

Executive Summary:

Despite improved status of overall rainfall area under rabi wheat is feared to be lower than last year due to late transplanting of kharif rice and increasing cost of wheat production. As per preliminary planting intention of the farmers and feedback received from other sources farmers will prefer to go for other lucrative cash crops like spices, cotton, pulses in non major wheat producing states. Wheat production is expected in between 88 to 89 million T in 2012-13 based on farmer's pre sowing intention. However, it would be too early to conclude about the final size of the crop at this point of time. It may vary based on changes in weather outlook, global price outlook, and continuation of export and MSP for the next marketing year.

The minimum support price (MSP) for wheat is unlikely to be raised for the next marketing season, which starts from April 1, 2013. The higher MSP makes exports uncompetitive and that the country already has huge stocks of wheat. Any further increase in MSP would only add to subsidy burden of the government for the next fiscal. Despite lower production estimate and continuous export, carryout for next year is likely to touch record level of 32.83 million T even if another 4 million T is exported in the current marketing year. India should export at least 10 million T wheat from govt stock to maintain carry out stock at 2011-12 level.

Indian wheat is fetching \$300 to \$315 per T in global market on FOB basis. Better price realisation than the current level is unlikely as global market is likely to trade range bound. On export front, situation turned in favour of India after June 2012. However, Indian exporters continued to export in limited quantities as and when situation allowed. As of now more than 2 million T wheat has been export through OGL and almost one million T through unauthorised channel to B, desh and other neighbouring countries. We expect higher export in the months ahead as India with Russia is the cheapest source in the global wheat market right now.

Global wheat quotes may hover in the range of \$300 to \$350 per T during the next three months. Improved weather conditions and recent rainfall in US have increased the moisture level in the field and better sowing conditions are prevailing in the main wheat growing belts. Besides, Russia and Australia have ample exportable surplus restricting market to go one way up despite lower global production estimate.

Expectation of higher rainfall in September will provide adequate moisture level for early wheat sowing in Gujarat and other major wheat producing states. Fear of lower production will not affect availability in the market. Govt's policy for wheat allocation in domestic market and for export will be the major price driving force in domestic market as almost all the grains are currently in govt's custody.

Domestic Market Dynamics:

Wheat market during the month of August continued to boil on back of better demand from exporters, south Indian flour millers and supply shortage in cash market. Price of wheat increased almost by Rs 200 per qtl in last one month. Exporters continued to buy from cash market as parity remained favourable during the month due to higher global quotes. Currently not much stock is left with traders/exporters. Farmers have still some marketable surplus and

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the stock will come to flow in the cash market in small quantity with price trend in domestic market. Usually some farmers hold on stock in anticipation of higher prices in the lean season as usual. However, marketable surplus stock in farmers hand is not enough to change prevailing sentiments. So the major price driving force will be the quantity to be allocated during these months by govt. for OMSS, bulk users and for exporters.

Recent allocation of 13 lakh tonnes for OMSS and preparation of fresh tenders for additional supply have signalled bearishness in the domestic market. Govt. may offload 6 million T wheat and rice in the open market so that space for standing rice crop could be vacated in time. The Govt. will not hesitate to sell wheat even at MSP if prices rules higher. Overall scenario for domestic wheat market seems bearish and the govt. will be the major player to drive market up and down in the months to come. Hefty stock will continue to encourage govt to sell more and more in the domestic and overseas markets.

We expect traders will quote Rs 1450 to 1500 per qtl. in next tender for various states. If quantity is increased, quotes will be lower further. Production of wheat in next season is expected to decrease by 5 million T as per farmer's preliminary intention. However, it will not affect the domestic availability any way due to higher production in 2010-11 and 2011-12. Uneven fluctuations in domestic market can be minimized by ensuring regular release through govt stock analysing the actual demand –supply gap.

It will help maximising export and minimising price fluctuations in cash market. One more bumper crop (even below 90 million T) may cause severe storage crunch again.

India's Wheat Balance Sheet:

All units in million tonnes	2009-10	2010-11	2011-12	2012-13
Carry in	13.42	16.12	21.43	31.83
Production	80.80	86.81	93.90	88.00
Imports	0.15	0.00	0.00	0.00
Total Availability	94.37	102.93	115.33	119.83
Consumption	78.15	80.00	81.50	83.00
Exports	0.10	1.50	2.00	4.00
Total Usage	78.25	81.50	83.50	87.00
Carry out	16.12	21.43	31.83	32.83
Av Monthly Consumption	6.51	6.67	6.79	6.92
Stock to Month Use	2.48	3.21	4.69	4.75
Stock to Consumption Ratio	0.21	0.27	0.39	0.40

As the above given balance sheet shows total availability and carry out for next year will increase despite lower production estimate (preliminary) at 88-89 million T. India can easily export at least 10 million T wheat from govt's stock to maintain the carry in stock at 2011-12 level. Higher carryout stock is due to record production in 2011-12. Higher export will not affect the domestic availability or even prices if releases through OMSS is maintained on the basis of

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supply-demand gap for different zones. India is at very comfortable stage on stock front and should avail the benefit of favourable global prices. Av monthly consumption, stock to month use ratio and stock to consumption ratio are continuously increasing despite higher export figure as depicts the above given table.

