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India Macro Weekly

Spotlight on Monsoons: Trends in Sowing, Water Reservoirs, Rising Food Stocks and Prices

- **Monsoon deficit narrows** — A week of incessant rains is now reflected in the numbers. Latest data released by the IMD indicate that rainfall deficiency for the season as a whole narrowed to 10% below normal during June 1-Jul 7; from 16% in the previous week. What's encouraging is that rainfall is uniformly distributed across the country rather than concentrated in specific areas, which bodes well for crop sowing. Moreover, water levels in reservoirs have improved to 19.6bcm or 13% of storage capacity, vs. 13.8bcm (9%) last year.
- **Benefits to crop sowing already visible** — Regions that have seen higher rainfall include the North West where the deficiency has reduced to 6% (Punjab, Haryana and UP are the largest rice and wheat producers); and South India, where rainfall is 11% above normal (these include the largest producers of pulses, cotton, sugarcane). This is positive from the perspective of kharif (summer) crop sowing, which typically takes place during June and continues until the end of July. Key crops sown include rice, oilseeds, and pulses. Data available until July 2 indicates sowing was up 16.5% for all crops, with oilseeds (+123%), cotton (+49.7%), sugarcane (+13.4%) and rice (+2.3%), all seeing an increase over last year. However, pulse sowing was down 0.7% yoy.
- **Food stocks soar...but watch out for Food Security Act¹** — Given the good rabi (winter) harvest, procurement of wheat and rice rose resulting in foodgrain stocks touching a high of 58m tonnes currently. While rice stocks stood at 24.3m tonnes on July 1 (*vs. the buffer norm of 9.8m*), wheat reserves stood at 33.6m tonnes (*vs. 17.1m tonnes*). However, despite high levels of procurement, one would need to watch for the implementation of the National Food Security Act (*in view of current negotiations, the govt aims to extend the scope of the Act from providing below-poverty-line households with 35kg of food-grain at Rs3/kg; to include all households*).
- **Dichotomy between soaring stocks and high food prices** — Despite record food stocks, primary product inflation, though lower, is still in double digits (*up 16.1% as per latest data for the wk ended 26th June*). A possible explanation of this is flawed food management and pricing policies which have resulted in Minimum Support Prices (MSPs) typically being higher than recommended levels. This has several repercussions (1) A build-up in food stocks, which results in a higher economic cost of food grains (2) Higher MSPs in turn raise the floor for open market prices. In addition to policy shortfalls in terms of high costs of intermediation, managing stocks and imports, as mentioned in the past, other structural distortions resulting in high prices include rising incomes, dietary changes and low yields.

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¹ See <https://www.citigroupgeo.com/pdf/SAP35423.pdf> for details

Key Agri Highlights

The improvement in rainfall has had a visible impact on kharif (summer) crop sowing.

Data available upto 2 July indicates that sowing for rice was up 2.3% over levels seen last year, but pulses were down 0.7%YoY.

With procurement of rice and wheat on an uptrend, the govt has surpassed buffer stock norms by a substantial margin.

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 1, 17.1mt on Jul 1 and 11mt on Oct 1

Total stocks are now over the 50mn tonne mark; with rice stocks at 24.3mt and wheat at 33.6mt.

While rising food stocks are positive from the perspective of enhanced food security, it is largely due to the rise in Minimum Support Prices.

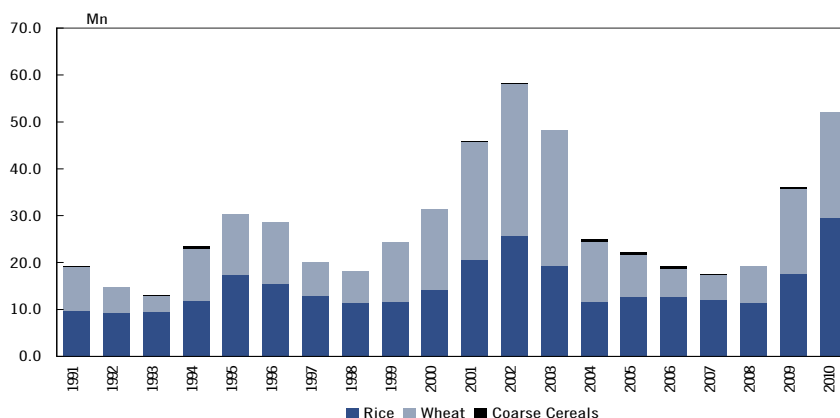
Flawed food management and pricing policies which have resulted in Minimum Support Prices (MSPs) typically being higher than recommended levels. Higher MSPs have in turn raised the floor for open market prices.

