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POLICY

Voluntary Public

Date: 7/2/2012

GAIN Report Number: IN2089

India

Post: New Delhi

Grain Voluntary Update – July 2012

Report Categories:

Grain and Feed

Trade Policy Monitoring

Agriculture in the Economy

Climate Change/Global Warming/Food Security

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Report Highlights:

The southwest monsoon has been progressing slowly and is one to two weeks behind schedule with average rainfall through June 27, 2012, reported 23 percent below normal. The Government of India (GOI) raised the minimum support prices (MSP) of *kharif* (fall and early winter-harvested) crops for the upcoming MY 2012/13 substantially by 16-53 percent over the last year. MY 2012/13 wheat procurement is expected to surpass a record 38.0 million tons, inflating the government's already "burdensome" food grain stocks. The government has announced an additional allocation of 8 million tons of food grains for the domestic market at highly subsidized prices. Based on the latest official and market reports, the MY 2011/12 corn export estimate has been raised to 3.8 million tons, while consumption has been lowered to 17.8 million tons.

General Information:

2012 Monsoon Progress Sluggish....

The southwest monsoon arrived about a week later than normal at the southern tip of India on June 5, 2012, and has advanced slowly in the peninsular and eastern regions by the 3rd week of June with sporadic breaks. As of June 29, the [advance of the monsoon](#) on the Indian sub-continent is one to two weeks behind schedule (see Appendix 1). Cumulative rainfall for the week ending June 27, 2012, was significantly below normal in most parts of the country (see Appendix 2). With only 12 of the 36 weather subdivisions receiving normal or above normal rainfall, the all-India area-weighted rainfall through June 27 was reported as 23 percent below normal. However, the Indian Metrological Department (IMD) in its [long range forecast update on 2012 monsoon](#) released on June 22, 2012, continues to forecast a normal 2012 monsoon with average rainfall for the country likely to be about 96 percent of the long-term. IMD sources forecast a recovery of the monsoon from the first week of July.

Indian agriculture is largely dependent on southwest monsoon rains as they provide about 80 percent of India's annual precipitation from June to October. With only about 44 percent of India's cropped area under assured irrigation, planting of most *kharif* (fall and early winter-harvested) crops, which include rice, coarse grains, pulses, oilseeds and cotton, begins with the onset of monsoon. The slow progress and scanty precipitation of 2012's monsoon to date are causing concern both among farmers and in the government. While rice seedling nursery operations have been unaffected by the weak monsoon as nursery preparation is done under irrigated conditions, revival of the monsoon in the next few weeks will be critical for transplanting of rice and planting of other *kharif* crops. Some agriculture experts report that planting prospects for *kharif* crops, especially rice and soybeans, will be adversely affected if the monsoon does not recover by the 2nd week of July.

A normal monsoon with adequate and well distributed rains during the remaining July-September period will be critical for achieving Post's current forecast production estimates of rice, corn, sorghum, and millets. Monsoon performance during August/September also affects *rabi* (winter) season crops (wheat, pulses and rapeseed) by ensuring adequate soil moisture at the time of planting (October/November).

Government Hikes Support Price for *Kharif* Crops

On June 14, 2012, the government announced the minimum support prices (MSP) for the *kharif* crops of the upcoming Indian crop year 2012/13 (July-June), raising them substantially over last year's. The MSP for paddy (unmilled rice) has been raised by 16 percent to Rs. 12,500 (\$223) per ton, while MSPs for corn and pearl millet have been raised by 20 percent to Rs. 11,750 (\$210) per ton, and for sorghum and finger millet have been raised by over 53 percent to Rs. 15,000 (\$268) per ton (see Table 1). The

timely announcement of higher MSPs will support planting of *kharif* crops, even if the monsoon is sub-optimal, particularly rice and corn in irrigated areas. However, some economists and market analyst have expressed concerns that the increase in MSPs will further fuel food inflation (10.74 percent in May 2012), and may lead to more government procurement of rice in the upcoming MY 2012/13 season.

