

**Executive summary**

Domestic wheat markets traded almost flat on various factors like increased area coverage (294.07 against 290.98 lakh ha. last year as on 20.01.12), and favourable weather conditions of temperature and humidity in all major wheat growing regions during the week under review.

Despite farmers' concerns that irregular weather may destroy crops or lead to the growth of pests and insects, agro-meteorologists say that variation in temperature between 4 and 8°C and the present atmospheric conditions will lead to bumper crop yield again. Yield may increase by 10 to 20 percent this season if the conditions remain as expected in the weeks ahead.

In areas where wheat was sown in November, it has started sprouting. Where it was sown in December, sprouting would start in the last week of February or first week of March. The wheat crop will be ripe for harvesting by the end of March. Wheat crop requires rains in the months of December and January for good growth, otherwise the grains will not achieve their full size bringing yield and quality down.

Interstate trading continues mostly from Rajasthan and M.P. to south Indian states with a minimum margin of 1%. Offtake from Govt.'s granary is continuously increasing and it will continue to meet the lean season demand. Wheat may trade in the range of Rs 1250 to 1275 per qtl. in the cash market (Delhi) while the February Contract in the futures market may test the resistance level of 1300 this week.

Exports are not feasible in the current international market scenario. Russia, Australia, Ukraine offer wheat at least \$20 to 30 per T cheaper than India and will continue to dominate world wheat markets with exportable surplus and timely delivery. In a latest deal Bangladesh has signed a contract to import 60,000 tonnes of wheat from Ukraine at \$280 a tonne, including CIF liner out. The price is much lower than its first inter-governmental agreement with Kiev in September, in which it purchased 100,000 tonnes of wheat at \$320 a tonne. India is not in position to offer below \$ 285-290 per T from any source given the high prices in domestic market.

**Domestic Market Fundamentals:**

As more stocks are released from the government warehouses and private stocks to meet lean season demand and to clear old stocks as the extremely good forecast for the new crop comes in, the markets are going to be pressured for a while. The continued demand from mills in South India are the only counterbalancing factor, but are not likely to change the momentum in the short to medium term.

**Export Scenario:**

Export scenario is not favourable for India as prices in the international market are ruling below expectation. Major exporters like Australia, Russia, Ukraine and Argentina are selling wheat at very competitive prices and are dominating the world wheat market with cheaper quotes. Production in Australia and Argentina is expected to cross previous expectations with improving

weather conditions in major wheat growing regions. There is a little possibility of firmness in the international market in the near future as the availability of exportable surplus is good. There are no FOR quotes from Indian ports due to the disparity and low stocks in the states having port facility, which will only add to the cost for exports.

Govt is ensuring ample supply for domestic market and providing wheat at cheaper rates in comparison to prevalent market prices. Even market expects more discount for different zones in the weeks ahead as more storage space is required before 1<sup>st</sup> April when wheat procurement starts. Therefore, additional release with more discount seems to be a fair possibility and it will add further bearish pressure.