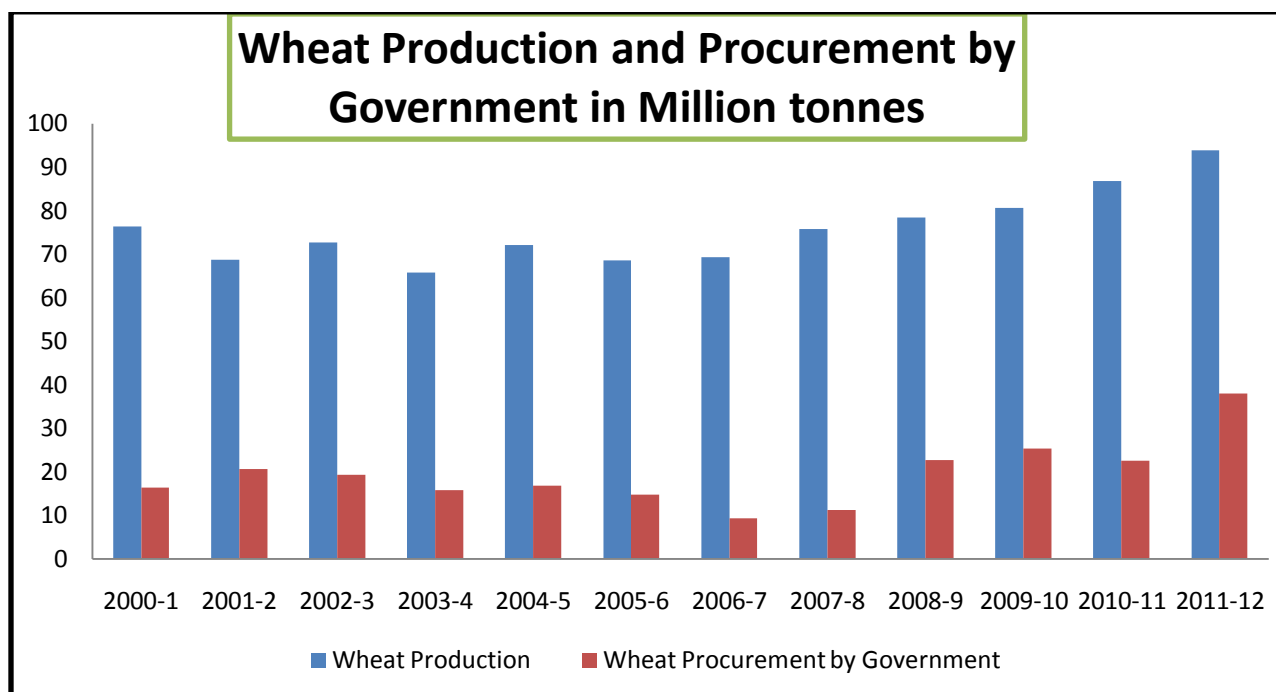
India's Wheat Production in Global Context:-

Year	World Production in million ton	Indian Production in million ton	India's % share in global wheat production
2001-02	584	72.77	12.46
2002-03	569	65.76	11.56
2003-04	555	72.15	13.00
2004-05	627	68.64	10.95
2005-06	619	69.35	11.20
2006-07	596	75.81	12.72
2007-08	607	78.57	12.90
2008-09	685	80.68	11.76
2009-10	679	80.80	11.90
2010-11	651	85.93	13.22
2011-12	696	93.90	13.50
2012-13 E	662	89.00	13.44

Indian wheat production share in global wheat production has been increasing steadily buoyed by good monsoons, adequate procurement on higher MSP and increasing possibility of higher export. Global production has seen dips more often due to changing weather patterns especially in United States of America, Australia and Russia. The US, Australian and Russian production remains the major price driving force in the global wheat market.

The government holding of wheat stocks has been increasing each year and now stands at close to more than a third of the production. This has bearing on the private stock availability for domestic and international trade. Production figure for 2012-13 is preliminary estimate and may vary depending on price, weather condition and other seasonal factors.

