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Report Highlights:

The GOI recently revised Indian crop year (July-June) 2009/10 grain production marginally to 218.2 million tons, with MY 2010/11 wheat production estimated at a record 80.7 million tons. Despite a patchy 2010 monsoon, planting conditions for rice and other Kharif (fall and early harvested) crops have been generally favorable. Government procurement of wheat and rice has been strong for the second consecutive year as stocks have ballooned to near record levels. Driven by government's high support price, grain prices have remained firm. To contain the continued double digit growth in food inflation, the government plans to offload in the coming months their surplus stocks in the open market at below market price.

General Information:

Official Grain Production Estimates Revised Marginally

The Ministry of Agriculture recently released the Fourth Advance Estimates [1] of the Indian crop year 2009/10 grain production, [2] which shows a marginal revision over the Third Advance Estimates at 218.20 million tons, and a seven percent decline over the final 2008/09 estimates. A higher production estimate for coarse cereals (corn, millets, sorghum and barley) more than offsets the marginally lower production estimates for rice, wheat and pulses. Wheat production for MY 2010/11, which is revised marginally lower, is still a record 80.71 million tons due to favorable growing conditions, higher acreage and lower than estimated crop loss due to high temperatures at the time of harvest [3] . PS&D tables for various grains are revised to reflect the revised official figures. The final official estimates will be released by the end of the year.

Patchy 2010 Monsoon But Planting Progress on Track

While the early monsoon progressed in a timely manner covering half of the country, it entered a weak phase around mid June, but gained momentum in early July to cover the whole country by July 5, 2010. Since then the monsoon rainfall has been patchy [4] across the country and over the period with cumulative rainfall from June 1 to July 21 estimated to be 14 percent below normal, and only 26 of the 36 weather subdivisions receiving normal or above normal rainfall. Nevertheless, 2010 monsoon performance has been better than last year as reflected by the progress of planting of *Kharif* [5] crops including rice, coarse cereals and pulses through July 22, which was well ahead of last year.

Table 1: Progressive Planting of Major *Kharif* crops as on 22nd July, 2010

Crop	Area as on 22nd July, 2010	Area as on 22nd July 2009
Rice	16.97	15.77
Coarse cereals	14.14	13.24
Oilseeds	12.95	12.39
Pulses	5.72	5.06
Sugarcane	4.74	4.18
Cotton	9.50	8.06

Source: Ministry of Agriculture Press Release PIB release

Monsoon rainfall during the current season has been sufficient for planting of most of the coarse cereals and pulses across the country. Rainfall has been generally satisfactory in the rice growing areas of southern peninsular and north India. However, there are some concerns on poor rainfall distribution across the rice belt of east India – East U.P., Bihar, Jharkhand, Chhattisgarh, Orissa and West Bengal – where the crop is entirely dependent on monsoon rains.

Almost half-way through the monsoon season (June-September), the window of opportunity is narrowing for rice and most of the other *Kharif* crops. Unless the monsoon activity gains momentum in the coming weeks, there may be some adverse impact on planting and production in the eastern rice belt. Also, there may be an area shift from water intensive rice to short duration pulses and coarse cereals in case of continued poor monsoon precipitation. However, a clearer picture will emerge only by mid-August. For the time being, Post estimates for MY 2010/11 rice, sorghum and corn production remains unchanged.

Rice Procurement Strong, Stocks Balloon

Based on the latest revised estimates from various state governments released as GOI's fourth advance estimates, MY 2010/11 production has been revised higher to 89.13 million tons, more than 10 percent lower than last year. However, high minimum support prices (Rs. 10,000or $222 per ton for unmilled rice), government rice procurement remained strong despite the decline in production. The government rice procurement through July 26, 2010 is reported at 30.0 million tons, and may reach an estimated 31.2 million tons as procurement will continue through September, second largest procurement ever accounting for a record 35 percent of the total production.

