

**Emerging Scenario And Market Dynamics:**

Wheat cash market continued to rule under pressure despite ongoing procurement activities and improved possibility for export demand. Wheat procurement has ended in Haryana and is at fag end in M.P. and Punjab. However, it will continue with slow pace in Uttar Pradesh, Bihar and Rajasthan. Prices of wheat at various markets have decreased as supply is overtaking current sluggish demand. We expect prices to decrease in the weeks ahead despite better prospects for export.

India has set the production target for wheat at 86 million tonnes for the crop year 2012-13, starting from October this year against the actual production of over 90 million tonnes in 2011-12. Lower production target may help govt to ease the pressure of record stock stored out from last two years bumper crop.

Wheat procurement has already crossed 30 million tonnes and we expect 33 million tonnes procurement this year if procurement activities continue smoothly in U.P., Bihar and Rajasthan up to the end of June. The govt. procurement target is 31.8 million tonnes and going by bumper production the set target is expected to be met by mid-June this year.

Higher than expected stock and acute shortage of storage space prompted govt. to offload 3 to 4 million tonnes stock from its reserve through export and under this background with govt.'s consent the STC invited bids from exporters for gauging the market nerve and evolving price mechanism for wheat to be exported in current global market scenario. However, responses were not up to the mark despite better export opportunity in the international market. Exporter's quotes are extremely lower. However we expect higher export in the range of two to three million tonnes this year through private and G to G channels.

Wheat stocks at government warehouses on May 1 were 38.2 million tonnes, more than nine times the official target. Dhaka-based trading company Rokeya Flour Mills bid the lowest price, while Netherlands-based Glencore Grains, an arm of international trader Glencore, quoted the highest in the tender. The Indian arms of global trading companies Cargill and Toepfer bid at \$215 and \$175 per tonne respectively while Delhi-based Emmsons International offered \$200 per tonne and Singapore-based trading company Starcom \$204 per tonne.

Wheat prices dropped below the minimum support level of Rs 1,285 a quintal during last week following slack demand. This has happened for the first time since the rabi marketing season began in Haryana and Punjab. There are hardly any buyers even though prices have fallen below the support price. Farmers and commission agents are ready to sell their produce for Rs 1,200 a quintal but stocks went unsold following lack of buying on bearish outlook ahead.

**Market Fundamentals:**

Overall outlook for wheat cash markets stands bearish in short and medium term in domestic and global wheat market on back of ample availability of stock world over despite ongoing weather related concern and lower global production prospects. Global wheat markets have firmed up and India is now in a position to export with better margin at current market prices (Rs 1200-1250 per qtl.) in the domestic markets. The delivered prices at port (Kandla) come in the range of Rs 13250 to Rs 13500 per T. It brings it at 238 to 241 per T in dollar term. If profit

margin and freight for B, desh are added to it ( Rs 1000 and Rs 1000 per T as margin and freight), it touches \$271 to \$272 per T. This means Indian exporters can export wheat in the range of \$270 to \$275 per T.

However, when we consider wheat export from govt.s godowns, total cost up to the destination would be much higher with involved current economic cost of almost Rs 1825 per qtl. On current basis. It will cost \$360 to \$365 per tonnes including freight, margin and other expenses. Practically the difference between govt. and domestic market prices (\$365-\$275) is almost \$ 90 to \$ 100 per T. This difference can be compensated through subsidy and incentives. This means Rs 5.5 to Rs 6 per kg subsidy is required at current prices for exporting wheat from govt.'s stock.

Iran may be a potential bulk buyer. Faced with sanctions, Iran is keen to buy wheat from India, provided the South Asian country is able to supply grain free from traces of fungal disease found in its bread basket northern region. An Indian team plans to visit Iran once again to address Tehran's concern on shipments from India. Even possibility of a barter trade may not be ruled out. Private wheat shipments have been slow despite the removal of export restrictions, as the government's guaranteed minimum price is higher than prevailing international prices, which have fallen due to a global surplus. However, with govt.'s back up situation is likely to improve in the months ahead.

