

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Date: 10/28/2011

GAIN Report Number: IN1200

India

Grain and Feed Update

November 2011

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Report Highlights:

Post reports no changes in the PSD. Continued favorable weather conditions and sufficient late-season monsoon rains are supporting forecast record rice production in marketing year (MY) 2011/12 and providing favorable conditions for the upcoming planting of winter wheat. Government wheat and rice stocks have continued to balloon in MY 2011/12. The government has raised the minimum support price of wheat for the MY 2012/13 by 10 percent over last year's government procurement price. After the lifting of the export ban in early September, non-basmati rice exports are going strong while wheat exports have been slow. Please refer to IN1195 for more information on India's allowing wheat and rice exports as well as recent changes made to the rice and wheat PSD.

Post:

New Delhi

Executive Summary:

Good soil moisture and weather conditions are supporting a record 2011/12 rice production forecast of 100 million tons as well as favorable conditions for 2012/13 *rabi* (winter-harvested) wheat and rice planting. The recent removal of the export ban on non-basmati rice has improved prices, increasing the likelihood of expanded 2012/13 *rabi* rice planting. While there has been strong demand for Indian non-basmati rice since the removal of the export ban, Indian wheat has attracted fewer buyers due to quality and pricing concerns. Market sources report that about 400 thousand metric tons of non-basmati rice have already been contracted for export up to mid-October, while only 250 thousand metric tons of wheat have been contracted through the same period. Despite newly allowed exports, Government of India (GOI) rice and wheat stocks continue to balloon beyond their desired levels.

Author Defined:**RICE****Production Outlook Unchanged**

Post forecasts marketing year (MY) 2011/12 rice production at a record 100 million tons on continued favorable weather conditions. Industry sources report that the *kharif* (fall-harvested) rice crop is progressing well under adequate soil moisture and favorable growing conditions in most rice growing areas. Due to the delayed withdrawal of the 2011 monsoon, most eastern and southern states have received beneficial rains in recent weeks, which support production prospects for late-planted *kharif* rice and planting prospects for the upcoming *rabi* (winter-planted) rice. The recent lifting of the export ban on non-basmati rice has improved market prices, providing further impetus to *rabi* rice planting. The rice crop harvest has started in the northern states (Punjab and Haryana) and early market arrivals of paddy (unmilled rice) point to a bumper crop in the upcoming season. Consequently, Post forecasts MY 2011/12 rice at a record 100 million tons (85.5 million tons *kharif* rice and 14.5 million tons *rabi* rice), compared with the MY 2010/11 production of 95.3 million tons.

Please refer IN 1195 for more information on the MY 2011/12 rice crop situation.

Government Procurement Begins on a Strong Note...

Domestic procurement of MY 2011/12 rice by government agencies through October 20, 2011 is at 4.8

million tons, compared with 4.2 million tons during the corresponding period of MY 2010/11. Most procurement has taken place in Punjab and Haryana, but will gradually spread to the other parts of the country as harvest progresses. Typically, procurement peaks in southern India by late December.

Given the expectation of a record rice crop, the government has set the MY 2011/12 rice procurement target at a record 35.3 million tons, compared to the estimated procurement of 34.0 million tons in MY 2010/11. Market sources speculate that the government may hike the current minimum support prices (Rs. 10,800 for common rice varieties and Rs. 11,100 for Grade-A varieties) by Rs. 500 per metric ton. If procurement prices are raised, government rice procurement may cross 36 million tons in MY 2011/12.

