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Report Highlights:

India's 2006/07 (July/June) wheat imports are likely to reach 6 million tons. Despite large imports, domestic wheat prices continue to remain strong. With a view to check the alleged wheat hoarding and price manipulation by the private trade, the government recently permitted state governments to impose storage and movement restrictions on wheat and pulses for a period of six months. Despite record rice procurement in MY 2005/06, current rice stocks are below last year's level.

Includes PSD Changes: Yes
Includes Trade Matrix: No
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WHEAT**Government Issues Fifth Wheat Tender**

On August 30, 2006, the State Trading Corporation of India (STC) issued the fifth wheat import tender this year for imports of 1.67 million tons of wheat on government account at zero import duty for shipment through February 27, 2007. (See: www.tenders.gov.in/details.asp?tempid=1&tid=del34520&work=1&cno=)

With this, the total quantity tendered for imports by the STC has reached 5.5 million tons. In addition, the MMTC, another public sector trading company, imported 50,000 tons on private account. Another MMTC tender for 120,000 tons was cancelled, as the bids were very high. Additionally, private millers and traders are also importing smaller quantities of wheat for milling paying a 5.2 percent duty, which are likely to reach at least 500,000 tons in MY 2006/07. This would take India's total 2006/07 (July-June) imports close to 6.0 million tons. Total quantity of wheat arrived at Indian ports through August is estimated at around 500,000 tons with an additional 750,000 estimated in September. Thus the bulk of the imported wheat would reach Indian ports in the second half of MY 2006/07.

Bid Prices Up

According to trade sources, the bids received for the latest STC wheat tender (which closed on September 5) were significantly higher than the bids received in earlier tenders. The following table shows the name of the bidder, the quantity offered, and the bid price range:

Bidder	Quantity offered (MT)	Price Range (\$ per MT)
Glencore	650,000	223 to 250
AWB	630,000	225 to 257
Toepfer	540,000	227 to 267
Adani Global	282,000	239 to 251
Cargill	220,000	244 to 261
Concordia	180,000	232 to 246
Louis Dreyfus Corp	124,000	240 to 270
Agrico	100,000	243 to 260

Source: Private Trade and media

The STC is expected to finalize the bids soon.

Import Duty on Private Wheat Imports may be Abolished

Agriculture Minister Pawar prematurely announced on September 4 that the government has allowed private importers to import wheat duty free. However, the official notification regarding this is still pending. The existing import duty applicable on private imports is 5.2 percent.

Despite Imports Prices Remain Firm

Large government wheat purchases have failed to check the rising trend in domestic wheat prices, which are now at record levels. The indicative Delhi wholesale price of milling wheat is at an unprecedented level of about rs. 10,000 (\$215) per ton, whereas prices in the non-wheat growing southern states are 12 to 15 percent higher at around rs. 11,500 (\$247) per ton. With firming up of the international wheat prices, domestic wheat prices are likely to further strengthen in all parts of the country in the approaching lean marketing season. The only way the government could check the price rise would be to pump in more wheat from

government stocks into the public distribution system (PDS) at subsidized prices, which however is constrained by overall lower government stocks.

Will India Import More Wheat?

On August 1, 2006, government wheat stocks were 7.2 million tons. With the likely arrival of most of the contracted 5.5 million tons of imported wheat during August 2006 through March 2007, total wheat availability with the government to manage the PDS would be around 12.5 million tons. At an minimal monthly offtake level of 1.3 million tons of wheat through the PDS, the government would require around 10.5 million tons of wheat for the remaining eight months of the MY 2006/07. This would leave a carry over stocks of just 2 million tons for MY 2007/08 beginning April 1, 2007, against the desired minimum buffer stock level of 4 million tons. If the government distributes more wheat through the PDS to contain the price rise, carry over stocks would be even lower. Thus for food security reasons, the government should ideally import another 2 million tons of wheat in MY 2006/07. However, considering the port situation and other infrastructure constraints, such imports might be postponed into MY 2007/08. Furthermore, by June 2007, a clearer picture about the 2007 wheat crop size and procurement would become available, which should aid the government in its future import decision-making.

Government Imposes Stocks Limit on Private Trade

With a view to checking the alleged wheat "hoarding" and price manipulation by the private trade, the government recently decided to invoke some of the provisions of the Essential Commodities Act, 1955, for a period of six months effective August 29, 2006, which the previous government had repealed in 2002. Accordingly, the government has given permission to state governments to impose storage and movement restrictions on wheat, and pulses, which the government believes should increase its domestic availability in the open market and check the price rise. However, such stock control measures would not apply to wheat and pulses imported by private trade. The success of this initiative would largely depend on whether there are still large stocks in private hands. Furthermore, such a decision would jeopardize the recent government initiative to encourage private trade participation in grain storage, and marketing.