Table 1: Rice production, government procurement, and open market availability (million tons)

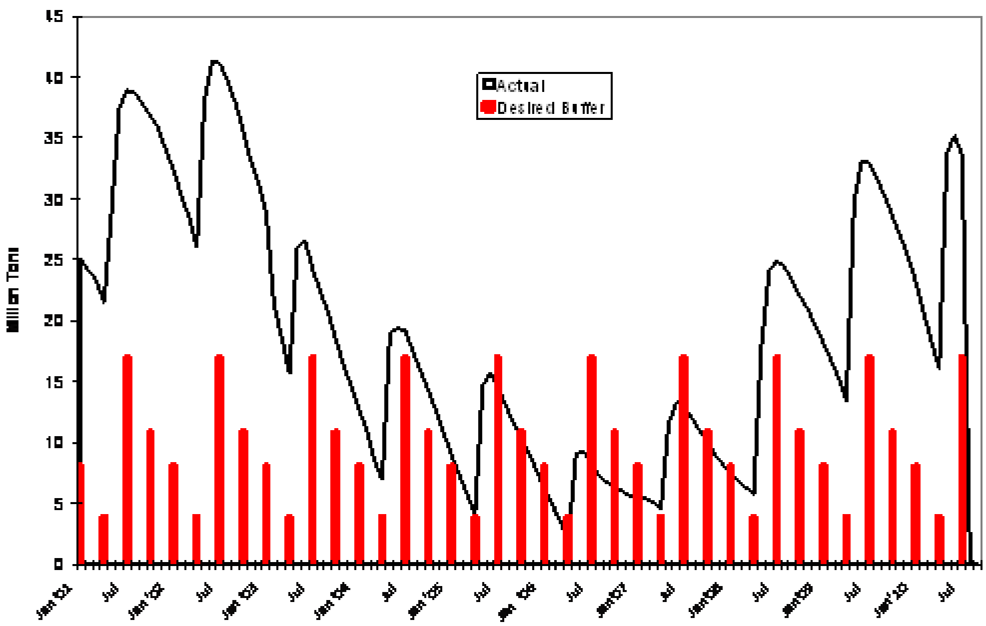
Marketing year	Production	Government Procurement /1	Open Market Availability /2
2000/01	84.98	19.55 (23.0)	65.43
2001/02	93.34	22.08 (23.7)	71.26
2002/03	71.82	16.41 (22.9)	55.41
2003/04	88.53	22.89 (25.8)	65.64
2004/05	83.13	24.67 (29.7)	58.46
2005/06	91.79	27.58 (30.0)	64.21
2006/07	93.35	25.11 (26.9)	68.24
2007/08	96.69	28.74 (29.7)	67.95
2008/09	99.18	33.68 (34.0)	65.50
2009/10	89.13	31.2* (35.0)	57.93

1/ Figure in parenthesis is share of total production in percent.

2/ Production – government procurement
* - Estimated Procurement for the year.
Source: Food Corporation of India, GOI

Riding on continued strong procurement, government-held rice stocks on March 1, 2010 reached a record 27.0 million tons, compared to the previous high of 26.5 million tons in November 2000. The rice stocks on July 1, 2010 were officially placed at 24.3 million tons compared with 19.6 million tons a year ago, and nearly three times the government's desired July 1 buffer stock level of 9.8 million tons.

Figure 1 India: Wheat Stocks - Actual Vs. Desired Buffer Stocks



Assuming a higher distribution off take through public distribution system network, government programs and open market sales program, stocks on Oct 1, 2010 are projected to reach 20.5 million tons [6] .

Wheat Procurement Also Strong, Stocks Surge

Based on the latest revised estimates from various state governments, the GOI official wheat production estimate for MY 2010/11 was revised to a record 80.7 million tons. Reflecting record wheat production and the high support price (Rs. 11000/$ 245 per MT), domestic wheat procurement by the government through July 26 is estimated at 22.53 million tons. Although procurement this season is about 2.8 million tons behind last year, it is still the third highest record procurement accounting for about 28 percent of the domestic production. Market sources report that relatively firm open-market prices coupled with no government restriction on procurement by private trade has encouraged higher purchases by private trade, and consequently lower government procurement compared to last year. Relatively strong late season open market price for wheat during the last season also encouraged farmers to retain more stocks for late season sale.

Table 2: Wheat production, government procurement, and open market availability (million tons)

Marketing year	Production	Government Procurement /1	Open Market Availability /2
2000/01	76.37	16.36 (21.4)	60.01
2001/02	69.68	20.63 (29.6)	49.05
2002/03	72.77	19.03 (26.2)	53.74
2003/04	65.76	15.80 (24.1)	49.96
2004/05	72.15	16.80 (23.3)	55.35
2005/06	68.64	14.79 (21.5)	53.85
2006/07	69.35	9.23 (13.3)	60.12
2007/08	75.81	11.13 (14.7)	64.68
2008/09	78.57	22.69 (28.9)	55.88
2009/10	80.68	25.38 (31.5)	55.13
2010/11*	80.71	22.53 (27.9)	58.21

1/ Figure in parenthesis is share of total production in percent.