### Let Us Have a Close Look At Current Parity Status:

Comparison of wheat delivered at Chittagong

	India (Kandla)	Russia	Ukraine	Australia	India(Raj.)
<b>FOB (Rs/perT) (sourced from Gujarat)</b>	<b>13250.00</b>	<b>14677.00</b>	<b>14625.00</b>	<b>14665.00</b>	<b>13500.00</b>
Insurance @ 0.1%	13.25	14.68	14.63	14.67	13.50
Freight Charges (US \$/ton) to Chittagong	1015.20	1692.00	1692.00	1974.00	1128.00
Misc.charges(port handling)	400.00	400.00	400.00	400.00	400.00
Packing/Bags	450.00	450.00	450.00	400.00	400.00
<b>CIF (at Chittagong) Rs/T</b>	<b>15115.20</b>	<b>17219.00</b>	<b>17167.00</b>	<b>17439.00</b>	<b>15428.00</b>
<b>FOB value in \$ for SRW</b>	<b>234.93</b>	<b>260.23</b>	<b>259.31</b>	<b>260.02</b>	<b>239.36</b>
<b>CIF value in \$ for SRW</b>	<b>268.00</b>	<b>305.30</b>	<b>304.38</b>	<b>309.20</b>	<b>273.55</b>

INR/\$ value: Rs 56.45

India is now in a position to compete with Russia, Ukraine and Australia on parity front even outside Bangladesh. In case of Bangladesh Indian parity is much favourable due to freight advantage as the above given chart shows. FOB quotes are lower in India in comparison to Russia, Ukraine and even in the US. On current prices India should be able to export wheat in the range of \$ 270 to \$300 per tonnes depending on various destinations. The above given table shows indicative value and may vary with changing freight rates, wheat prices and fluctuation in exchange rate accordingly.

Export from govt.'s stock requires subsidy in the range of Rs 550 to Rs 600 per qtl. due to higher economic cost (Rs 18.25 per kg) as discussed above. Quality and price mechanism will continue to pose a challenge as buyers have more options to source wheat at competitive prices in short and medium term from global markets. The new crop in Russia is due in July and Russia may quote \$220 to \$230 per T as usual on FOB basis.

Despite lower prices India will be able to export more wheat this year (1.5 to 2 million T) with govt.'s back up and considerable surplus for export. However, weather remains the crucial factor and we need to have a close look on weather development in major wheat exporting countries like Russia, Ukraine, the US, Australia and Argentina and China.

