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India

Grain and Feed Update

July 2018

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Report Highlights:

On July 4, 2018, the Government of India (GOI) approved a significant increase in the minimum support prices (MSPs) for the *khariif* (fall harvested) crops for the 2018/19 season. A relatively weak 2018 monsoon since the third week of June has slowed the planting of most grains, including rice and corn, for the upcoming MY2018/19 *khariif* (fall harvested) season. With the higher MSP likely to prop up domestic prices and affect the export competitiveness of India rice, the MY 2018/19 rice export forecast is lowered to 12 MMT.

Post: Commodities:

New Delhi Rice, Milled
 Corn
 Wheat

Author Defined:**Government Hikes Minimum Support Price (MSP) for Upcoming *Kharif* Crops**

On July 4, 2018, the Cabinet Committee on Economic Affairs (CCEA) chaired by Prime Minister Narendra Modi approved a significant increase in the minimum support prices (MSPs) for the *kharif* (fall harvested) crops of the Indian crop year 2018/19 (July-June), which is currently being planted. The [government press release](#) stated that MSP has been determined per the budget announcement of profit margins at least 50 percent over farmers cost of production. Consequently, the MSPs for the *kharif* crops have been raised by 10 percent to 53 percent over last year for most crops, with an unprecedented increase for coarse grains, cotton, sunflower seeds and green gram.

Table 1. India: Minimum Support Price for *Kharif* Crops for Indian Crop Year
 (Value in INR per Metric Tons)

Crops	2014-15	2015-16	2016-17	2017-18	2018-19	% increase over previous year
Paddy (Unmilled Rice) Common	13,600	14,100	14,700	15,500	17,500	12.9
Paddy Grade A	14,000	14,500	15,100	15,900	17,700	11.3
Sorghum	15,300	15,700	16,250	17,000	24,300	42.9
Pearl Millet	12,500	12,750	13,300	14,250	19,500	36.8
Finger Millet	15,500	16,500	17,250	19,000	28,970	52.5
Corn	13,100	13,250	13,650	14,250	17,000	19.3
Pigeon Pea	43,500	44,250	50,500	54,500	56,750	4.1
Green Gram	46,000	46,500	52,250	55,750	69,750	25.1
Black Matpe	43,500	44,250	50,000	54,000	56,000	3.7
Peanut InShell	40,000	40,300	42,200	44,500	48,900	9.9
Sunflower Seed	37,500	38,000	39,500	41,000	53,880	31.4
Soybean	25,600	26,000	27,750	30,500	33,990	11.4
Cotton Medium Staple (Unginned Seed Cotton)	37,500	38,000	38,600	40,200	51,500	28.1

Source: Directorate of Economics and Statistics, Ministry of Agriculture and Farmer Welfare, GOI

Typically, the GOI announces the MSP *Kharif* season crop by the first week of June to help farmers make planting decisions. This season, given the late announcement of MSP by the GOI, most farmers have already made their planting decisions including purchasing seeds, land preparation, etc. Consequently, the MSP announcement is unlikely to influence the planting prospects, and the farmers will continue to favor crops with more stable yields, such as rice, despite higher MSP increments in coarse grains.

The government decision to implement the ambitious MSP policy is an attempt to influence the agriculture voter base due to the upcoming state elections in late 2018 and the next Parliamentary election in 2019. Informed sources report that the government estimates that the new MSP policy is likely to cause an additional expenditure of INR 335 billion (\$5 Billion), or an estimated 0.2 percent of the GDP. Analysts believe that higher MSP prices are likely to fuel domestic food prices, which will erode the export competitiveness of Indian agricultural commodities. Since India is one of the leading exporters of rice, higher MSP prices are likely to push up international prices for coarse rice imported by countries in Africa and south Asia.

