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Grain and Feed

Quarterly Lock-up Report: November 2007

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Report Highlights:

In view of high international prices, stable domestic prices, and the government's political compulsions, the MY 2007/08 (Apr-Mar) wheat import is revised to a lower forecast of 2 million tons. To boost domestic production, the government has revised the domestic support price for the MY 2007/08 wheat crop up by 17.6 percent to Rs. 10,000 (\$253) per ton. The export restriction on non-basmati rice imposed by the government, effective October 9, 2007, is likely to result in a significant decline in India's rice exports in CY 2008, forecast at 2 million tons and may even pull down CY 2007 exports to 3.8 million tons.

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

Table 1: Commodity, Wheat, PSD

Country	India									
Commodity	Wheat						(1000 HA) (1000 MT) (MT/HA)			
	2005	Revised		2006	Estimate		2007	Forecast		UOM
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	
Market Year Begin		04/2005	04/2005		04/2006	04/2006		04/2007	04/2007	MM/ YYYY
Area Harvested	26500	26500	26500	26400	26400	26400	28000	28000	28000	(1000 HA)
Beginning Stocks	4100	4100	4100	2000	2000	2000	3500	3500	4500	(1000 MT)
Production	68640	68640	68640	69350	69350	69350	74890	74890	74890	(1000 MT)
MY Imports	32	32	32	6708	6700	6708	3000	3000	2000	(1000 MT)
TY Imports	118	118	118	6708	6700	6708	3000	3000	2000	(1000 MT)
TY Imp. from U.S.	0	0	0	0	0	0	0	0	0	(1000 MT)
Total Supply	72772	72772	72772	78058	78050	78058	81390	81390	81390	(1000 MT)
MY Exports	801	801	801	200	200	200	50	50	50	(1000 MT)
TY Exports	369	369	369	200	200	200	50	50	50	(1000 MT)
Feed Consumption	300	300	300	300	300	300	200	200	200	(1000 MT)
FSI Consumption	69671	69671	69671	74058	74050	73058	75650	75640	75650	(1000 MT)
Total Consumption	69971	69971	69971	74358	74350	73358	75850	75840	75850	(1000 MT)
Ending Stocks	2000	2000	2000	3500	3500	4500	5490	5500	5490	(1000 MT)
Total Distribution	72772	72772	72772	78058	78050	78058	81390	81390	81390	(1000 MT)
Yield	2.590189	2.590189	2.590189	2.626894	2.626894	2.626894	2.674643	2.674643	2.674643	(MT/HA)

MY 2007/08 Wheat Import Forecast Lowered

Post revises the MY 2007/08 wheat import forecast down to 2.0 million tons in view of high international prices, stable domestic prices, lower wheat offtake through the PDS, and political opposition to imports. Although the GOI originally had plans to import five million tons of wheat this marketing year to rebuild stocks, higher international prices and criticism from opposition parties on government wheat imports at prices much higher than the support price paid to farmers forced the government to shelve additional imports. The government contracted 1.3 million tons (511,000 tons in June at an average price of \$325.59 per ton and 795,000 tons in August at an average price of \$389.45 per ton). Although the government is reportedly keeping a close watch on domestic and international prices of wheat, when the next tender will be issued is unclear. It is possible that the government might forego additional imports altogether this marketing year by drawing down stocks to below the required minimum buffer stock level of 4 million tons on April 1, 2008. This could jeopardize food security.

On October 1, 2007, the GOI had carry over stocks of 10.1 million tons of wheat against the desired minimum buffer stock level of 11 million tons. The monthly offtake of wheat through

the Public Distribution System (PDS) has averaged less than one million tons during April through September 2007. Assuming the offtake will increase marginally to around 1.2 million tons per month during October through March 2008, the government would have around 4 million tons of wheat on April 1, 2008, including the 1.2 million tons imported. However, if the government decides to distribute more wheat through the PDS in coming months to contain the price rise, stocks could fall below the desired minimum buffer stock level.

