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Grain Voluntary Update - October 2016

Report Categories:
Grain and Feed
Agricultural Situation
Agriculture in the Economy
Policy and Program Announcements

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Report Highlights:

On September 23, 2016, the Ministry of Finance notified the lowering of import on wheat from 25 percent to 10 percent (*ad valorem* on CIF value) till March 1, 2017. MY 2016/17 wheat imports are raised higher to 3.0 MMT.

General Information:

Normal 2016 Monsoon Rains …

The 2016 southwest monsoon began to withdraw from Western Rajasthan in the second fortnight of September, nearly two weeks later than normal and has currently progressed through north western states of Jammu & Kashmir, Punjab and Haryana by fourth week of September. However, monsoon has been very strong in remaining regions during the last two weeks. According to the Indian Meteorological Department (IMD), India's cumulative precipitation from June through September 28 was 3 percent below the seasonal long-term average (see Appendix), considered near normal after two consecutive below normal monsoon in 2014 and 2015. The rainfall is normal and above in 27 weather subdivisions, and deficient in the only 9 sub-divisions, which includes northern states of Punjab, Haryana, and Uttar Pradesh; northeastern states, parts of Gujarat and South India.

The Central Water Commission (CWC), which monitors the 91 major reservoirs with 157.8 billion cubic meters (BCM) capacity, estimated water stocks in the 91 reservoirs on September 22, 2016, at 111.04 BCM compared to 94.84 BCM same time last year, but lower than the last ten year average of 120.9 BCM. However, expected good rains as monsoon withdraws from central and eastern India by mid-October is likely to further improve the reservoirs levels. Besides improved reservoir levels, the normal monsoon is also likely to improve the ground water table in most parts of the country.

Supports Upcoming *Kharif* Crop

Sufficient and well distributed 2016 monsoon rains since early July supported timely and higher planting of *kharif* (fall harvested) crops during the ongoing season. The Ministry of Agriculture (MoA) estimates total area sown till September 23, 2016 at 106.75 million hectares, about 4 percent higher than last year mostly accounted by pulses, rice and coarse cereals.

Table 1: India: Planting of *Kharif* Crops in Indian Crop Year (July/June)
(Area in Million Hectares)

Crop	ICY 2015/16 Progressive Planting till Sept 23, 2015	ICY 2016/17 Progressive Planting till Sept 23, 2016
Rice	37.74	38.70
Pulses	11.29	14.58
Coarse cereals	18.36	18.96
Oilseeds	18.37	18.92
Sugarcane	4.96	4.58
Cotton	11.60	10.26
Total	103.09	106.75

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

The deficient rains August in the largely irrigated northern states and 'normally high' rainfall receiving northeastern states is unlikely to adversely affect crop prospects. The recovery of monsoon rains in September, particularly in central and southern states, will also support the standing crop. Field reports suggest the standing crops are progressing well in most states under adequate soil moisture conditions.

However, excess rains and/or cyclones in the Bay of Bengal in October may affect the production prospects on potential crop damage to the crop at harvest stage. The normal 2016 monsoon is also likely to support the upcoming *rabi* (winter planted) crop planting prospects on sufficient soil moisture and improved ground water and reservoir levels.

Government Forecasts Bumper MY 2016/17 *Kharif* Harvest

On September 22, 2016, the MoA released its First Advance Estimate of Food Grain Production for the Indian Crop Year (ICY) 2016-17 (July-June) optimistically estimating the India's *kharif* grain production at a record 135 MMT, more than 11 MMT higher than last year, and about 4 MMT higher than the previous record harvest in ICY 2011/12. The crop-wise breakup:

- Rice at a record 93.9 MMT (vs. 90.6 MMT last year and previous record 92.9 MMT in 2011/12)
- Corn at a record 19.3 MMT (vs. 15.2 MMT last year and previous record 17.1 MMT in 2013/14)
- Pulses at a record 8.7 MMT (vs 5.5 MMT last year and previous record 6.4 MMT in 2007/08)
- Other coarse grains production at 13.2 MMT (vs. 11.9 MMT last year)

Market sources report that the first advance estimates are highly optimistic, largely based on the provisional planting reports and are likely to be revised later based on the revised area and yield reports after harvest.