#### **FOR Prices of Indian wheat at Gujarat Ports:**

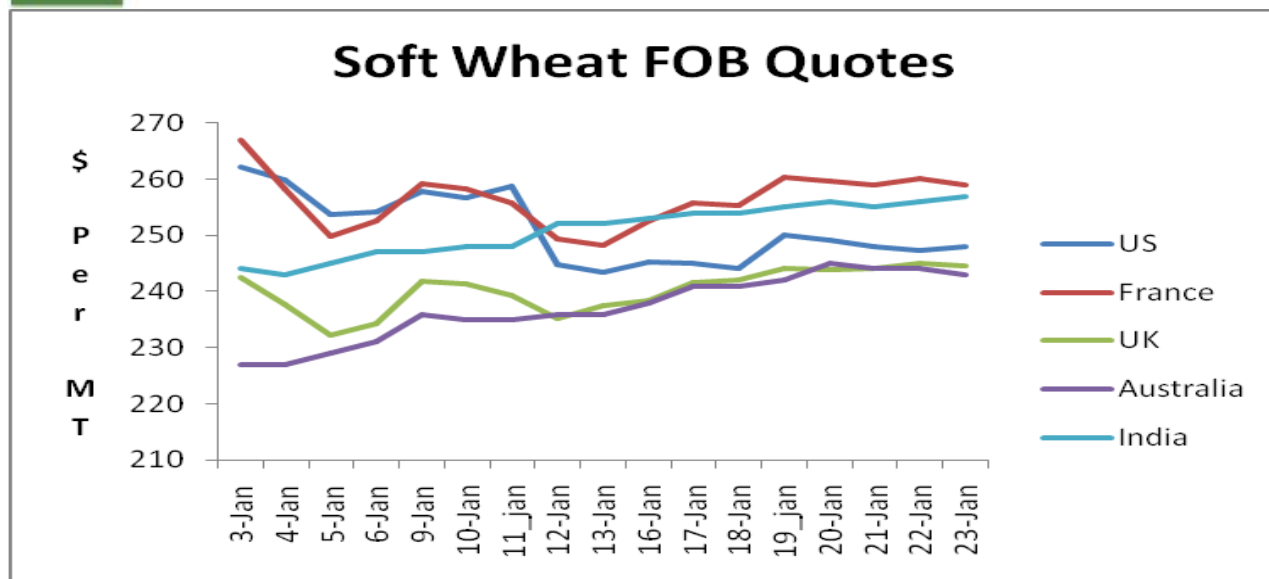
| <b>Parity Calculation Sheet</b>                                  | <b>Rajkot (Kandla)</b> | <b>Rajkot (Gandhidham)</b> | <b>Rajasthan (Baran/Bundi)</b> | <b>Punjab</b> |
|--|------------------------|----------------------------|--------------------------------|---------------|
| FOR (Rs/ton)   | 12900                  | 12800                      | 13500                          | 12750         |
| 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)   | 13900                  | 13800                      | 14500                          | 13500         |
| <b>Indian FOB (USD/MT)</b>                                       | <b>278</b>             | <b>276</b>                 | <b>290</b>                     | <b>253</b>    |
| Insurance @ 0.1%   | 0.15                   | 0.28                       | 0.29                           | 0.25          |
| Freight Charges (US \$/ton) to Chittagong                        | 20                     | 20                         | 20                             | 20            |
| CIF (kandla to Chittagong)                                       | 298                    | 296                        | 310                            | 274           |
| INR  | 50.05                  | 50.05                      | 50.05                          | 50.05         |
| <b>Russian Wheat FOB (USD/MT)</b>                                | <b>237</b>             | <b>237</b>                 | <b>237</b>                     | <b>237</b>    |
| <b>Parity on FOB Basis (USD/MT)</b>                              | <b>-41</b>             | <b>-39</b>                 | <b>-53</b>                     | <b>-16</b>    |

**Note: \* CIF for same destination**

#### **Parity remains negative:**

Parity from Gujarat and from other destinations remains negative and this makes wheat export from India unfeasible. Wheat is likely to trade steady to slightly firm at this point of time and it will be disadvantageous for exporters. Parity from various centers like Gujarat, Rajasthan and Punjab remains negative to the tune of -41, -53 and -16 respectively.

#### **FOB Quotes For World Soft Wheat During Last Three Weeks:**



Wheat quotes for soft wheat during the last three weeks have been uneven. Prices started to decrease on higher production estimates, healthy stocks world over and improved weather conditions in Argentina, Australia and USA. However, in the middle of January prices started to move up again on expectation of higher feed demand and on the news of dryness due to La Nina in certain pockets. Upward momentum continued even in the third week of January. Meanwhile, IGC reports of higher production and exportable surplus and lower demand for feed grade wheat has pressurized the world wheat market once again as the above chart depicts. Pressure may continue as exporting countries will try to offload as much exportable surplus as they can before the new crop hits the market in two months time. Decreasing prices of corn will add more bearish pressure in the short term.

#### 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 state agencies Dec-11 | Stock state agencies Jan-12 | Total central pool stock as on 01.01.2012 |
|-------------------------|-----------------------|-----------------------|-----------------------------|-----------------------------|---|
| <b>East Zone Total</b>  | 7.73                  | <b>7.02</b>           | 1.02                        | <b>0.92</b>                 | <b>7.94</b> (8.75 Dec)                    |
| <b>NE Zone Total</b>    | 0.19                  | <b>0.17</b>           | 0.0                         | <b>00</b>                   | <b>0.17</b> (0.19 Dec)                    |
| <b>North Zone Total</b> | 67.30                 | <b>63.21</b>          | 149.06                      | <b>138.50</b>               | <b>201.71</b> (216.36 Dec)                |
| <b>South Zone Total</b> | 5.49                  | <b>5.16</b>           | 00                          | <b>00</b>                   | <b>5.16</b> (5.49 Dec)                    |
| <b>West Zone Total</b>  | 18.24                 | <b>17.21</b>          | 25.80                       | <b>21.38</b>                | <b>38.59</b> (44.04 Dec)                  |
| <b>Stock in</b>         | 1.73                  | <b>3.19</b>           | 00                          | <b>00</b>                   | <b>3.19</b> (1.73 Dec)                    |

| Transit                |        |              |        |               |                            |
|------------------------|--------|--------------|--------|---------------|----------------------------|
| <b>All India Total</b> | 100.68 | <b>95.96</b> | 175.88 | <b>160.80</b> | <b>256.76</b> (276.56 Dec) |