Significant Increase in Wheat Support Price

The government has announced a significant increase in the minimum support price of wheat from Rs. 8,500 (\$218) per ton (including a bonus of Rs. 1,000 per ton) in MY 2007/08 (Apr-Mar) to Rs. 10,000 (\$256) per ton for MY 2008/09 on top of a 21.4 percent increase in MY 2006/07. The newly established wheat support price is above the prevailing market price of wheat in producing areas. Adding various market fees, levies, commissions, and taxes (totaling around 11%) and the cost of distribution (mainly the transportation cost), the total cost of the 2008 crop wheat to the government will be around Rs. 13,000 (\$333) per ton. Unless the government revises the issue price (sales price of wheat and rice it distributes through the PDS), which had remained unchanged since July 1, 2002, the government food subsidy, which is growing and budgeted at \$6.5 billion in IFY 2007/08 (See Chart 1), is likely to balloon next year. The following table shows the government's support price for wheat and the sales price of wheat through the PDS:

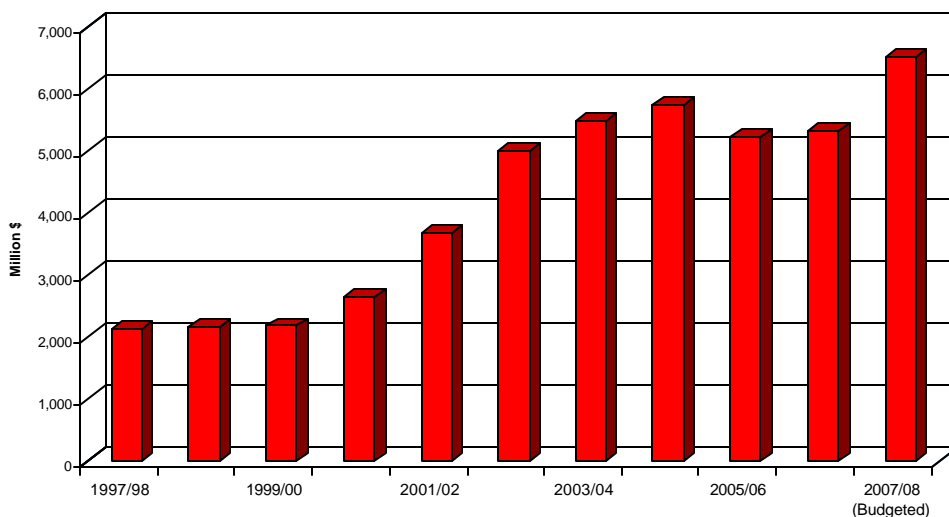
Table 2: Government Support Price and Issue Price of Wheat

Marketing Year (Apr – Mar)	Support Price Rs. per ton	PDS Issue Price Rs. per ton	
		APL	BPL
2000/01	6,100	8,300	4,150
2001/02	6,200	6,100	4,150
2002/03	6,300	1/ 6,100	4,150
2003/04	6,300	6,100	4,150
2004/05	6,400	6,100	4,150
2005/06	6,500	6,100	4,150
2006/07	8,500	6,100	4,150
2007/08	10,000		

1/ Rs. 5,100 during April 1, 2002 June 30, 2002

Note: Current exchange rate is Rs. 39.50 = 1 US\$

APL = Above Poverty Line; BPL = Below Poverty Line

Chart 1. India: Food Subsidy Trend

Contrary to earlier expectations, wheat prices over the past few months have remained subdued indicative of higher wheat production, which is now estimated at 74.9 million tons, 5.5 million tons higher than in 2006. However, the early announcement of a significant increase in the support price for next year, combined with seasonal trend, has led to a strengthening of domestic wheat prices recently, which is likely to continue until the next wheat harvest in March. The indicative Delhi wholesale price of milling wheat is Rs. 10,500 (\$266) per ton, which is still 70 percent or more below international prices.

Wheat Planting Likely to Expand

The government's early announcement of a significant hike in the support price for the 2008 wheat crop is expected to result in a modest expansion in wheat planted area at the expense of competing crops such as rapeseed and pulses. Generally favorable soil moisture conditions in most rain-fed wheat growing regions of central and eastern India should also support increased planting. Monsoon rains were significantly below normal in some of the major wheat growing states of Punjab, Haryana, and western parts of Uttar Pradesh, but the crop is mostly irrigated in these states. The government of India (GOI) has recently launched an ambitious program of increasing wheat, rice, and pulse production through a domestic program called the [National Food Security Mission](#), which is likely to have a positive impact on next year's wheat production. However, much will depend on the weather pattern during the growing period. Lack of winter rains and an early rise in temperature in north and central India coinciding with the grain-filling stage, which has been a characteristic feature of the weather pattern in recent years, could adversely affect potential yields.

Import Outlook for MY 2008/09

Imports in MY 2008/09 will largely depend on the crop size, how much the government will be able to procure at the support price, global prices and political factors. If the government decides to abstain from additional imports this year by drawing down stocks to below the minimum buffer stock level, the need to import wheat next year would be even greater. As the country would be entering into an election phase next year, the government would like to see prices of essential food items such as wheat, rice, and pulses under control by assuring

adequate supplies of wheat and rice through the public distribution system. In order to augment domestic supplies, the government is likely to resort to imports, with the quantum of imports depending on the crop size, government procurement practices, and global prices.