Progress of 2018 Monsoon

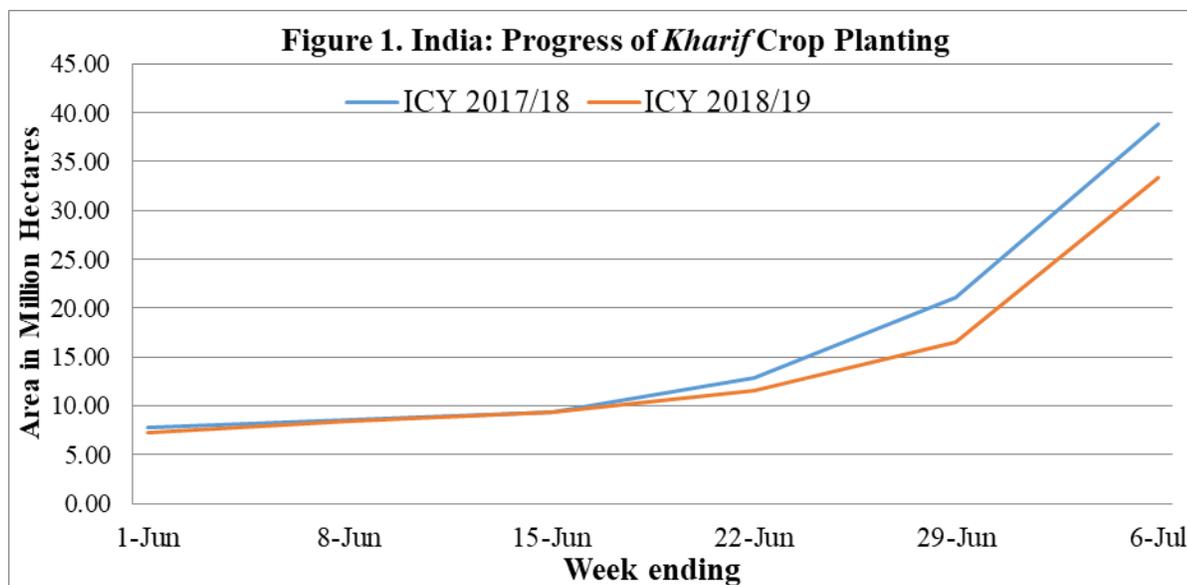
The southwest monsoon has progressed rapidly cross country and passed the north/northwest region by June 29, 2018, nearly two weeks ahead of the norm (July 15). However, monsoon precipitation has been relatively deficient since the latter half of June (see Appendix 1), particularly in the east and northeast region. The latest update from the Indian Meteorological Department indicates the cumulative rainfall for the week ending July 5, 2018 was seven percent below normal (compared to the 20-year average); about 11 of the 36 weather subdivisions received deficient rains compared to only 3 last year (See Appendix 2).

Region wise, central, east and northeast India received deficient rains, while the southern peninsula and northwest regions received normal to heavy rains. The Indian Meteorological Department continues to forecast a normal 2018 monsoon with rainfall to improve from the second week of July in most parts of the country.

The latest information from the Central Water Commission suggests that the water levels in the major reservoirs as of July 5, 2018 was slightly above the levels of last year, but four percent below the average storage levels of the last ten years. This is largely due to heavy 2018 monsoon rains in southern India. The reservoir water situation in general is likely to improve further with the expected recovery of the monsoon from the second week of July and forecast overall normal 2018 monsoon.

***Kharif* Planting Lags Behind Last Year**

Despite an early onset of the monsoon, relatively weak rains since the third week of June has slowed down the pace of planting *kharif* crops during the ongoing season.



Source: Ministry of Agriculture, GOI.

The Ministry of Agriculture (MoA) estimates total area sown till July 6, 2018 at 33.4 million hectares compared to 38.9 million hectares at the same time last year, with lower planting for most crops except sugarcane.

Table 2. India: Planting of *Kharif* Crops in Indian Crop Year (July/June)
(Area in Million Hectares)

Crop	Normal Planting as on July 6 ^{/1}	ICY 2018/19 Progressive Planting till July 6, 2018	ICY 2017/18 Progressive Planting till July 6, 2017
Rice	8.57	6.73	7.91
Pulses	2.64	3.36	4.17
Coarse Cereals	5.91	5.73	6.63
Oilseeds	7.32	6.36	7.35
Sugarcane	4.54	5.04	4.96
Cotton	7.30	5.46	7.18
Total	37.02	33.38	38.89

Note /1: Average planting of five crop years 2012/13 to 2016/17

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

With the forecast revival of the monsoon beginning the second week of July, the planting of most *kharif* (rice, corn, sorghum, millet and pulses) crops should recover through the ideal planting window of late-July. Late planting of most *kharif* crop can continue through the first week of August, except for rice where planting may continue through September in southern India. Planting of pulses and coarse grains is likely to be over by the first week of August.