**Progressive procurement status as on 18.05.12:**

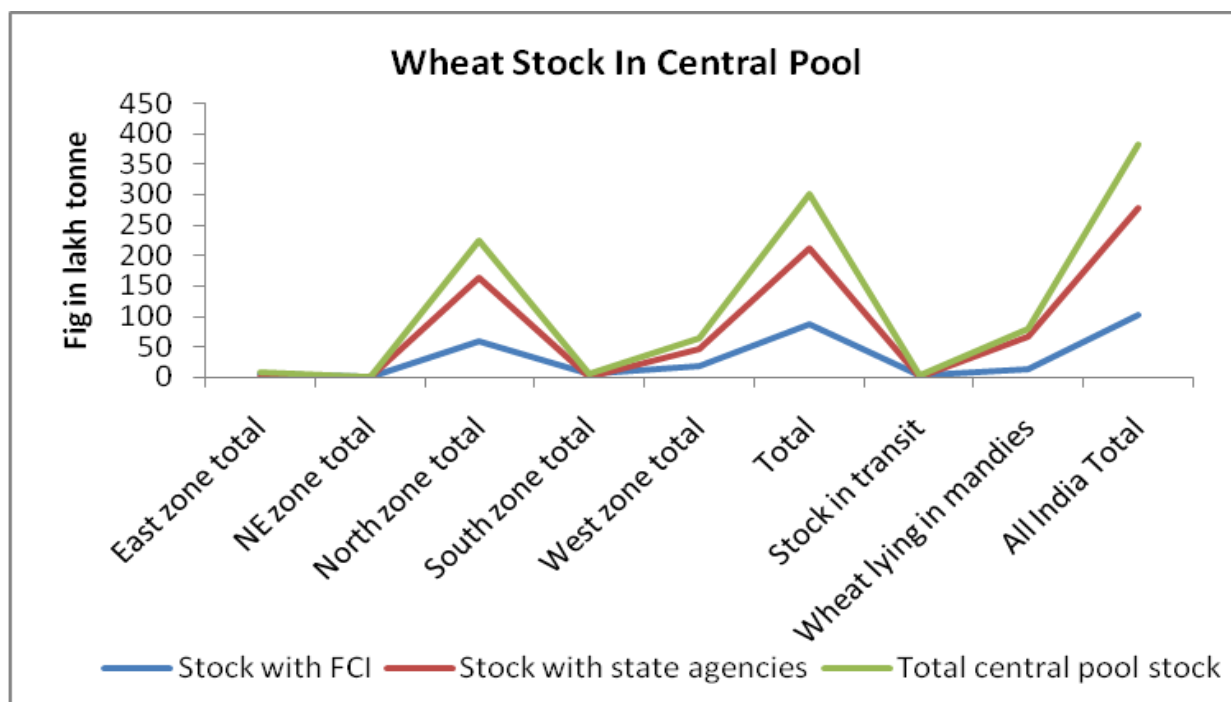
State	Total procurement in My 2011-12 (April-March)	Progressive procurement as on 18.05.12		% increase over last year
		MY 2012-13	MY 2011-12	
<b>Punjab</b>	109.58	124.9	108.17	<b>13.98</b>
<b>Haryana</b>	69.28	84.87	67.09	<b>22.50</b>
<b>U.P.</b>	34.61	19.28	14.35	<b>-44.29</b>
<b>M.P.</b>	49.65	58.74	39.43	<b>18.31</b>
<b>Rjasthan</b>	13.03	12.3	9.21	<b>-5.60</b>
<b>All India</b>	283.35	303.48	239.64	<b>7.10</b>

Wheat procurement continues in Rajasthan, Bihar and Uttar Pradesh and we expect 33 million T total procurement at the end of June. Storage crunch has slowed down procurement activities and govt. seems to be busy with managing space as monsoon season is round the corner and stock lying in open is prone to absorb high moisture that may rot grains.

Rajasthan and Uttar Pradesh are lagging behind in comparison to last year as delayed start of procurement as the above given table depicts. However, at the end of procurement season total procurement in these states is expected to cross previous year's level.

Latest procurement figures are quite higher. Punjab stands first with 12.8 million procurement. Haryana and M.P contribution stands second and third with 8.3 and 6.6 million T contribution to the central pool kitty. Thus total procurement is in the range of over 31 million T so far.

Stock status in central pool as on 1<sup>st</sup> May



Wheat stock in the north and west zone has been higher as usual. These zones are major wheat producing regions and contribute the highest quantity to the central pool. With ongoing procurement stock in both the zones is bound to go up once again. It would be better to shift stock in East, NE and west zone before the onset of monsoon. However, storage crunch even in these regions will continue to pose challenge for the procurement agencies.

**Central pool stock in tabulated form:**

Wheat Stock as on May 1 <sup>st</sup> 2012	Stock with FCI	Stock with state agencies	Total central pool stock
East zone total	6.26	0.84	7.1
NE zone total	0.51	0	0.51
North zone total	59.3	163.96	223.26
South zone total	4.5	0	4.5
West zone total	17.59	46.71	64.3
Total	88.16	211.51	299.67
Stock in transit	2.37	0	2.37
Wheat lying in mandies	12.8	67.1	79.9
All India Total	103.33	278.61	381.94

