1st March 2011

WHEAT SEASONAL REPORT

Investment strategies:

Positions (NCDEX)	Contracts	TP	SL	Risk	Reward	Roll over
Sell at 1270-1290	*March*	*1180/1150*	*1368*	-8800	10000	15th March
Sell at1220-1240	*April*	*1110/1100*	*Above 1310*	-8000	12000	15th April
Buy at 1130/1150	*June/July**	*1300/1340*	*1050*	-9000	16000	15th June/July

*BUY ***Positions should be taken in the month of May/June-2011***

Hypothetical investment scenario:

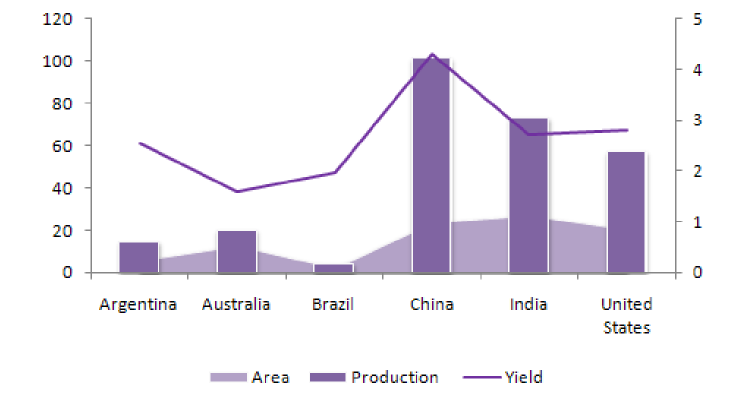
Investment amount	*Rs. 100,000*
Initial Margin/ lot	*5 per cent on contract value*
Approximate positions	*15 lots*
****Recommended***	*10 lots*

****Remaining money can be utilized for mark to market (M2M)***

In short to medium term wheat prices are projected to be bearish. The quality of the arrivals is also expected to be good as the showers at tillering stages supported good growth and also output. The harvesting across the regions of Madhya Pradesh has started followed by Punjab, Haryana and Uttar Pradesh. The increase in the production by 1.5 million tons might also exert pressure on the prices till the month of April May till the procurement form the FCI comes to an end.

The year 2010 was earmarking for the commodity wheat globally. The wheat prices in the international market reasoned by 46% in the year 2010 while the Indian wheat prices declined by 5% due to higher production. The droughts in the black seas regions in the last year and the spurting of the international wheat prices have kept commodity in lime light. In India higher productions, improper storage facilities of the FCI procured stocks and the pending export decisions were the major issues related to the commodity.

Figure 1 : Major producers of wheat in the world



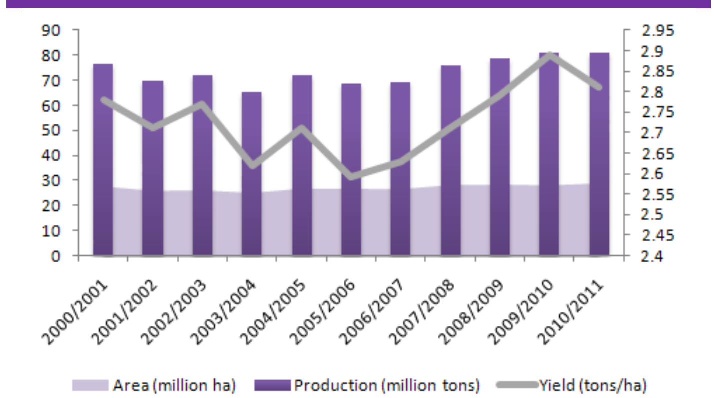
Source: FAS-USDA

Wheat is regarded as an essential commodity by the Indian government under the Essential Commodities Act, 1955 (EC Act). The government declared wheat as an essential commodity to ensure its availability to people at fair price. The EC Act, 1955 allows the government to control the production, supply, and distribution of the commodity for maintaining or increasing supplies and securing their equitable distribution. Thus the government retains the decision making power about the imports, exports and the Minimum support prices.