Despite relatively higher MSPs for corn and other coarse cereals, most farmers will continue to plant rice due to the government’s ‘rice and wheat’ focused food grain procurement system. The Food Corporation of India and various state agencies conduct MSP procurement operations for rice and wheat from the beginning of harvest throughout the marketing season in the major producing states. However, there is no regular procurement system for corn and coarse grains, and the government is occasionally forced to intervene through MSP procurement when market prices fall below MSP. In the past, farmers have resorted to distress sale of coarse grains below MSP due to the ‘long’ delay in the government’s decision making process on MSP procurement. Farmers also prefer rice with its higher ‘assured’ returns compared to coarse grains due to relatively stable yields and lower vulnerability to pests/diseases and climatic factors. Consequently, the revised MSPs are unlikely to cause any major shift in the cropping pattern for the upcoming 2012 *kharif* season. Nevertheless, the large increase in the MSP for corn and other coarse grains (except sorghum) may force the government to undertake MSP procurement operations in MY 2012/13 for these crops as the market prices of these commodities are currently well below the new MSPs.

Table 1. India: MSP and Average Market Price for Various Kharif Crops

(Figures in Rupees per metric ton)

Crop	Minimum Support Price		All India Average Wholesale Price		
	MY 2011/12	MY 2012/13	October 2011	November 2011	June 24-30, 2012
Rice, Paddy	10,800	12,500	11,003	10,944	13,931
Corn	9,800	11,750	9,730	10,277	10,586
Pearl Millet	9,800	11,750	8,783	8,975	10,668
Sorghum (Hybrid)	9,800	15,000	13,573	14,081	17,323

Source: Ministry of Agriculture, Government of India (GOI)

Government Wheat and Rice Procurement Scale New Heights

The government’s MY 2012/13 wheat procurement is expected to exceed 38.0 million tons, almost 10 million tons higher than last year’s record procurement of 28.3 million tons.

Total wheat procurement as of June 27, 2012, is officially estimated at 37.6 million tons compared to 27.7 million tons during the same period last year. Wheat procurement is over in most states except Uttar Pradesh and Bihar where small quantities will continue to trickle in through 2nd week of July.

Table 2. India: Government Procurement of Wheat by States

(Figures in Million Tons)

State	MY 2012/13 ¹	MY 2011/12	MY 2010/11	MY 2009/10
Punjab	12.83(10.96)	10.96	10.21	10.73
Haryana	8.67 (6.89)	6.93	6.35	6.92
Madhya Pradesh	8.49 (4.90)	4.96	3.54	1.97
Uttar Pradesh	4.88 (3.24)	3.46	1.65	3.88
Rajasthan	1.89 (1.28)	1.30	0.48	1.15
Gujarat	0.16 (0.09)	0.11	0.00	0.08
Bihar	0.50 (0.28)	0.56	0.18	0.50
Others	0.18 (0.11)	0.11	0.12	0.16
Total	37.60 (27.70)	28.38	22.51	25.38

Source: Food Corporation of India, Government of India (GOI)

Footnote: ¹Total wheat procurement as of June 27, 2012. Figures in parentheses are last year's procurement for the corresponding period.

Similarly, MY 2011/12 rice procurement is expected to reach a new record 37.0 million tons, more than 8 percent higher than last year's record procurement. As of June 27, 2012, rice procurement is estimated at 34.2 million tons compared to 30.6 million tons for the same period last year. Strong exports of non-basmati rice by private trade have somewhat eased the rice procurement pressure on the government as reflected in lower procurement in the surplus states of Andhra Pradesh and Punjab. Procurement of *rabi* and summer rice will continue in the southern and eastern states through September, which is likely to take MY 2011/12 rice procurement to 37.0 million tons.

