0.1%	0.28	0.28	0.28	0.25
Freight Charges (US \$/ton) to Chittagong	20	20	20	20
ClF (kandla to Chittagong)	300	299	304	274
INR	49.37	49.37	49.37	49.37
Russian Wheat FOB (USD/MT)	238	238	238	238
Parity on FOB Basis (USD/MT)	-42	-41	-46	-15

Zone wise stock details:

Zone wise stock details show that supply needs to be improved in the east, north-east and south zone. North and west zone have maximum stock as usual. Despite stock movement from these zones to non producing zones, stock in north and west zone will remain on the higher side. Higher freight makes wheat costlier in north-east and south zone.

Zone Wise Wheat Stock position: As on 01.01.2012

Fig in Lakh T	Stock with FCI Dec-11	Stock with FCI Jan-12	Stock with state agencies Dec-11	Stock with state agencies Jan-12	Total central pool stock as on 01.01.2012
East Zone Total	7.73	7.02	1.02	0.92	7.94 (8.75 Dec)
NE Zone Total	0.19	0.17	0.0	00	0.17 (0.19 Dec)
North Zone Total	67.30	63.21	149.06	138.50	201.71 (216.36 Dec)
South Zone Total	5.49	5.16	00	00	5.16 (5.49 Dec)
West Zone Total	18.24	17.21	25.80	21.38	38.59 (44.04Dec)
Stock in Transit	1.73	3.19	00	00	3.19 (1.73 Dec)
All India Total	100.68	95.96	175.88	160.80	256.76 (276.56 Dec)

Comparative Average Wheat Price Trend In Domestic Markets:

