

INDIAN MONSOON, PRONE TO DISEMBARK NORMALLY AND BEFORE TIME....



Indian Monsoon, a vital role player of Indian economy is seems to be arriving 10-12 days before the usual days. This prophecy is being done according to the current weather conditions shown in southern part of the country. Monsoon always being playing a mockery with Indian economy, because metrological department always being chasing it for the right forecasting but except few occasions it didn't matched the predictions of weather departments and actual rain happened in past years. This time again the weather department is expecting the sooner than scheduled period of time. Actually the four-month monsoon season in India usually begins on June 1 with the first showers in Kerala and covers the rest of India and neighboring countries by July. But last year, the June-September season, which delivers 75-90 percent of the total rainfall in most parts of India, was the worst since 1972, stoking inflation and making India the world's top buyer of edible oils and a big sugar importer.

Indications of Early Monsoon

This time anticipation of earlier monsoon is being done by a former director at the India Meteorological Department and professor emeritus, department of atmospheric science, at the Cochin University of Science and Technology. He said the forecast was based on a phenomenon known as "pre-monsoon rain peak" in which the temperature of the Bay of Bengal off the east coast of the subcontinent rises about 40 days before the monsoon and clouds near the equator move north to bring rains on the southern tip of India. He also said that, when monsoon rains are delayed, this phenomenon occurs in early May, but this year it was observed in the first half of April, signaling early arrival of rains.

A senior weather scientist at a government body also agreed there is a correlation between the "pre-monsoon rain peak" and the onset of the monsoon, but there may be a gap of up to four days between the forecast based on this phenomenon and the start of rains. If rains begin before the usual date, it helps early sowing and harvesting of crops such as rice, soybean, and corn and shields them from any dry spell towards the end of the season. The Indian monsoon, forecast to be normal this year, is keenly watched by traders and analysts as the country, one of the world's top producers and consumers of sugar, wheat, rice and edible oils, counts on rains to irrigate 60 percent of its farms.

GOOD & BAD MONSOON

Being a farm-dependent economy, Failure or Success of the annual summer southwest monsoon fixes the fate of India economy and here are some likely scenarios which could result after the monsoon season:

Seasonal & Past Week Rainfall

	CATEGORYWISE NO. OF SUBDIVISIONS		
	29.04.2010 TO 05.05.2010	22.04.2010 TO 28.04.2010	30.04.2009 TO 06.05.2009
EXCESS	13	10	5
NORMAL	4	4	7
DEFICIENT	9	4	9
SCANTY	9	8	9
NO RAIN	1	10	6
All India Area Weighted Rainfall (mm.)			
Actual	Normal	% Departure	
11.4	12.1	-6	

	CATEGORYWISE NO. OF SUBDIVISIONS		
	01.03.2010 TO 05.05.2010	01.03.2010 TO 28.04.2010	01.03.2009 TO 06.05.2009
EXCESS	4	3	1
NORMAL	5	5	7
DEFICIENT	12	9	9
SCANTY	14	17	18
NO RAIN	1	2	1
All India Area Weighted Rainfall (mm.)			
Actual	Normal	% Departure	
59.2	78.7	-25	

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Good Monsoon

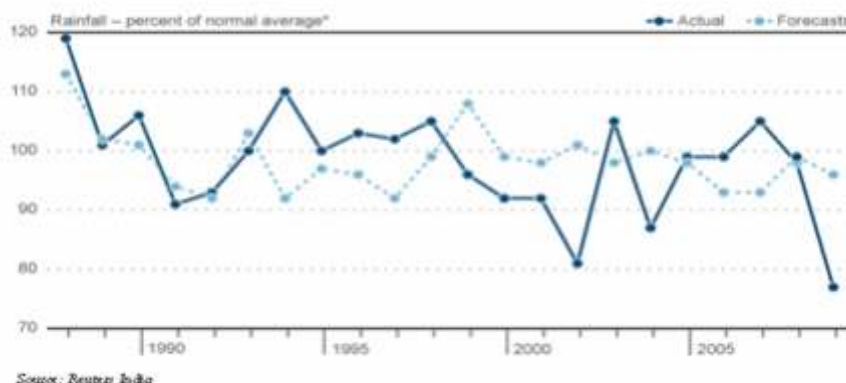
Helps to Sow rice, sugarcane, soybean and corn, and boost output.