WHEAT

Table 2. India: Commodity, Wheat, PSD
(Area in Thousand Hectares and Quantity in Thousand Metric Tons)

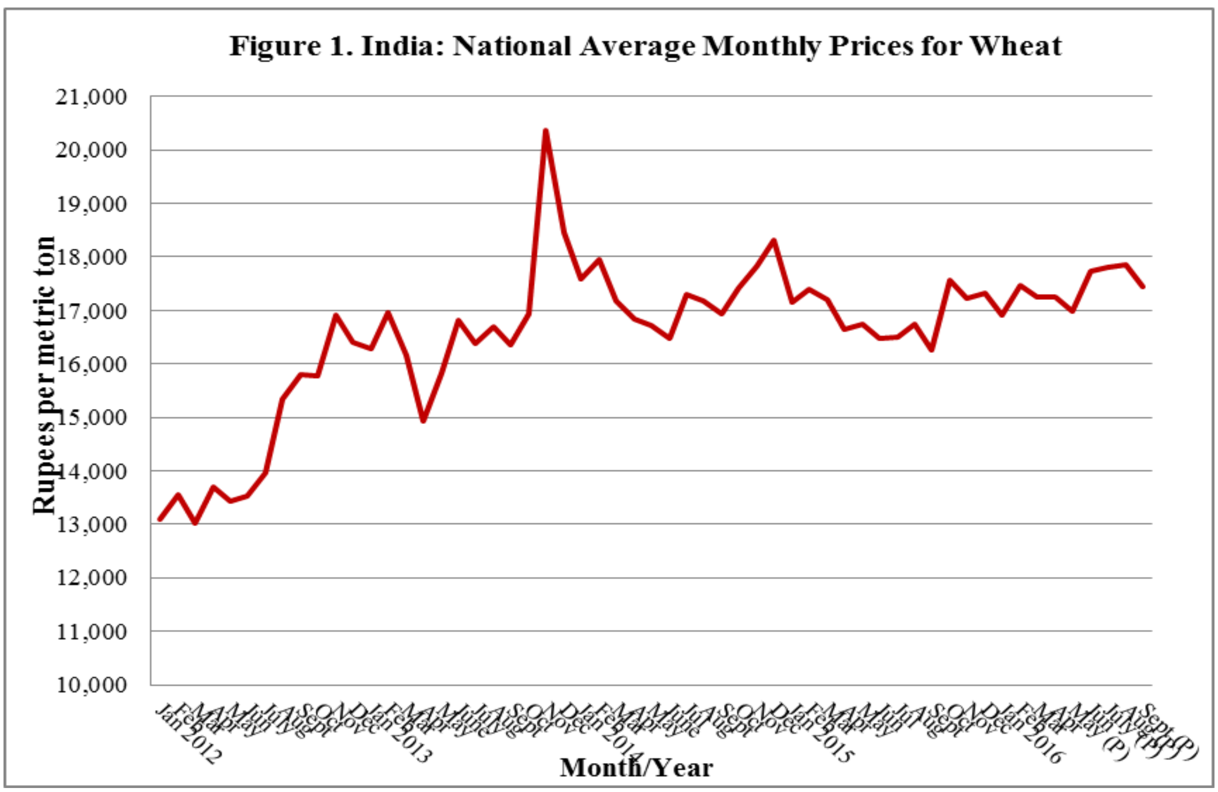
Wheat	2014/2015		2015/2016		2016/2017	
Market Begin Year	Apr 2014		Apr 2015		Apr 2016	
India	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	30473	30473	31470	31470	30220	30220
Beginning Stocks	17830	17830	17200	17200	14500	14500
Production	95850	95850	86530	86530	90000	90000
MY Imports	51	51	471	471	2000	3000
TY Imports	273	273	300	300	2000	3000
TY Imp. from U.S.	0	0	0	0	0	0
Total Supply	113731	113731	104201	104201	106500	107500
MY Exports	3409	3409	1060	1060	400	400
TY Exports	1820	1820	872	872	400	400
Feed and Residual	4500	4500	4200	4200	4500	4800
FSI Consumption	88622	88622	84441	84441	90600	91300
Total Consumption	93122	93122	88641	88641	95100	96100
Ending Stocks	17200	17200	14500	14500	11000	11000