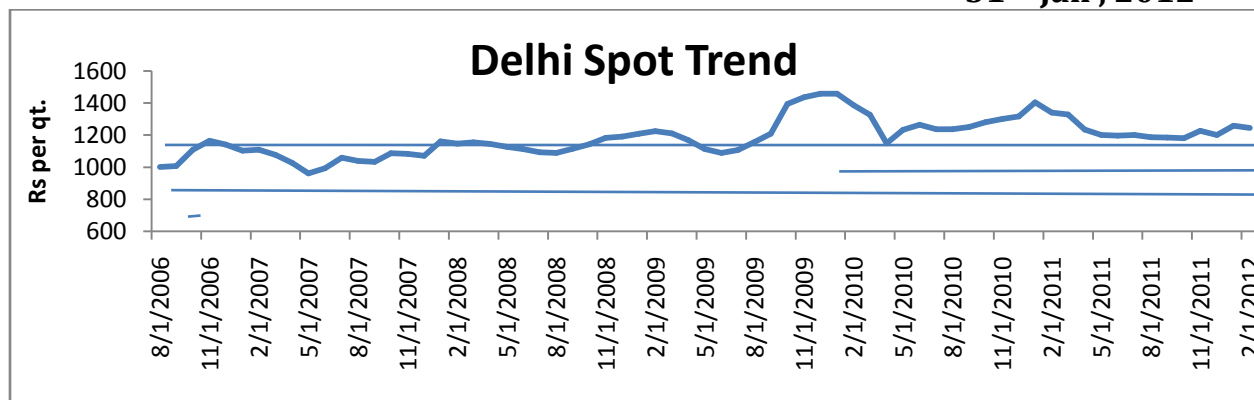
Wheat Monthly Report 31ST Jan , 2012

State	Prices January, 2012	Prices December, 2011	Prices January, 2011	% Change(Over Previous Month)	% Change(Over Previous Year)
Andhra Pradesh	1081.72	1390	1703.45	-22.18	-36.50
Chattisgarh	1050	1157.17	1089.08	-9.26	-3.59
Gujarat	1250.94	1216.92	1444.58	2.80	-13.40
Haryana	1217.92	1085.74	1340.07	12.17	-9.12
Jharkhand	1365.98	1341.69	1441.52	1.81	-5.24
Karnataka	1400.19	1450.84	1754.24	-3.49	-20.18
Kerala	1395	1420	1850	-1.76	-24.59
Madhya Pradesh	1170	1190	1350.51	-1.68	-13.37
Maharashtra	1175	1250	1475	-6.00	-20.34
Delhi	1230	1250	1320	-1.60	-6.82
Orissa	1277.3	1284.93	1300.67	-0.59	-1.80
Punjab	1150	1138.95	1195.78	0.97	-3.83
Rajasthan	1125	1140	1287.08	-1.32	-12.59
Uttar Pradesh	1082.51	1031.04	1196.44	4.99	-9.52
Uttrakhand	1134.82	1099.96	1326.21	3.17	-14.43
West Bengal	1127.11	1095.14	1272.14	2.92	-11.40
Average	1202	1221	1396		

Prices of wheat have increased in Jan in comparison to Dec.2011 and increased in Gujarat, Haryana, Jharkhand, Punjab,U.P. and West Bengal .However, in comparison to last year, overall prices have decreased considerably due to higher stock, ample supply and bumper incoming crop. New wheat crop from Gujarat starts from Gondal region and arrival pressure is likely to be felt after two weeks. No major spike is expected in Feb month as supply from govt's stock will continue to cap market in the weeks ahead. Wheat prices are expected to move in the range of Rs1200 to 1300 per qtl. depending on quality and availability in that particular region.

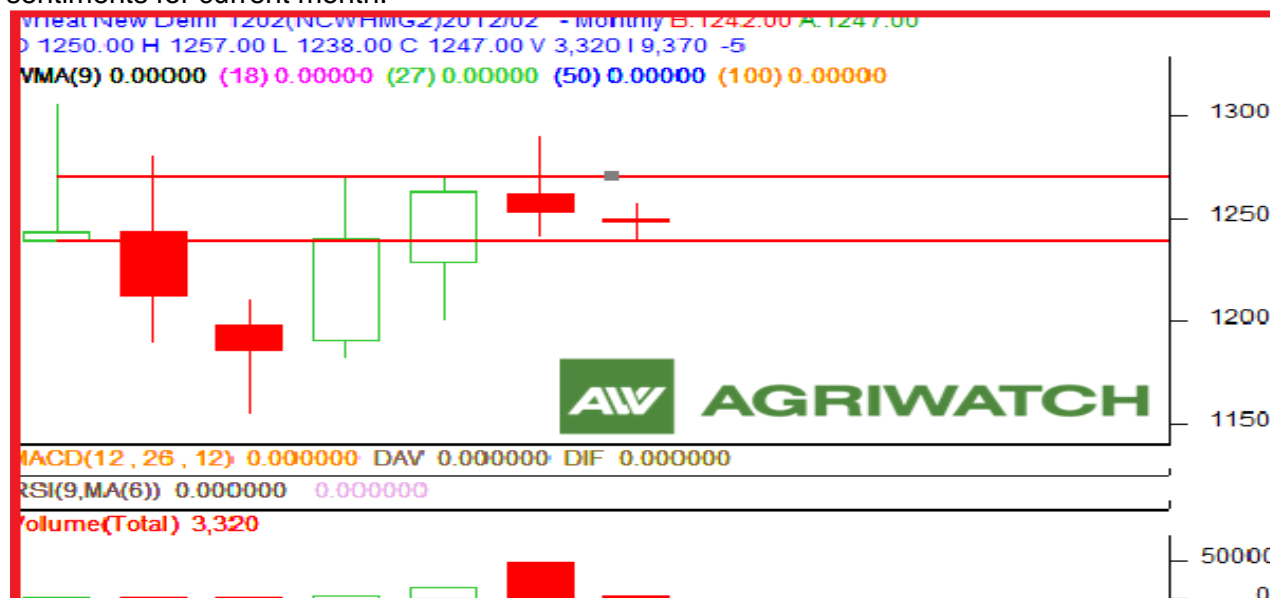
Delhi Spot price:

Delhi spot may trade in the range of 1220 to 1275 in Feb. as the below given chart indicates. Supply side will remain ample to take care of exiting demand and no major spike in price is expected given the normal weather condition and market current sentiments. Stockiests too are not interested to hold on stock on bearish outlook.