The government's recent higher increase in the minimum support prices (MSP) for most grains is likely to encourage farmers to plant more acreages: even under the slight deficit rainfall situation, irrigation will sufficiently augment water requirements. However, most farmers will continue to prefer rice over other crops due to relatively stable yields and lower vulnerability to pests/diseases and climatic fluctuations compared to other crops. Normal monsoon and weather conditions through August in the major grain producing states is likely to support Post's MY 2018/19 *kharif* grain area forecast. However, sufficient and well-distributed rains through September will be critical for achieving forecast production levels to achieve forecast normal yields. Prolonged dry spells during July-September could potentially affect planting and yield prospects in the non-irrigated area (more than half of *kharif* cropped area). On the other hand, excessive rains and consequent floods in the traditional flood prone areas of east India, and normal cyclonic incidences in coastal India can affect planting and cause significant crop damage.

RICE

Rice, Milled Market Begin Year	2016/2017		2017/2018		2018/2019	
	Oct 2016		Oct 2017		Oct 2018	
India	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	43993	43993	42900	43916	43500	43500
Beginning Stocks	18400	18400	20550	20550	20400	20200
Milled Production	109698	109698	110000	110000	109000	109000
Rough Production	164563	164563	165017	165017	163516	163516
Milling Rate (.9999)	6666	6666	6666	6666	6666	6666
MY Imports	0	0	0	0	0	0
TY Imports	0	0	0	0	0	0
TY Imp. from U.S.	0	0	0	0	0	0
Total Supply	128098	128098	130550	130550	129400	129200
MY Exports	11772	11772	12800	13000	12500	12000
TY Exports	12560	12560	12800	12800	12500	12000
Consumption and Residual	95776	95776	97350	97350	98000	98200
Ending Stocks	20550	20550	20400	20200	18900	19000
Total Distribution	128098	128098	130550	130550	129400	129200
Yield (Rough)	3.7407	3.7407	3.8466	3.7576	3.759	3.759

MY 2018/19 Planting Slow; Can Recover in the July Planting Window

Despite the early monsoon, a rainfall deficit since the third week of June has lowered planting in most rice growing states with rice area planted through July 6, 2018, estimated lower at 6.73 million hectares compared to 7.91 million hectares last year, and significantly lower than the normal (5-year average)

planting of 8.57 million hectare for the corresponding period. Planting is likely to recover in July in the major rice growing states on forecast normal monsoon rains from the second week of July. Planting is currently in full swing in most states as farmers wait for more rains, and will continue through the second week of August. Planting of long-grain Basmati rice in Punjab, Haryana and western Uttar Pradesh, as well as rice in coastal Andhra Pradesh and Tamil Nadu, will continue through late August/early September.

Assuming normal rainfall during August/September and normal weather conditions through harvest (October/November), Post forecast for MY 2018/19 rice area and production remains unchanged at this stage.

MY 2017/18 Procurement Slows Down

Despite record production, government rice procurement during the ongoing season has slowed since February on higher export demand and relatively lower than estimated *rabi* (winter planted) rice harvest. MY 2017/18 rice procurement through July 8, 2018, is estimated at 36.2 MMT compared to 38.0 MMT during the same period last year. With some additional procurement in eastern and southern states through September, total MY 2017/18 rice procurement is likely to reach 36.3 MMT, about five percent lower than last year's record procurement, but nevertheless the second highest procurement ever.