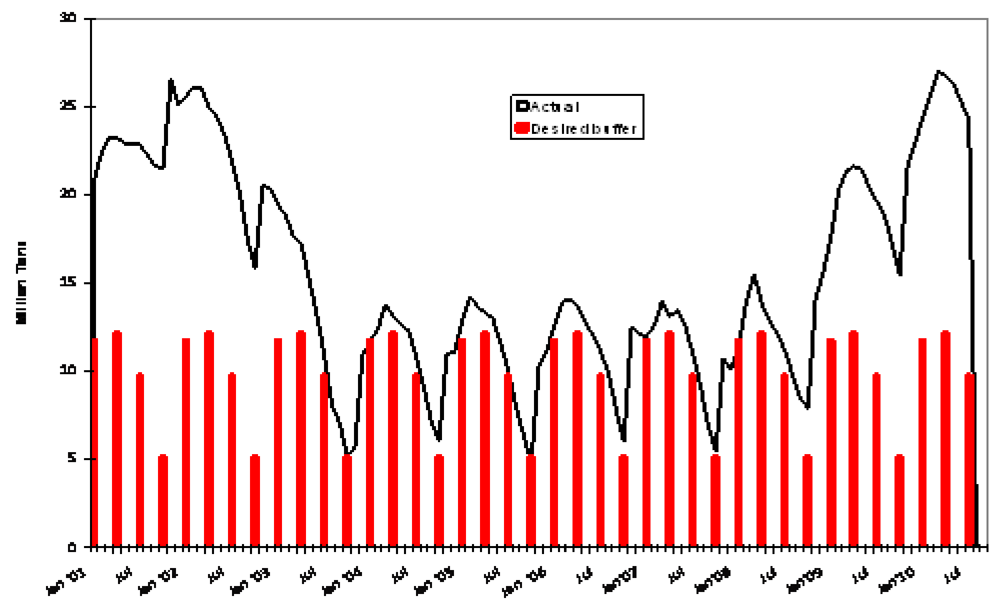
2/ Production – government procurement

* Government procurement over.

Source: Food Corporation of India, GOI

Despite lower wheat procurement, government-held wheat stocks on July 1, 2010 were officially placed at 33.6 million tons compared with 32.9 million tons a year ago, and nearly double the government's desired July 1 buffer stock level of 17.1 million tons.

Figure 2 India: Rice Stocks - Actual Vs. Desired Buffer Stocks



Assuming a higher average monthly off take of around 2.1 million tons through the public distribution system, government programs, open market sales, and some exports to neighboring countries through March 2011, stocks are projected to reach 14.5 million tons by April 1, 2011.

But Market Prices Firm

Government warehouses are filled with stocks of wheat and rice from MY 2009/10 and 2010/11, sources report that about 17-18 million tons of wheat and rice is under open air storage under polythene cover (CAP storage), wherein the grain is susceptible to vagaries of monsoon rains/weather and pests/rodent attacks. Recent media reports highlighted several incidences of submergence and rotting of wheat and rice stocks due to monsoon rains. Despite high government stocks, rice and wheat prices in the domestic market have been ruling firm due to government's high support price and various state taxes and levies, which virtually fixes the high floor price in the open market. The current wholesale price of wheat in Delhi is reported around Rs. 12,300 ($276) per metric tons and for common (Parmal) Grade A rice reported at Rs. 18,000 ($400) per metric tons. The government is generally concerned about the high food prices as the food inflation continued to rule at double digit for the 14th consecutive month [7] .

Government Plans to Offload Stocks In Domestic Market.

To manage the 'burdensome' stocks and contain high food inflation, the government may sell wheat at a subsidized rate in the open market. Earlier in May this year, the Government over and above the normal TPDS allocation has made a special adhoc additional allocation of 3.07 million tons of food grains (1.38 million tons of rice and 1.69 million tons of wheat) to States and Union Territories (UTs) for various categories of families (Poorest of Poor, Below Poverty Line (BPL) and Above Poverty Line(APL)) under the Targeted Public Distribution System (TPDS) in May, 2010. These allocations have been made at a price of Rs.11.85/- per kg for rice and Rs.8.45 per kg for wheat, well below the cost to the government and open market prices. The States/UTs have been allowed to lift the allocated quantities up to 20th November 2010 but the off take by the states has so far been very moderate. The Union Agriculture Minister Sharad Pawar indicated that the price of wheat sold under the scheme may be reduced further to encourage speedier off take by the state governments. The central government may also announce additional sales of wheat and rice at subsidized prices to bulk consumers like mills and processors.

