

SEASONAL COMMODITY INSIGHT

12th January 2015

Wheat

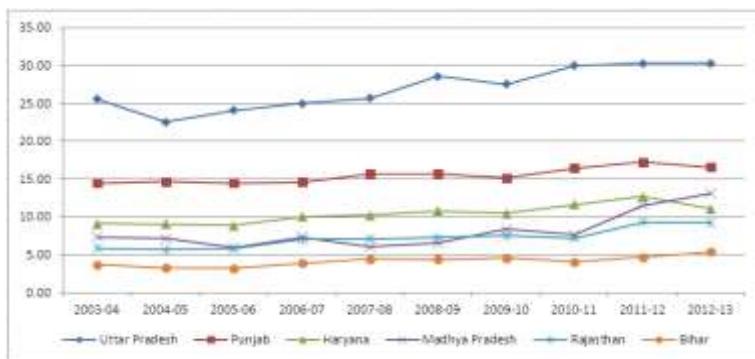
Domestic Scenario

India is the second largest producer of wheat in the world after China, contributing to about 13.66 per cent of the world's production. According to the 3rd advance estimates (released on 15th May 2014), wheat production for 2013-14 is estimated at a record 95.85 million MT. Since the last three years, production has increased substantially owing to good yields across production tracks, supported by good monsoon rains and increase in the Minimum Support Price. Over 94.54 per cent of the total production for the country was contributed by 6 states. The top wheat producing states of the country are Uttar Pradesh (32.41 per cent), Punjab (17.74 per cent), Madhya Pradesh (14.05 per cent), Haryana (11.89 per cent), Rajasthan (9.92 per cent) and Bihar (5.73 per cent). The domestic consumption is estimated at 90 to 95 million MT. India holds the third position in the major wheat consumer's list after China and European Union.

Production trend in wheat in India

States	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Uttar Pradesh	25.57	22.51	24.07	25.03	25.68	28.55	27.52	30.00	30.29	30.3
Punjab	14.49	14.70	14.49	14.60	15.72	15.73	15.17	16.47	17.28	16.59
Haryana	9.11	9.06	8.86	10.06	10.24	10.81	10.50	11.63	12.69	11.12
Madhya Pradesh	7.36	7.18	5.96	7.33	6.03	6.52	8.41	7.63	11.54	13.13
Rajasthan	5.88	5.71	5.87	7.06	7.12	7.29	7.50	7.21	9.32	9.27
Bihar	3.69	3.26	3.24	3.91	4.45	4.41	4.57	4.10	4.73	5.36
Others	6.06	6.22	6.87	7.83	9.33	7.37	7.13	9.83	9.03	7.74
All India	72.16	68.64	69.35	75.81	78.57	80.68	80.80	86.87	94.88	93.51

Source: Directorate of Economics and Statistics, Department of Agriculture and Cooperation



From the above table it can be concluded that the production of wheat in major states have been increasing gradually but a massive jump has been noticed in case of Madhya Pradesh, which had shown a jump of over 40 per cent since 2009. The main reason behind this significant jump was the increased MSP by the central government and the additional bonus of Rs. 150 for the farmers growing wheat in MP.

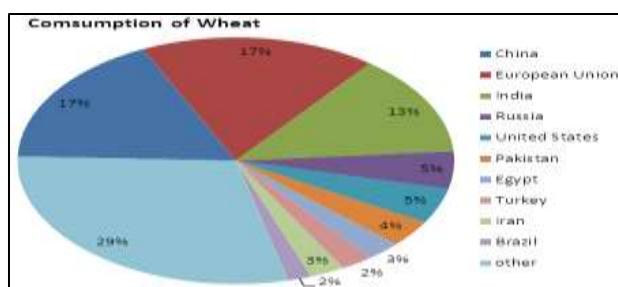
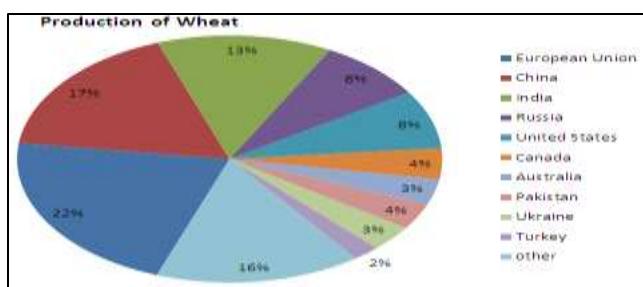
International Scenario