Table 4. India: Government Rice Procurement by State

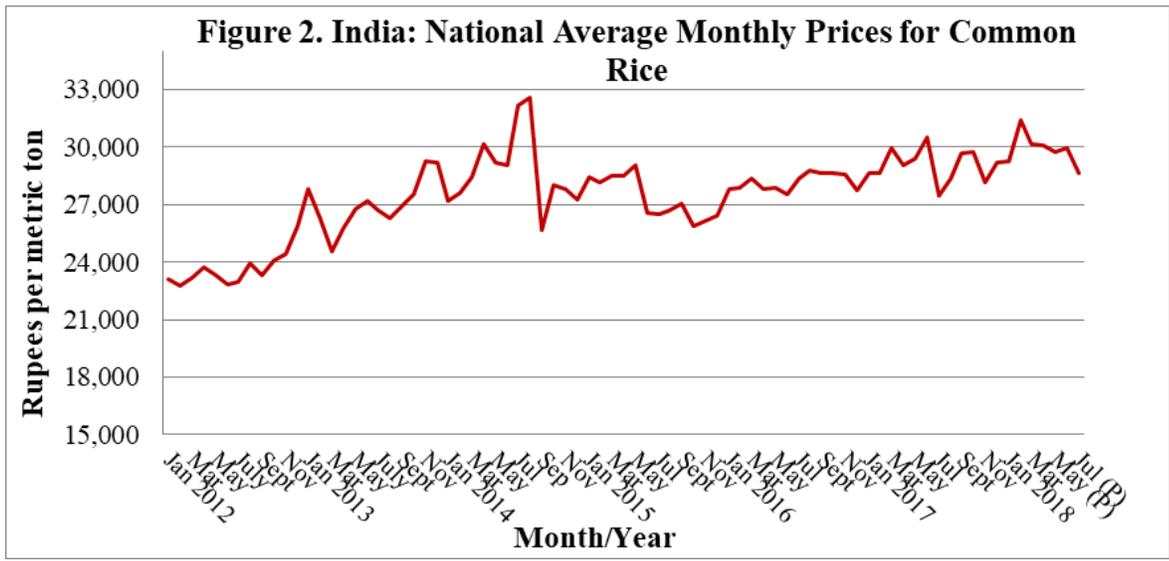
(Figures in million metric tons)

State	MY 2016/17	MY 2016/17	MY 2017/18
	Oct.-Sept.	Oct. 1 through July 8	
Punjab	11.05	11.05	11.83
Andhra Pradesh	3.72	3.71	3.90
Telangana	3.60	3.59	3.62
Chattisgarh	4.02	4.02	3.21
Odisha	3.63	3.57	3.28
Haryana	3.58	3.58	3.99
Uttar Pradesh	2.35	2.35	2.88
West Bengal	1.92	1.92	0.06
Madhya Pradesh	1.31	1.31	1.10
Tamil Nadu	1.19	0.01	0.84
Others	<u>1.72</u>	<u>2.88</u>	<u>1.53</u>
Total	38.11	38.01	36.23

Source: Food Corporation of India, GOI

Prices Firm

Despite strong export demand, domestic prices have eased in July on continued *rabi* rice arrivals. Prices are likely to remain steady through the fourth quarter of MY 2017/18 (July-Sept) assuming normal monsoon and planting of the upcoming *kharif* rice crop.



Source: Agricultural Marketing Information Network, Ministry of Agriculture, GOI

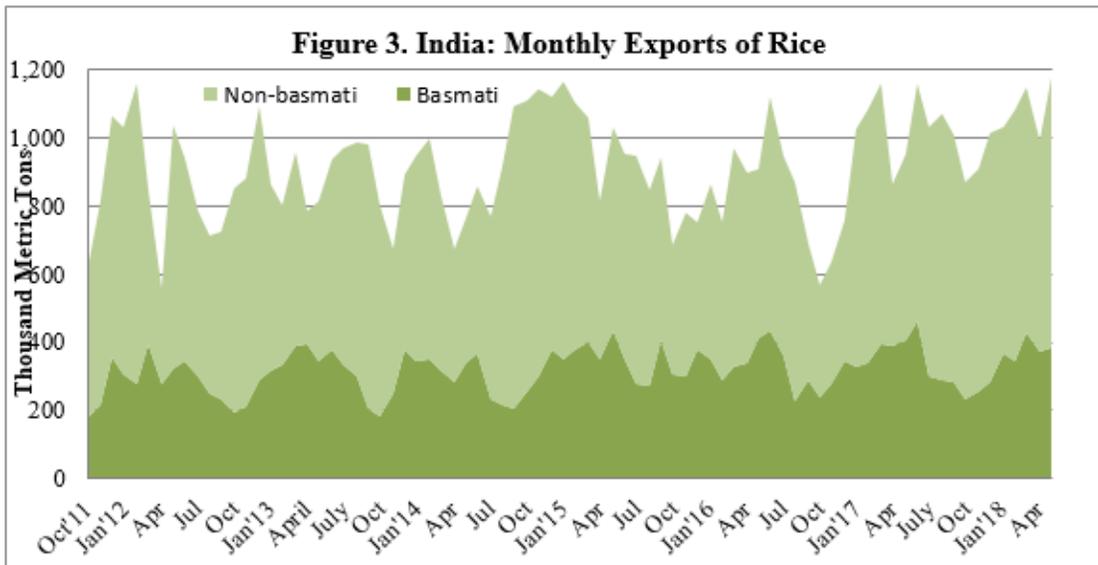
A recent hike in the MSP is likely to raise opening prices in the upcoming MY 2018/19, but future price movements will largely depend on the harvest prospects of the upcoming crop and international demand.