Table 1. India: Rice Production, Procurement Price and Government Procurement

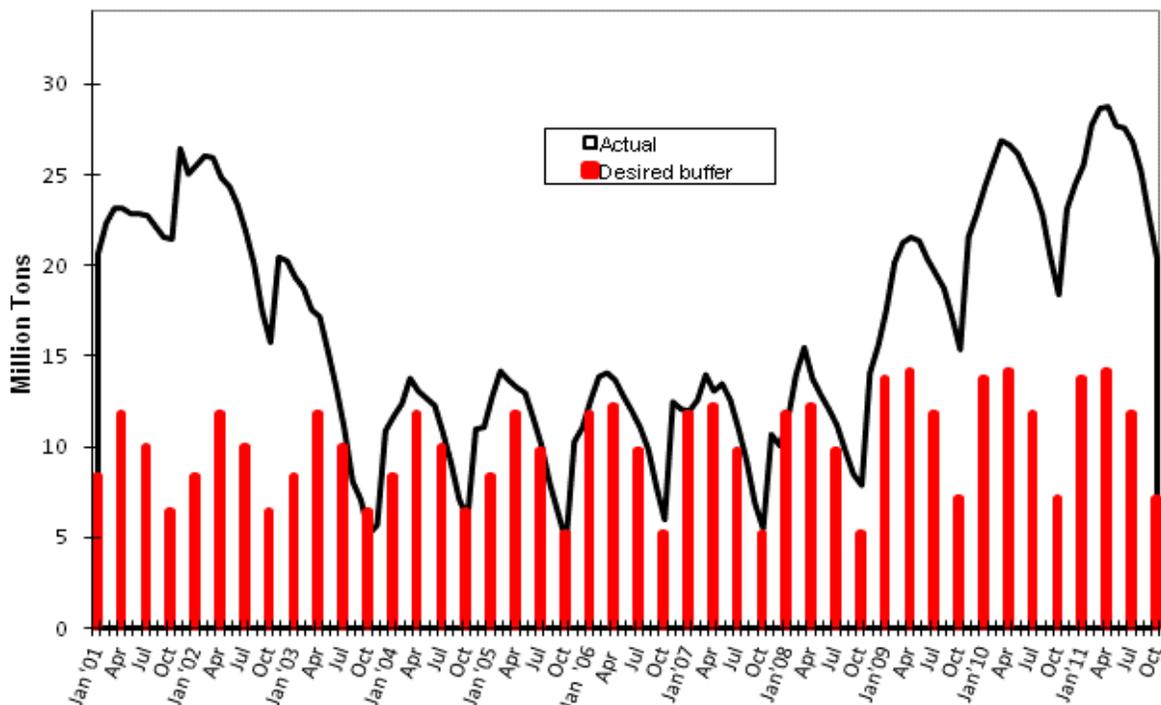
Marketing Year (Oct-Sept)	Procurement Price for Paddy (Unmilled Rice Common variety) Rupees per metric tons	Production Million Tons	Government Procurement Million Tons
2005/06	5,700	91.79	27.58 (30.0)
2006/07	6,200	93.35	25.11 (26.9)
2007/08	7,450	96.69	28.74 (29.7)
2008/09	9,000	99.18	34.10 (34.4)
2009/10	10,000	89.09	32.03 (36.0)
2010/11	10,000	95.33	34.00 (36.0)
2011/12*	10,800*	100.00	36.00 (36.0)

*Note - Government may hike procurement price

Government Stocks Continue to Balloon

Buoyed by near-record procurement, government-held rice stocks (as of October 1, 2011) are estimated at 20.4 million tons compared to 18.4 million tons a year ago. This is nearly three times the government's desired stock level of 7.2 million tons.

Fig 1. India: Rice Stocks - Actual Vs. Desired Buffer Stocks



Although the government is likely to increase the distribution of rice through the public distribution system (PDS), expected record government procurement is likely to further build up government rice stocks in MY 2011/12.

Export Demand Strong, But Infrastructure Constraints Surface

Since the lifting of the export ban on non-basmati rice in early September, export demand has been strong for Indian non-basmati rice, which is very competitive in the international market. Although official statistics are not available, market sources report that about 400 thousand metric tons of non-basmati rice have already been contracted for export up to mid-October. Most of the contracts are destined for Bangladesh and African countries for delivery through early December. Speculation on export prospects for Thai rice has led to steady enquiries from international buyers. The weakening of the Indian rupee compared to the U.S. dollar is also supporting export prospects.

Since non-basmati rice exports were banned for several years in India, infrastructure problems, particularly in ports, have slowed down exports. Exporters are facing problems in arranging cost-effective transport and warehousing facilities. There are also reports of congestion in some of the exporting ports in south India. However, these problems will ease as export volumes increase and logisticians bring more resources on stream. Consequently, Post continues to forecast MY 2011/12 rice exports at 4.5 million tons.

WHEAT

Government Hikes MSP of Wheat

On October 25, 2011, the GOI announced new minimum support prices (MSP) for the 2012/13 *rabi* crops. The MSP of wheat has been raised to Rs. 12,850 per ton, an increase of Rs. 1,150 over the MY 2011/12 government procurement price of Rs. 11,700 per ton (MSP Rs. 11,200 plus a bonus of Rs. 500 per ton). Market sources report that the hike in MSP will bolster planting intentions for the wheat crop and strengthen local wheat prices as the new MSP is well above current market prices (Rs. 11,200 to Rs. 12,500 per ton).

The government also raised the MSP of chickpeas and lentils to Rs. 28,000 per ton, an increase of Rs. 7000 per ton and Rs. 5,500 per ton respectively over last year's MSP. Typically, pulse market prices, including chickpeas and lentils, are well above the MSP for most of the marketing year and the government rarely undertakes procurement operations at MSP.