Figure 1. Progress on Crop Sowing

	Normal Area	Area Sown 2-Jul-10	% of Normal	Area Sown Last Year	% Change
I. Total Foodgrains (1+2+3+4)	72.5	7.7	10.7	8.5	-8.9
1. Rice	39.5	4.6	11.8	4.5	2.3
2. Coarse cereals	22.2	2.6	11.8	3.5	-24.7
3. Total Cereals (1+2)	61.7	7.3	11.8	8.0	-9.4
4. Pulses	10.8	0.5	4.8	0.5	-0.7
II. Non-Foodgrains	31.9	12.8	40.1	9.1	40.7
Oilseeds	17.5	2.9	16.4	1.3	122.7
Cotton	9.1	4.4	48.1	2.9	49.7
Sugarcane	4.5	4.7	105.3	4.2	13.4
Jute	0.8	0.8	96.7	0.7	10.2
III. All Crops (I + II)	104.4	20.5	19.7	17.6	16.5

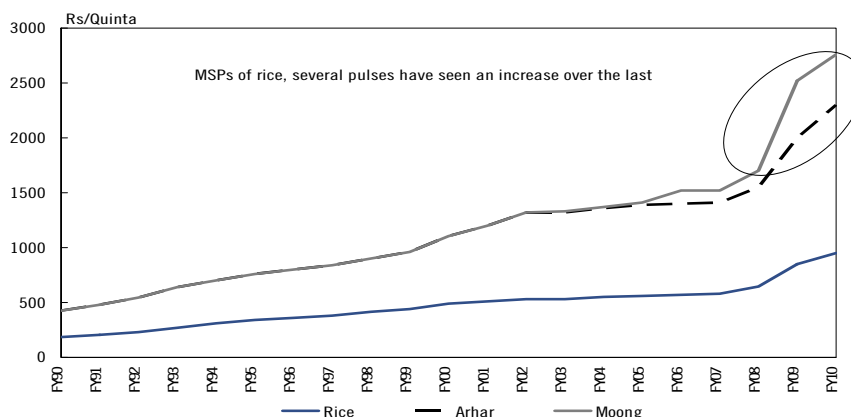
Source: Ministry of Agriculture

Figure 2. Trends in Food Stocks (Mn Tonnes)²



Source: Ministry of Agriculture

Figure 3. Trends in Minimum Support Prices (Rs/Quintal)



Source: Ministry of Agriculture

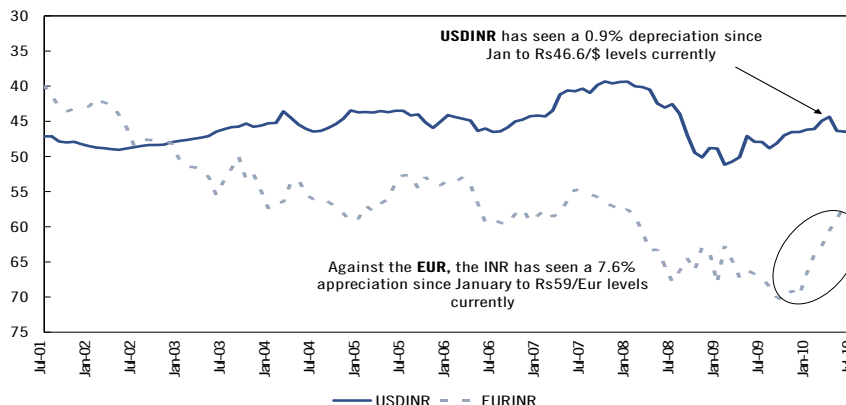
² The Food Corporation of India procures 15-20% of India's wheat production and 12-15% of its rice production at Minimum Support Prices (MSPs), to meet the commitments of the Public Distribution System and build buffer stocks

