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India

Grain and Feed

Indian Wheat Imports likely to be Massive

2006

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Report Highlights:

Likely lower wheat procurement by the government this marketing year, combined with record low carry over stocks, point toward the possibility of much larger wheat imports by India in MY 2006/07 (Apr-Mar) than the earlier forecast 2.5 million tons.

Includes PSD Changes: No
Includes Trade Matrix: No
Unscheduled Report
New Delhi [IN1]
[IN]

Government Wheat Procurement Likely to Decline Sharply

Post's recent market survey in the major wheat surplus states of Punjab and Haryana shows that government wheat procurement this marketing year is likely to be 3 to 4 million tons below last year's 14.8 million tons, despite only a marginal decline in production. With the wheat harvest mostly over, prevailing wheat prices in major *mandis* (grain markets) in these states are well above the government's support price of rs.6,500 (\$146) per ton, restricting government procurement mostly to remote markets, where prices are at or near the support level. There are higher-than-normal private movements of wheat from these states to the nearby capital region of Delhi. Furthermore, large trading companies like ITC, Cargill, Reliance, and Adani are reportedly buying wheat from these states, as prices in Uttar Pradesh and Madhya Pradesh, their usual sources of wheat, are higher. Flour millers are also stocking larger than normal quantities, while some farmers, who can afford to do so, are reported to be holding wheat on expectations of higher prices later in the season. Although there is news about the government providing a bonus of rs.500 (\$11) per ton above the support price in order to maximize procurement, it appears too late now, as the peak marketing season is over, and a bonus would not lead to larger procurement. Larger than normal purchases by millers in southern India from the marginal surplus states of Madhya Pradesh, Rajasthan, and Gujarat, coupled with higher prices, have led to a significant decline in government wheat procurement from these states. Indications are that government wheat procurement by state in MY 2006/07, with last year's procurement in parentheses, is: Punjab - 7.0 to 7.5 million tons (9.0 million tons), Haryana - 2.5 to 3.0 million tons (4.5 million tons), and other states 0.5 million tons (1.1 million tons).

Government Supplies Under Pressure

April 1, 2006, government wheat stocks are officially placed at 1.8 million tons, 2.2 million tons below the required minimum buffer stock level. The record-low carry over stocks, combined with likely lower procurement, will likely put the government wheat distribution system under tremendous pressure over the coming months, as the government's total wheat availability for the public distribution system in MY 2006/07 may be only 13.5 million tons (including the already-contracted imports from Australia of 500,000 tons), versus the normal requirement of 15 to 16 million tons. Should the upcoming monsoon "fail," the government would require more wheat for relief operations. To rebuild stocks to the required level, even with a normal monsoon, the government would need an additional 4 million tons, which makes the total shortfall around 6 million tons. Although the government may try to better "target" wheat distribution through the PDS, in order to avoid large-scale imports, imports of at least 4 million tons would be nearly unavoidable.

When Will the Government Import Wheat?

Considering the significant shortfall in supplies, it is likely that the government might import 1.5 to 2 million tons relatively soon, perhaps in June or July, and the balance in September and October. Allowing private imports by lowering the duty would be another option, which would help to keep prices under control in the lean season.