Wheat production and procurement YOY basis:



Wheat procurement continued to increase from 2008-09 and touched its record in 2011-12 on back of higher production, higher MSP and govt.'s policy of higher procurement. Percentage of procurement against production reached almost 40 percent and created severe problem on storage front. Higher procurement supported by export also created supply crunch in domestic market before time and prices unexpectedly touched Rs 1700 in the month of August. However, recent allocations and govt's intention to augment supply in the months ahead have cooled down the bullish trend.

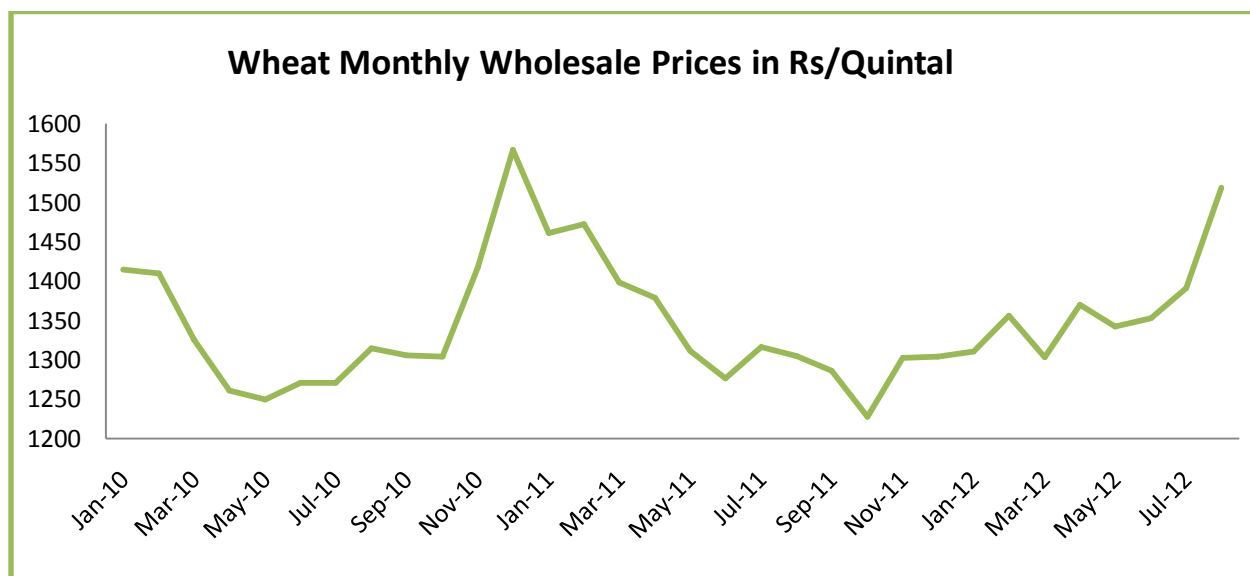
Wheat average monthly prices movement:

	Jan	Feb	Mar	April	May	June	July	Aug	Sept	Oct	Nov	Dec
2010	1414.96	1409.7	1324.77	1260.9	1249.17	1270.37	1270.56	1314.41	1305.25	1303.78	1416.94	1567.1
2011	1461.13	1472.36	1398.34	1379.2	1311.18	1276.19	1316.35	1304.93	1285.76	1227.38	1301.89	1303.56
2012	1310.58	1356.04	1303.16	1369.94	1342.35	1352.62	1390.78	1519.17	1475-1500			

We expect average price to come down to Rs 1475-1500 per qtl. in the month of Sept. Higher allocation is expected in the weeks ahead as govt is keen to augment supply in the market. The