MY 2018/19 Procurement to Rise on Higher MSP

Assuming forecast rice production, the recent hike in MSP is likely to increase government rice procurement in the upcoming MY 2018/19. With the 12 percent increase in MSP, farmers are likely to bring more rice to the government as the government expands the MSP procurement operations for the upcoming marketing year due to the upcoming state and parliamentary elections. Market sources expect that government rice procurement is likely to reach a new record high of 40-42 MMT assuming normal production year.

MY 2017/18 Exports Steady

Since December 2017, Indian rice exports have been robust and steady on strong demand for non-Basmati rice, mainly from neighboring Bangladesh and African countries. According to preliminary official statistics, rice exports from October 2017 to May 2018 were estimated at 8.2 MMT compared to 7.1 MMT for the corresponding period last year on steady demand for both basmati and non-Basmati rice.



Source: Monthly exports through May 2018 from Directorate General of Commercial Intelligence (DGCIS), GOI.

Although official data is not available, market sources report steady exports in the month of June, but expect slowdown from July onwards on expected lower demand from Bangladesh and a few other markets. Assuming a slowdown in the fourth quarter, MY 2017/18 rice exports still are likely to reach the estimated record 13 MMT, about 10.5 percent higher than last year.

MY 2018/19 Exports Lowered

Post's MY 2018/19 rice export forecast is revised lower to 12 MMT on expected higher domestic prices; the higher MSP will affect the export competitiveness of Indian rice in the international market.

Export competitiveness of Indian rice in MY 2018/19 will depend on the domestic prices and value of Indian rupee vis-a-vis the US dollar. GOI's decision to hike MSP for rice by an unprecedented 11-13 percent vs 4-5 percent in recent years is likely to affect domestic prices in MY 2018/19. Due to the upcoming state elections in 2018 (Rajasthan and Madhya Pradesh) and Parliamentary election in 2019, the government is likely to bolster procurement operations in non-traditional rice surplus states. Although the impact on open market prices may not be of the same magnitude as the MSP increase, exporters will have to pay higher prices to export Indian rice compared to last year. Market sources also express concern on policy development in major markets (Bangladesh for coarse rice and Iran for Basmati rice) which will affect rice export prospects in MY 2018/19. Consequently, Post's forecast for MY 2018/19 rice exports is reduced to 12 MMT (8 MMT coarse rice and 4 MMT Basmati rice).

Post's MY 2018/19 ending stocks estimate has been raised to 19 MMT on expected higher government procurement and lower exports.

WHEAT

Note: No significant changes in the official PSD to report.

Government Procurement Swells on Near-Record Harvest

Following back to back record and near-record harvests and a significant increase in the government's MSP, the government wheat procurement for MY 2018/19 increased by over 15 percent to 35.5 MMT, second highest on record after 37.9 MMT in MY 2012/13.

Table 5. India: Government Wheat Procurement by State

(Figures in million metric tons)

State	MY 2016/17	MY 2017/18	MY 2018/19 (Est)
	April-March	April-March	April-March
Punjab	10.65	11.71	12.69
Haryana	6.75	7.43	8.74
Madhya Pradesh	3.99	6.73	7.29
Uttar Pradesh	0.80	3.70	5.09
Rajasthan	0.76	1.25	1.53
Others	0.01	0.02	0.19
Total	22.96	30.83	35.52