A booster for the Congress-led government in its efforts to ease food inflation, which has become a lightning rod for the opposition political parties.

Central bank may not have to further tighten monetary policy to rein in inflationary expectations.

High temperatures during the pre-monsoon period are considered to be helpful for the early sowing of rice, soybeans and lentils.

India monsoon – actual vs official forecasts



IMPACT ON INDIAN ECONOMY

The monsoon of India which pours rains between June to September is key for the country's farm output and help shape government policies on import and export of farm commodities. This time India's weather office expects normal rainfall in the June-September monsoon season and also raising hopes of a rebound in farm output after last year's severe drought. About half of India's farm output comes from crops sown during the June-September monsoons season. Even for crops sown later, the monsoon is important as good rains raise soil moisture, which is good for crops like wheat, the main winter-sown crop. There are some major crops heavily depends on monsoon rains and any shortfall in it might affect the farm output and Indian economy as well.

Crops

Wheat: The crop is sown in winter, after the monsoon season, but good rainfall would improve the overall food situation and encourage the government to ease curbs on wheat exports that were imposed three years ago. India is the world's second-biggest wheat producer and is forecast to produce a record crop this year.

Rice: India has two rice crops in a year but more than 80 percent of the output comes from the summer-sown crop and Indian farmers plant paddy at the beginning of the monsoon season. The crop is heavily dependent on good rains for irrigation. Last year, weak monsoon rains, which began with India's driest June in 83 years, saw India's rice output fall 14 percent. This encouraged the government to issue tenders to import rice, but India did not buy rice as prices were very high.

Sugarcane: Good monsoon rains will boost output reducing sugar imports because cane crop needs good monsoon rainfall for proper growth. Last year, a severe drought in India's biggest cane-growing state of Uttar Pradesh hit sugar output in the world's top consumer, making India a large importer and a key driver of the rally in global sugar prices. Monsoon forecasts are keenly watched by international sugar traders. Sugar imports by the world's biggest consumer of the sweetener last year pushed New York futures to a 29-year high.

Higher rains in rice-producing belts of south, central and eastern India, and oilseed-growing central and western regions would augur well for domestic supplies.

Early monsoon rains would reduce the demand supplementary irrigation needed for the cotton crop during peak summer season, saving energy and input costs.

A good harvest would raise supply and reduce food inflation that soared to 16.04% in April.

Help the government to lift various trade curbs imposed in the recent years to rein in high food prices.

India monsoon and rice crop



Source: Reuters India

Oilseeds: Monsoon rains affect the output of soybeans, a vital crop for the world's top importer of edible oils. Better oilseed output would reduce the growth in edible oil imports and increase oil meal exports. Weak rains last year reduced domestic supply of oilseeds and pushed India ahead of China as the world's top importer of edible oils. Groundnut, grown mainly in western India, also needs good monsoon rains. Better oilseed output would reduce the growth in edible oil imports and increase oilmeal exports.

Corn, Soybean & Cotton: These are also important crops in western and central India which depend heavily on monsoon rains.

Electricity & Irrigation

Monsoon rains replenish reservoirs and increase ground-water levels, allowing better irrigation and higher generation of hydropower. Good rainfall also reduces demand for diesel, which is used to pump water from wells for irrigation, when rainfall is scanty. Only 40 percent of India's cultivated land has adequate irrigation facilities. The rest depends on rainfall.

Economy

A Good monsoon rains lift rural demand, as higher farm output raises the income of rural people, who account for two-thirds of India's 1.1 billion population. Higher demand for goods and services can boost overall economic growth and a bright outlook for the economy could dampen sentiment in the bond market. Further it would cut sugar imports, free up grain exports and buy more gold as rains boost supplies in the world's leading consumer of most farm commodities. Annual monsoon rains from June to September are key to firing up growth and farm output and limiting inflation in India, which ranks among the world's top producers and consumers of sugar, wheat, rice and edible oils and is the biggest buyer of gold. The monsoon is definitely going to help us in easing supply concerns and food inflation and our imports of sugar and edible oil may go down due to better output of soybean and sugar cane.

Would encourage the government to ease export curbs on wheat and rice, tax sugar imports, and impose import taxes on crude varieties of vegetable oils.

Due to good monsoon & related increase in farm incomes can stoke gold demand in the world's biggest consumer.