RICE

Table 3: Commodity, Rice, PSD

PSD Table										
Country	India									
Commodity	Rice, Milled									
	2005		Revised	2006		Estimate	2007		Forecast	UOM
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	
Market Year Begin		10/2005	10/2005		10/2006	10/2006		10/2007	10/2007	MM/YYYY
Area Harvested	43400	43400	43400	44000	44000	44000	44000	44000	44000	(1000 HA)
Beginning Stocks	8500	8500	8500	10520	10520	10520	11430	10500	11430	(1000 MT)
Milled Production	91790	91790	91790	92760	92760	92760	92000	92000	92000	(1000 MT)
Rough Production	137699	137699	137699	139154	139154	139154	138014	138014	138014	(1000 MT)
Milling Rate (.9999)	6666	6666	6666	6666	6666	6666	6666	6666	6666	(1000 MT)
MY Imports	6	6	6	0	0	0	0	0	0	(1000 MT)
TY Imports	6	6	6	0	0	0	0	0	0	(1000 MT)
TY Imp. from U.S.	0	0	0	0	0	0	0	0	0	(1000 MT)
Total Supply	100296	100296	100296	103280	103280	103280	103430	102500	103430	(1000 MT)
MY Exports	4688	4688	4688	4200	4300	4200	4100	4100	2200	(1000 MT)
TY Exports	4537	4537	4537	4200	4300	3800	4100	4100	2000	(1000 MT)
Total Consumption	85088	85088	85088	87650	88480	87650	89120	89400	90000	(1000 MT)
Ending Stocks	10520	10520	10520	11430	10500	11430	10210	9000	11230	(1000 MT)
Total Distribution	100296	100296	100296	103280	103280	103280	103430	102500	103430	(1000 MT)
Yield (Rough)	3.172788	3.172788	3.172788	3.162591	3.162591	3.162591	3.136682	3.136682	3.136682	(MT/HA)

MY 2007/08 Production Forecast Marginally Down

Post continues to forecasts MY 2007/08 rice production at 92 million tons, marginally below MY 2006/07 production of 92.8 million tons. Initial planting reports compiled by the government show area planted to *kharif* rice (fall and early winter harvested) this year at more or less at the same level as last year. However, heavy rains and floods at various stages in several major rice growing states such as West Bengal, Bihar, Orissa, and Andhra Pradesh, and below normal precipitation in Punjab, Haryana, and West Uttar Pradesh are likely to impact yields. Consequently, the *kharif* rice production is likely to be about one million tons below last year's 80.1 million tons. However, improved moisture conditions and irrigation availability following late heavy rains should support higher summer season rice production, confined mostly to West Bengal and south India. The summer rice production is forecast at 13 million tons, compare with 12.7 million tons last year, taking total MY 2007/08 production to about 92 million tons.

Procurement Lagging ...

Domestic procurement of rice by the government during the current marketing year is lagging somewhat behind last year's level at 5.3 million tons as on October 22 compared

with 5.9 million tons procured during the corresponding period of MY 2006/07 (Oct – Sep). Most of the procurement so far has been from Punjab and Haryana, where the crop is typically harvested earlier than in other growing regions. Total rice procurement in MY 2006/07 was 25.1 million tons, compared with the record procurement of 27.7 million tons in MY 2005/06.

... Support Price for Paddy Rice Hiked

Concerned over the slow procurement of rice this marketing year, the government announced a Rs. 500 (\$12.7) per ton hike in the support price of paddy (un-milled rice) from the previously established price of Rs. 6,450 per ton for Common varieties and Rs. 6,750 for Grade A varieties, taking the effective support prices to Rs. 6,950 (\$175.9) and Rs.7,250 (\$183.5) per ton respectively for Common and Grade A varieties. Support prices in MY 2006/07 were Rs. 6,200 per ton for Common varieties and Rs. 6,500 per ton Grade A varieties. As in the case of wheat, the government has not increased the sales price of rice distributed through the PDS since July 1, 2002, although the support price has increased by around 35 percent since then, further contributing to the increasing food subsidy.