Future market:

Wheat future market remained under pressure on higher supply, better production prospects and higher production estimate supported by govt's intention to augment supply through various channels like OMSS, PDS. Future market is expected to remain under pressure even in the month of Feb. Stake holders are releasing their near month position and are waiting for stabilization in the market. Feb contract may dip further. However, far month contracts might trade range bound with firm bias and may move near MSP from mid March despite bearish sentiments for current month.



Technical Commentary:

- Monthly chart formation shows market to trade range bound in the month of Feb.
- RSI is steady in neutral region hints sideways movement in the future market for medium term.
- Volume, price and open interest are decreasing hints consolidation in the market.

Trading Strategy:

1240 the lower side is the capable support whereas 1274 holds importance as an immediate resistance. 1240-1274 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:

- **U.S. wheat futures closed lower on back** of profit-taking and ideas the market was overbought on previous day's rally. Recent gains on severe cold in Russia and Ukraine may have reflected a "buy the rumor" scenario, and that traders were now selling the fact. Uncertainty about Russian exports limits losses, but traders say even if the country enacts restrictions, world supplies will be at higher side.CME
- **European benchmark wheat prices retreated** on Thursday from a seven-month high the day before, in step with a similar slide in Chicago, as dealers said the rally this week, on fears that cold weather would damage crops, had been overdone.Bloomberg
- **Physical wheat prices in import-dependent Spain** jumped in response to sharp gains in prices offered by exporters in the cold-ravaged Black Sea region.Reuters
- **Canada's wheat production looks to edge up almost** 2 percent to 25.7 million tonnes in 2012/13 from 25.261 in the current year. Durum production in Canada, which is the world's top exporter of the wheat used to make pasta, will climb about 4 percent to 4.33 million tonnes in 2012/13-cwb.
- **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.Aware
- **The estimate of world wheat production in 2011** is boosted by 7m. tonnes since the November Market Report, to a record 690m. Much of the increase reflects better than anticipated results in the southern hemisphere especially in Argentina and Australia, but there are also sizeable upward revisions for China and Kazakhstan-IGC
- **World stocks at the end of 2011/12 are revised higher** and are now seen reaching 204m. tonnes, only slightly below the record of 206m. in 1999/00. Major exporters' stocks are projected to rise significantly in Kazakhstan and Ukraine, but those in the EU and US are to stay broadly unchanged-IGC

IGC Revised World Wheat Production Estimate Up:

The estimate of world wheat production in 2011 is boosted by 7m. tonnes since the November Market Report, to a record 690m. Much of the increase reflects better than anticipated results in the southern hemisphere especially in Argentina and Australia, but there are also sizeable upward revisions for China and Kazakhstan.

Approximately half of the increase in the global supply figure is absorbed by greater feed use, as competitive prices relative to maize continue to capture additional demand. However, world stocks at the end of 2011/12 are revised higher and are now seen reaching 204m. tonnes, only slightly below the record of 206m. in 1999/00. Major exporters' stocks are projected to rise significantly in Kazakhstan and Ukraine, but those in the EU and US are to stay broadly unchanged.

Wheat Monthly Report 31ST Jan , 2012

Much of this year's increase in stocks will be in China, and therefore largely inaccessible to the global market. At 135.4m. tonnes, global trade is now forecast to be only 1.4m. short of the 2008/09 record, aided by strong demand for medium and lower-grade wheat-IGC

IGC Wheat Balance Sheet:

IGC/19.01.12	2007-2008	2008-09	200910	2010-11 est.	2011-12 Forecast	Million Tonnes
Wheat					24/11/2011	19/01/2012
Production	607	685	679	653	683	690
Trade	110	137	128	126	135	135
Consumptions	602	645	652	656	679	681
Carryover stocks	132	172	199	195	200	204
YOY ch.	5	40	27	-4		+9
Major Exporters	47	69	77	71	71	74

- **Updated on 19.01.12**

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 grade	-6.46	245	243.5	249.2	261.91
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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