Late Monsoon Rains Support Planting

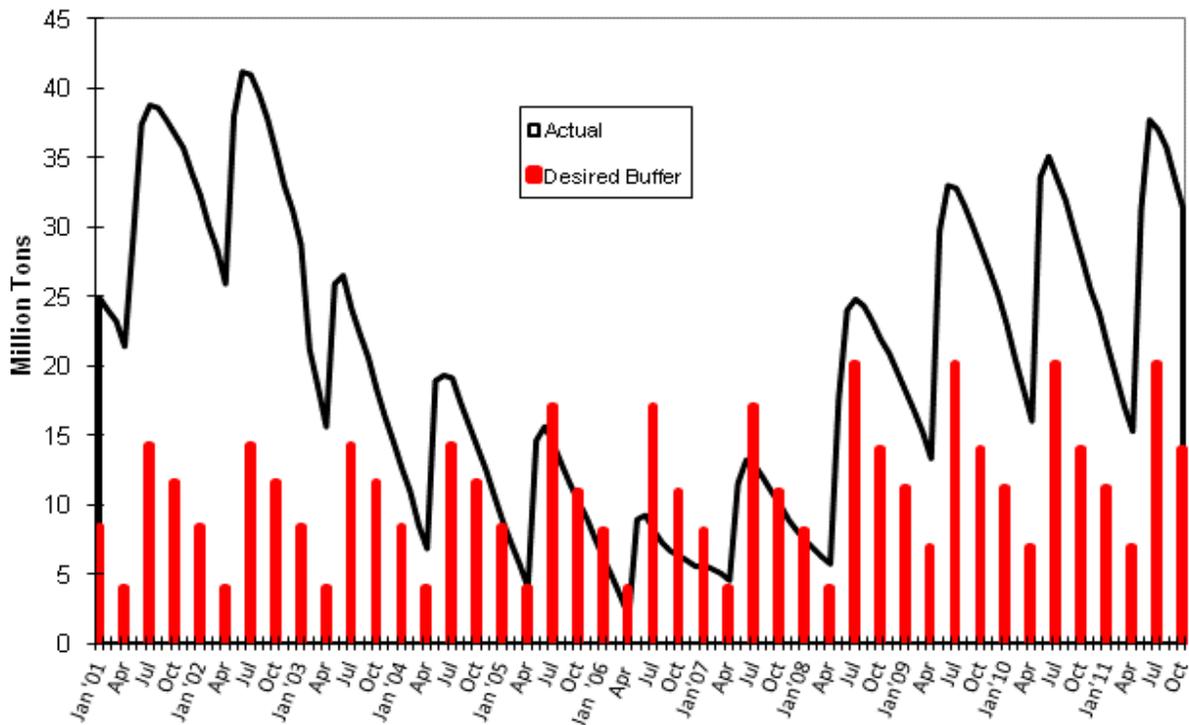
The late withdrawal of the 2011 monsoon and sufficient rain in the last few weeks have created favorable planting conditions for the upcoming *rabi* season wheat crop (MY 2012/13) in the rain-fed wheat-growing areas of central and eastern India. In the last two weeks, the temperature has also come down significantly compared to last year, improving soil moisture conditions and benefitting planting. The recent wheat MSP hike will further boost planting prospects.

Wheat planting will begin in northern India in the next few weeks and will continue through December in central and eastern India. While conditions are favorable for increased planting of the MY 2012/13 crop, production prospects will hinge on the weather during the crop growth stage and temperatures at the time of maturity.

Government Stocks Double Desired Level

A record wheat procurement of 28.1 million tons this year, coupled with low off-take of government stocks in the open market has resulted in a significant build-up of government-held wheat stocks. Government wheat stocks are officially placed at 31.4 million tons (as of October 1, 2011) compared to 27.8 million tons at the same time last year, and more than double the government desired stocks of 14.0 million tons.

Fig2. India : Wheat Stocks - Actual Vs. Desired Buffer Stocks



Riding on four consecutive record crops (MY 2008/09 to 2011/12), government wheat stocks have ballooned. If the production prospects for the upcoming wheat crop remain favorable, the government may have to take steps to liquidate wheat stocks in the open market, even at subsidized prices.

Export Off-Take Slow on Weak demand

After the removal of the export ban on wheat in early September, the demand for Indian wheat has been very weak. Trade sources report that during September through mid-October, only about 250 thousand metric tons were contracted for exports, mostly for Bangladesh. Market sources report that Indian wheat is facing buyer concerns over quality and uncertainty about future government policy. The expected increase in market prices of wheat due to the recent hike in MSP will make Indian wheat less competitive.

Exchange rate: Rs. 49.8253 = \$1.00 on October 25, 2011