Table 3. India: Government Procurement of Rice by States

(Figures in Million Tons)

State	MY 2012/13 ¹	MY 2010/11	MY 2009/10
Andhra Pradesh	7.3 (8.2)	9.61	7.55

Punjab	7.7 (8.6)	8.63	9.28
Chhattisgarh	4.1 (3.0)	3.75	3.36
Uttar Pradesh	3.3 (2.3)	2.55	3.01
Haryana	1.9 (1.6)	1.69	1.82
Tamil Nadu	1.6 (1.3)	1.54	1.22
Bihar	1.5 (0.8)	0.88	0.89
West Bengal	1.6 (0.9)	1.31	1.28
Others	5.2 (4.9)	4.24	3.62
Total	34.21 (30.64)	34.20	32.03

Source: Food Corporation of India, Government of India (GOI)

Footnote: ¹ Total rice procurement as on June 27, 2012. Figures in parentheses are last year's procurement for the corresponding period.

Food Grain Stocks Continue to Balloon

The continued strong wheat and rice procurement has further inflated the government's burdensome food grain stocks (see Appendix 3). The government food grain stocks on June 1, 2012, are officially estimated at a record 82.4 million tons, nearly 16 percent over last month, and more than 25 percent higher than the last year's record 65.6 million tons as of June 1, 2011. The June opening stocks include 50.2 million tons wheat (vs. 37.8 million tons at the same time last year), 32.1 million tons rice (vs. 27.6 million tons last year), and 0.1 million tons coarse grains. Continued strong wheat and rice procurement and relatively weak sales during the month June are likely to raise food grain stocks marginally higher to 82.6 million tons on July 1, 2012, against the government's desired stock levels of 31.9 million tons.

Additional Food Grain Allocation for Domestic Sales Announced

On June 19, 2012, the Empowered Group of Ministers (EGoM) on Food approved an additional allocation of food grain for sales through the government's Public Distribution System (PDS) and open market to domestic users.

- Five million tons of food grains for families Below Poverty Line (BPL) for distribution through the Public Distribution System at government's issue price (Rs. 5.65/kg rice and 4.15/kg wheat)
- Three million tons of wheat for open market sales (OMS) to the millers and other bulk users at the government's MSP of last year (Rs. 11,700 (\$209) per ton).

The Ministry of Consumer Affairs, Food and Public Distribution is working on the monthly quota allocation of rice and wheat for various states based on consumer preference under the five million ton BPL allocation. The government is also working on the modalities for open market sales of wheat for the bulk users and millers. The government is likely to issue the notifications on the additional allocations by 2nd week of July.

The recent additional allocation is over and above the initial allocation of 54.3 million tons of food

grains for the Indian fiscal year (IFY) 2012/13 for PDS and other welfare schemes (OWS). The recent announcement of 8 million tons additional allocations takes the IFY 2012/13 total food grain allocation to 62.3 million tons, still lower than the total food grain allocation of 70.9 million tons in IFY 2011/12 (versus actual off take of only 56.4 million tons). The government is likely to announce additional tranches of government wheat sales through PDS, OWS and OMS at subsidized prices to reduce the “abnormally surplus” wheat stocks during MY 2012/13.

Government Subsidizing Wheat for the Domestic Industry

The EGoM decision to allow OMS sale of wheat at last year’s MSP is a significant increase in subsidy to the domestic wheat industry, which was already being subsidized. In October 2011, the government allocated about 2.5 million tons of wheat for OMS up to end of March 2012 at the reserve price of MY 2011/12 MSP plus half transportation cost from the state of Punjab to the destination place. Since the actual off take of wheat was just about 1.2 million tons, the OMS scheme was extended up to the end of September 2012. The recent EGoM decision cover the total, not merely half, of the cost of transportation further enhancing the subsidy on the government wheat for domestic industry. The government offer price is not only significantly below the cost of procurement of wheat (Rs. 19,100 (\$341) per ton), it is even below the MSP price at which the government is currently buying wheat from the farmers (Rs. 12,850 (\$230) per ton).