Production:

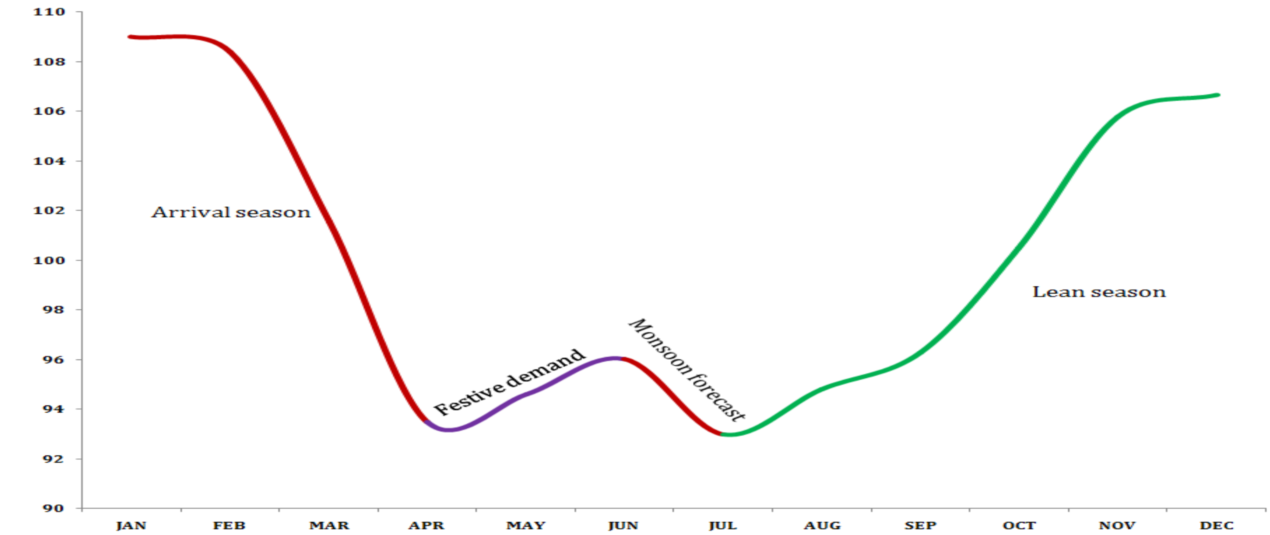
India is the second largest producer of wheat next to China in the world. The CAGR of the production is recorded highest in Brazil (8%) and the lowest in Argentina (-2%). The production rate has remained better in china (2.6%) while India (1.28%) and U.S (1.25%) are at par in the growth of wheat production. Average yield of wheat in the world is around 2.6 tons/ha and the yield in India is almost at par wit it at 2.52 tons/ha. After the Green Revolution in the 1970's and 1980's the production of wheat has shown a huge increase in India. The major States where wheat is cultivated are Uttar Pradesh, Punjab and Haryana. These states contribute 70 per cent of the total wheat produced in the country. Punjab and Haryana yield the highest amount of wheat because of the availability of better irrigation facilities. The production of wheat in other States like West Bengal, Kerala, Assam, Orissa and Andhra Pradesh has grown with the provision of better irrigation facilities in the area.

Figure 2: Area, Production and Yield of wheat in India



Source: FAS-USDA

Figure 3: Price seasonality of wheat in India



Source: Bloomberg

CROP CALENDAR

COUNTRY	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
INDIA RABI		Harvest	Harvest	Harvest						Plantation	Plantation	
AUSTRALIA					Plantation	Plantation	Plantation			Harvest	Harvest	Harvest
US WINTER						Harvest	Harvest		Plantation	Plantation		
US SPRING				Plantation	Plantation			Harvest	Harvest			
ARGENTINA					Plantation	Plantation					Harvest	Harvest
CHINA					Harvest	Harvest			Plantation	Plantation		

Plantation
Harvest

The prices of wheat of wheat are generally at their high during the month of Jan- Feb as the weather across the major growing areas during this season generally has impact on the prices. This is also lean season for the arrivals which keep the prices in upswing. The harvesting of wheat starts in the month of March from when the prices fall drastically. Slight recovery in the prices can be seen towards the end of may as the demand for the wheat and its products pick up to fulfill the requirement of the marriage season which starts from august. Along with the demand the arrivals come to end across the spot markets which help the prices to move north wards towards the end of the August. The prices stabilize once the sowing season has come to end as the FCI also will release any excess stocks into the spot market through the open market sale scheme.