**Total foodgrains stock in central pool as on 1<sup>st</sup> May, 2012**

	IN STORAGE	IN TRANSIT	TOTAL
RICE	326.81	2.42	329.23
WHEAT	299.67	2.37	302.04
Wheat lying in mandies	79.90	0.00	79.90
<b>TOTAL</b>	<b>706.38</b>	<b>4.79</b>	<b>711.17</b>
COARSE GRAINS	0.94	0.00	0.94
SUGAR	0.26	0.03	0.29
<b>GRAND TOTAL</b>	<b>707.58</b>	<b>4.82</b>	<b>712.40</b>

**Required foodgrains under buffer norm:**

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

Foodgrains stock in central pool has been on rise from last three years and this year it is likely to break all previous record on back of three consecutive years of bumper crops, especially wheat and rice. As on 1st July India needs 319 lakh tonnes wheat and rice under buffer norms and strategic reserve. Just against it combined wheat and rice stock as on 1st May touched at the alarming height of 711.17 lakh tonnes. As on first July we assume wheat and rice stock to touch 83 to 84 million tonnes. It is going to pose a severe challenge to the govt. to handle it under severe storage crunch. At this point of time at least 15 million tonnes wheat and rice stock from govt. reserve should be freed for export with some agreed subsidy or incentives to the private exporters. New Kharif paddy will start hitting the market in October and then situation may be even grimmer.

**State wise Wholesale Prices Weekly Analysis for Wheat fourth Week May, 2012:**

State	Prices 24-31 May 2012	Prices 16-23 May 2012	Prices 09-15 May 2012	Prices 24-31 May 2011	% Change(Ov er Previous Week)	% Change(Ov er Previous to Previous Week)	% Change(O ver Previous Year)
A.P.	1950	1937.5	1950	1154.28	0.65	0	68.94
Assam		1051.75	1025	1136.09	—	—	—
Chattisgarh	1145.9	1148.65	1136.23	1117.71	-0.24	0.85	2.52
Gujarat	1367.4	1388.39	1370.25	1183.32	-1.51	-0.21	15.56
Haryana	1285	1285	1285	1120.5	0	0	14.68
Jharkhand	1577.92	1379.79	1399.99	1395.71	14.36	12.71	13.06
Karnataka	1728.72	1558.36	1555.62	1621.28	10.93	11.13	6.63
Kerala		2342.86	2335	2452.17	—	—	—
M.P.	1450.81	1348.08	1358.33	1284.98	7.62	6.81	12.91
Maharashtra	1796.94	1640.13	1595.24	1703.7	9.56	12.64	5.47
Delhi	1165	1467.04	1393.1	1238.14	-20.59	-16.37	-5.91
Orissa		1300.75		1358.45	—	—	—
Punjab	1285	1285.03	1284.87	1120.08	0	0.01	14.72
Rajasthan	1231.96	1266.14	1256.27	1176.84	-2.7	-1.94	4.68
U. P.	1132.97	1138.2	1148.59	1134.26	-0.46	-1.36	-0.11
Uttarakhand	1300	1290.1	1262.66	1124.96	0.77	2.96	15.56
West Bengal	1067.49	1079.33	1061.66	1066.93	-1.1	0.55	0.05
Average	1391.79	1406.3	1394.28	1304.97			

As per the data reported by APMCs

Wheat market traded week during the week under review. However, prices increased in A.P., Jharkhand, Karnataka, M.P. Maharashtra due to govt.'s supportive buying and increasing possibility of export. Exporters/ traders may be active in those areas where wheat is available at cheaper rates. We expect prices to rule weak despite some recent gains. Supply side will remain ample and loading for port based states is expected to increase with international market turning favourable during last two weeks.

### Expected Price Range For Current Week:

Market : Delhi Spot (mill delivery)	Rs/per qtl.
Cash market	Rs 1200-1240
Future market (May Contract)	Rs 1150-1175

Wheat cash market in Delhi traded under pressure with increasing arrivals from neighbouring states like Haryana and Uttar Pradesh. Wheat cash market is expected to trade in the range of

Rs 1200 to Rs 1240 depending on demand –supply side. Pressure on wheat market is likely to continue despite ongoing procurement activities. Wheat future May contract is expected to trade in the range of Ra 1150-1175 during the current week.

