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India Macro Weekly

Spotlight on Rising Food Stocks – Supreme Court Also Has Its Say

- **Some headway on foodgrain distribution** — India's soaring foodgrain stocks (60.4mt) and still relatively high food inflation has been at the centre of many political debates. In an interesting development last week, the Supreme Court directed the Ministry of Agriculture to (i) distribute foodgrains at '*low or no cost*' to the poor; (ii) keep fair price shops on all days of the month; and (iii) consider increasing the quantum of food supply to the below the poverty line (BPL) households. The order is one of many interim orders related to a petition filed by the People's Union for Civil Liberties in 2001, which seeks to use India's mounting food stocks to prevent hunger and starvation. Acting on the directive of the Supreme Court, the govt has said that "As an interim ad-hoc measure, pending a final decision on the issue, the government is releasing an additional quantity of 2.5 million tonnes of wheat and rice to the states but at BPL prices for next six months". (BPL prices for wheat are Rs4.15/kg and rice are Rs5.65/kg vs. open market prices currently at Rs15/kg+).
- **Food Stocks: A Paradox of Plenty** — As we have mentioned earlier, flawed food management and distribution system; coupled with higher than recommended Minimum Support Prices have resulted in the government procuring more foodgrain than both (i) the buffer stock norms; and (ii) storage capacities. More-over, gaps in the distribution system have resulted in procurement typically outpacing off-take. This has resulted in (i) a paradox of rising food stocks, even as malnutrition levels are amongst the highest in the world; (ii) rising subsidies due to high holding costs of foodgrains; and (iii) decaying food stocks due to lack of storage facilities. During a debate in the Lok Sabha last week, Minister of Agriculture Mr Sharad Pawar pointed out that total covered storage capacity is just 42.5mn tonnes with ~18mt of food stocks lying in open storage facilities.
- **Implications for prices and food security** — Last week's Supreme Court order could be perceived as instance of the judiciary intervening in government-related matters. However, we believe it bodes well towards resolving the issues surrounding the weak public distribution system and could help further bring down food prices. (+10.9%YoY as per the latest weekly WPI data). However a key issue is determining the number of poor - there is already a vast discrepancy between BPL households as estimated by the Planning Commission at 62.5mn vs. that of 107 mn by the states; while the NC Saxena Committee Report estimates that 50% of the population would be below the poverty line if one goes by the criteria of calorie intake. The Tendulkar Committee has pegged this number at 80mn which is reportedly in line with the National Advisory Council¹. Going forward, we believe recommendations by the Justice Wadhwa Committee on computerization of the PDS could be an effective panacea. To this end, implementation of the Unique Identification System (UID) would be beneficial.

See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

¹ According to newspaper reports (e.g., Economic Times, dated 3 Sept)

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- IIP Preview/GDP Re-statement/FX Res

MONSOON MONITOR – p. 4

- Weekly Rainfall – 16% above normal
- Seasonal Rainfall – 1% below normal
- Crop Sowing – up 9%YoY
- Reservoir Levels – 60% of Capacity

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Key Takeaways

At 60mn tonnes currently, food stocks of rice and wheat are far above required buffer norms. Due to insufficient storage capacity, this has resulted in a rise in the value of damaged foodgrains and has sparked considerable debate

A quick recap, as per Buffer norms, the minimum stocks in the Central Pool should be:

Rice: 11.8mt on Jan 1, 12.2mt on Apr 1, 9.8mt on Jul 1 and 5.2mt on Oct 1.

