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Report Highlights:

India's 2007 wheat planting progress is ahead of last year driven by prevailing stronger open market prices and a higher government support price. Despite a likely increase in wheat production, the supply situation should remain tight in MY 2007/08 because of low carry over stocks. Domestic rice procurement in MY 2006/07 is likely to be marginally below the MY 2005/06 record procurement of 28 million tons but the stocks situation will remain comfortable.

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

Plantings Ahead of Last Year

According to government statistics, the planting of the 2007 wheat crop through November 23, was 17 percent ahead of last year at 11.4 million hectares. Favorable soil moisture conditions, high open market prices, and a significant increase in the government support price have contributed to increased planting. However, the initial surge in wheat planting this year is also attributed to the early harvest of the rice crop in some north Indian states. Although mid-October through November is considered to be the optimum planting time for wheat, planting typically continues through December in some states such as Uttar Pradesh and Bihar due to late harvesting of the rice crop.

The most wheat area ever planted totaled 27.5 million hectares in 1999 and 2000. Since then, wheat planted area has fluctuated between 25.2 million hectares to 26.7 million hectares. Most of the increase in wheat planted area this year is reported to have come at the expense of the rapeseed crop, grown mostly in Rajasthan, Uttar Pradesh, Haryana, and Madhya Pradesh. Also competing for winter planted area this year are winter pulse crops such as chickpeas and lentils, whose prices have also skyrocketed in recent months. Post expects final wheat acreage to register an increase of around 1 million hectares over last year's level and to reach around 27.6 million hectares.

Production Will Depend on Weather

Despite a likely increase in planted area, 2007 wheat production will be influenced greatly by weather conditions through harvest. Lack of winter rains, rising temperatures during the grain filling stage in February, and rains and hail at harvest time are all factors which could adversely affect yields. A significant decline in 2005 and 2006 wheat production from an earlier anticipated higher level was attributed to higher temperatures during the grain maturing stage. In 1999, despite a record wheat area of 27.5 million hectares, production was only 71.3 million tons as the yield was just 2.6 tons per hectare. In recent years, wheat yields were around 2.7 tons per hectare, with the highest yield at 2.78 tons/hectare in 2000. Assuming an average yield of 2.7 tons per hectare, the 2007 wheat production could reach around 75 million tons. However, if the average yield drops to last year's level of 2.6 tons per hectare, production would be only 72 million tons. A clearer picture will emerge only by February 2007.

Supply Situation To Remain Tight in MY 2007/08

Despite a likely higher wheat production in 2007, the wheat supply situation should remain tight in MY 2007/08 because of low carry over stocks, held both with the government and the private trade. Government wheat stocks on November 1, 2006, were around 6.0 million tons, compared with 9.0 million tons a year ago. With the projected arrival of the balance quantity of around 3.5 million tons of imported wheat during November 2006 through March 2007, and an offtake of around 6.5 million tons of wheat (1.3 million tons per month) from government stocks for the PDS and other government welfare programs during this period, the government is likely to end up with carry over stocks of around 3 million tons on April 1, 2007, marginally higher than the April 1, 2006, stocks of 2 million tons compared to the required buffer stock level of 4 million tons. However, wheat stocks with the private trade will be negligible.

Although the government has announced a higher support price of Rs. 7,500 (\$167) per ton for wheat for MY 2007/08, prevailing market prices are currently trending 50 percent above the support price at a record Rs. 11,500 (\$255) per ton. It is unlikely that market prices will

drop to the support level even at harvest time in most producing states, which would make it difficult for the government to procure adequate quantities of wheat required for its PDS stocks and use because of increased competition from the private trade. The only way the government could maximize wheat procurement would be by imposing movement restrictions on wheat from the surplus states of Punjab and Haryana to other parts of the country by private traders and by enforcing stock limits on the private trade under the provisions of the Essential Commodities Act. However, this would be a shortsighted policy, as it will not address the overall supply/demand imbalance for wheat in the country.

Prevailing higher wheat prices have reportedly forced several flour millers to temporarily close down operations. Millers in south India are asking the government to make wheat available to them at reasonable prices and to allow duty-free imports beyond the December 31, 2006, deadline. Since arrivals of imported wheat by the government are likely to spill over to 2007, the government may need to continue the relaxed phytosanitary norms for wheat imports beyond the December 31, 2006, deadline (see www.plantquarantineindia.org/pdf/files/wheat%20import%20relaxation%203%5b1%5d.7.2006.pdf).

RICE

Procurement Declines, Stocks Increase

Domestic rice procurement by the government in MY 2006/07 (Oct-Sep) through November 27, 2006 was 9.3 million tons, compared with 10 million tons a year ago. Procurement thus far has mostly come from the northern surplus states of Punjab and Haryana. Procurement from the southern and central states will start only in January. Heavy rains and floods in early November in the major southern rice surplus state of Andhra Pradesh could adversely affect production and procurement in this state. Consequently MY 2006/07 procurement is likely to be somewhat lower than the record MY 2005/06 procurement of 28 million tons. Government rice stocks on November 1, 2006, were 12.5 million tons, compared with 10.3 million tons a year ago, due to record procurement in MY 2005/06.

Rice Exports

According to preliminary official statistics, rice exports during January through July 2006 were around 2.4 million tons including about 650,000 tons of basmati rice. Based on shipment data provided by private sources, exports in August and September, were 260,000 tons and 360,000 tons, respectively, taking Jan-Sep exports to around 3 million tons. With likely additional exports of around 1 million tons in the fourth quarter, CY 2006 rice exports are estimated at 4 million tons.

Corn

Initial government estimates place the 2006 *kharif* (fall harvested) corn production at 11.4 million tons, 1 million tons below the 2005 *kharif* production. *Rabi* (winter season) corn production is normally around 2.5 million tons. However, higher corn prices this year could prompt increased planting in south India, marginally offsetting the decline in *kharif* season. Corn prices have skyrocketed in recent months with the current mill delivery price at over rs. 8,200 (\$182) per ton, 15 percent higher than last year. Higher corn prices have prompted end-users to demand a ban on corn exports and access to duty-free imports. India typically exports 200,000 to 250,000 tons of corn, mostly to neighboring Bangladesh and Sri Lanka. However, this year because of the higher world prices, Indian corn is finding its way to South East Asian countries such as Malaysia and Indonesia. Although the Commerce Minister had stated that he will consider a ban on corn exports, no decision has been taken yet.