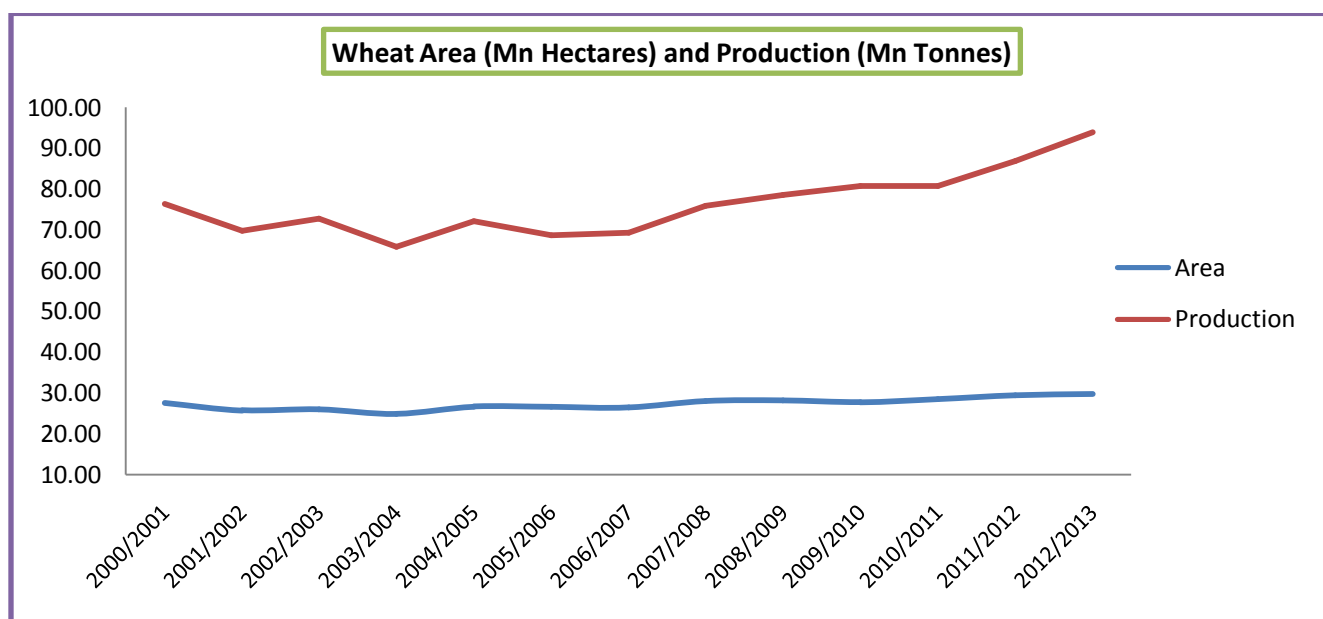
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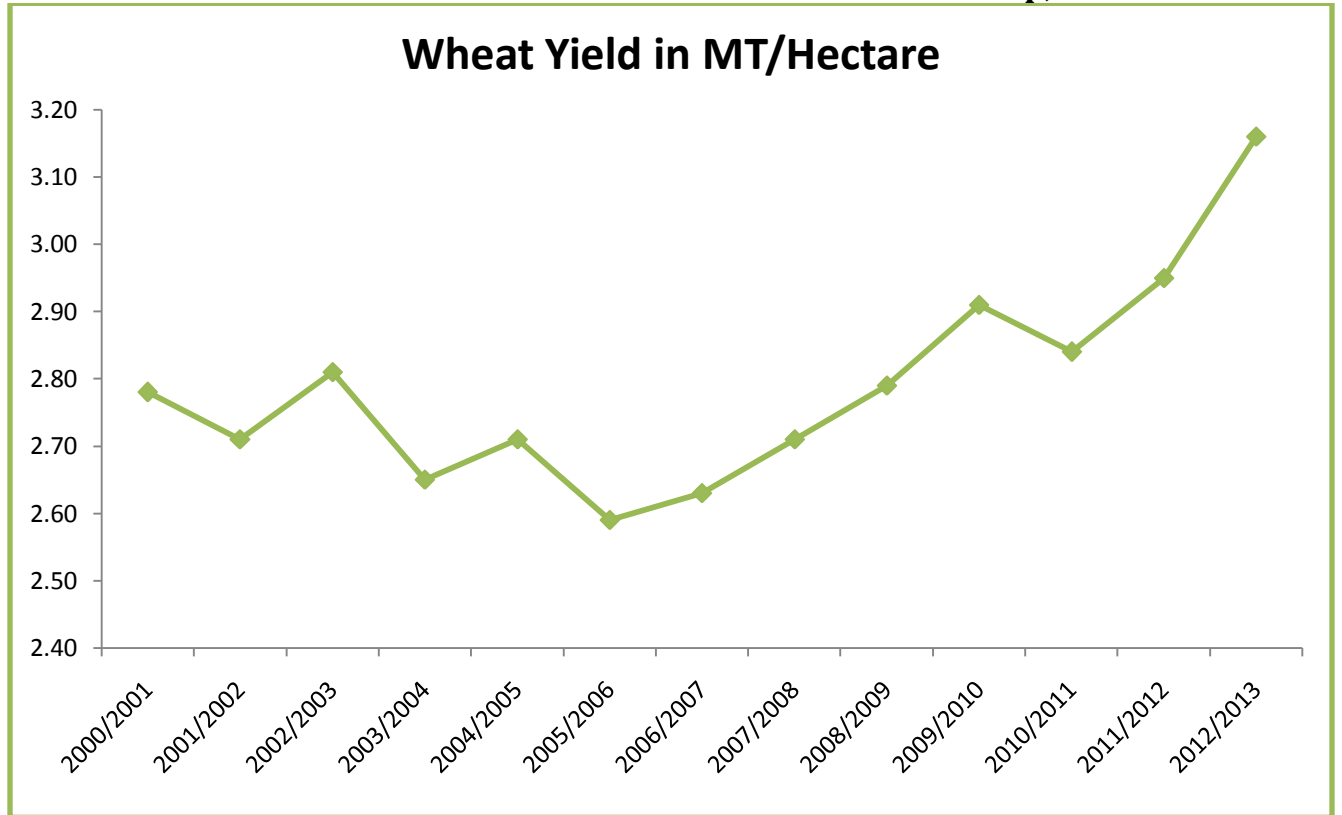
main reason for recent uptrend is attributed mainly to supply-demand mismatch. We expect prices to stabilize in between Rs 1450 to RS 1500 per qtl. in the weeks ahead.