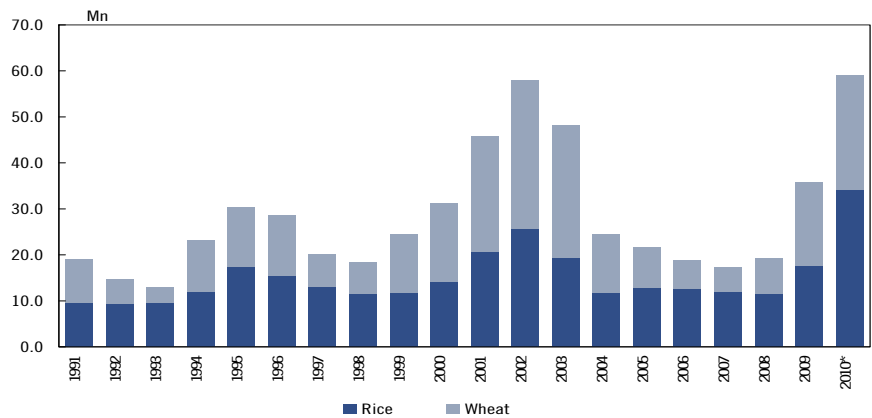
Wheat: 8.2mt on Jan 1, 4mt on Apr 17.1mt on Jul 1 and 11mt on Oct 1

Last week's Supreme Court order aims to distribute excess food stocks to Below-Poverty-Line households.

This bodes well for the weak public distribution system and could help bring down soaring food prices, up 10.86%YoY as per latest WPI data (week ended Aug 21) vs. 10.05% the previous week. The WPI for Primary Articles is 15.19% vs. 14.75% last week.

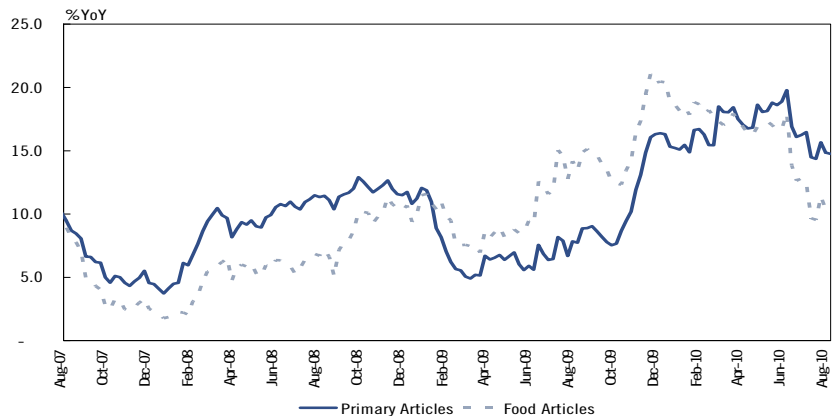
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Figure 1. Trends in Food Stocks (Mn Tonnes)



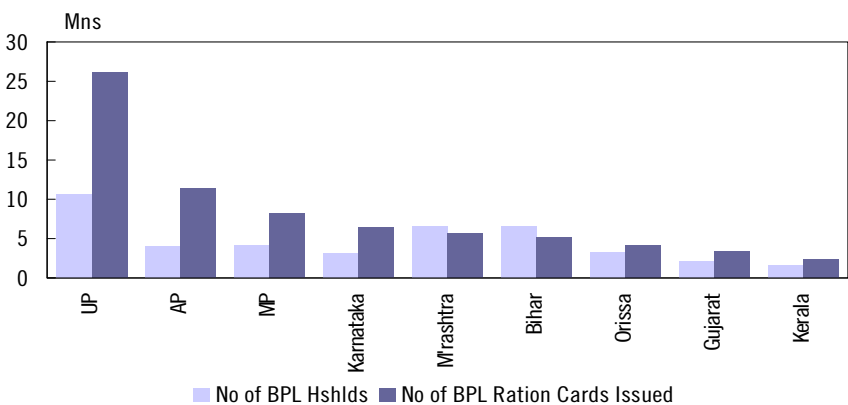
* Until 1 June 2010. Source: FCI

Figure 2. Trends in Primary and Food Product Inflation (%YoY)



Source: Office of the Economic Advisor

Figure 3. No. of Below Poverty Line Households (Mns)



Source: Planning Commission, Ministry of Food and Public Distribution, and CIRA

India – Key Weekly Indicators

JULY INDUSTRIAL PRODUCTION DUE ON SEPT 10th

The fading out of the base effect should result in industrial growth remaining in the single digit range in July. Taking into account the 3.9% growth in the July infrastructure index which comprises 27% of the IIP, we expect a headline IIP reading of 7% vs. 7.1% last month.

