

*Adding Value to Commodities*

# **MARKET OUTLOOK** **WHEAT**

June 2, 2022



2022



## MARKET OVERVIEW

### FUNDAMENTAL FACTORS

Price Drivers	Impact
Ban on wheat exports by Indian Govt.	Domestic prices may see some softening
Strong export demand	Limiting the downside in the domestic Market
Pressure on India for removal of export ban.	Removal of ban can push the prices higher sharply
Lower production estimates by Government	Keeping the overall market sentiments positive
Slower arrivals in Mandis	Bullish
Drastically lower wheat procurement	Resulting in Increased efforts to contain price rise
High international wheat prices	Translating into elevated domestic sentiments.

Based on Primary Sources and trader interaction

On May 13<sup>th</sup>, India, banned wheat exports, except through government channels and where private traders had already contracted export deals, to check soaring domestic wheat prices.

In 2021-2022 India's wheat exports stood at an all-time high of 7.85 million metric tons. It was a 270% jump from 2.1 million MT exported in the preceding year.

India identified Algeria, Egypt, Indonesia, Lebanon, Morocco, Philippines, Thailand, Tunisia, Turkey and Vietnam among potential buyers before the ban as the demand was strong.

The wheat ban decision has evoked reactions from around the world, with G7 countries and IMF requesting and urging India to rethink its wheat export ban.

With unusually hot weather affecting wheat crop, the production estimates for 2021-22 were revised downward to 106.41 million MT, 3% less as compared to last year.

So far the government has just managed to procure 18.46 million MT of wheat this year, much below the initial target of 44.4 Million MT.

## RECENT DEVELOPMENTS

### Production

- As per 3rd advance estimates for 2021-22, India's wheat production is estimated to drop to 106.41 million MT in the 2021-22 crop year (July-June) about 3 percent lower against the last year's production of 109.59 million MT. The production is also lower by 4.61 percent from the earlier estimate of 111.32 million MT.
- The fall in wheat production can be attributed to the lower crop yields, mainly in Punjab and Haryana due to the heat wave.
- Though the Agriculture Ministry has pegged wheat production at over 106 million tonnes (mt) in 2021-22, down by about 3 mt from last year, traders and experts say it might be less than 100 mt.
- As per USDA FAS report, in wheat the yield has reduced by 10-15%, decreasing India's wheat crop for 2022-23 MY at 99 MMT.

## Procurement

- As a result of decline in output, which have pushed the prices above the MSP, coupled with increased exports, the Food Ministry has constantly downgraded the target first to 25.0 Million MT, then to 19.5 Million MT and finally to 18.5 Million MT from the initial 44.40 Million MT.
- The government has just managed to procure 18.65 million MT of wheat, much lower than the year-ago period. Due to lower procurement this year, the Ministry has cut wheat allocation by about 11.million MT to the States and has replaced it with rice so that the buffer norm is maintained until next year.
- When the curb was imposed, the FCI had procured 179 lt. Since then, it has been able to only buy a little over six lakh tonnes only from the growers.
- An all-time high of 433.44 lakh tonnes of wheat was procured in the previous marketing year.

## Exports

- On May 13, the government banned all private wheat exports with immediate effect. The decision came as abnormal heat waves in the major wheat-growing states of Punjab, Haryana, Uttar Pradesh and Madhya Pradesh resulted in widespread loss of yield. Large parts of the crop shrivelled and, in certain cases, become unfit for human consumption.
- The snap announcement has led to chaos at the various ports across the country. According to sources, Around 1.4 million tonnes of wheat is currently stuck at western ports like Mundra and Kandla or in transit there while around 800,000 tonnes were at the Kakinada, Tuticorin and Visakhapatnam ports on the east.
- DGFT ordered physical verification of all documents to ensure strict compliance with provisions for obtaining wheat export registration certificates for orders placed before a ban as traders were using several unscrupulous means such as producing fake letters of credit (LCs)
- As per sources, India has no immediate plans to lift a ban on wheat exports, but will continue to deal which are done directly with other governments. As per sources, Bangladesh has planned to import 10 LMT of wheat from India under the Government-to-Government contract.
- However, at a time when international buyers have been looking to secure supplies of wheat Turkish authorities have denied permission to Indian wheat consignment over phytosanitary concerns. The wheat consignment was detected with Indian Rubella disease.