Monthly whole sale price of wheat started firming up from mid June and touched its high in August end due to higher than expected offtake from domestic millers and exporters. Short supply in cash market and export parity drove market up continuously. However, with govt's allocation prices have cooled down.

Yearly Wheat Area and Production:





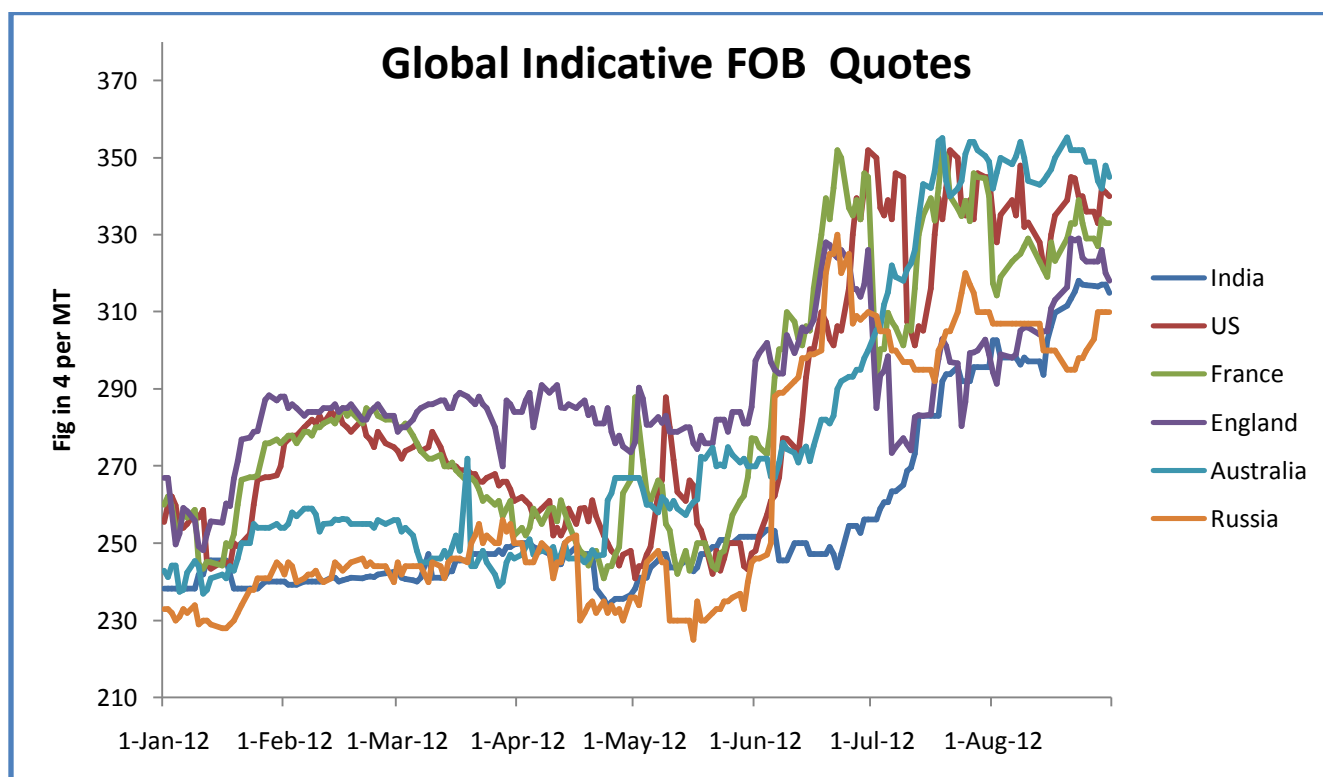
Area under wheat has not increased in proportion to yield and total production in recent years as denotes the above given chart. Wheat productivity in major growing states has increased considerably last year due to favourable weather and better agricultural practices. Yield increased almost in every state.