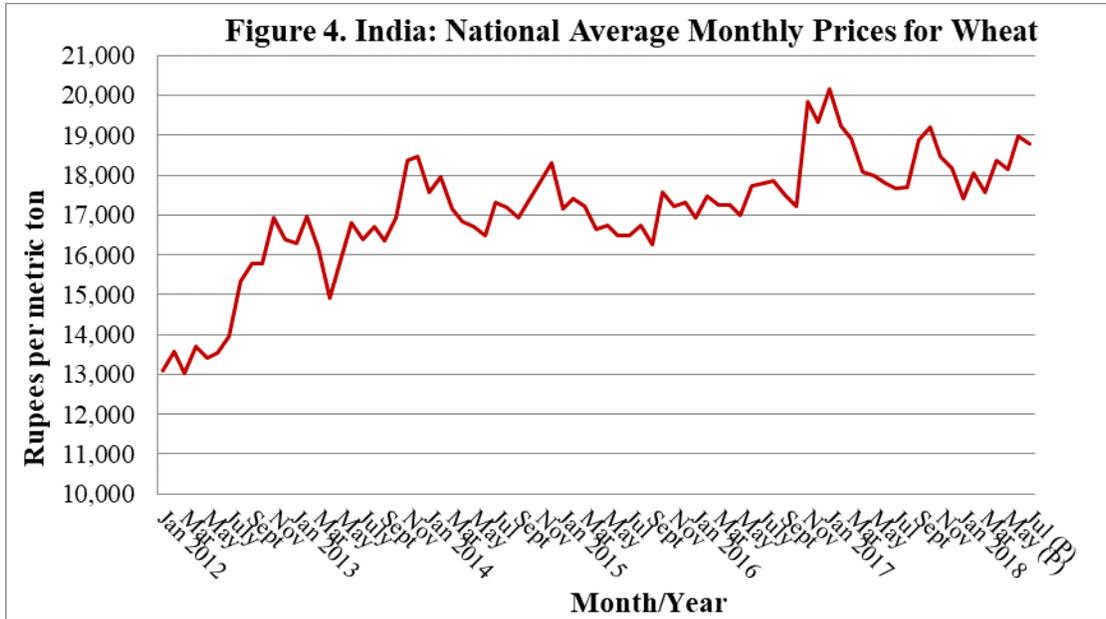
Source: Food Corporation of India, GOI

Procurement ended by the first week of July in most states due to higher MSP, timely and sufficient harvest, and lower speculation on market price expectations. While procurement is higher in all the major growing states, the increase in procurement in the state of Uttar Pradesh has been a record high (5.09 MMT vs. 5.06 MMT) in MY 2012/13) due to the aggressive measures of the state government to expand MSP procurement operations in non-traditional areas.

Government-held wheat stocks on July 1, 2018, are reported at 41.8 MMT compared to 32.3 MMT a year ago, and more than one and one-half times the July desired stocks of 27.6 MMT. Government wheat stocks are sufficient to meet the food security needs for the National Food Security Act through the PDS and other programs (26-27 MMT) and buffer stock (7.5 MMT ending stocks) requirement, with a surplus of about 7-8 MMT for open market sales (OMS). With the OMS sale of wheat in last few years ranging from 4.2 MMT to 7 MMT per annum, sources report that the government is planning to dispose of the surplus through OMS during MY 2018/19.

Prices Stable

Domestic prices have ruled steady during MY 2018/19 harvest season (April-June), and have eased in July after the commencement of government procurement supporting forecast near-record production.