Consumption:

India is one of the main wheat producing and consuming countries of the world. The per capita consumption of the wheat has increased by 30% from 63 kgs (1997) to 81.2 kgs (2011) but the

CAGR of the production is around 1.27% in the last 10 years in India. The consumption pattern of wheat depends on its uses and regions of consumption. Wheat is classified as spring wheat and winter wheat which includes soft and hard varieties. The consumption during the current year is estimated around 82 million tons. The central government procures around 25 million tons wheat from the farmers during the arrivals season to maintain some buffer stocks to meet the basic food requirement of the country.

Types of Wheat	Similar Indian varieties*
Soft Red Winter Wheat	Dara, Kalyan, Mexican, Sharbati, 147-Avg. Lok-1
Hard Red Winter Wheat	Dara, Kalyan, Mexican, Sharbati, 147-Avg. Lok-1
Hard Red Spring Wheat	-
Durum spring Wheat	Desi (Durum)

Correlation:

Correlation	CBOT	NCDEX futures	Spot
CBOT	1.00		
NCDEX futures	0.29	1.00	
Spot	0.29	0.96	1.00

The statistical correlation between CBOT wheat and the NCDEX wheat is around 0.29 % which is very negligible. The contract specifications between the wheat traded on the national exchanges and the international exchanges is different. This difference is due to the varieties grown in the different regions and the consumption pattern. The supply demand prospects of wheat internationally might have only sentimental impact on the Indian wheat traded on exchanges but not any direct impact as we stand neutral in international market by neither importing nor exporting. Thus the price movement of the wheat on Indian commodity bourses is entirely dependent on the supply demand situation in India alone.

Government policies:

Balance sheet for FY 2010-11 (Million tons)	
Beginning Stocks	16.1
Production	81.47
Imports	0.3
Total Supply	**97.87**
Consumption	82.435
Exports	0.2
Ending Stocks	15.235
Total demand	**97.87**

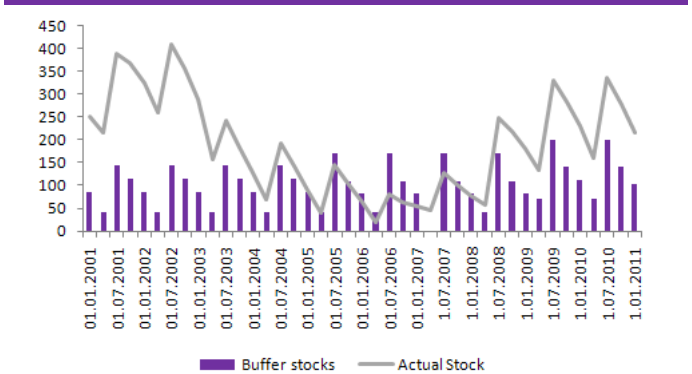
Exports: The Indian government has banned the exports of wheat in July 2009 due to prediction of poor performance of the Kharif crop. The removal of export ban on wheat is been in discussion from last year as the international wheat prices are trading higher. However we foresee bleak chances of any exports in high quantum as the export destinations of wheat are our neighbouring countries like Pakistan and Bangladesh. The consumption of variety of the wheat grown in India is confined to the South Asian regions. The decisions of exports of wheat by the central government might be considered only after June in view of supporting sufficient procurement of wheat by the FCI to meet the buffer stocks and strategic reserve norms. Mean while the onset of monsoon for the year 2011-12 would weigh on the decisions. The production of wheat according to the second advance estimates might be 1.5 million tons excess from the production during the last year. This could be considered as a very nominal figure when compared to the growth rate of the population and the consumption which would make it difficult for the policy makers to allow wheat exports.