Stock status with govt. and with farmers and traders:

Stock With Govt. Agencies	Stock With Govt. Agencies	Marketable surplus With farmers	Stock with traders
June-12	48.79	4.5	0.8
July-12	49.80	2.5	0.5
August-12	47.52	1.5	0.2

Source: FCI and traders, Fig in million T

The above given table shows that maximum stock is in govt.'s godowns . Even farmer's stock too has come down to 1.5 million T.It is lower by 5 lakh T from previous year till date as higher prices encourage them to sell more in the month of July and August. Traders have minimum stock this year as they have shipped out maximum this year.



Required foodgrains under buffer norm:

As on	Buffer Norms			Strategic Reserve		Grand Total
	Rice	Wheat	Total	Rice	Wheat	
1st April	122	40	162	20	30	212
1st July	98	171	269	20	30	319
1st October	52	110	162	20	30	212
1st January	118	82	200	20	30	250

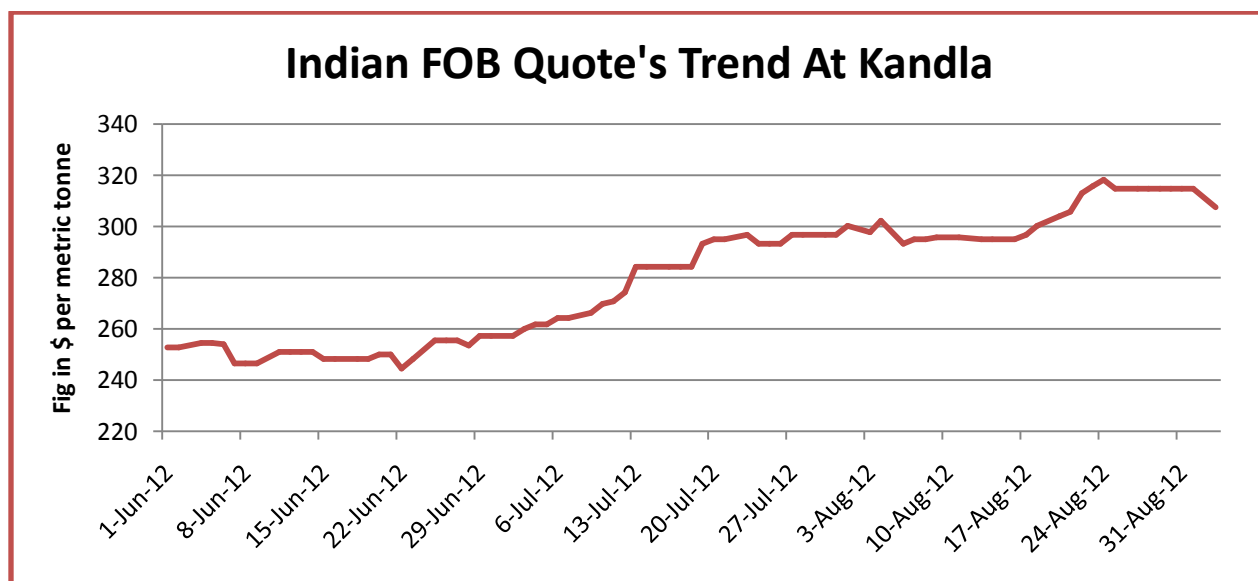
FOB value has been higher in recent days. However, we expect correction and FOR is likely to come down by Rs 500 to Rs 700 per T as supply is expected to increase in domestic market. Higher prices for wheat products in domestic markets also need attention immediately. As per market feedback private traders are ready to buy wheat from FCI at Rs 1450/1475 per Qtl in Rajasthan. In \$ term it comes to 275/280 per T.

This is the price on which export should take place smoothly. In global market \$10 to \$20 per T fluctuation is expected to continue due to weather problems. We need to maintain continuity in export with assured stability in price without following global market trend. Unsteady global

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market is not a good sign for Indian wheat export. At the same time ample supply in domestic market should be ensured for domestic market stability.

Indian FOB Quotes trend from Sep 2011 to July 2012:



Indian FOB quote is likely to decrease further with decreased wheat prices in the domestic market. With higher expected supply through govt.'s stock quotes may move in the range of \$290. To \$ 300 per tonne. We expect good export demand at this level.