In addition to the major domestic factors mentioned in the above discussions, the global Wheat scenario also expected to affect the prices in a big way. To measure the exact impetus of the global factors, we can have a close watch at the global wheat balance over the last decade. World wheat production is projected to improve marginally from last years' record by about 1.04 per cent to 722.18 million MT. Lower productions in Canada (21.93 per cent), Turkey (16.67 per cent), Australia (11.14 per cent) and United States (5.12 per cent) were mainly

responsible for bringing down the global production in spite of increased production being reported in Russia, Ukraine and European Union. Consumption is expected to reach at 710.70 million MT, an increase of about 2.30 per cent.

Trends in Production, Consumption and Ending Stocks in major Countries

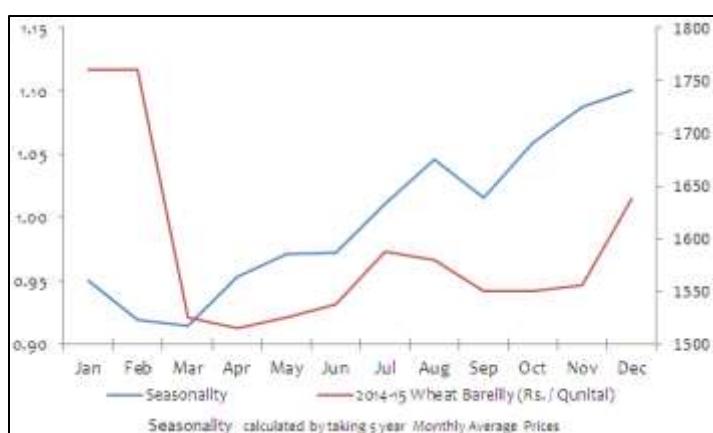
PRODUCTION					
Countries	2010-11	2011-12	2012-13	2013-14	2014-15
European Union	136.67	138.18	133.85	143.13	155.40
China	115.18	117.40	121.02	121.93	126.00
India	80.80	86.87	94.88	93.51	95.91
Russia	41.51	56.24	37.72	52.09	59.00
United States	60.06	54.41	61.67	58.10	55.12
Canada	23.30	25.29	27.21	37.53	29.30
Australia	27.41	29.91	22.46	27.00	24.00
Pakistan	23.90	25.00	23.30	24.00	25.00
Ukraine	16.84	22.32	15.76	22.27	24.50
Turkey	17.00	18.80	15.50	18.00	15.00
Others	108.12	121.57	103.94	117.18	112.94
World Total	650.79	695.99	657.31	714.76	722.18
CONSUMPTION					
China	110.50	122.50	125.00	121.50	124.00
European Union	122.84	127.23	119.50	115.75	124.50
India	81.76	81.40	83.82	94.00	94.18
Russia	38.60	38.00	33.55	34.10	35.00
United States	30.64	32.11	38.27	34.17	33.09
Pakistan	23.00	23.10	23.90	24.10	25.10
Egypt	17.70	18.60	18.70	18.50	17.90
Turkey	17.30	18.10	17.50	17.65	17.10
Iran	15.70	14.90	16.40	18.00	18.40
Brazil	10.80	11.20	10.90	11.40	12.30
Others	185.70	209.77	191.75	205.54	209.12
World Total	654.55	696.92	679.29	694.71	710.70
ENDING STOCKS					
China	59.09	55.95	53.96	60.27	62.97
India	15.36	19.95	24.20	17.83	16.30
United States	23.47	20.21	19.54	16.04	17.80
European Union	11.93	13.55	10.55	10.15	17.05
Canada	7.36	5.93	5.05	9.79	6.74
Russia	13.74	10.90	4.95	5.20	7.40
Iran	2.03	0.24	4.10	5.23	5.63
Australia	8.18	7.05	4.26	6.24	6.09
Others	57.03	63.49	48.67	54.51	54.88
World Total	198.19	197.26	175.28	185.29	194.89



From the above table, we can see that the global production over the years have shown gradual improvement. It showed an increase of about 11.18 per cent over the last five years. Likewise the consumption has improved by 8.96 per cent. Significant growth in consumption has been noticed in case of India (15.20 per cent) and China (12.22 per cent in last five years). If this pattern of consumption (rate of growth) continues in the coming years, the prices are bound to maintain a steady uptrend as the supply would not overlap the demand by huge margin. The recent turmoil in the Middle East, continued weather abnormalities and increased consumption demand is also going to support the prices. There has been a marginal improvement by 5.18 per cent in the global ending stock over the last year.