Key India – Markets in Pictures

FOREX MARKETS

The rupee ended the week at Rs46.66/\$ vs. Rs46.77/\$ last week. On the global front, our strategy team expects EUR/USD to break key technical levels, which in their view is around 1.271. Factors support the Euro are (1) Rate differentials, both short and long term which have been rising and (2) The unwinding of heavily long USD and short EUR positioning

Figure 4. Trends in the EUR INR and USD INR



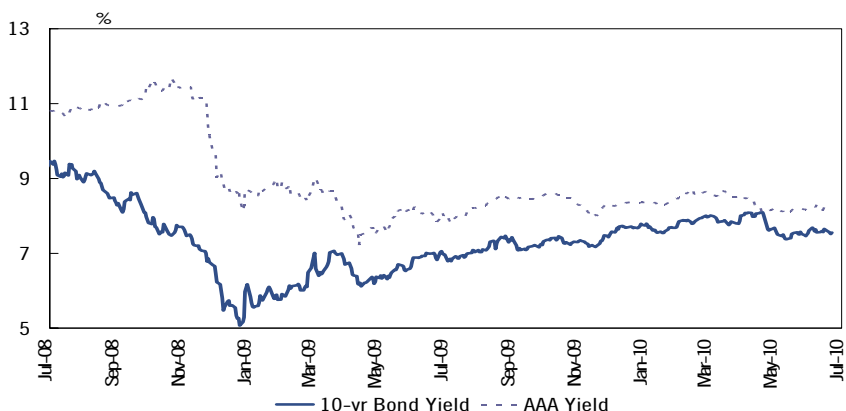
Source: RBI

BONDS

Liquidity conditions remained tight as reflected in the LAF data with the RBI injecting Rs521bn on a daily avg basis. This coupled with further monetary tightening resulted in yields edging higher with the 10yr ending the week at 7.65% v/s 7.55% last week

Call rates also stayed firm in the 5.65%-6.00% band as demand sustained amid deficit liquidity conditions. The AAA 5-year benchmark yield ended at 8.20%, almost flat over the week.

Figure 5. Trends in 10-Year Bond Yields (%)



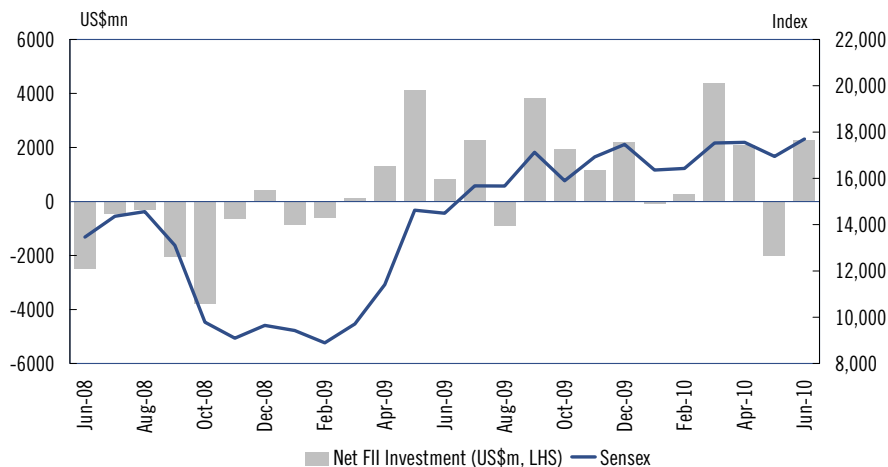
Source: RBI

EQUITY MKTS – From Our Trading Strategy Team

Indian mkts were bid up once again, retesting the recent risk rally high of 5350, albeit on thin volumes, as S&P shrugged off a weak ISM Services and payrolls data on the back of high retail sales and IMF growth est to post a much needed relief rally.