Source: Agricultural Marketing Information Network, Ministry of Agriculture, GOI

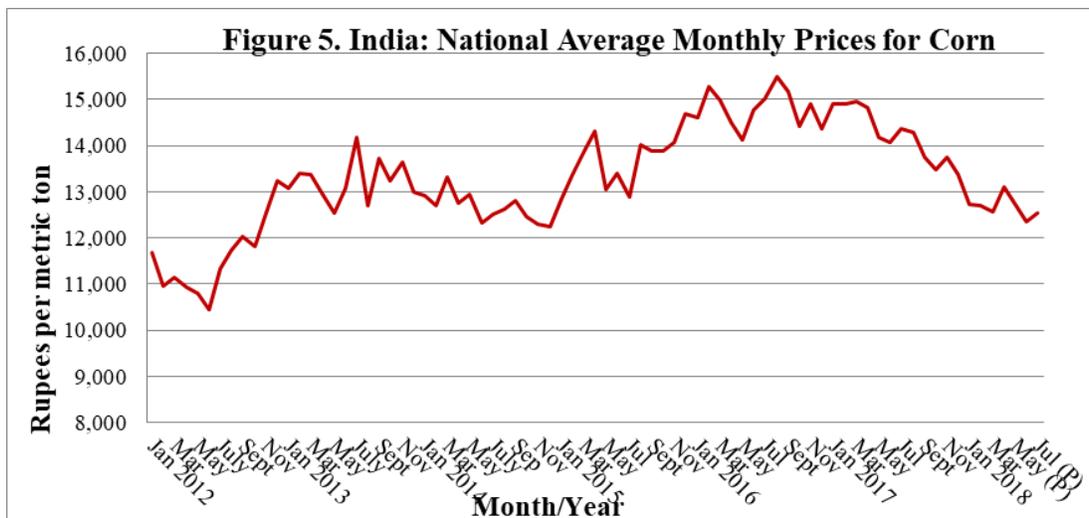
Open market prices in the major producing states range from INR 16,400 (\$241) to 18,700 (\$275) per metric ton, which frames the government MSP of INR 17,350 (\$255) per metric ton. Market prices during the balance of MY 2018/18 are likely to rule steady on sufficient wheat in the open market and ‘surplus’ government wheat stocks.

CORN

Table 6. India: Commodity, Corn PSD						
(Area in Thousand Hectares, Others in Thousand Metric Tons)						
Corn	2016/2017		2017/2018		2018/2019	
Market Begin Year	Nov 2016		Nov 2017		Nov 2018	
India	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	9633	9633	9219	9300	9200	9200
Beginning Stocks	850	850	1335	1335	1165	1165
Production	25900	25900	26880	26880	26000	26000
MY Imports	79	79	50	50	500	500
TY Imports	78	78	50	50	500	500
TY Imp. from U.S.	7	7	0	0	0	0
Total Supply	26829	26829	28265	28265	27665	27665
MY Exports	594	594	600	800	500	500
TY Exports	542	542	600	800	500	500
Feed and Residual	14500	14500	16000	15800	16000	16000
FSI Consumption	10400	10400	10500	10500	10500	10500
Total Consumption	24900	24900	26500	26300	26500	26500
Ending Stocks	1335	1335	1165	1165	665	665
Total Distribution	26829	26829	28265	28265	27665	27665
Yield	2.6887	2.6887	2.9157	2.8903	2.8261	2.8261

Weak Domestic Prices

Weak domestic prices for most of the MY 2017/18 are consistent with estimates of record corn production. Prices dropped further with the arrival of the *rabi* (winter planted) corn in March 2018.



Source: Agricultural Marketing Information Network, Ministry of Agriculture, GOI

With the arrival of *rabi* corn tapering off, domestic prices have started firming up in July. However, market prices in the major producing states currently range from INR 12,450 (\$183) to INR 14,150 (\$208) per metric ton (spot), still below the government’s MSP of INR 14,250 (\$210) per metric ton. Domestic corn prices are likely to remain steady in August/September on sufficient supplies from the MY 2017/18 record harvest.

Although the recent hike in MSP may pressure domestic prices, price movements in MY 2018/18 will largely depend on the domestic crop prospects as government has limited infrastructure for MSP procurement operations for corn.

MY 2017/18 Exports Raised

Based on the latest official and market estimates, Post’s MY2017/18 corn export estimate has been raised higher to 800,000 MT on a slight surge in exports since February 2018 owing to weak domestic prices. A bumper harvest of MY 2017/18 *rabi* corn have eased domestic prices making Indian corn slightly competitive in the neighboring market.

Official sources estimate corn exports in the first half of MY 2017/18 at 440,000 MT compared to 287,000 MT during the same period last year. Market sources report that an additional 280-300,000 MT of corn has been exported in the third quarter of MY 2017/18 (April-June). With the culmination of the harvest and marketing of *rabi* corn, exports in the last quarter of MY 2017/18 are likely to come down. Consequently, MY 2017/18 corn exports estimate is raised to 800,000 MT.