The government proposed draft National Food Security Act is still in limbo after the original proposal of providing 25 kg of food grain at Rs. 3.0 per kg to families below poverty line was severely criticized. Recently the National Advisory Council came out with a recommendation to provide 35 kg food grain at Rs. 3.0 per kg to all families, with the first phase of the program launched in one fourth of the most backward districts of the country. The Planning Commission and various concerned ministries will review the proposal and work out the modalities for implementation with various state governments and government agencies. The approval and implementation of the proposed National Food Security Act may take some time. However, the government may decide to increase the allocation of subsidized food supplies to vulnerable sections of the society through existing programs (e.g.: expanding the monthly quotas for BPL families from 25 kg to 35 kg).

Decision on Exports of Non-Basmati Rice, Import Duty on Wheat Deferred

On July 26, 2010, an Empowered Group of Ministers (EGoM) on Food deferred a decision on imposing import duty on wheat and allowing exports of non-basmati rice exports. This was due to concerns on the potential impact on food inflation given the somewhat erratic performance of the 2010 monsoon. After reviewing the kharif production and inflation situation, the government may take a decision later in September.

Faced with record wheat production, bumper procurement and overflowing government warehouses, the Ministry of Consumer Affairs, Food and Public Distribution suggested raising the import duty on wheat from zero [8] to 40 percent. Although official data is not yet available, market sources report that southern mills have imported and/or contracted for imports of about 200,000 metric tons since April

2010.   If the kharif situation looks comfortable in September, the government may impose the import duty which will effectively stop imports of wheat.

Rice exporters have been pressuring the government to remove the ban on exports of non-basmati rice, but the government does not seem inclined to approve non-basmati rice exports in the near future. However, the government may allow partial relaxation of the ban by allowing select premium non-basmati rice varieties for exports albeit setting high minimum export floor price limits. The government would prefer to expand sales under the Targeted Public Distribution System instead of liquidating the 'high' stocks in the export market. If the 2010/11 rice production situation continues to look positive, the government may allow a partial relaxation on the ban by allowing export of premium non-basmati rice export after September. The government may also allow exports of some non-basmati rice to neighboring markets (Bangladesh, Nepal, Bhutan, Afghanistan, etc) for geo-political reasons.

Wheat Exports Unlikely…

On May 12, 2010, the Directorate General of Foreign Trade issued a notification allowing exports of 400,000 metric tons of wheat at cost price to Bangladesh by the Food Corporation of India (FCI [9]), the major government parastatal involved in procurement under the minimum support price program. With the economic cost of wheat procured by FCI estimated around Rs. 15-16,000 ($330-355) per ton, the exports to Bangladesh would not happen without government subsidy.

[1] Advance estimate released on July 19, 2010 ; Ministry of Agriculture's Third Advance Estimate released on May 12 estimated grain production at 218.19 million tons.

[2] MY 2009/10 rice, sorghum, corn & millet; and MY 2010/11 wheat, barley and pulses.

[3] See IN1036 – Grain and Feed Update – May 2010

[4] See India Monsoon Report 3 IN1064.

[5] Fall and early harvested crop

[6] July 1 stocks of 24.3 million tons plus additional procurement of 1.0 million tons, minus monthly off take of 2.6 million tons per month plus 3.0 million ton stocks with private trade.

[7] Food inflation for the week ending July 10, 2010 was estimated at 12.47 percent year on year basis, with 52 week average estimated at 16.25 percent..

[8] Import duty on wheat is zero since September 9, 2006.

[9] The major government parastatal responsible for procurement under the minimum support price operation.