Total Distribution	113731	113731	104201	104201	106500	107500

Import Duty on Wheat Lowered to 10 percent

On September 23, 2016, the Ministry of Finance issued a notification lowering the basic custom duty on imports of wheat from 25 percent to 10 percent (*ad valorem* on CIF value) till March 1, 2017. Market sources report that the GOI decision to lower import duty was due to concern about the rising domestic prices and relatively strong off take of government held wheat in the recent months.

Domestic prices have surged since June amidst speculation on the size of the 2016/17 harvest due to second consecutive deficient 2015 monsoon) and warm winters affecting the wheat crop. While the MoA optimistically estimates the MY 2016/17 wheat production at 93.5 MMT, private trade sources continue to estimate the crop in the range of 82 to 87 MMT (see IN6116). Due to the strong domestic prices, government procurement during MY 2016/17 declined to 22.9 MMT compared to 28.1 MMT last year. Strong domestic market prices during June-August strongly suggest tight domestic supplies due to lower production compared to the MoA's estimate. At this stage, Post continues to estimate MY 2016/17 wheat production at 90 MMT (see IN6116).



Source: Agmarket News (http://agmarkweb.dacnet.ic.in), Ministry of Agriculture, GOI

Firm domestic prices resulted in stronger offtake of government held-wheat in the last few months, especially by the private trade under the open market sale scheme. The offtake of government wheat during July-August 2016 was estimated at 5.9 MMT compared to 4.2 MMT during the same period last year. Consequently, the Government-held wheat stocks on September 1, 2016 declined to 24.25 million metric tons (MMT), more than 10 MMT lower than last year. Market sources estimate the October 1, 2016 stocks to be around 21.4 MMT, slightly higher than the government's desired stock level of 20.5 MMT raising concerns of further drawing down of stocks to levels below the government desired stock levels in the second half of the marketing year when the offtake increases under the OMSS.

Consequently, the government lowered the import duty on wheat to allow private mills to augment their wheat consumption requirement through imports. Market sources report that imports of wheat at 10 percent import duty will be economical for the millers at the current international prices, especially the southern and western mills due to the in-land freight advantage. Due to the strong speculation on the impending lowering of the import duty, the domestic wheat prices eased down in September as private trade started contracting for importing wheat to augment their requirements.

MY 2016/17 Imports Raised

Post's MY 2016/17 wheat imports are revised higher to 3 MMT on improved import prospects due to the lower import duty on relatively weak international prices. Provisional official figures estimate MY 2016/17 wheat imports during April through August, 2016 at 263,000 MT and trade sources report an additional 0.5 MMT has been shipped during September which will be offloaded by 2nd week of October, and an additional 700-800,000 MT has been contracted for delivery through November/December. Assuming no significant changes in the current price parity between domestic and international wheat prices, imports through February 2017 are likely to reach 3 MMT. However, import prospects are likely to be affected if the domestic prices decline or international prices increase by around 10 percent over current levels.