While sectoral trends indicate a strong underlying momentum the fading base effect is likely to be seen across macro variables. These numbers have been factored in our FY11 GDP estimate of 8.4%

GDP NUMBERS RE-STATE

Following sharp discrepancies in 1QFY11 GDP data by activity and expenditure the govt last week issued a clarification and re-stated the GDP numbers by expenditure from 3.7% to 10%.

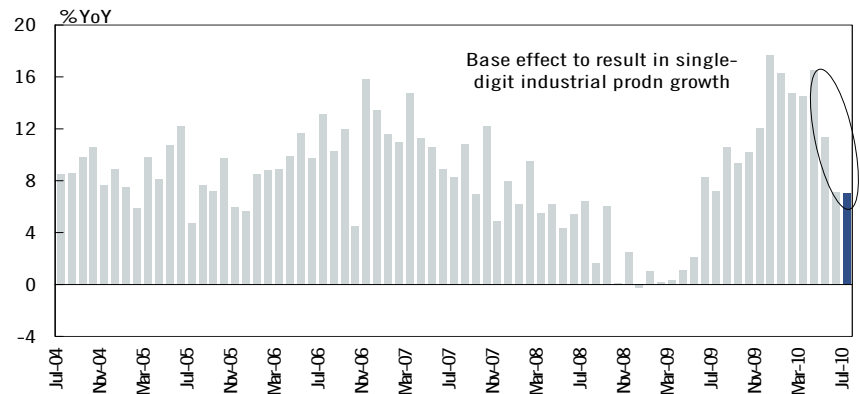
While the prompt acknowledgment and revision is encouraging, further refinements are vital given that even in the restated GDP no's, the contribution of data discrepancies is over 40%. The supply side numbers were unchanged at 8.8%.

FOREX RESERVES UP US\$279mn

Latest data indicate that foreign currency assets were up US\$279mn for the week ended Aug 27th, 2010.

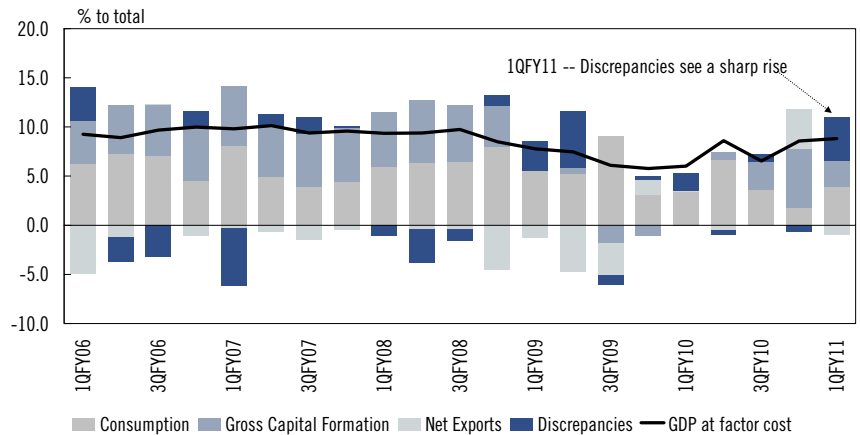
Fiscal YTD, total reserves (including gold) were up US\$3.8bn and stood at US\$282.8bn. FX assets excluding gold stood at US\$256.6bn.