Food security Act: The Indian Finance minister has announced in the budget session that the National Food Security Bill (NFSB) will be introduced in the Parliament during the course of this year. The proposed allocation of ₹ 1, 60,887 crore for social sector in 2011-12 is an increase of 17 per cent over current year. It amounts to 36.4 per cent of the total plan allocation.

The requirement of wheat reserves to pass the food security act is 14.5 million tons apart from the 40.3 million tons buffer stocks and 12 million tons of the strategic reserves. The off take of the running schemes in which wheat is distributed to BPL families is around 70% of the wheat reserves

with the central government. The implementation of Food Security Act would require a total of 66.3 million tons of the reserves with the central government. The growth rate of the Indian population (1.38) is almost at the par with the production growth rate of wheat (1.28). Though the population growth remains stagnant the growth of the production of wheat has to increase at much higher pace. Higher international wheat prices decreases the hopes of import while process to create new storage capacity of 150 lakh metric tons through private entrepreneurs and warehousing corporations has been emphasized in the budget. Decision to create 20 lakh metric tons of storage capacity under Public Entrepreneurs Guarantee (PEG) Scheme through modern silos has been taken. This will add about 2.6 lakh tons of capacity by March 2011, based on existing sanctions, the addition will reach 40 lakh tons by March 2012. During 2010-11, another 24 lakh metric tons of storage capacity has been created under the Rural Godown Scheme.

Figure 4 : Buffer stocks norms and actual stocks

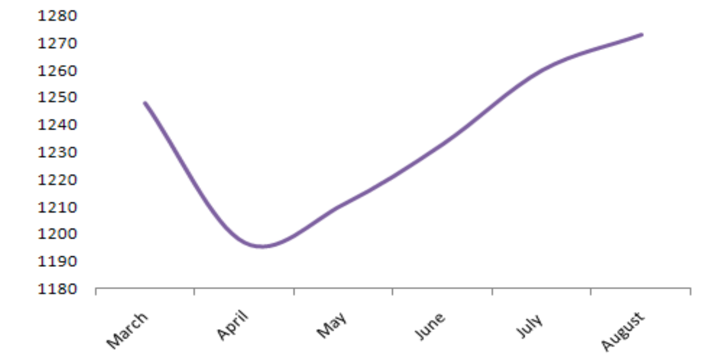


Source: Ministry of Consumer Affairs, Food and Public

Price outlook: Wheat prices are expected to trade bearish in the short term as the arrivals increase across the spot markets. The quality of the arrivals is also expected to be good as the showers at tillering stages supported good growth and also output. The harvesting across the regions of Madhya Pradesh has started followed by Punjab, Haryana and Uttar Pradesh. The bleak chances of exports from India might weigh on the prices to trade lower. The millers across the spot markets would await the prices to fall close to the MSP levels to buy in bulk quantities. The millers might show preference towards buying wheat in the open market sale scheme of FCI as pet their requirement which would also decrease the storage costs. The increase in the production by 1.5 million tons might also exert pressure on the prices till the month of April May till the procurement form the FCI comes to an end. The prices might recoup from their lower levels from June onwards as the arrivals across the spot markets come to an end and the demand for wheat and wheat products surges across the spot markets in India for the festival season which starts from August. The decision of the exports which can again remerge during the period of June shall support the prices to gain.

Calendar spreads: The calendar spread between the contracts is in backwardation in the near month contracts. We are expecting the backwardation effect to further increase as the crop arrivals hit the market in April. The backwardation effect can be seen till May month contract from where we are expecting the market to turn into contango as the prices of the far month contracts will further increase on expectations of the increase in demand in future.

Figure 5: Major producers of wheat in the world



Technical Analysis:

Wheat prices made a high of 1435 in the month of January 2011 from which levels the prices fell drastically. Overall, it declined as much as 7.9% and currently prices are at 1251 levels.