State Wise Wholesale Prices Monthly Analysis for Wheat August, 2012:-

State	Prices August, 2012	Prices July, 2012	Prices August, 2011	% Change(Over Previous Month)	% Change(Over Previous Year)
Andhra Pradesh	2038.33	1192.79	1571.11	70.89	29.74
Assam	1396.04	1321.51	1070.36	5.64	30.43
Chhattisgarh	1336.08	1233.81	1143.27	8.29	16.86
Gujarat	1688.15	1590.2	1190.16	6.16	41.84
Haryana	1344.19	1128.95	1121.39	19.07	19.87
Jharkhand	1432.35	1448.42	1413.3	-1.11	1.35
Karnataka	1738.19	1604.33	1618.03	8.34	7.43
Kerala	2416.67	2359.09	2250.26	2.44	7.4
M.P	1490.44	1302.24	1098.53	14.45	35.68
Maharashtra	1829.16	1746.49	1558.52	4.73	17.37
Nagaland	1452.34	1290.63		12.53	—



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Delhi	1411.01	1252.5	1140.35	12.66	23.73
Orissa	1359.45	1435.96	1487.47	-5.33	-8.61
Punjab	1296	1284.83	1121.96	0.87	15.51
Rajasthan	1502.96	1345.87	1086.34	11.67	38.35
U.P	1310.12	1162.86	1087.82	12.66	20.44
Uttrakhand	1293.99	1221.58	1131.16	5.93	14.39
West Bengal	1244.2	1111.92	1093.7	11.9	13.76
Average	1532.2	1390.78	1304.93		

*Report Generation: As per the data reported by APMCs

We expect wheat prices to decrease in the weeks ahead on back of higher supply and higher allocation for bulk users.

Expected Price Range For Current month:

Market :Delhi Spot (mill delivery)	Rs/per qtl.
Cash market (Steady)	Rs 1550-1600
Future market (Sep Contract) Steady to Negative	Rs 1500-1550

Wheat export status:As on 20th August 2012

Wheat export under OGL	Wheat (Fig in Lakh T)	Average Export quotes/\$ per MT
Sept.11	0	224.33
11-Oct	1.3	215.9
11-Nov	1.8	225.41
11-Dec	1.35	230.79
12-Jan	1.05	237.07
12-Feb	0.8	239.53
12-Mar	0.9	244.02
12-Apr	1.15	236.89
12-May	2.55	252.15
12-Jun	3.45	256.64
12-Jul	2.75	296.12
12-Aug	3.7	310.07
Total	20.8 (Official)	
Expectation up to Sept end, 2012	3.5 lakh T	

International Trade Scenario & outlook:

No major volatility in global wheat market is likely in Sept. and marketed is expected to trade range bound in the near term. Pressure of short supply in the global market has eased with better rainfall in US wheat growing belt, Russian decision to continue export and improved prospects for Argentinean crop amid ample stock in Australia for export. All these factors have restricted uptrend in the global wheat market. However, weather and corn price will remain the major directional parameter for the wheat market in the medium and long term.

The door is still wide open for Russian wheat exports. Russia has aggressively sold wheat to Egypt at very competitive prices. It was almost \$30 to \$40 per T lower than The US wheat. However, how long Russia continues its export is still under question? Expert believes that Russia will be unable to export in 2013. Till then the market will see plenty of competition between the EU, US and Canada. India is also becoming a larger presence in the region as their export program picks up steam. They have allocated 3 MMT for sale, with sales so far at 1.3 MMT. They have several offers out to the marketplace and buyers are becoming more active.

Argentina's crop was off to a very good start, but recent heavy rains have possibly damaged some wheat. Australia's crop is more suspect with continued dry conditions in the west and northeast. There are rains forecast for those areas in the next few days and they will be extremely important as the wheat moves into the reproductive stage. Exports are hanging in there but are still behind the pace needed to reach USDA's projection. With one quarter of the marketing year now finished, total sales are 34% of projections, well behind the normal pace of 47%.

For the next few months, wheat's main price direction will still be dominated by corn – whatever direction that goes, which will be generally higher under current perception. Harvest pressure for corn will likely be minimal, particularly with the rains delays expected over the weekend slowing down farmer movement. In addition, there is ample storage available if producers decide to wait out the market. So wheat is expected to move either range bound at current level or follow the corn trend upwardly in the medium term.

IGC balance sheet:

	2007-2008	2008-09	2009-10	2010-11	2011-12 estimated	Million T	Projection for 2012-13
						26/07/2012	23.08.2012
Production	607	685	679	653	695	665	662
Trade	110	137	128	126	146	133	133
Consumptions	603	645	653	659	692	679	679
Carryover stocks	132	173	199	193	197	183	180
Y-O-Y change	5	41	26	-6	4	-	-17
Major Exporters	47	69	78	72	70	55	54

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As per IGC latest update, the outlook for world wheat production in 2012/13 continued to be affected by unfavourable conditions in some countries, including a further deterioration in crop expectations in Russia. However, results from the US harvest were generally better than expected, while recent rains helped crops in parts of the EU to show some recovery from the less than ideal conditions earlier in the season. The production forecast is reduced by 6m. tons from last month, to 665m., down by 4% from the 2011/12 record. While increased global maize supplies are still expected to curtail demand, the forecast for world feed wheat use is revised higher due to likely narrower than previously envisaged price differentials.