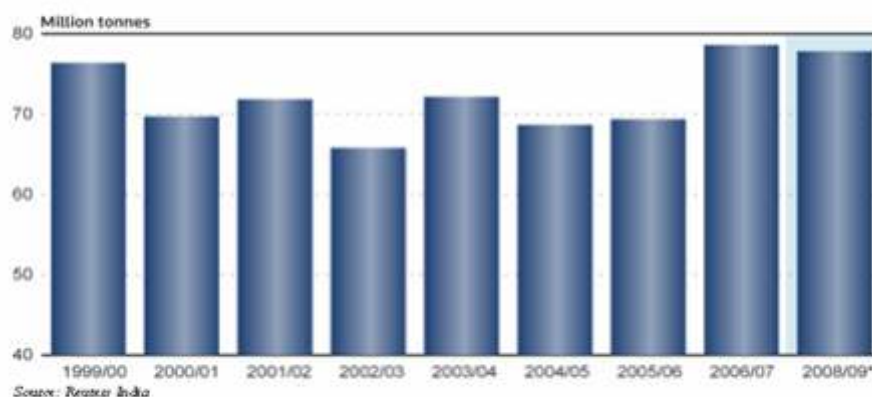
Higher demand for goods and services can boost economic growth.

Bad Monsoon

Failure of monsoon would lead to higher imports of sugar and cooking oils.

Monsoon forecasting is still can go skewed as happened last year, when India suffered its worst drought since 1972, despite a forecast for a similarly normal monsoon. That drought cracked the earth in rice and cane fields, forcing the world's top sugar consumer to import a record 5 million tonnes and helping drive sugar futures to their highest in nearly three decades.

India's annual wheat output



Grain Exports: The government has already clamped down on exports of wheat and rice and banned futures trade in several farm commodities, hoping to ensure steady supplies at reasonable prices in the run-up to general elections last year. Its ban on export of non-basmati rice helped as last year's drought had devastated rice fields in many regions, prompting the government to consider rice imports. State firms even issued import tenders, only to back out when the bids proved too high.

Good monsoons rains can boost raise rice output, which may lead to export of small quantities of regular grades, and at the very least, obviate imports. The government expects rice output in the year to June 2010 to fall 14 percent to 72.87 million tonnes, but stocks on April 1 stood at a comfortable 26.7 million, or more than double a target of 12.2 million. A normal monsoon will induce the government to get rid of huge grain stocks, even exploring the option of allowing exports of rice.

Wheat exports seem more likely as the crop being harvested this month is likely to soar to a record 82 million tonnes, exceeding domestic demand for the fourth year straight. India had stocks of 16.1 million tonnes of wheat on April 1, four times the target of 4 million tonnes. There is an increasingly a robust case for exporting wheat because India already has large wheat stocks and the country can certainly afford to export wheat. The government has already allowed state firms to ship small quantities of wheat and regular grades of rice to neighbours Nepal and Sri Lanka, and may more shipments may be encouraged.

Difficult for the government to manage high prices in essential food items would result in strengthening of opposition parties and may trigger widespread protests.

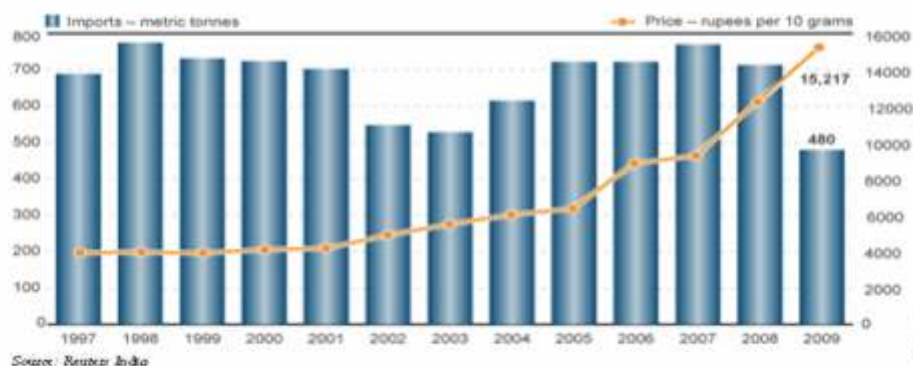
High Inflation could force the central bank to further tighten rates, possibly endangering the economic recovery and making the government's record borrowing program more difficult to manage.