The following table shows the government's support price for paddy and the sales price of milled rice through the public distribution system:

Table 4: Government Support Price of Paddy and Issue Price of Rice

Marketing Year (Oct-Sep)	Support Price for Paddy (Un-milled rice) Rs. per ton		PDS Issue Price for Milled Rice Rs. per ton	
	Common	Grade A	APL (Common/Grade A)	BPL
2000/01	5,100	5,400	10,870/11,300	5,650
2001/02	5,300	5,600	7,950/8,300	5,650
2002/03	5,500	5,800	7,950/8,300	5,650
2003/04	5,500	5,800	7,950/8,300	5,650
2004/05	5,600	5,900	7,950/8,300	5,650
2005/06	5,700	6,000	7,950/8,300	5,650
2006/07	6,200	6,500	7,950/8,300	5,650
2007/08	6,950	7,250	7,950/8,300	5,650

Note: Current exchange rate is Rs. 39.50 = 1 US\$

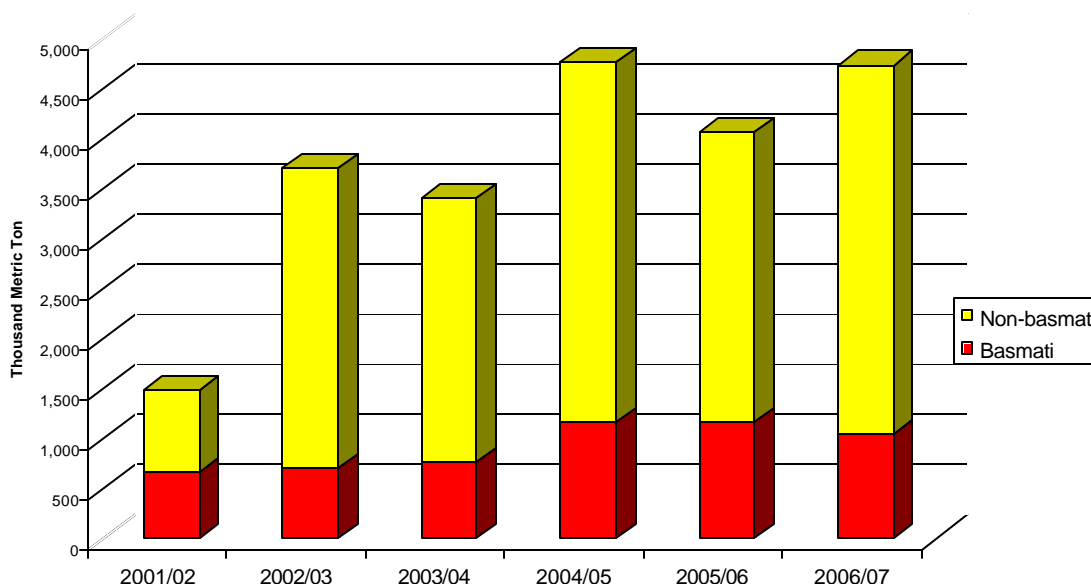
APL = Above Poverty Line; BPL = Below Poverty Line

... Non-basmati rice exports banned

Effective October 9, 2007, the government banned exports of all non-basmati rice to ensure adequate rice availability in the domestic market and to rebuild stocks, taking exporters by surprise. The GOI notification in this regard is available at <http://164.100.9.245/exim/2000/not/not07/not3807.htm>. The export ban is likely to have a significant negative impact on India's rice exports as almost 80 percent of Indian rice exports in recent years are non-basmati (Chart 2). Furthermore, some of the basmati rice varieties India exports such as Pusa – 1211 and CSR 30 are not notified basmati varieties, which also technically are banned for export. Exporters have demanded that non-traditional basmati and high quality non-basmati varieties of rice, which are not typically procured by the government and distributed through the PDS, be exempted from the export ban.

In response to the demand from rice exporters and some governments of rice exporting states in India, the government has now reportedly decided to establish a minimum export price of \$425 per ton, which would permit only high quality rice be exported. However, the official notification regarding this is still awaited. Nevertheless, the quantity of such rice exported is less than one million tons, mostly exported to the Middle East, South Africa, and Europe. The government also decided to exempt from the ban exports for which letters of credit were opened before October 9. Following these developments, Post revises CY 2007 rice exports downward to 3.8 million tons and CY 2008 forecast to 2 million tons. It is expected that if the government manages to procure adequate quantities of rice required for the PDS this marketing year, the export ban would be lifted after the peak marketing season next year, in which case CY 2008 exports would exceed the forecasted 2 million tons. Rice exporters are critical of the government action, as according to them the export ban would erode the credibility of India as a reliable supplier of quality rice and would impact future exports. In recent years, India has emerged as the third largest rice exporter in the world after Thailand and Vietnam. The Indian absence in the global rice market would have a significant impact on world rice prices.