Table 3: Commodity, Rice Milled, PSD
area in '000 hec and others in 1000 MT

Rice, Milled	2008/2009	2009/2010	2010/2011

India									
	Market Year Begin: Oct 2008			Market Year Begin: Oct 2009			Market Year Begin: Oct 2010		
	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post
Area Harvested	45,400	45,400	45,400	41,000	41,000	41,000	45,000	45,000	45,000
Beginning Stocks	13,000	13,000	13,000	19,000	19,000	19,000	15,000	15,000	20,500
Milled Production	99,180	99,180	99,180	87,500	87,560	89,130	99,000	99,000	99,000
Rough Production	148,785	148,785	148,785	131,263	131,353	133,708	148,515	148,515	148,515
Milling Rate (.9999)	6,666	6,666	6,666	6,666	6,666	6,666	6,666	6,666	6,666
MY Imports	0	0	0	0	0	0	0	0	0
TY Imports	0	0	0	0	0	0	0	0	0
TY Imp. from U.S.	0	0	0	0	0	0	0	0	0
Total Supply	112,180	112,180	112,180	106,500	106,560	108,130	114,000	114,000	119,500
MY Exports	2,090	2,100	2,100	2,200	2,000	2,200	2,500	2,500	2,500
TY Exports	2,123	2,150	2,150	2,200	2,000	2,200	2,500	2,500	2,500
Consumption and Residual	91,090	91,080	91,080	89,300	89,560	85,430	93,500	93,500	98,000
Ending Stocks	19,000	19,000	19,000	15,000	15,000	20,500	18,000	18,000	19,000
Total Distribution	112,180	112,180	112,180	106,500	106,560	108,130	114,000	114,000	119,500

Table 4: Commodity, Wheat, PSD
area in '000 hec and others in 1000 MT

Wheat India	2008/2009			2009/2010			2010/2011		
	Market Year Begin: Apr 2008			Market Year Begin: Apr 2009			Market Year Begin: Apr 2010		
	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post
Area Harvested	28,150	28,150	28,150	27,900	27,900	27,900	28,700	28,700	28,700
Beginning Stocks	5,800	5,800	5,800	13,430	13,430	13,430	16,100	16,100	16,125
Production	78,570	78,570	78,570	80,680	80,680	80,680	79,000	79,000	80,710
MY Imports	7	0	7	300	50	50	300	10	200
TY Imports	8	0	8	300	50	50	300	10	200
TY Imp. from U.S.	0	0	0	0	0	0	0	0	0
Total Supply	84,377	84,370	84,377	94,410	94,160	94,160	95,400	95,110	97,035
MY Exports	23	10	23	100	10	10	400	100	100
TY Exports	20	10	20	100	10	10	400	100	100
Feed and Residual	100	100	100	100	100	100	100	100	100
FSI Consumption	70,824	70,830	70,824	78,110	77,950	77,925	79,910	79,910	82,335
Total Consumption	70,924	70,930	70,924	78,210	78,050	78,025	80,010	80,010	82,435
Ending Stocks	13,430	13,430	13,430	16,100	16,100	16,125	14,990	15,000	14,500
Total Distribution	84,377	84,370	84,377	94,410	94,160	94,160	95,400	95,110	97,035

Table 5: Commodity, Corn, PSD
area in '000 hec and others in 1000 MT

Corn India	2008/2009			2009/2010			2010/2011		
	Market Year Begin: Nov 2008			Market Year Begin: Nov 2009			Market Year Begin: Nov 2010		
	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post
Area Harvested	8,200	8,200	8,200	8,000	8,000	8,000	8,200	8,200	8,200
Beginning Stocks	551	551	551	686	800	686	591	750	721
Production	19,730	19,730	19,730	17,300	17,300	16,680	20,000	20,000	20,000
MY Imports	13	0	13	5	0	5	0	0	0
TY Imports	11	0	11	5	0	5	0	0	0
TY Imp. from U.S.	0	0	0	0	0	0	0	0	0
Total Supply	20,294	20,281	20,294	17,991	18,100	17,371	20,591	20,750	20,721

MY Exports	2,608	2,500	2,608	1,000	1,500	1,000	2,000	2,000	2,000
TY Exports	2,551	2,500	2,551	1,000	1,500	1,000	2,000	2,000	2,000
Feed and Residual	7,500	7,500	7,500	7,500	7,500	7,400	8,000	8,000	8,000
FSI Consumption	9,500	9,481	9,500	8,900	8,350	8,250	9,500	9,500	9,800
Total Consumption	17,000	16,981	17,000	16,400	15,850	15,650	17,500	17,500	17,800
Ending Stocks	686	800	686	591	750	721	1,091	1,250	921
Total Distribution	20,294	20,281	20,294	17,991	18,100	17,371	20,591	20,750	20,721