Telecom stocks surged on buzz that some of the earlier proposed 2G TRAI recommendations may be relaxed, and govt made some positive noises on FDI in Multi-brand Retail & Airlines and Decontrol in Sugar. FIIs bought \$500mn in cash last week, DIIs sold \$ 50mn

Figure 6. Trends in Institutional Flows and the Sensex (Index, US\$m)



Source: SEBI, BSE, Bloomberg

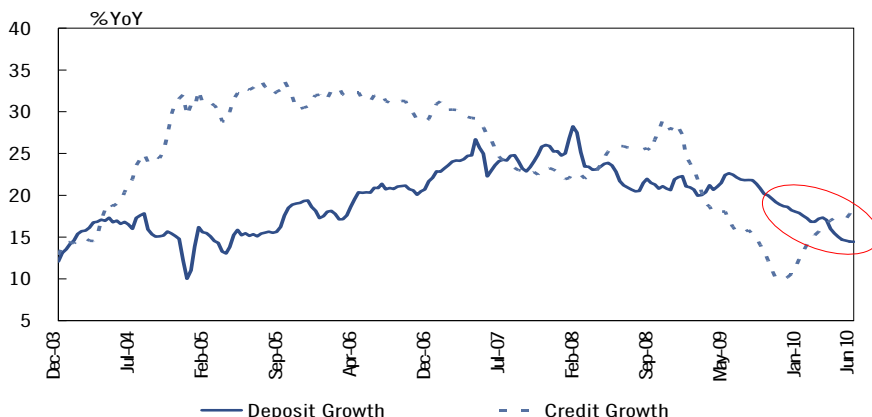
Other Weekly Indicators

TRENDS IN CREDIT & DEPOSIT GROWTH

Signs of liquidity tightening in the banking sector are reflected in the continued uptrend in credit growth up 19.6% while deposit growth continues to decelerate - up 13.9% YoY.

Keeping in mind the window-dressing that normally happens in the first quarter of the fiscal, on a cumulative basis (Apr-Jun18), incremental loans were Rs656bn v/s -Rs76bn in the same period last year. Incremental deposits were Rs247bn v/s Rs1313bn last year

Figure 7. Trends in Credit and Deposit Growth (%YoY)



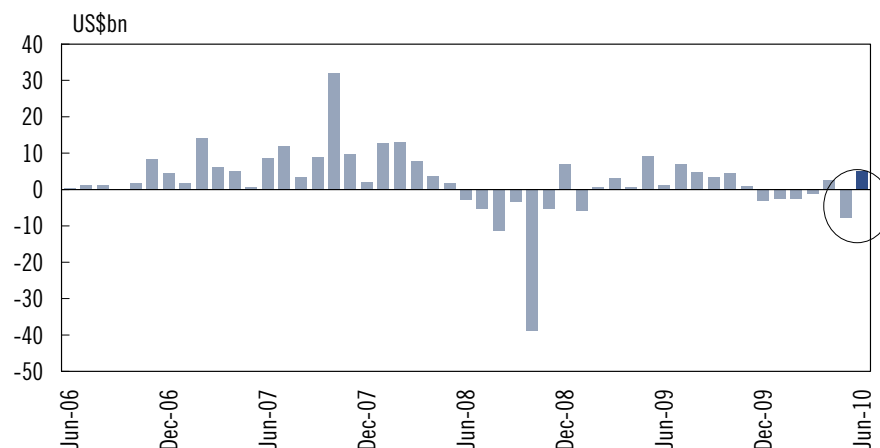
Source: RBI

FOREX RESERVES UP US\$1.3bn

Latest data indicate that foreign currency assets were up US\$746mn for the week ended July 2nd (total reserves including gold were up US\$1.3bn).

Fiscal YTD, total reserves (including gold) were down US\$0.8bn and stood at US\$278.3bn (excluding gold, reserves stood at US\$252bn)

Figure 8. Incremental Trends in Forex Reserves (US\$bn)