Chart 2. India: Rice Exports by Type



The following table shows India's exports of rice by type in recent years:

Table 5: India: Rice Exports by Type (metric ton)

Type	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
Basmati	667,066	710,292	771,475	1,162,989	1,166,564	1,045,715
Rice in husk 1/	42,328	0	26,894	731	46,187	12,118
Brown rice	247	822	108	1,354	719	10,234
Other rice	751,227	2,920,662	966,822	1,124,012	705,988	544,626
Parboiled rice	0	0	1,633,520	2,358,944	1,951,827	2,853,256
Broken	23,952	75,826	11,223	124,612	189,871	271,085
Total	1,484,819	3,707,603	3,410,043	4,772,642	4,061,156	4,737,033

1/ Milled Basis

Note: The data is on Indian fiscal year (Apr-Mar) basis.

Source: Director General of Foreign Trade, GOI

Rice Stocks Decline

Despite a record and a near record procurement of rice by the government in MY 2005/06 and MY 2006/07, respectively, government rice stocks on October 1 fell to 5.5 million tons, marginally above the desired minimum buffer stock norm of 5.2 million tons, but below October 1, 2006, stocks of 6.0 million tons. Larger distribution of rice through the PDS, averaging over 2 million tons per month, was responsible for the stocks draw down. Rice offtake through the PDS is likely to remain strong in MY 2007/08, as the government would continue to substitute rice for wheat. Consequently no significant build up in rice stocks is expected this marketing year.

COARSE GRAINS

Table 6: Commodity, Corn, PSD

PSD Table										
Country	India									
Commodity	Corn									
	2005	Revised		2006	Estimate		(1000 HA) (1000 MT) (MT/HA)	2007	Forecast	UOM
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	
Market Year Begin		11/2005	11/2005		11/2006	11/2006		11/2007	11/2007	MM/YYYY
Area Harvested	7600	7600	7600	8300	8300	8300	8500	8500	8600	(1000 HA)
Beginning Stocks	271	271	271	264	264	264	244	214	244	(1000 MT)
Production	14710	14710	14710	14980	14980	14980	15500	15500	16300	(1000 MT)
MY Imports	4	4	4	0	0	0	0	0	0	(1000 MT)
TY Imports	4	4	4	0	0	0	0	0	0	(1000 MT)
TY Imp. from U.S.	2	2	2	0	0	0	0	0	0	(1000 MT)
Total Supply	14985	14985	14985	15244	15244	15244	15744	15714	16544	(1000 MT)
MY Exports	521	521	521	400	200	400	250	250	500	(1000 MT)
TY Exports	497	497	497	450	200	450	250	250	500	(1000 MT)
Feed Consumption	6000	6000	6000	6300	6500	6300	7000	7000	7000	(1000 MT)
FSI Consumption	8200	8200	8200	8300	8330	8300	8000	8000	8444	(1000 MT)
Total Consumption	14200	14200	14200	14600	14830	14600	15000	15000	15444	(1000 MT)
Ending Stocks	264	264	264	244	214	244	494	464	600	(1000 MT)
Total Distribution	14985	14985	14985	15244	15244	15244	15744	15714	16544	(1000 MT)
Yield	1.935526	1.935526	1.935526	1.804819	1.804819	1.804819	1.823529	1.823529	1.895349	(MT/HA)

Corn Production Up ...

MY 2007/08 corn production is forecast to increase to 16.3 million tons from 15 million tons in MY 2006/07 as farmers have brought more area under corn in response to high prices at planting time. The GOI' preliminary estimate places kharif season corn production at 13.1 million tons, compared with 11.4 million tons last year. *Rabi* (Winter) season corn production is likely to be marginally lower than last years' 3.6 million tons because of the damage caused by rains in the major winter corn growing state of Bihar. Production of sorghum and millet are estimated somewhat lower than last year's level at 7.2 million tons and 10.0 million tons.

... But Prices Higher

Corn prices in market yards in Andhra Pradesh are currently running at Rs. 6,000 to 6,200 (\$152 to \$157) per ton compared with Rs. 5,800 to 6,200 a year ago. Higher prices are attributed to a significant increase in the government support for the MY 2007/08 corn crop at Rs. 6,200 (\$152) per ton compared with Rs. 5,400 per ton in MY 2006/07.

Domestic starch manufacturers and the poultry industry have voiced their concern over exports of corn. They fear that this will lead to last year's situation, when domestic corn prices peaked. As per the current trade policy, exports of corn were restricted to state trading enterprises until September 4, 2007, after which time corn exports by the private trade would be permitted. (See <http://dgftcom.nic.in/exim/2000/not/not06/not5006.htm>). Post forecasts corn exports in MY 2007/08 to increase to 500,000 tons mostly to neighboring countries of Bangladesh and Sri Lanka, because of lower India prices vis-à-vis world prices.