Nevertheless, reduced feed use is expected to outweigh continued growth in food and industrial uses and total world consumption is forecast to fall by 1%, to 682m. tons. Together with lower opening stocks and reduced production, higher than previously forecast demand cuts the projection for world carryover stocks by 9m. tons, to 182m., with most of the year-on-year decline of 17m. in the major exporters.

The forecast for world trade is only slightly lower than last month, at 134.6m. tons (143.5m.), as reduced milling wheat imports, particularly in North Africa, are nearly balanced by an increase in projected feed wheat trade. Smaller export surpluses in the Black Sea region will see demand switch to other origins in the year ahead, especially the US.

CBOT Future chart:





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The nearest by support is \$8.80 per bushel while nearest by resistance is \$9.20 per bushel. Breaching either side may drive the market in the respective same direction. CBOT market is likely to trade in the range of \$8.5 to 9.5 per bushel in August. In \$ term we can say the CBOT market may move in the range of \$305 per T (the lower support) and \$ 336 per T,

Global Wheat Balance Sheet for major Importing Countries (Figures in Thousand Tonnes):-

Country	Opening stock 2012-13	Production projected 12-13	Domestic consumption (2011-12)	Import 12-13	Export 12-13	Ending stock 11-12	Production last year	Expected Import
Afghanistan	70	3,800	5,800	2,000	0	70	2500	5,730
Algeria	2,968	3,500	9,050	5,000	25	2,393	2,800	6,657
Bangladesh	1,034	1,200	4,200	3,000	0	1,034	1150	3,166
Egypt	6,358	8,500	18,900	9,500	200	5,258	8,400	13,642
Indonesia	1,541	0	6,450	6,600	260	1,431	0	5,019
Iran	1,466	14,000	15,000	2,300	100	2,666	13,500	12,334
Iraq	850	2,100	5,850	3,700	0	800	2,574	5,050
Japan	1,157	750	6,500	5,900	300	1,007	742	5,493
South Korea	1,361	45	4,900	4,600	125	981	44	3,919
Malaysia	325	0	1,365	1,400	100	260	0	1,105

Wheat Top Exporter (Exports in Million Tonnes):-

	United States	Russia	Canada	Australia	Ukraine	Argentina	Kazakhstan	Turkey	India
2000/2001	28.90	0.70	17.32	15.93	0.08	11.33	3.97	1.60	1.57
2001/2002	26.19	4.37	16.27	16.41	5.49	10.28	3.98	0.75	3.09
2002/2003	23.14	12.62	9.43	9.15	6.57	6.80	6.24	0.79	4.85
2003/2004	31.52	3.11	15.84	18.03	0.07	9.47	4.12	0.84	5.65
2004/2005	29.01	7.95	14.87	14.72	4.40	11.90	3.08	2.02	2.12
2005/2006	27.29	10.66	16.02	16.01	6.46	9.64	3.95	3.21	0.80
2006/2007	24.73	10.79	19.43	8.73	3.37	10.72	8.16	2.38	0.09
2007/2008	34.36	12.55	16.12	7.49	1.24	11.21	7.92	1.72	0.05
2008/2009	27.64	18.39	18.88	14.75	13.04	6.79	6.15	2.24	0.02
2009/2010	23.93	18.56	19.04	14.83	9.34	5.10	8.25	4.27	0.06
2010/2011	35.08	3.98	16.58	18.66	4.30	9.49	4.86	3.02	0.07
2011/2012	28.56	21.60	17.50	24.00	5.30	11.80	11.00	3.67	0.75
2012/2013	32.66	8.00	19.50	21.00	6.00	5.50	7.00	3.20	4.50

Weather Update India:

Weather remains favourable throughout India and we expect more rainfall in the month of Sept. As per latest update by IMD, Higher rain fall in recent weeks has been beneficial to standing kharif crop especially rice, oilseeds and pulses. Higher rainfall is expected to provide better moisture level in wheat field. Sowing of wheat will start first in Gujarat from 1st week of October.

Overall view:

- **Hefty wheat stock on back of record production (93.9 million T) , procurement of over 38 million T and almost unmanageable stock create an urgency to offload 10 million T wheat in the overseas market, so that beginning stock will remain at 2011-12 level.**
- **Lower production around 6 million T will not affect availability in the domestic market if regular release for domestic market is ensured.**
- **Global wheat market is likely to trade in the range of \$300 to \$350 per MT. One sided uptrend is unlikely as weather conditions have improved besides ample exportable surplus is available to contain prices in the short and medium term.**
- **Long term outlook depends on corn prices and Russian export policy for 2013.**

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