## Prices

- As per NITI Aayog, a price rise in domestic market is inevitable as the international prices are on higher side. The international wheat prices rose by almost 30-40 % and in case of India the rise is only about 6-7%.
- No allocation has been made for open market sale scheme this year, which is an emergency stock meant to be released in case, prices shoot up.The primary reason for it was that the global prices rose due to low production in Ukraine, Australia, EU. It resulted in India getting a big export market due to which the price in India Soared sharply.
- However the wheat prices In CBOT softened last week on the supply optimism as comments by Russian President Vladimir Putin and leaders of other countries kept attention on the possibility of reopening Ukraine's Black Sea ports for grain shipments halted by Russia's invasion.
- Retail inflation in wheat and atta increased to 9.59 per cent in April while the wheat procurement by the government has decreased by approximately 55 per cent as open market prices were ruling higher than MSP.

## Government Procurement situation

The government's wheat procurement in the current year fell by more than 54% on year to 18.65 million MT till June 1, 2022 against the initial target of 44.4 Million MT. It means the wheat purchases by the government at MSP would hit a 13-year low this year. In the last 10 days, only 0.5 Million MT of wheat was procured by agencies despite the government imposing restriction on wheat exports. But the farmers started selling more wheat to traders and exporters in the Range of Rs 2,100-2,400 a quintal against the MSP of Rs 2,015 a quintal.

If we look at the state wise breakup of the wheat procurement this season we find that the state of Punjab has seen the highest government procurement with 9.62 Million MT against the target 13 Million MT.

Official procurement in MP was at 45.81 Lakh MT as on May 30 compared with 127.08 Lakh MT a year ago followed by Haryana 41.35 lakh MT was procured during this period.

Last year, the procurement by government agencies in Haryana and Madhya Pradesh was 8.49 and 12.77 Million MT respectively.

Total procurement in UP was 2.87 lakh MT against 39.5 lakh MT in Uttar Pradesh, which is seen as a big setback for the government buffer stock purchase programme.

None of these states has met the old target of procurement. Punjab had set a target of 132 lakh MT, Madhya Pradesh 129 and Haryana 85 lakh MT.

Wheat crisis is going on all over the world due to Russia-Ukraine war and climate change. Because of this, farmers are still avoiding selling wheat. They are waiting for a better price. Due to which the government has not been able to meet the new target of wheat procurement.

The Food Corporation of India stocks are currently low and may dwindle further if the government extends its free grain programme.

As on May 15, FCI had a wheat stock of 31.15 Million MT against the buffer norm for July 1 of 27.58 Million MT. Total availability after including this year's expected wheat purchase is about 19.5 Million MT, it is just enough to meet the government target of free grain plan.

So with targeted exports of 10 Million MT it would have been a very tight supply situation domestically especially when the domestic demand is also strong. This prompted the government to take export ban decision.

While the Punjab government had earlier announced the closure of procurement centres/mandis in phases from May 5, it continued to procure after the ban on exports. The official purchase in Punjab and Haryana ended on May 31, while it would continue until June 10 in Rajasthan and until June 15 in Madhya Pradesh and Uttar Pradesh.

State/UT	Quantity of wheat Procured (MTs)	No of farmers benefitted	MSP value (Rs. In Crore)
Punjab	9616811	797795	19377.87
Haryana	4097380	307761	8256.22
U.P.	284035	69874	572.33
M.P.	4445964	572765	8958.62
Bihar	3343	608	6.74
Rajasthan	1685	169	3.4
Uttarakhand	1982	514	3.99
Chandigarh	3221	379	6.49
Delhi	1	1	0
Gujarat	6	3	0.01
Himachal Pr.adesh	2921	1032	5.89
J & K	252	62	0.51
<b>Total</b>	<b>18457600.59</b>	<b>1750963</b>	<b>37192.07</b>