Wheat stocks will continue to dip fast as demand is fairly steady. We expect 2 million tonnes offtake in each month. If govt. allows additional allocation for open market during these months, offtake may be even higher. However, in any case carryout stock is expected to remain on higher side at more than 20 million tonnes.

Wheat demand continues mainly from south Indian states like Tamil Nadu, Andhra Pradesh, Karnataka, Kerala and to some extent in Punjab and Haryana as cheaper rates attract bulk buyers.

**Monthly Average Wheat Prices At Various Centers:**

| State          | Prices<br>January, 2012 | Prices<br>December,<br>2011 | Prices<br>January,<br>2011 | %<br>Change(Over<br>Previous<br>Month) |
|----------------|-------------------------|-----------------------------|----------------------------|--|
| Andhra Pradesh | 1950                    | 1966.13                     | 1903.45                    | -0.82                                  |
| Chattisgarh    | 1165.39                 | 1152.53                     | 1089.08                    | 1.12                                   |
| Gujarat        | 1262.27                 | 1217.03                     | 1444.58                    | 3.72                                   |
| Haryana        | 1119.86                 | 1085.74                     | 1340.07                    | 3.14                                   |
| Jharkhand      | 1378.44                 | 1339.66                     | 1441.52                    | 2.89                                   |
| Karnataka      | 1382.64                 | 1448.49                     | 1754.18                    | -4.55                                  |
| Madhya Pradesh | 1154.72                 | 1138.38                     | 1356.51                    | 1.44                                   |
| NCT of Delhi   | 1207.31                 | 1156.82                     | 1330.71                    | 4.36                                   |
| Orissa         | 1302.21                 | 1284.93                     | 1300.67                    | 1.34                                   |
| Punjab         | 1144.27                 | 1138.95                     | 1195.78                    | 0.47                                   |
| Rajasthan      | 1156.29                 | 1092.73                     | 1287.08                    | 5.82                                   |
| Uttar Pradesh  | 1082.45                 | 1029.32                     | 1196.39                    | 5.16                                   |
| West Bengal    | 1126.86                 | 1095.25                     | 1272.14                    | 2.89                                   |
| Average        | 1358.55                 | 1303.73                     | 1461.13                    |  |

Average prices of wheat during the third week of Jan slightly increased in comparison to second week except in Andhra Pradesh and Karnataka. However, Prices of wheat should stabilize at current levels on better crop conditions, higher area coverage and govt.'s intention to augment supply to control prices. Weather and govt.'s policy over allocation for next month would be decisive factors for price movement. As of now, supply and demand sides seems to be balanced except some south Indian states.

**Expected Price Range For Current Week:**

|                              |                    |
|------------------------------|--------------------|
| <b>Market :Delhi Spot</b>    | <b>Rs/per qtl.</b> |
| Cash market                  | Rs 1240-1275       |
| Future market(Feb. Contract) | Rs1260-1300        |

## Future market:

Wheat futures market is expected to rule steady to slightly weak during current week on improved sowing, conducive weather and higher allocation for bulk consumers like flour millers and traders. Fundamentals are unsupportive to the wheat futures market and stake holders are releasing their long positions on expectation of higher supply side, likely bumper production estimate amid weak export demand for Indian wheat. Market seems to be in over brought region and a correction is due in the short term.

**Commodity:** Wheat future Chart:

**Exchange:**NCDEX

**Contract:** Feb.

**Expiry:** Feb.. 20 2011



## Technical Commentary:

- Candle stick chart formation shows market to be under corrective phase.
- RSI is steady in neutral region hints sideways movement will continue in the futures market in the short term.
- Declining volume and open interest are unsupportive to buyers.
- MACD is moving steady in negative region denotes lack of fresh buying support.

## Trading Strategy:

1240 is the capable support whereas 1290 holds importance as an immediate resistance. 1240-1290 is the immediate trading range for the price; drift in either direction is likely to take it further in the respective same direction. Players should trade under given range.