### Wheat futures market:

Wheat future market traded weak during the week under review and is expected to trade in between 1150 to 1175 in the current week. Bumper production, higher supply side will continue to weigh on wheat futures market in short and medium term. Stake holders are waiting for stabilization in the market. However, we expect market to recover from current level as May contract is ruling at its low now. Higher prices in cash market may support wheat future in the weeks ahead.

### NCDEX May future contract, 2012 (Expiry: June. 20 2012)



### Technical Commentary:

- Weekly chart formation shows market to trade range bound with weak bias likely to continue in short term.
- RSI is moving down in oversold region hints caution to the bears.
- Price and open interest are decreasing while volume is increasing hints short build up.

### Trading Strategy:

1161 the lower side is the capable support whereas 1191 holds importance as an immediate resistance. 1161-1191 is the immediate trading range for the price; drift in either direction is likely to take it further in the respective same direction. Pressure of arrivals from new crop is expected to drive market for trading under given range. Market may test 1161 in the current week.

### International Market:

**The USDA's Wheat outlook showed that world wheat production** in 2012/13 is projected to fall to 677.6 million tons, down 17.1 million, or 2.5 percent from last year's record of 694.6 million tons. Foreign wheat production is projected to decrease even more, down 23.8 million tons, or 3.7 percent compared to 2011/12. If realized, this year's wheat output would be the fourth largest in history, behind the record harvests of 2008, 2009, and 2011. Source-USDA



**Though total world grain area is projected to increase**, wheat area declines slightly, by 0.2 percent, as wheat has become comparatively less attractive to producers in a number of countries (Argentina, Australia), and as winterkill and dryness take its toll in a number of others (EU-27, Ukraine).

**Output from the Australian wheat crop now being sown** may be 24.5 million tons, with shipments in the year starting Oct. 1 set to be 18 million to 19 million tons, Johnson said. Abares in March forecast a harvest of 25.7 million tons, 13 percent below last year's record 29.5 million tons as the crop area was seen declining. Exports in the year from July 1 may total 21 million tons, from the record 21.2 million tons a year earlier. Source: ABARE

#### **Weather remains key swing factor for production, prices:**

A damaging global dry spell is wilting wheat crops in Kansas, threatening exports from Russia and slowing sowing in Australia, serving a timely reminder to hedge funds that a new era of surplus grain is far from assured. In their biggest surge since 1996, Chicago wheat prices jumped by more than 17 percent last week and reached a nearly 9-month high of more than \$7 a bushel on Monday, a rally stoked by short-covering among big speculators -- a group that had amassed a near-record short position betting on falling prices. By Tuesday, six days of buying subsided as analysts said the immediate weather-induced panic yielded to a more considered view: conditions are not as dire - at least not yet - as they were in 2010, when world trade in wheat was sharply curtailed as growing nation's held tight to limited supplies. Chicago wheat prices <Wc1> tumbled 2.6 percent to \$6.85-1/2 per bushel, snapping a six-session rally following forecasts for rain in Russia's drought-stricken breadbasket regions and on pressure from a strengthening dollar.

New forecasts for rain in Russia and Australia should help limit damage; global stockpiles are more than 50 percent than in 2007; and rising demand for wheat as livestock feed is curtailed by higher prices, easing demand on tightened supplies. And yet new risks are rising: Australia's Bureau of Meteorology warned of a possible return of the El Nino weather pattern later this year, threatening to sap rainfall for a country that exports nearly one-sixth of global trade. In light of what happened in 2010..everybody is more sensitive," said Rich Feltes, vice president for research with futures merchant R.J. O'Brien.