A significant share of the highly subsidized PDS wheat finds its way into the open market. The enhanced PDS allocation coupled with the subsidized OMS will artificially depress domestic open market prices during the MY 2012/13. Expected low domestic open market prices will make Indian wheat globally more competitive, while some government wheat is likely to find its way into the export market. However, the government has not taken a decision on the Rangarajan Committee’s recommendation of exporting two million tons of wheat (see IN2075).

CORN

Table 4. India: Commodity, Corn PSD
(Area in Thousand Hectares, Others in Thousand Metric Tons)

Corn India	2010/2011	2011/2012	2012/2013
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	Market Year Begin: Nov 2010		Market Year Begin: Nov 2011		Market Year Begin: Nov 2012	
	USDA Official	New Post	USDA Official	New Post	Old Post	New Post
Area Harvested	8,600	8,600	8,600	8,600	8,900	8,900
Beginning Stocks	453	453	608	608	713	518
Production	21,730	21,730	21,300	21,300	22,000	22,000
MY Imports	25	25	10	10	10	10
TY Imports	24	24	10	10	10	10
TY Imp. from U.S.	0	0	0	0	0	0
Total Supply	22,208	22,208	21,918	21,918	22,728	22,528
MY Exports	3,500	3,500	2,400	3,600	2,200	2,500
TY Exports	3,376	3,376	2,400	3,600	2,200	2,500
Feed and Residual	9,000	9,000	9,600	9,000	10,400	10,200
FSI Consumption	9,100	9,100	9,200	8,800	9,600	9,000
Total Consumption	18,100	18,100	18,800	17,800	20,000	19,200
Ending Stocks	608	608	718	518	528	828
Total Distribution	22,208	22,208	21,918	21,918	22,728	22,528

Corn Exports Raised

Post's MY 2011/12 corn export estimate has been raised higher to 3.8 million tons based on the latest official and market reports on higher export off take due to competitive prices vis-à-vis other origins.

Indian corn exports have been supported by the decline in the value of Indian rupee and relatively low domestic prices due to a slowdown in domestic demand. MY 2012/13 exports have also been raised higher to 2.5 million tons on forecast higher supplies despite expected recovery in domestic demand. Nevertheless, the substantial increase in the government's MSP for corn and the consequent higher domestic prices will adversely affect MY 2012/13 export prospects, which is forecast to decline by nearly one third of MY 2011/12 exports.

The latest official figures report corn exports during November 2011 to February 2012 at 2.1 million tons compared to 1.6 million tons during the same period last year. Corn shipments are still going strong compared to last year, mostly to the traditional south Asian markets at prices ranging between \$220 and \$240 per ton FOB. While official figures are not available from April 2012 onwards, market sources report that an additional 1.1 million tons of corn has been shipped during March-June 2012. While corn exports are likely to slow down starting in July with the onset of monsoon and tight domestic supplies, MY 2012/13 exports are likely to reach 3.8 million tons, nearly 9 percent higher than last year (MY 2010/11).