Wheat Future Trading Constrained

The Forward Markets Commission (FMC), the Indian commodity market regulator, has directed commodity exchanges to reduce the daily price limit for trading wheat futures to four percent from the earlier six percent, effective September 1, 2006. In another regulatory change, the FMC has raised the additional/special margin to 20 percent from 10 percent on all long positions. This margin on all contracts of wheat will now be payable in cash during normal pay-in time. These new measures are intended to check the rising domestic wheat prices.

RICE

Rice Production Outlook Mixed

Post continues to forecast MY 2006/07 (October – September) rice production at 90.0 million tons from 44 million hectares. Although the cumulative rainfall during the current June-September monsoon season through August was almost normal, the temporal and spatial distribution was highly skewed. While several major rice growing states like Bihar, Uttar

Pradesh, East Madhya Pradesh, Chattisgarh, and Assam received significantly below normal rains, some rice growing states like Andhra Pradesh, Karnataka, and Maharashtra were inundated by floods. According to data compiled by the Agriculture Ministry, progressive rice plantings though August is ahead of last year by 1.6 million hectares at 30.5 million hectares, which supports Post's area forecast. September and early October rains are very crucial for the rice crop in east and central India. An early withdrawal of the monsoon could significantly reduce production from the forecast level.

Support Price for Paddy Hiked

The GOI recently hiked the support price of paddy (unmilled rice) for MY 2006/07 by rs. 400 (\$8.6) per ton, on top of the rs. 100 (\$2.2) per ton increase announced on July 27. The revised support prices are rs. 6,200 (\$136.3) per ton for coarse varieties and rs. 6,500 (\$142.9) per ton for Grade A. The late announcement of the hike in the support price is unlikely to have any significant impact on rice planting during the *kharif* season but would make Indian white rice less competitive in the world market. Furthermore, unless the GOI increases the sale price of milled rice supplied through the subsidized public distribution system, the government food subsidy will swell.

Rice Exports Strong

January through May 2006 rice exports totaled 1.74 million tons, which included 510,000 tons basmati and 1.23 million tons of white rice. According to trade sources, Indian white rice continues to remain competitive in the world market. However, a significant increase in the support price of paddy for MY 2006/07 could adversely affect the competitiveness of Indian rice in CY 2007.

Procurement Up; Stocks Down

Domestic rice procurement in MY 2005/06 through August reached a record 27.9 million tons, 3.2 million tons above the MY 2005/06 procurement. Most of the increase occurred in Andhra Pradesh, West Bengal, Chattisgarh, and Haryana, where as in major rice surplus state of Punjab, there was a decline in rice procurement. The higher support price recently announced by the government should support higher procurement in MY 2006/07. However, much will depend on the crop size.

Despite higher procurement, rice stocks with the government on August 1, 2006 were only 9.8 million tons, compared with 10.1 million tons a year ago. The government decision to allocate more rice through the PDS in place of wheat resulted in the draw down in rice stocks.

Table 1: Commodity, Wheat, PSD

PSD Table							
Country	India						
Commodity	Wheat				(1000 HA) (1000 MT)		
	2004	Revised	2005	Estimate	2006	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		04/2004		04/2005		04/2006	MM/YYYY
Area Harvested	26620	26620	26500	26500	25000	26700	(1000 HA)
Beginning Stocks	6900	6900	4100	4100	2000	2000	(1000 MT)
Production	72150	72150	68640	68640	68000	69480	(1000 MT)
TOTAL Mkt. Yr. Imports	8	8	32	0	4500	5500	(1000 MT)
Jul-Jun Imports	14	14	200	100	4000	6000	(1000 MT)
Jul-Jun Import U.S.	0	0	0	0	0	0	(1000 MT)
TOTAL SUPPLY	79058	79058	72772	72740	74500	76980	(1000 MT)
TOTAL Mkt. Yr. Exports	2120	2120	500	740	500	200	(1000 MT)
Jul-Jun Exports	1605	1605	500	800	500	200	(1000 MT)
Feed Dom. Consumption	500	500	500	300	500	300	(1000 MT)
TOTAL Dom. Consumption	72838	72838	70272	70000	71500	73780	(1000 MT)
Ending Stocks	4100	4100	2000	2000	2500	3000	(1000 MT)
TOTAL DISTRIBUTION	79058	79058	72772	72740	74500	76980	(1000 MT)