Figure 4. Trends in the Index of Industrial Production (%YoY)



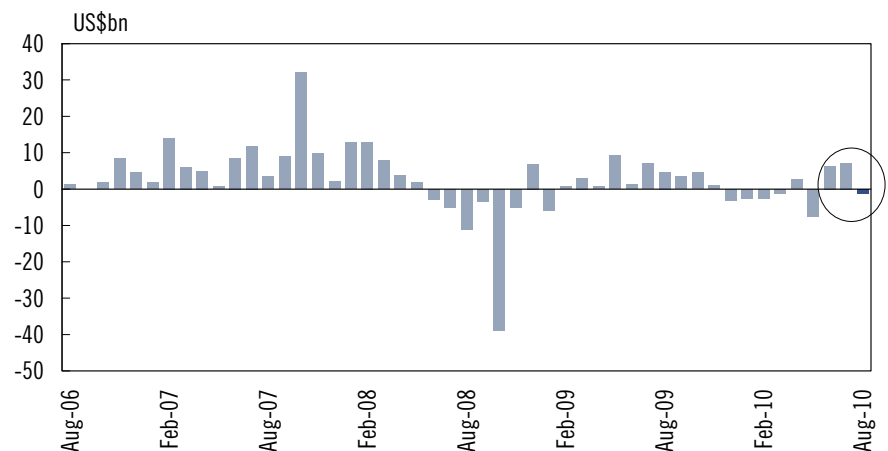
Source: Office of the Economic Advisor

Figure 5. Trends in GDP by Expenditure (% of total) *



Source: CSO. See <https://www.citigroupgeo.com/pdf/SAP39768.pdf> for details

Figure 6. Incremental Trends in Forex Reserves (US\$bn)



Source: RBI

Monsoon Monitor

Monsoon Update

- Trends in the monsoons continued to remain in positive territory, at 16% above normal for the week ended 1st Sept (vs. 29% last week) As a result, seasonal deficit (1 June-1 Sept), narrowed to 1% below normal.
- Crop sowing data available until 26th August indicates an improvement in acreage sown, with sowing up 9%YoY.
- Water levels in reservoirs stood at 91bcm as on 1 Sept, 60% of live storage capacity vs. 45% last year.

River basin	This year	Average of last 10 years	% departure of last 10 Yrs
Ganga	8.9	11.3	-21.8
Indus	13.2	9.8	35.0
Narmada	7.7	7.2	5.7
Tapi	5.3	4.7	12.3
Mahi	1.6	2.2	-29.6
Sabarmati	0.3	0.3	1.7
Rivers of Kutch	0.5	0.4	37.0
Godavari	7.5	7.0	6.7
Krishna	27.6	22.7	21.8
Mahanadi & east-flowing rivers	5.8	9.2	-37.7
Cauvery & east -flowing rivers	4.7	4.5	3.1
West flowing rivers of south	7.9	9.2	-14.1
Total	90.8	88.6	2.5

Figure 8. Weekly Rainfall : 26 August -1 September: 16% ABOVE Normal

Figure 7. Daily Rainfall Trends (mm)