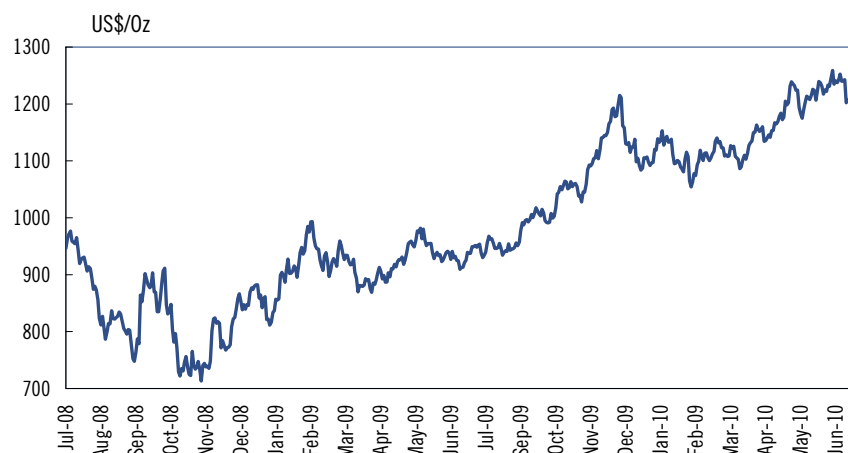
Source: RBI

TRENDS IN GOLD

Despite a weaker dollar, Gold continued to retreat from recent record highs, ending the week at US\$1209/oz vs. 1240/oz levels at the end of June.

Our global strategy team says that this could be (1) Mildly receding fears on EMU sovereign debt fears (2) the posting of gold as collateral to the BIS by European banks, which could be sold in the event of default and (3) a statement by China's SAFE that they don't plan further major investments in gold.

Figure 9. Trends in Gold Prices (US\$/Oz)



Source: Bloomberg

Financial Market Forecasts

India — Market Monitor

Figure 10. India Market Monitor

	Units	Latest	Previous	1M ago	3M ago	12M ago
Interest Rates						
Overnight	%	5.65	5.60	5.35	3.20	3.30
1 year Treasury Bill	%	5.65	5.60	5.22	5.06	3.81
1 year OIS	%	5.71	5.41	5.12	4.95	4.12
1 year MIFOR	%	3.75	3.55	3.15	3.35	3.80
5 year Corporate AAA spread over GOI	%	0.56	0.69	0.64	1.00	1.49
10 year GOI	%	7.65	7.56	7.50	7.97	6.97
Currency & Reserves						
USD/INR		46.66	46.77	47.03	45.63	44.84
EUR/USD		1.27	1.25	1.19	1.35	1.33
USD/JPY		88.56	87.58	91.59	89.77	114.60
12 Month INR Forward Premium	%	3.13	2.81	2.46	2.80	2.47
FX Assets (excl gold) As On (2-Jul-10)	US\$ bn	252.13	251.38	245.55	254.73	253.43
Money & Banking						
Loan-Deposit Ratio	%	73.3	71.1	71.4	71.3	69.3
Money Supply – M3	% YoY	14.5	14.6	14.5	16.7	20.2

Source: RBI, Bloomberg

Financial Market Forecasts

Figure 11. Currency Forecasts and Forwards

		Spot	Mkt Data		Forecasts			Sep-10	Dec-10	Mar-11	Jun-11	Sep-11
			3M Fwd	12M Fwd	0-3 Mos	6-12 Mos	Long-term					
Euro	EURUSD	1.27	1.27	1.27	1.19	1.29	1.33	1.19	1.23	1.26	1.29	1.30
Japanese Yen	USDJPY	89	88	88	92	91	90	92	92	91	91	91
Chinese Renminbi	USDCNY	6.77	6.76	6.66	6.75	6.62	6.45	6.75	6.70	6.67	6.62	6.55
Indian Rupee	USDINR	46.5	47.1	48.0	45.0	43.0	40.0	45.0	44.0	43.5	42.5	41.5
Korean Won	USDKRW	1197	1201	1207	1180	1080	1040	1180	1100	1180	1060	1040