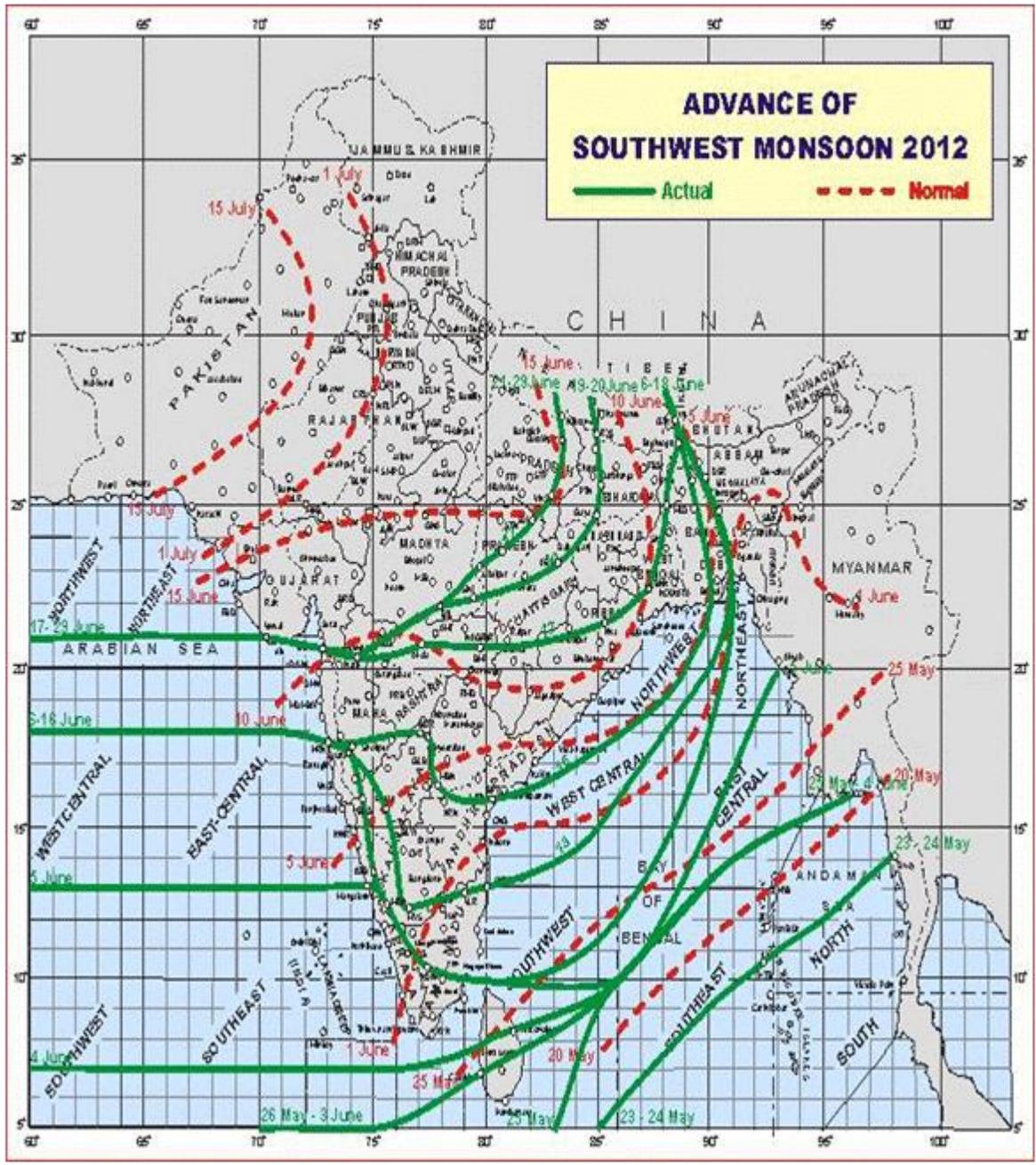
Consumption Lowered

Post's MY 2011/12 corn consumption is estimated lower at 17.8 million tons on weak domestic demand due to the slowdown in the poultry and starch industry, and availability of relatively cheaper substitute grains. Assuming a recovery in domestic demand, MY 2012/13 consumption forecast is forecast at 19.2 million tons.

Industry sources report that the Indian poultry industry is experiencing a slowdown since March 2012 with the profit margins squeezed due to higher mortality (higher temperature and diseases) and high feed prices. Market sources also report poultry feed manufacturers substituting corn for relatively cheaper substitutes like broken rice, sorghum and low quality wheat. Domestic price of corn has been on a declining trend since March 2012 in the major growing states, with prices about 3-6 percent lower than last year's level. The starch industry has also been adversely affected by the slowdown in the Indian textile industry. With more than sufficient supplies of wheat and rice being pumped by the government through the PDS and OMS at subsidized prices, food grade corn is relatively costlier, thereby limiting corn usage by processed food manufacturers. Consequently, MY 2011/12 corn consumption for feed and residual have been lowered to 9.0 million tons and FSI consumption to 8.8 million tons.