Price Trend Analysis

The wheat Spot market price variation study indicates that the prices volatility remains steady for most of the year and a spurt is witnessed in the period between December and February followed by the cooling of the prices in the period between March and June. In the domestic market, as per the trend, the spurt in the volatility was noticed in the January 2014 where the market made a high of Rs. 1747 / quintal at the NCDEX exchange platform and thereafter the prices have dipped significantly to the current levels of around Rs. 1500 / quintal. Currently the prices are expected to consolidate in the range of Rs. 1350 to Rs. 1500 / quintal for the next couple of month (till August 2nd week) as per the long term trend and then would again embark on a gradual upsurge to the levels of over Rs. 1800 / quintal in the next 2-3 months' time. The major development in the global market which has supported the global market is the demand from China which is expected to import 9.5 million MT, compared to the 5-year average of 1.74 million MT with its production remaining unchanged at 121 million MT. The spot prices at Delhi sharply declined from March onwards due to record wheat production estimation of 92.46 million MT. The Indian market is marginally stable on the higher level amidst expectation of export of 5.5 million MT of wheat in the current marketing year.



The analysis of the price movement in spot (Bareilly) and futures (NCDEX) reveals that the prices tend to peak in the month of February and September primarily due to increased cyclical demand for wheat from the industry. The recent report of the wheat heading for a new record high production and possible lowering of the crop size in US, Russia and Australia is likely to keep in the Indian wheat in global trade demand which would indirectly support the prices in the coming months.

Major Developments in Wheat Market

India

The trend in procurement of wheat across the states by FCI has changed over the years and so has the trade dynamics. In the last eight years the procurement

Procurement details by FCI

(As per marketing season)

STATES	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Punjab	67.80	99.41	107.25	102.05	109.58	128.34	108.97	116.41
M.P.	0.57	24.10	19.68	35.38	49.65	84.93	63.55	70.94
Haryana	33.50	52.37	69.24	63.35	69.28	86.65	58.73	64.95
Rajasthan	3.84	9.35	11.52	4.76	13.03	19.64	12.70	21.59
UP	5.46	31.38	38.82	16.73	34.61	50.63	6.82	6.28
Others	0.11	10.28	7.31	2.98	7.18	8.97	0.15	0.06
Total	111.28	226.89	253.82	225.25	283.33	379.16	250.92	280.23

Source: FCI, Ministry of Agriculture, Government of India

has almost doubled in Punjab & Haryana. A major development has been noticed in case of Madhya Pradesh, which was nowhere in the list of wheat procuring states, but currently it has become the 2nd largest contributor to the wheat in the central pool. In the year 2012-13 the procurement of wheat was at an all-time high of 379.16 lakh MT which dropped by about 130.56 per cent to 250.92 lakh MT in 2013-14 owing to significant decline in contribution from Punjab, Haryana and Uttar Pradesh. Unseasonal rain and hailstorm had taken a toll on the wheat crop, forcing the government to compromise on quality while buying grain from farmers, the biggest political constituents in the state. The government began procuring grain up to 40 per cent less shine, before revising the criterion to 20 per cent. In the current year 2014-15 the procurement has improved by about 11.68 per cent over 2013-14 to 280.23 lakh MT. The state wise details of share of wheat procurement can be assessed as Punjab (41.54 per cent) followed by Madhya Pradesh (25.31 per cent), Haryana (23.18 per cent), Rajasthan (7.70 per cent) and Uttar Pradesh (2.24 per cent).

Wheat production is expected to reach 96 million MT, again a record for the current year.