Forecasts from 'Citi Foreign Exchange: Forecasts' (June 18, 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	0.75	0.25	0.25	0.25	0.50	1.00
	10-Year Treasuries	3.02	NA	NA	NA	3.45	3.65	3.65	4.00	4.20
EU*	Repo Rate	1.00	1.00	1.00	1.25	1.00	1.00	1.00	1.25	1.25
	10-Year Bunds	2.63	NA	NA	NA	2.90	2.95	3.00	3.05	3.10
JP*	Call Money	0.11	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
	10-Year JGBs	1.16	NA	NA	NA	1.30	1.40	1.40	1.40	1.40
CN	1-year deposit rate	2.25	2.52	2.52	3.06	2.52	2.52	2.79	3.06	3.33
	1-Month Shibor	2.72	2.49	2.39	2.54	2.50	2.40	2.30	2.50	2.90
	Government bond yield (5 –Year)	2.58	3.30	3.31	3.51	3.30	3.30	3.40	3.50	3.60
IN	Overnight Repo Rate	5.50	5.75	6.00	6.50	5.75	6.00	6.25	6.50	6.75
	Overnight Reverse Repo Rate	4.00	4.25	4.50	5.00	4.25	4.50	4.75	5.00	5.25
	10-Year Gilt	7.59	7.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75

* Forecast as of Global Economic Outlook and Strategy (May 19, 2010)

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

Figure 13. Data calendar for the week of 12-16 July

Date	Day	Local Time	Country	Indicator	For	Citi Fcst	Mkt Fcst	Prev.
10-Jul	Sat		China	Exports (%YoY)	Jun	36.7	38.0	48.5
				Imports (%YoY)		29.8	34.5	48.3
				Trade Balance (US\$ bn)		17.4	15.6	19.5
12-Jul	Mon		India	IP (%YoY)	May	15.9	16.2	17.6
13-Jul	Tue	9:00	Philippines	Exports (%YoY)	May	21.5	26.7	28.2
14-Jul	Wed	08.30	EU	CPI (%YoY)	Jun	1.4	1.4	1.6
		08.30	US	Retail Sales (%MoM)	Jun	-0.5	-0.2	-1.2
		14:30	India	WPI (%YoY)	Jun	10.1	10.8	10.2
		8:00	Korea	Unemployment Rate (% s.a.)	Jun	3.2	—	3.2
		8:00	Singapore	Real GDP - adv. est. (%YoY)	2Q	18.0	17.1	13.1
		15:30	Thailand	O/N Repo Rate (% s.a.)	14-Jul	1.25	1.50	1.25
15-Jul	Thu		Japan	BoJ Target Rate		0.1	0.1	0.1
		08.30	US	Initial Jobless Claims ('000)	Jul 10	450.0	453.0	454.0
		10:00	China	Real GDP (%YoY)	2Q	10.7	10.5	11.9
				CPI (%YoY)	Jun	3.2	3.3	3.1
				PPI (%YoY)		6.8	6.8	7.1
				IP (%YoY)		15.0	15.4	16.5
				Retail Sales (%YoY)		18.5	18.8	18.7
				FAI - urban (%YoY ytd)		25.2	25.2	25.9
		17:00	Philippines	O/N Policy Rate (% p.a.)	15-Jul	4.00	4.00	4.00
		13:00	Singapore	Retail Sales (%YoY)	May	-2.4	-2.9	-2.6
16-Jul	Fri	08.30	US	CPI (%MoM)	Jun	0.1	0.0	-0.2
		13:00	Singapore	NODX (%YoY)	Jun	21.3	28.9	24.4
12-15 Jul			China	M2 Supply (%YoY)	Jun	18.6	18.9	21.0
				New Yuan Loans (RMB bn)		550.0	600.0	639.4

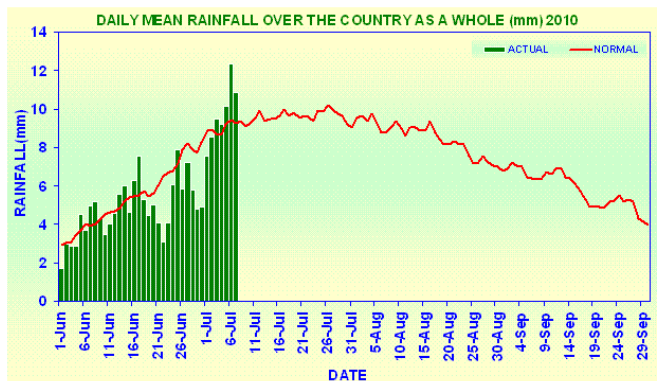
Source: Bloomberg, CEIC Data Company Ltd and CIRA estimates

Monsoon Monitor

Monsoon Update

- Rainfall saw a pick-up in the w/e 7th July, with trends coming in 2% above normal (vs. 25% below normal the previous week). However, on a cumulative basis, rainfall during 1 Jun-7 July was 10% below normal.
- Crop sowing data available until Jul 2nd indicates that acreage under crops such as rice, oilseeds, sugarcane and cotton is higher this year, on a y-o-y basis.