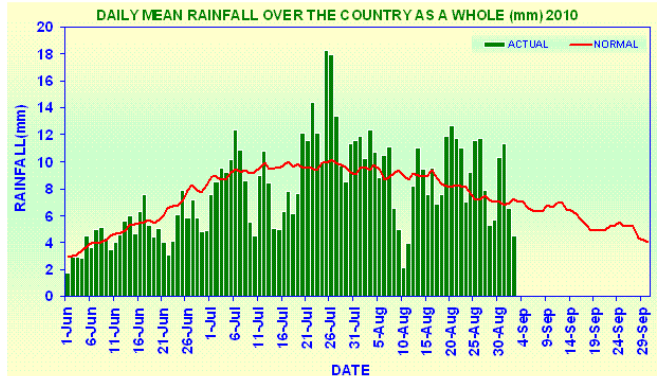
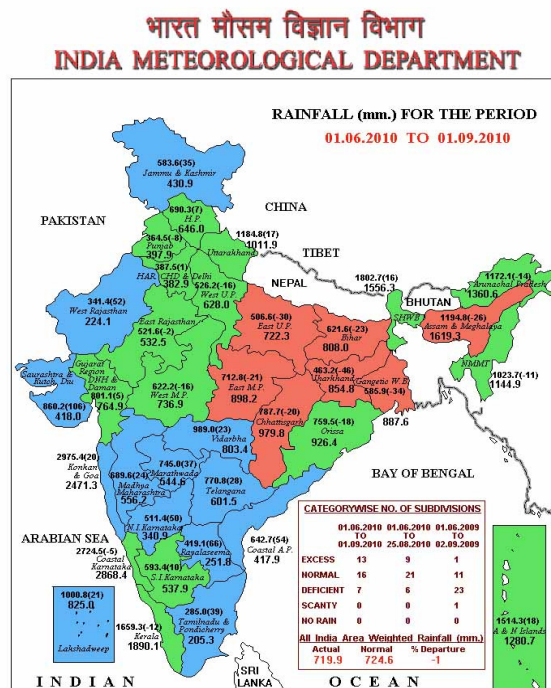
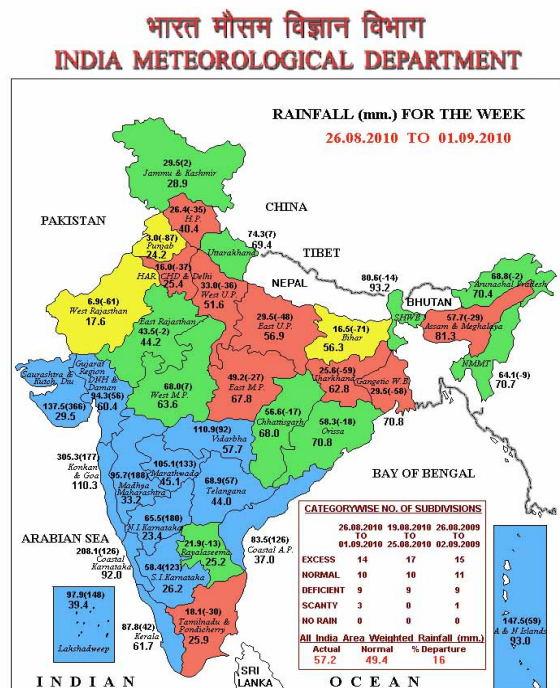


Figure 9. Seasonal Rainfall : 1 June -1 Sept: 1% BELOW Normal



Source: IMD, CWC

Financial Market Forecasts

India — Market Monitor

Figure 10. India Market Monitor

	Units	Latest	Previous	1M ago	3M ago	12M ago
Interest Rates						
Overnight	%	4.70	4.65	5.00	3.90	3.30
1 year Treasury Bill	%	6.54	6.42	6.30	5.22	4.34
1 year OIS	%	6.12	6.09	6.31	4.80	4.47
1 year MIFOR	%	4.65	4.60	4.65	3.75	3.71
5 year Corporate AAA spread over GOI	%	0.57	0.57	0.80	0.64	1.11
10 year GOI	%	7.98	7.97	7.81	7.74	7.40
Currency & Reserves						
USD/INR		46.64	46.90	46.17	44.52	44.84
EUR/USD		1.28	1.27	1.32	1.32	1.33
USD/JPY		84.44	84.74	85.76	94.42	114.60
12 Month INR Forward Premium	%	4.37	4.16	4.11	3.02	2.47
FX Assets (excl gold) As On (27-Aug-10)	US\$ bn	256.6	256.4	258.6	247.3	260.5
Money & Banking						
Loan-Deposit Ratio	%	72.6	72.4	73.2	73.3	69.0
Money Supply – M3	% YoY	16.4	14.7	15.2	14.5	20.2

Source: RBI, Bloomberg

Financial Market Forecasts

Figure 11. Currency Forecasts and Forwards

		Mkt Data			Forecasts			Sep-10	Dec-10	Mar-11	Jun-11	Sep-11
		Spot	3M Fwd	12M Fwd	0-3 Mos	6-12 Mos	Long-term					
Euro	EURUSD	1.28	1.28	1.28	1.26	1.29	1.33	1.27	1.26	1.27	1.28	1.29
Japanese Yen	USDJPY	84	84	84	87	88	90	87	87	87	88	88
Chinese Renminbi	USDCNY	6.80	6.79	6.71	6.72	6.59	6.40	6.73	6.70	6.67	6.62	6.55
Indian Rupee	USDINR	46.7	47.3	48.7	46.5	44.8	43.0	46.5	46.0	45.5	45.0	44.5
Korean Won	USDKRW	1176	1182	1196	1180	1100	1040	1180	1150	1110	1100	1080