Source FCI; (Till 29<sup>th</sup> May 2022)



## Domestic Price Trend

Location	Unit	1 June 2022	1 May 2022	MoM % Change	1 April 2022	QTD % Change	1 Jan 2022	YTD % Change
Delhi	Rs/Qtl	2,277	2,272	0.22%	2,252	1.09%	2,173	4.78%
Rajkot	Rs/Qtl	2,175	2,420	-10.12%	2,300	-5.43%	2,090	4.07%
Indore	Rs/Qtl	2,100	2,206	-4.82%	2,156	-2.61%	2,050	2.44%
Kanpur	Rs/Qtl	2,125	2,115	0.47%	2,140	-0.70%	2,020	5.20%
Kota	Rs/Qtl	2,200	2,300	-4.35%	2,250	-2.22%	2,100	4.76%

## CBOT Price Trend (in \$/bushel)

1 June 2022	17 May 22	Fortnightly % Change	1 Apr'22	QTD % Change	1 Jan 22	YTD % Change
10.41	12.78	-18.54%	9.85	5.69%	7.58	37.34%

## TECHNICAL ANALYSIS

Wheat prices at Delhi market are trading at the elevated levels buoyed by the strong domestic fundamentals and tight supply situation. Currently the prices are ruling around Rs 2275 in the Delhi Mandi, around 3.5% above the recently made lows of Rs 2198 (April 11).

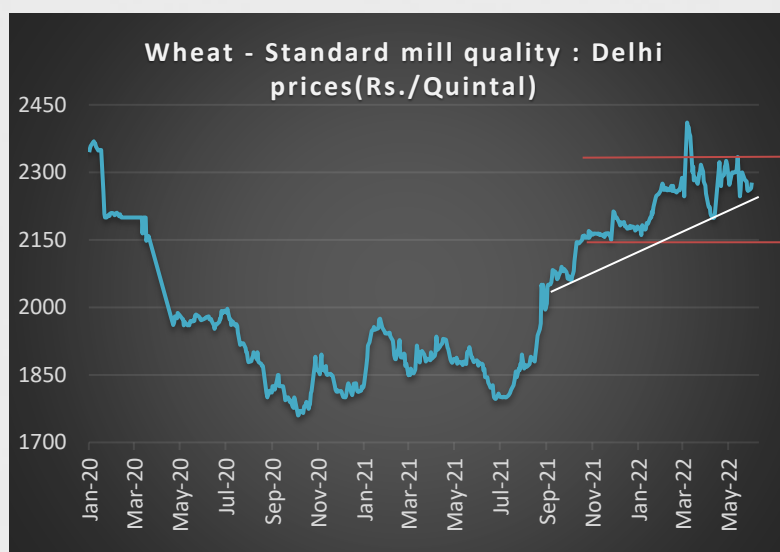
Multi-year high US wheat future prices coupled with strong domestic factors like lower production, strong global demand and record high exports are together supporting the uptrend.

Technically, after the prices have risen by around 25% since the lowest point of Rs 1797 (made in June 2021), now the prices are showing signs of tiring out at the current levels. Recently, a pullback was also seen after the Indian wheat export ban news.

With diminishing technical support from the Wheat prices at CBOT the chances of the recent rally continuing any further remains dicey. However, the overall fundamentals still positive and price graph taking support of a rising mid-term trend line the chances of any major move on the either side remains bleak.

Prices are seen caught in a mid-term range of Rs 2150 on the lower side and Rs 2300 on the higher side. With underlying strength in the prices any minor drawdown from the higher levels would find support at Rs 2150-2130 levels and bounce back from the lower territories can be expected for a move towards immediate resistance of Rs 2270 and then Rs 2300. Only a break below 2150 would drift the prices towards the Major support of Rs 2020 levels which seems like an unlikely possibility owing to strong fundamentals.

**Outlook:** Wheat prices at Delhi markets are likely to trade on a mixed note with positive bias within the range of Rs 2150 and 2270-2300 price band in the coming 4-6 weeks period. Any dip in prices would attract buyer's interest but the prices will remain in the overall broad trading range mentioned above.



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