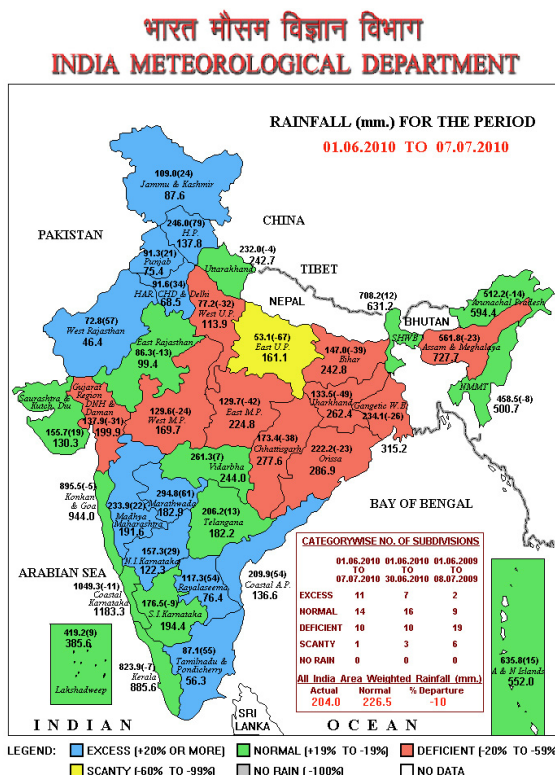
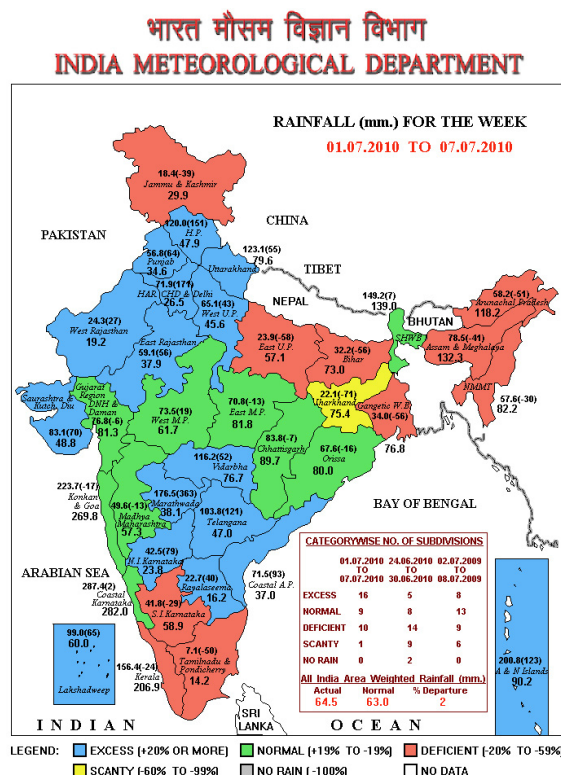
Figure 14. Progress of the Monsoons



	Actual Rainfall (mm)		% Departure from LPA	
	1 June-1 July	1 June-8 July	1 June-1 July	1 June-8 July
Country as a whole	145.4	212.3	-16.0	-10.0
Northwest India	56.3	104.2	-20.0	-6.0
Central India	130.9	219	-24.0	-12.0
South Peninsula	173.1	240.1	5.0	11.0
North East India	313.6	372.4	-17.0	-22.0

Figure 15. Weekly Rainfall: Week Ended 7 July: 2% ABOVE Normal

Figure 16. Seasonal Rainfall : 1 June -7 July: 10% BELOW Normal



Source: IMD

Appendix A-1

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