Trade curbs on grain would continue. Hopes of wheat exports amid bulging stocks and record output would be dashed.

Failure of monsoon for second straight year would severely hit output prospects for winter crops like wheat and rapeseed due to moisture stress and poor water reservoir levels.

Plantation of more Cane: After tasting highest ever price of sugar in FY10 sugar, farmers in India have increased cane acreage and on top of that, if they get good monsoon rains, the country's sugar production will increase back to the pre-2008 level, which is in excess of 22 million tonnes. That should embolden India to scrap emergency steps taken last year to bridge the sugar scarcity, such as duty-free imports, limits on stocks of sugar held by traders and firms and a sharp rise in state-set cane prices. A good monsoon will improve cane planting and improve yields, resulting in higher sugar output. Sugar import demand will fall. India's sugar output is expected to rise 27 percent to 24.7 million tonnes in the year to September 2011.

Yearly India gold imports



Gold Imports: Monsoon rains are a key driver for rural incomes as two-thirds of India's 1.2 billion people live in villages and work on farms. Rainfall would boost India's demand for gold. India's gold imports last year are estimated at 339.8 tonnes the Bombay Bullion Association (BBA) says, while first-quarter 2010 imports are up 30 percent on the year at 90.5 tonnes. The gold market suffered its worst year in more than a decade in 2009, when annual imports fell 20 percent as India's monsoon failed, felling farm output and shrinking consumer spending.

Markets

A stronger outlook for the economy can lift sentiment in equity markets, particularly of companies which sell products in rural areas, including consumer goods and automobiles. In Futures market, weak rains last year reduced output and raised prices, encouraging several political parties to demand a ban on commodities futures trade, which is often blamed for inflation. The government has banned several futures contracts in the past.

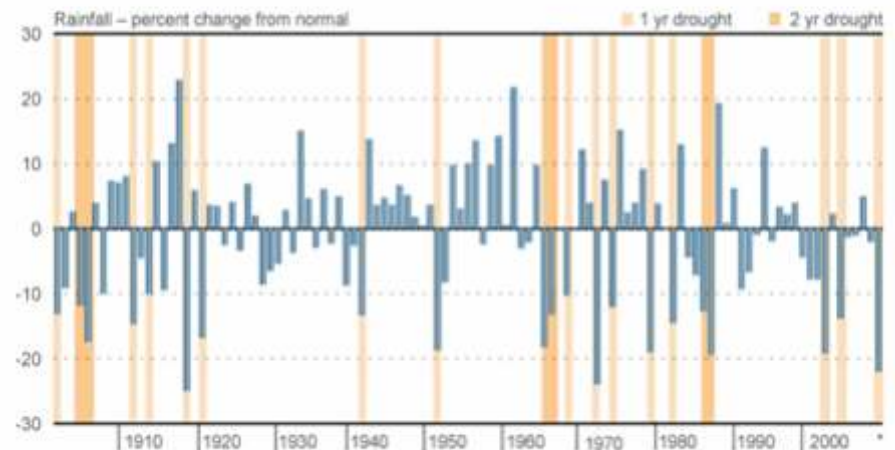
Scarcity of rain water would result in depleting water reservoirs, hitting generation of hydro power and irrigation of winter crops.

Monsoon failure would likely make the govt. revisit its fiscal deficit targets as scanty rains would raise the subsidy bill on diesel, which is used to pump water from wells for irrigation.

Bad monsoon is negative outlook for goods and services could dampen equity market sentiment, mainly of companies which sell products in rural areas, including consumer goods and automobiles.

India – new drought in 2010?

Out of 20 droughts since 1901, only 3 were followed by an other drought



Source: Reuters India

Summing up

Monsoon has been playing a significant role in the growth of Indian economy and any deficiency in it may lead to slow down the GDP growth. The country is already abiding the strain of the nastiest drought in recent years, and the impact could still be seen in the inflation data of past weeks. On account of achieving the GDP growth between 7.75% to 8.5%, the government is trying to curb the inflation by using its monetary policy. Inflation is already hovering around 9%. On the other hand, the government has also taken measurable steps like imposing duties and taxes to control the food price. Food inflation by now is at 16.04% in 12 months on 24 April 2010. As the Indian economy is agricultural prevailing with major consumption coming from the rural sector, the role of the monsoon is vigilant for economic policy maker and relevant markets.

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