## International Developments and Impact:

U.S. wheat exports are on the decline as major wheat buyers from US are turning to other cheaper sources. The USDA report estimated total wheat production for crops that were planted in 2011 in the US to be 2 million bushels, down 9.1 percent from 2.2 million in the previous crop year. A drought in the central and southern plains last year, where Texas experienced its worst-ever drought, has dampened recent production. Bangladesh has signed a deal to import 60,000 tonnes of wheat from Ukraine at \$280 a tonne, including CIF liner out. The price is much lower than its first inter-governmental agreement with Kiev in September, in which it purchased 100,000 tonnes of wheat at \$320 a tonne. Russian feed-wheat prices advanced 3.7 percent to an average 5,650 rubles (\$180) a metric ton this week. Fourth-grade milling wheat added 2.5 percent to 6,150 rubles a ton. Third-grade milling wheat added 100 rubles to 6,275 rubles a ton, a 1.6 percent increase from last week. India is unable to compete with Russian, Ukrainian and Australian wheat at present. World wheat market is unlikely to stay at current level and is bound to decline further in the weeks ahead on higher production estimate and improving weather condition in major wheat growing countries for short term.

**News in Flash:**

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

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-Abare

Algeria's soft and durum wheat imports rose 41.5 percent to a record 7.42 million tonnes in 2011, customs data showed on Sunday, as the country boosts stocks. The volume of Soft wheat imports was up 39.23 percent to 5.55 million tonnes from 3.98 million tonnes, durum wheat purchases rose 48 percent to 1.85 million tonnes from 1.24 million tonnes - CME

**CBOT Future Price:**





| CBOT Futures Prices (USD per Metric Tonnes) |                              |                  |                    |                     |
|---|------------------------------|------------------|--------------------|---------------------|
| Futures Month                               | % Change Over Previous Month | Today (20.01.12) | WeekAgo (12.01.12) | MonthAgo (19.12.11) |
| March'11 (\$/MT)                            | 0.45                         | 224.30           | 222.28             | 223.29              |
| March'12 (INR/MT)                           | 0.45                         | 11291.15         | 11189.42           | 11240.29            |
| May'12 (\$/MT)                              | 0.28                         | 230.91           | 230.36             | 230.27              |
| May'12 (INR/MT)                             | 0.28                         | 11624.05         | 11596.31           | 11591.69            |
| July'12 (\$/MT)                             | -0.77                        | 236.51           | 236.24             | 238.35              |
| July'12 (INR/MT)                            | -0.77                        | 11906.10         | 11892.23           | 11998.58            |
| Sept'12(4/MT)                               | 1.77                         | 242.58           | 245.61             | 238.35              |
| Sept'12 (INR/MT)                            | 1.77                         | 12211.27         | 12363.85           | 11998.58            |

### CBOT Chart:



U.S. wheat futures ended higher as South America crop worries lift grains generally. Hot, dry weather persists in the southern hemisphere, giving support to corn and soy, which is spilling over into wheat. A weaker dollar adds support, and some analysts say U.S. wheat exports could rebound. However in short term no major spike is expected. CBOT March wheat ends up 9 1/4c to \$6.19 3/4 a bushel, KCBT wheat closes up 6 1/2c to \$6.73 1/2 and MGEX March wheat ends up 4 1/2c to \$8.03 1/4.

Pressure on CBOT market may continue and March contract may trade in the range of 580 and 620 during current week. Drifting either side may drive market in respective same direction.

**IGC Wheat Balance Sheet:**

| IGC/19.01.12            | 2007-2008 | 2008-09 | 2009-10 | 2010-11 est. | 2011-12 Forecast | Million Tonnes |
|-------------------------|-----------|---------|---------|--------------|------------------|----------------|
| <b>Wheat</b>            |           |         |         |              | 24/11/2011       | 19/01/2012     |
| <b>Production</b>       | 607       | 685     | 679     | 653          | 683              | <b>690</b>     |
| <b>Trade</b>            | 110       | 137     | 128     | 126          | 135              | <b>135</b>     |
| <b>Consumptions</b>     | 602       | 645     | 652     | 656          | 679              | <b>681</b>     |
| <b>Carryover stocks</b> | 132       | 172     | 199     | 195          | 200              | <b>204</b>     |
| <b>YOY ch.</b>          | 5         | 40      | 27      | -4           |                  | +9             |
| <b>Major Exporters</b>  | 47        | 69      | 77      | 71           | 71               | 74             |

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