Forecasts from 'Citi Foreign Exchange: Forecasts' (August 13, 2010)

Source: Citi Investment Research and Analysis Estimates

Figure 12. Interest Rate Forecasts (% period end)

	Current	In 3M	In 6M	In 12M	3Q10	4Q10	1Q11	2Q11	3Q11
US* Fed Fund Rate	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
10-Year Treasuries	2.62	NA	NA	NA	2.60	2.90	3.10	3.40	3.50
EU* Repo Rate	1.00	1.00	1.00	1.25	1.00	1.00	1.00	1.00	1.25
10-Year Bunds	2.29	NA	NA	NA	2.40	2.50	2.60	2.70	2.90
JP* Call Money	0.11	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
10-Year JGBs	1.15	NA	NA	NA	1.00	1.20	1.35	1.40	1.40
CN 1-year deposit rate	2.25	2.25	2.25	2.52	2.25	2.25	2.25	2.25	2.52
1-Month Shibor	2.75	2.56	2.36	2.68	2.70	2.50	2.30	2.50	2.75
Government bond yield (5-Year)	2.64	2.43	2.43	2.74	2.50	2.40	2.45	2.60	2.80
IN Overnight Repo Rate	5.75	6.25	6.50	7.00	6.00	6.25	6.50	6.75	7.00
Overnight Reverse Repo Rate	4.50	5.00	5.25	5.75	4.75	5.00	5.25	5.50	5.75
10-Year Gilt	7.97	7.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75

* Forecast as of 'Global Economic Outlook and Strategy' (August 18, 2010)

Source: Datastream, CEIC Data Company Limited, Bloomberg, Reuters, and CIRA Estimates

Figure 13. Data calendar for the week of 6-10 September

Date	Day	Local Time	Country	Indicator	For	Citi Fcst	Mkt Fcst	Prev.
6-Sep	Mon	16:00	Taiwan	CPI (%YoY)	Aug	-0.1	0.0	1.3
				WPI (%YoY)		3.2	3.2	5.3
7-Sep	Tue	9:00	Japan	BoJ Target Rate (%)		0.1	0.1	0.1
			Philippines	CPI (%YoY)	Aug	3.9	3.9	3.9
			Taiwan	Exports (%YoY)	Aug	27.9	24.7	38.5
				Imports (%YoY)		29.8	28.5	42.7
				Trade Balance (US\$ bn)		2.2	2.2	2.2
9-Sep	Thu	08.30	US	Trade Balance (US\$bn)	Jul	-46.0	-47.8	-49.9
				Initial Jobless Claims('000)	Sept4	470.0	470.0	472.0
			Korea	BOK Policy Rate (% p.a)	Sep	2.5	2.5	2.3
		12:01	Malaysia	IP (%YoY)	Jul	5.5	6.1	9.4
10-Sep	Fri		China	Exports (%YoY)	Aug	31.3	33.1	38.1
				Imports (%YoY)		19.4	26.2	22.7
				Trade Balance (US\$ bn)		31.0	26.7	28.7
			India	IP (%YoY)	Jul	7.0	—	7.1
			Philippines	Exports (%YoY)	Jul	35.0	27.0	33.7
					9:00			
13-Sep	Mon	10:00	China	CPI (%YoY)	Aug	3.6	3.5	3.3
				PPI (%YoY)		4.3	4.6	4.8
				IP (%YoY)		12.6	13.0	13.4
				Retail Sales (%YoY)		18.1	17.8	17.9
				FAI - urban (%YoY ytd)		24.6	24.6	24.9
10-15 Sep			China	M2 Supply (%YoY)	Aug	17.2	17.5	17.6
				New Yuan Loans (RMB bn)		500.0	500.0	532.8

Source: Bloomberg, CEIC Data Company Ltd and CIRA estimates

Appendix A-1

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