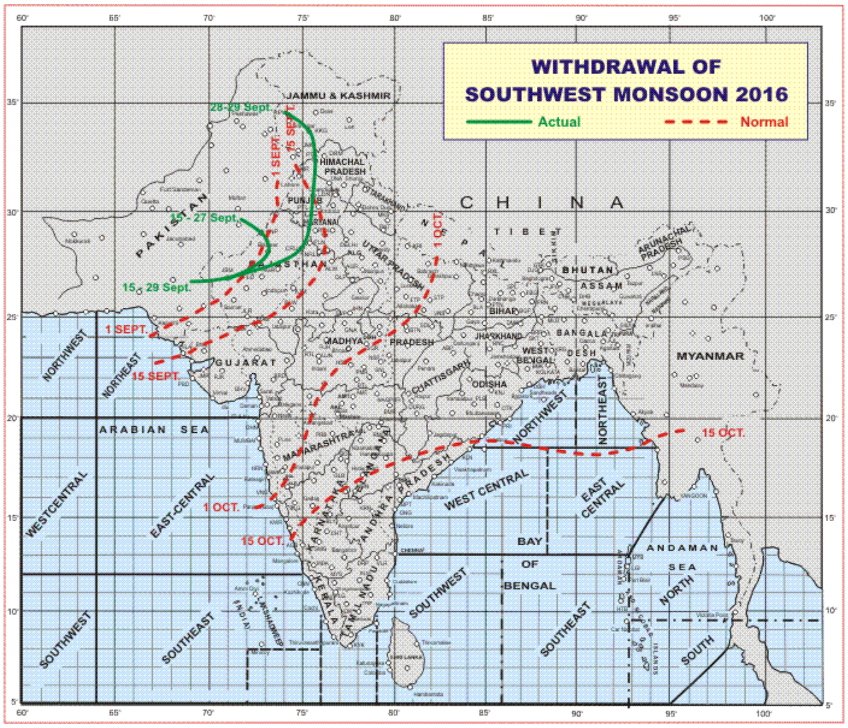
Consumption Revised

MY 2016/17 consumption estimate is revised marginally higher to reflect the change in the import estimate. Post continues to estimate other PSD figures unchanged from the last updates (see IN6116).

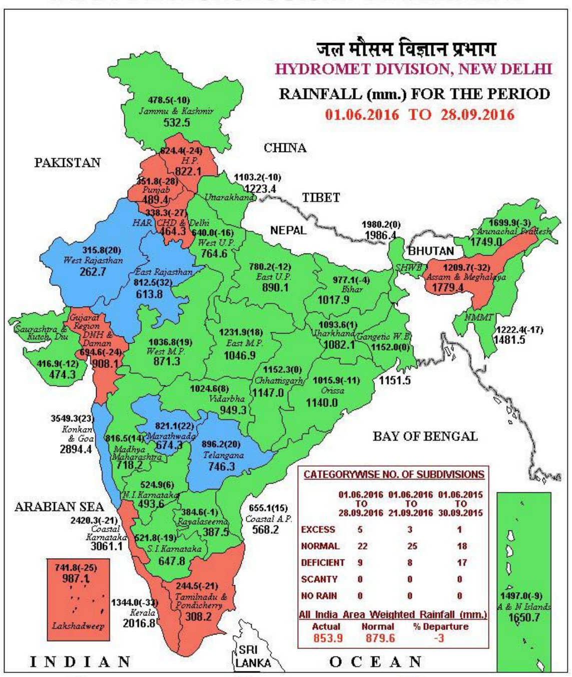
RICE/CORN

No changes in the official PSD to report.

Appendix: Progress of 2016 Monsoon – Source: Indian Metrological Department, GOI



भारत मौसम विज्ञान विभाग
INDIA METEOROLOGICAL DEPARTMENT



CATEGORYWISE NO. OF SUBDIVISIONS

	01.06.2016 TO 28.09.2016	01.06.2016 TO 21.09.2016	01.06.2015 TO 30.09.2015
EXCESS	5	3	1
NORMAL	22	25	18
DEFICIENT	9	8	17
SCANTY	0	0	0
NO RAIN	0	0	0

All India Area Weighted Rainfall (mm.)

Actual	Normal	% Departure
853.9	879.6	-3

LEGEND: EXCESS (+20% OR MORE) NORMAL (+19% TO -19%) DEFICIENT (-20% TO -59%)
SCANTY (-60% TO -99%) NO RAIN (-100%) NO DATA

NOTES:
(a) Rainfall figures are based on operational data.
(b) Small figures indicate actual rainfall (mm.), while bold figures indicate Normal rainfall (mm.)
Percentage Departures of Rainfall are shown in Brackets.