Global stockpiles of wheat are forecast to dip next summer to the equivalent of 100 days worth of demand, according to the USDA's forecast earlier this month, the lowest since 2009, when inventories were recovering from several years of declines. But global supply would have to drop by more than 50 million tonnes -equivalent to almost double U.S. exports -- in order to reduce inventories to the ultra-low stocks-to-use ratio of 72.5 days, the level that in 2007 triggered a price spike and global alarm over global inflation and food security. How dire the situation becomes this year will largely depend on what happens with weather in the former Soviet Union (FSU) countries

#### **IGC balance sheet:**

IGC/24.05.12	2007-2008	2008-09	2009-10	2010-11	2011-12 estimate	Million T	Projecti on for 2012-13



Wheat						26/04/2012	24.05.12
Production	607	685	679	653	695	676	671
Trade	110	137	128	126	143	135	136
Consumptions	603	645	652	657	688	680	681
Carryover stocks	132	173	199	195	202	206	191
YOY ch.	5	41	26	-4	7	-	-11

### IGC Lowers wheat production estimates:

Global 2012/13 crop prospects remained mostly favourable during May, but adverse conditions lowered harvest expectations in the EU, Russia and Morocco, contributing to a 5m. tons cut in the world production forecast, to 671m. (695m.). Higher than previously forecast feed use slightly raises the projection of world consumption but, at 681m. tons, it is still expected to be 7m. lower than in 2011/12.

World wheat stocks at the start of 2012/13 are placed 8m. tons below the projection in April's report, mainly because of higher than previously estimated feed use in the past year. Reflecting lower stocks at the beginning of the season and a cut in the production forecast, carryover stocks at the end of 2012/13 are 15m. tons lower than last time, at 191m. (202m.).

Those in the major exporters are forecast to recede by 8.4m. tons, to 62.4m., including a draw-down from heavy opening levels in Australia, Kazakhstan and Ukraine. Reduced imports of feed wheat are expected to see world trade dip by 7.4m. tons from the anticipated 2011/12 record, to 135.7m. The share of global trade taken by Black Sea exporters may not be as high, with smaller crops seen restricting shipments by Russia and Ukraine. Export surpluses are expected to be smaller in the EU and Argentina, but increased production and reduced competition will likely boost sales by the US.

### Wheat CBOT Chart: May Contract (Date 25.05.12)



**CBOT Futures Prices:**

Month	Open	High	Low	close	Difference	Volume	O.I
<u>12-Jul</u>	667.75	676.5	661.75	663	-2.5	110,736	212,301
<u>12-Sep</u>	683.25	690	676.75	678.25	-1.5	30,135	52,796
<u>12-Dec</u>	703.25	709.75	698	700	-0.5	43,304	112,289
<u>13-Mar</u>	718	723.25	715.5	716.75	1.25	7,745	19,857
<u>13-May</u>	726.75	728	721.5	724	2.5	1,352	6,027
<u>13-Jul</u>	722	731	718.75	728	9.25	1,698	10,801
Date:24.05.12						Total Volume and Open Interest	195,451
							420,479

**CBOT Price projection for current week:**

Short term	(Five days) Positive	6.4 to 6.80 cent per bushel
Medium term	(Ten days) Negative	6.3to cent per bushel

Indicative Price (As on 24.05.12)	FOB Country	Variety	% Change over Prev. Year	(24.05.12)	Week Ago (18.05.12)	Month Ago (23.04.12)	Year Ago (24.05.11)
USA (Chicago)		RTRS 2srw	7.5	280	275	263	301
France		FCW3	6.19	291	287	274	309
U.k		Feed wheat	3.44	291	284	271	301
Canada (ThunderBay)		Q2cw	3.74	284	286	279	299.8
Russia		Milling grade	7.55	265	260	255	245
Ukraine		Milling grade	8.05	261	257	253	240
Argentina		Milling grade	4.10	293	289	276	305
Australia		CWRS	13.03	261	261.5	251	295

FOB prices of wheat have been on the rise from last two weeks, however, we expect prices to come down as weather concern has eased with recent forecast of rains in Ukraine, Russia and USA.

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