Table 6: Commodity, Sorghum, PSD
area in '000 hec and others in 1000 MT

Sorghum India	2008/2009			2009/2010			2010/2011		
	Market Year Begin: Nov 2008			Market Year Begin: Nov 2009			Market Year Begin: Nov 2010		
	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post
Area Harvested	7,700	7,700	7,700	7,000	7,000	7,000	7,500	7,500	7,500
Beginning Stocks	183	183	183	241	173	171	286	200	226
Production	7,310	7,240	7,240	6,770	6,770	6,980	7,500	7,500	7,500
MY Imports	0	0	0	0	0	0	0	0	0
TY Imports	0	0	0	0	0	0	0	0	0
TY Imp. from U.S.	0	0	0	0	0	0	0	0	0
Total Supply	7,493	7,423	7,423	7,011	6,943	7,151	7,786	7,700	7,726
MY Exports	52	50	52	25	25	25	50	50	50
TY Exports	54	50	54	25	25	25	50	50	50
Feed and Residual	1,200	1,200	1,200	1,500	1,500	1,400	1,500	1,500	1,500
FSI Consumption	6,000	6,000	6,000	5,200	5,218	5,500	5,800	5,800	6,000
Total Consumption	7,200	7,200	7,200	6,700	6,718	6,900	7,300	7,300	7,500
Ending Stocks	241	173	171	286	200	226	436	350	176
Total Distribution	7,493	7,423	7,423	7,011	6,943	7,151	7,786	7,700	7,726

Table 7: Commodity, Millet, PSD
area in '000 hec and others in 1000 MT

Millet India	2008/2009			2009/2010			2010/2011		
	Market Year Begin: Nov 2008			Market Year Begin: Nov 2009			Market Year Begin: Nov 2010		
	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post
Area Harvested	10,000	10,000	10,000	8,500	8,500	8,500	10,000	9,500	10,000
Beginning Stocks	250	250	250	320	280	280	110	70	190
Production	11,370	11,370	11,370	8,590	8,590	8,810	11,500	11,000	11,500
MY Imports	0	0	0	0	0	0	0	0	0
TY Imports	0	0	0	0	0	0	0	0	0
TY Imp. from U.S.	0	0	0	0	0	0	0	0	0
Total Supply	11,620	11,620	11,620	8,910	8,870	9,090	11,610	11,070	11,690
MY Exports	0	0	0	0	0	0	0	0	0
TY Exports	0	0	0	0	0	0	0	0	0
Feed and Residual	1,000	1,000	1,000	500	500	700	500	500	800
FSI Consumption	10,300	10,340	10,340	8,300	8,300	8,200	10,800	10,300	10,500
Total Consumption	11,300	11,340	11,340	8,800	8,800	8,900	11,300	10,800	11,300
Ending Stocks	320	280	280	110	70	190	310	270	390
Total Distribution	11,620	11,620	11,620	8,910	8,870	9,090	11,610	11,070	11,690

Table 8: Commodity, Barley, PSD

area in '000 hec and others in 1000 MT

Barley India	2008/2009			2009/2010			2010/2011		
	Market Year Begin: Apr 2008			Market Year Begin: Apr 2009			Market Year Begin: Apr 2010		
	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post
Area Harvested	750	750	750	780	780	780	790	790	790
Beginning Stocks	31	31	31	67	31	31	157	100	121
Production	1,200	1,200	1,200	1,690	1,690	1,690	1,600	1,600	1,300
MY Imports	3	0	0	0	0	0	0	0	0
TY Imports	2	0	0	0	0	0	0	0	0
TY Imp. from U.S.	0	0	0	0	0	0	0	0	0
Total Supply	1,234	1,231	1,231	1,757	1,721	1,721	1,757	1,700	1,421
MY Exports	167	200	200	150	150	150	150	150	100
TY Exports	37	200	200	150	150	150	150	150	100
Feed and Residual	100	100	100	250	100	250	150	100	100
FSI Consumption	900	900	900	1,200	1,371	1,200	1,350	1,300	1,150
Total Consumption	1,000	1,000	1,000	1,450	1,471	1,450	1,500	1,400	1,250
Ending Stocks	67	31	31	157	100	121	107	150	71
Total Distribution	1,234	1,231	1,231	1,757	1,721	1,721	1,757	1,700	1,421