

Wheat futures have fallen over INR100 per quintal from last couple of weeks. Reports of a likely reduction in sale price by the Indian Government along with higher Rabi acreage estimate had a bearish impact on prices. At NCDEX, January futures fell from INR1440 levels to INR1320 since the first week of December.

As per media reports, the Government is expected to reduce sale price of wheat to INR 1250 under its Open Market Sale Scheme (OMSS). The Government is under pressure to contain rising inflation, where food inflation almost touched 20 percent (19.95 percent for week ending 5 December). Government had earlier fixed open market sale price at INR1400, but there were no many buyers at this higher price. MSP for Rabi wheat 2009-10 is fixed at INR1100 per quintal, a marginal rise of INR20 from last year.

Food Corporation of India, a Government procurement agency is reported to have stocks of around 22 million tonnes. It may also require offloading partial stocks before the commencement of new arrivals in Feb-March next year. India produced record quantity of 80.58 million tonnes in Rabi 2008-09.



As per the latest estimates, area under Rabi wheat crop stood at 231.32 lakh hectares against 226.01 lakh hectares in last year. Fresh crop arrivals start from February in northern states. The current weather condition (cold waves) is favorable for the crop's growth and may lead to better output.

Price outlook

Given the current fundamentals and moves from the Government to reduce sale price, wheat prices is expected to remain under pressure in the short term. Currently, spot prices are quoting at INR1400 per quintal at Delhi and it is expected to recede slowly towards INR1250-1300 before the commencement of new crop season in February.

Wheat futures (January NCDEX) are currently trading at INR1340 and expected to decline towards INR1280-1300. However, in long term, futures are not likely to decline below INR1100 per quintal, since MSP is fixed at INR1100 per quintal.

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