Current Sowing progress of Wheat in India

Following are state wise wheat acreage reports as on January 8th 2015. The weekly report compiled by Directorate of Wheat Development, Ghaziabad and released by Ministry of Agriculture, India.

Wheat (Area in lakh hectare)

State	Normal	Current	Previous	Change %
Bihar	21.12	22.36	21.57	3.66
Gujarat	11.35	11.34	14.74	-23.07
Haryana	25.06	24.78	24.95	-0.68
Madhya Pradesh	47.70	56.50	56.08	0.75
Maharashtra	8.57	7.09	9.91	-28.46
Punjab	35.15	35.00	35.00	0.00
Rajasthan	26.56	27.71	27.50	0.76
Uttar Pradesh	95.21	97.02	96.50	0.54
All India	289.38	299.33	304.25	-1.62

Note: Normal: Average Area of Last Five Year for corresponding Week

Previous: Sowing area As On Last Year's corresponding Week

World

Global wheat supplies for 2014-15 are raised 1.9 million MT with increased production offsetting lower beginning stocks. World wheat production remains record high and is raised 2.3 million MT led by a 1.8 million MT increase for Canada. Kazakhstan is raised 0.5 million MT. Both production increases are from updated government statistics. Partly offsetting is a 0.4 million MT reduction for global beginning stocks with Indonesia consumption raised for 2012-13 and 2013-14.

Global wheat trade for 2014/15 is raised with exports up 3.1 million MT on larger supplies and stronger demand in several importing countries. Exports are raised 1.0 million MT for EU, and 0.5 million MT each for Canada, Iran, and Kazakhstan. The EU increase stems from competitive prices and a fast sales pace to date. The Canada and Kazakhstan increases reflect larger crops. Iran exports are raised on larger flour exports to nearby countries. Russia exports are lowered 0.5 million MT on increased competition, particularly from EU. Iran imports are raised 1.0 million MT on a fast pace of shipments from EU. Egypt imports are raised 0.5 million MT on increasing purchases from the private sector. Smaller increases are made for Bangladesh, Jordan, Colombia, Ethiopia, and Uzbekistan.

Global wheat consumption for 2014/15 is down slightly. The biggest change is a 1.5 million MT decrease in EU wheat feeding on larger coarse grain supplies and higher wheat exports. Canada wheat feeding is raised 0.5 million MT on the larger crop. Global ending stocks are projected 2.0 million MT higher mostly on increases for Canada, EU, and Russia.

Projected U.S. wheat supplies for 2014-15 are raised 10 million bushels this month with higher projected imports. Increased production and higher imports from Canada are expected to add to U.S. wheat supplies. The entire import increase is for Durum. Domestic use projections and wheat exports are unchanged. However, a 15 million bushel reduction for Hard Red Winter exports is offset by 5 million bushel increases for Hard Red Spring, White, and Durum. Ending stocks for all wheat are projected 10 million bushels higher with the supply increase. The projected season average farm price range is raised 10 cents per bushel at the midpoint to \$5.80 to \$6.20 per bushel on prices reported to date and recently higher cash and futures prices.

Price Forecast: Technical Outlook (NCDEX)



Explanation:

Marginal divergence is seen in the (Moving Average Convergence - Divergence) MACD curves for the duration of 7 days and 21 days. The lower 7 day moving average is intersecting the 21 days moving average from the lower side and is approaching the mean level, which is denoting that the weakness of price movement is likely to continue. The Parabolic SAR refers to a price and time based trading system. SAR stands for "stop and reverse." SAR trails price as the trend extends over time. In the case of wheat, the SAR is pointing to the lower side for the last 12 weeks indicating the underlying weakness in the prices.

Technical Recommendation:

The market is expected to find very strong resistance at the levels of 1880 on the upside and has good potential of falling to 1420 and 1340 on the lower side, though the initial momentum is bullish. Thus, as per my analysis of wheat fundamentals, the prices would experience selling pressure only after breaching the 1850 mark on the upside.

Price Expectation

Commodity	Units	Current Market (12.01.2014)	Minimum Support Price (MSP)	Market View	Technical Projections		
					Resistance	T1	T2
Wheat	Rs. / Qtl	1705	1450	↑	1580	1780	1850

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