Expected sustained growth in the economy, strong demand for high-value, proteinaceous products (e.g., poultry meat and egg), and recovery in the growth of the textile industry will support a strong recovery in domestic demand for corn in MY 2012/13. Consequently, the MY 2012/13 corn consumption is forecast higher at 19.2 million tons – corn for feed/residual forecast to increase to 10.2 million tons and FSI consumption to 9.0 million tons.

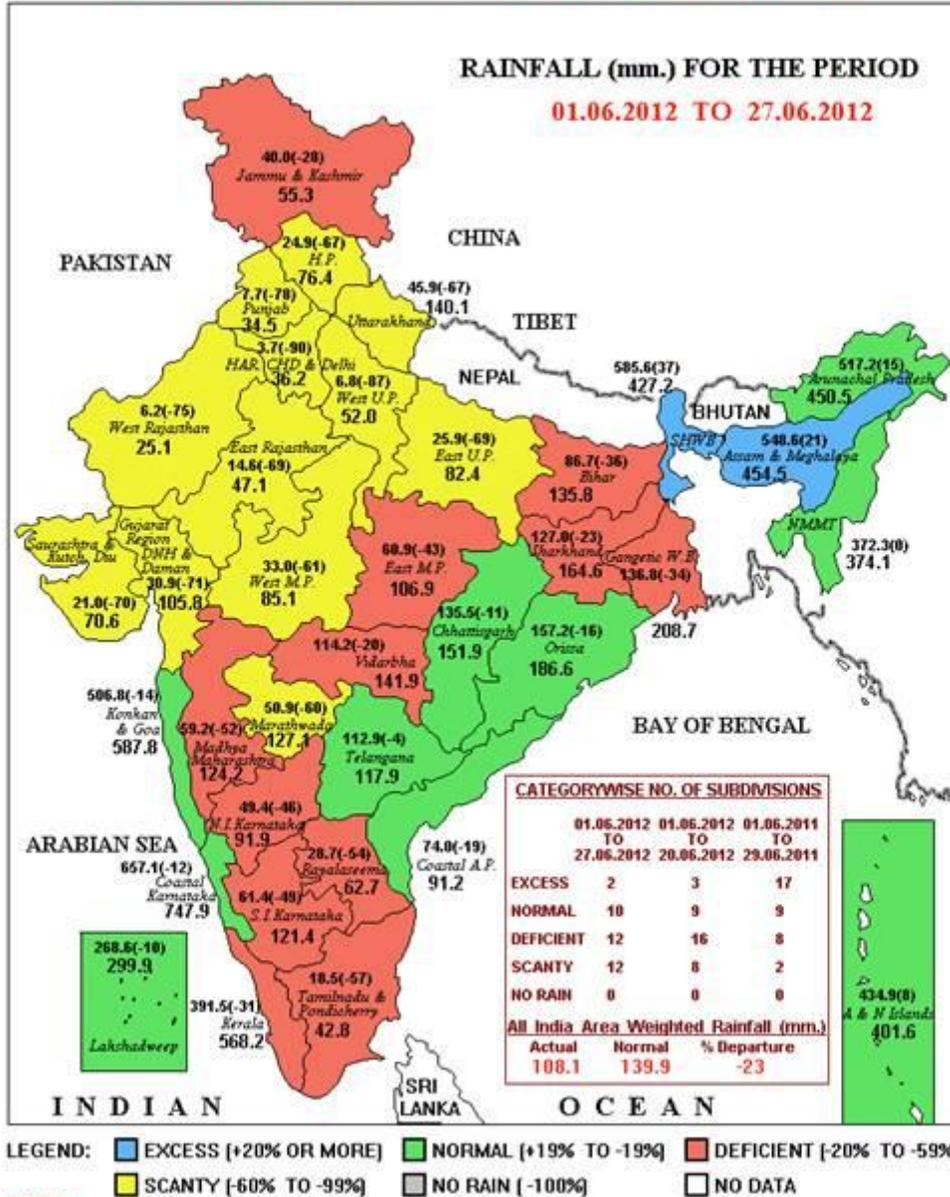
Appendix 1. India: Advance of South West Monsoon as on June 29, 2012