Fibonacci principle: It suggests market has breached the support at 1272 (23.6% retracement of the range 1461-662) levels and currently trading below the same showing further downside potential till 1155 levels (38.2% retracement) followed by 1061 (50%).

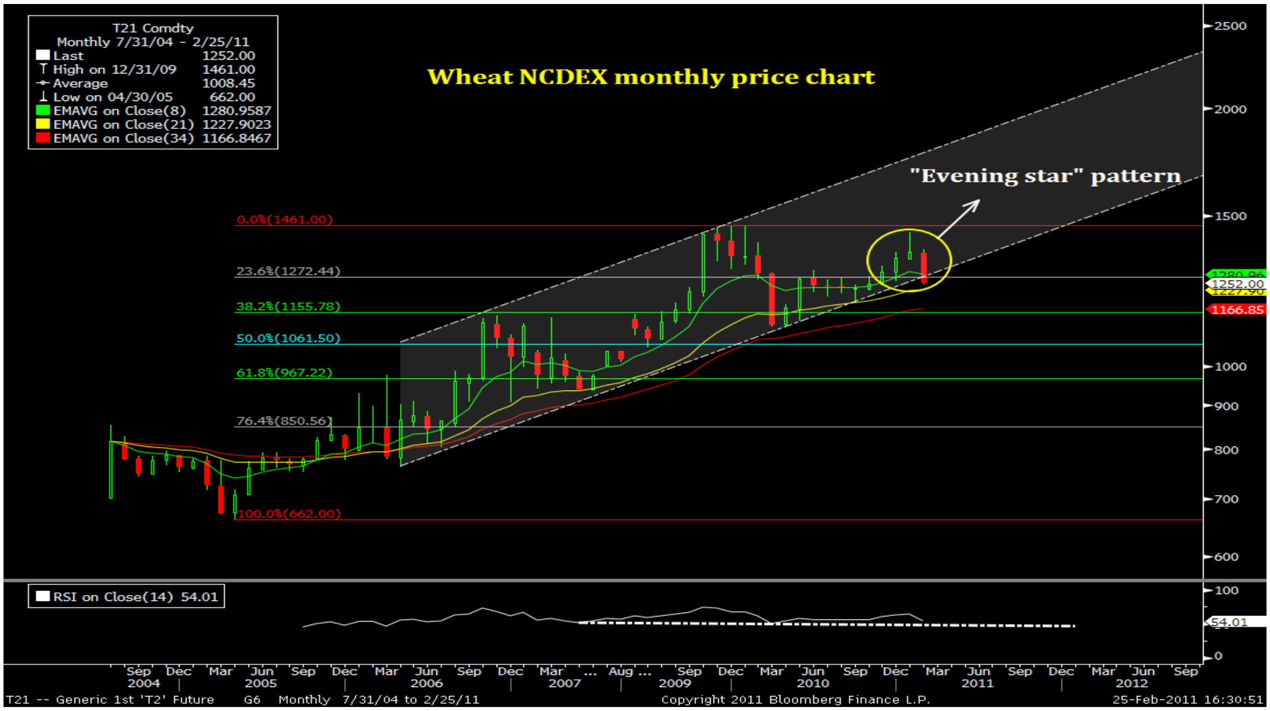
Trend channel: Market is trading below the lower trend line. However, closing below the same is possible to continue its downfall in short term.

***Candlestick pattern*- "Evening star" (Reversal in nature):-** As the name itself suggests reversal trend and prices are expected to remain lower. This pattern is enclosed in yellow circle.

Moving average: Prices are hovering below the 8 monthly EMA and heading towards 21 and 34 EMA suggesting downside trend for short term.

Relative strength Index (RSI): RSI monthly is hovering at 0.54 levels and witnessing a support near 0.47 levels. Sustain above the same is possible to resume its uptrend.

Outlook: Overall, we from KCTL expect prices to move down for short term having a strong supports near 1155 followed by 1061 levels.



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