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# GAIN Report

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## India

**Post:** New Delhi

### Grain Update - April

**Report Categories:**

Grain and Feed

**Approved By:**

Holly Higgins

**Prepared By:**

A. Govindan

**Report Highlights:**

Post revises the MY 2009/10 (Apr-Mar) wheat production forecast marginally downward to 77.5 million tons from the February forecast of 79 million tons, in response to reported declines in planted area and yield from last year's level. However, government wheat procurement this marketing year is likely to reach a new record of over 24 million tons in response to a significant increase in the minimum support price and likely lower private trade involvement in wheat purchases in the face of the potential risk posed by government interference in the wheat market later in the season. Wheat stocks with the government are expected to balloon to around 34 million tons by end-June, which combined with larger than normal rice stocks could pose a serious storage challenge to the government. The government has recently agreed in principle to allow exports of two million tons of wheat, the formalities of which will be finalized only after the national elections in May. However, considering the high cost of Indian wheat due to high official support price, exports without a subsidy appear infeasible. The export ban on non-basmati rice remains in force.

## **General Information:**

### **Wheat production forecast lowered ...**

Post revises the 2009 (MY 2009/10) wheat production forecast marginally downward to 77.5 million tons from the earlier forecast of 79 million tons. Although wheat planting was ahead of last year's pace at the beginning of the season, the latest official data shows a marginal decline in planted area at 27.8 million hectares compared to 28.1 million hectares in MY 2008/09. The decline was in Rajasthan, Gujarat, Madhya Pradesh, and Maharashtra, where some wheat area was diverted to competing crops such as rapeseed/mustard and pulses due to poor soil moisture conditions. However, Uttar Pradesh, the largest wheat growing state, recorded a significant increase in wheat area, coming mostly from sugarcane.

Wheat yields this year are likely to be marginally lower than last year's record yield of about 2,800 kg/hectare because of higher than normal temperatures in February and March in major wheat growing regions, lack of winter rains, emergence of yellow rust in some parts of Punjab, and untimely rains in northwestern India in late March, which caused some lodging.

### **... But procurement likely to be a record**

Despite a likely decline in wheat production, government wheat procurement under the minimum support price operation is likely to surpass last year's record level of 22.7 million tons and could reach 24 million tons or more. Factors supporting higher government wheat procurement in MY 2009/10 include a significant hike in the support price to Rs. 10,800 (\$212) per ton from last year's Rs. 10,000 (\$196) per ton and a lack of private trade interest in wheat purchases in the face of uncertainty posed by potential government interference in the wheat market later in the season. With a view to encourage increased private participation in wheat procurement, the government recently removed the licensing requirements, stocks limit and movement restrictions imposed on the private wheat trade since August 2006. However, such restrictions on rice, pulses, and vegetable oils continue. Export restrictions on wheat and wheat products by the private trade also continue.

### **Stocks to surge**

Government-held stocks of wheat as of July 1, 2009, are projected at around 34 million tons, against 24 million tons a year ago and the government's desired July 1 minimum buffer stock level of 17.1 million tons. This is the second highest wheat stock level since 2002, when stocks had peaked at 41.3 million tons, prompting the GOI to export wheat at highly subsidized rates. The large stocks build up is not so much the result of higher output as they are of government policy measures, which increased the public sector's role in the marketing

of wheat and rice. The massive wheat stocks combined with large rice stocks (projected at 19 million tons on July 1) could pose a serious storage challenge to the government. Government grain storage facilities will be under enormous strain, with storage costs and grain losses mounting.

### Rice procurement also heading for a record ...

MY 2008/09 (Oct-Sep) domestic rice procurement by the government through mid-March is ahead of last year by four million tons at 24.7 million tons. At this rate, MY 2008/09 rice procurement will end up at a record 32 million tons - almost one-third of domestic rice production - against 28.5 million tons in MY 2007/08. Rice stocks on January 1, 2009, were 17.6 million tons against 11.5 million tons a year ago and the government's desired minimum buffer stock level of 11.8 million tons.