Source: Indian Metrological Department

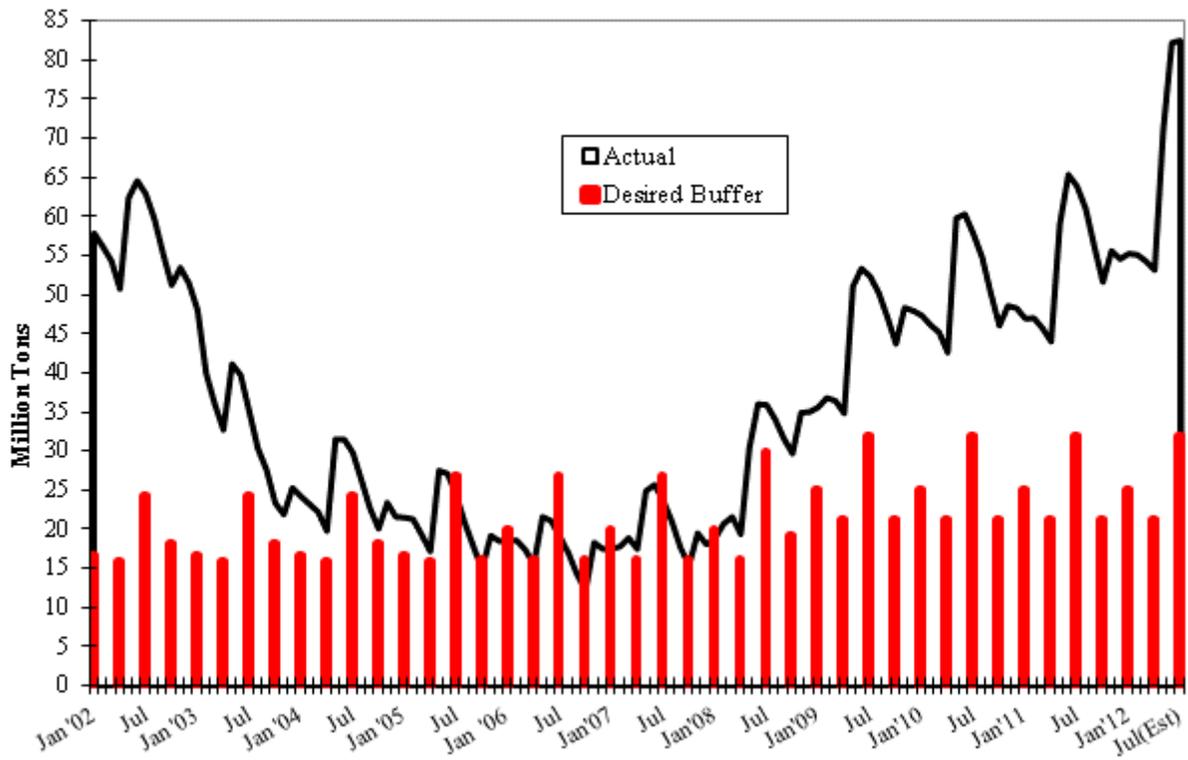
Appendix 2. India: Cumulative Monsoon Rainfall till the week ending June 27, 2012

भारत मौसम विज्ञान विभाग INDIA METEOROLOGICAL DEPARTMENT



Source: Indian Metrological Department

Appendix 3. India: Wheat and Rice Stocks - Actual Vs. Desired Buffer



Source: The Food Corporation of India, GOI.