### ... Nevertheless export restrictions continue

Despite the comfortable rice supply situation, the government has not permitted exports of non-basmati rice, as such a decision could ostensibly further push domestic rice prices from the already high levels. The election promises by major political parties include making available rice to below-poverty-line segments at highly subsidized prices of Rs. 2 to Rs. 3 per kilogram. If this promise is fulfilled, then the next government would need a significant amount of rice. Although the government has recently removed private trade stocks holding limits on wheat, stock limit restrictions on rice were extended up to September 30, 2009.

**Table 1: Commodity, Wheat, PSD**

| Wheat<br>India    | 2007                        |        |          | 2008                        |        |          | 2009                        |        |                  |
|-------------------|-----------------------------|--------|----------|-----------------------------|--------|----------|-----------------------------|--------|------------------|
|                   | 2007/2008                   |        |          | 2008/2009                   |        |          | 2009/2010                   |        |                  |
|                   | Market Year Begin: Apr 2007 |        |          | Market Year Begin: Apr 2008 |        |          | Market Year Begin: Apr 2009 |        |                  |
|                   | Annual Data Displayed       |        | New Post | Annual Data Displayed       |        | New Post | Annual Data Displayed       |        | Jan              |
|                   |                             |        | Data     |                             |        | Data     |                             |        | Data             |
| Area Harvested    | 28,000                      | 28,000 | 28,000   | 28,150                      | 28,150 | 28,150   |                             | 28,400 | 27,800 (1000 HA) |
| Beginning Stocks  | 4,500                       | 4,500  | 4,500    | 6,410                       | 5,800  | 5,800    |                             | 14,000 | 14,000 (1000 MT) |
| Production        | 75,810                      | 75,810 | 75,810   | 78,600                      | 78,600 | 78,600   |                             | 79,000 | 77,500 (1000 MT) |
| MY Imports        | 1,881                       | 1,793  | 1,793    | 0                           | 0      | 0        |                             | 0      | 0 (1000 MT)      |
| TY Imports        | 1,881                       | 1,800  | 1,800    | 0                           | 0      | 0        |                             | 0      | 0 (1000 MT)      |
| TY Imp. from U.S. | 0                           | 0      | 0        | 0                           | 0      | 0        |                             | 0      | 0 (1000 MT)      |
| Total Supply      | 82,191                      | 82,103 | 82,103   | 85,010                      | 84,400 | 84,400   |                             | 93,000 | 91,500 (1000 MT) |
| MY Exports        | 50                          | 50     | 50       | 200                         | 100    | 100      |                             | 2,000  | 2,000 (1000 MT)  |
| TY Exports        | 43                          | 50     | 50       | 300                         | 100    | 100      |                             | 2,000  | 2,000 (1000 MT)  |
| Feed Consumption  | 200                         | 200    | 200      | 100                         | 100    | 100      |                             | 100    | 100 (1000 MT)    |
| FSI Consumption   | 75,531                      | 76,053 | 76,053   | 77,500                      | 70,200 | 70,200   |                             | 72,400 | 72,400 (1000 MT) |

|                    |        |        |        |        |        |        |  |        |        |           |
|--------------------|--------|--------|--------|--------|--------|--------|--|--------|--------|-----------|
| Total Consumption  | 75,731 | 76,253 | 76,253 | 77,600 | 70,300 | 70,300 |  | 72,500 | 72,500 | (1000 MT) |
| Ending Stocks      | 6,410  | 5,800  | 5,800  | 7,210  | 14,000 | 14,000 |  | 18,500 | 17,000 | (1000 MT) |
| Total Distribution | 82,191 | 82,103 | 82,103 | 85,010 | 84,400 | 84,400 |  | 93,000 | 91,500 | (1000 MT) |
| Yield              | 3.     | 3.     | 2.7075 | 3.     | 3.     | 2.7922 |  | 3.     | 2.7878 | (MT/HA)   |