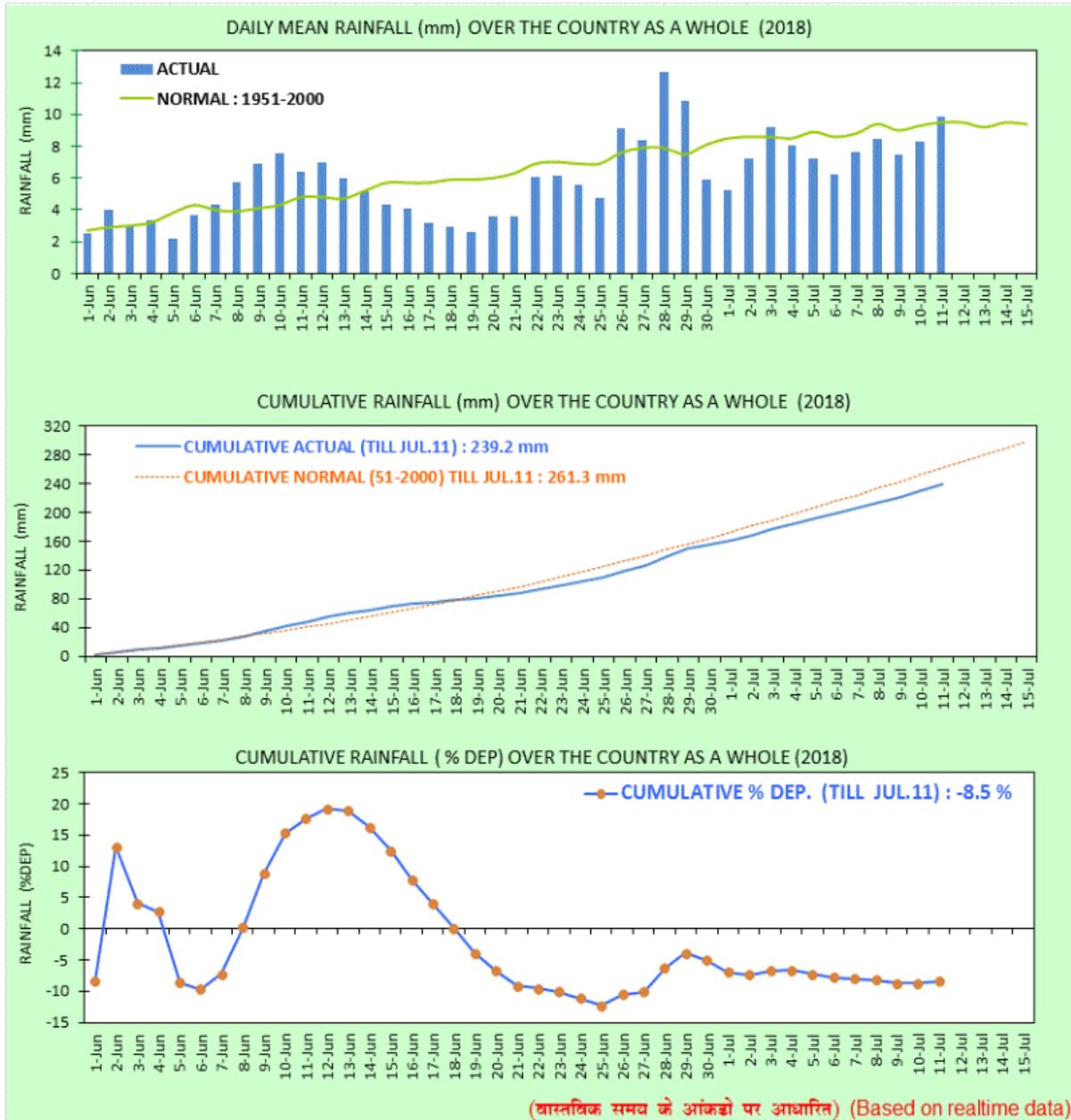
MY 2017/18 consumption estimate is lowered to account for higher exports in the PSD.

Progress of Planting of MY 2018/19 Crop

MY 2017/18 corn planting has been lagging behind last year due to deficit rains during the second half of June 2018. Per the latest official estimates, total corn planted area through July 6, 2018, is estimated

down at 3.6 million hectares compared to 3.9 million hectares last year, but normal compared to the preceding years. Reports of better rains from the second week of July has improved the planting prospects, which can continue through the first week of August. Assuming normal monsoon through July to September, Post suggests no change in the official forecast MY 2018/19 corn production of 26 MMT from 9.2 million hectares at this stage.

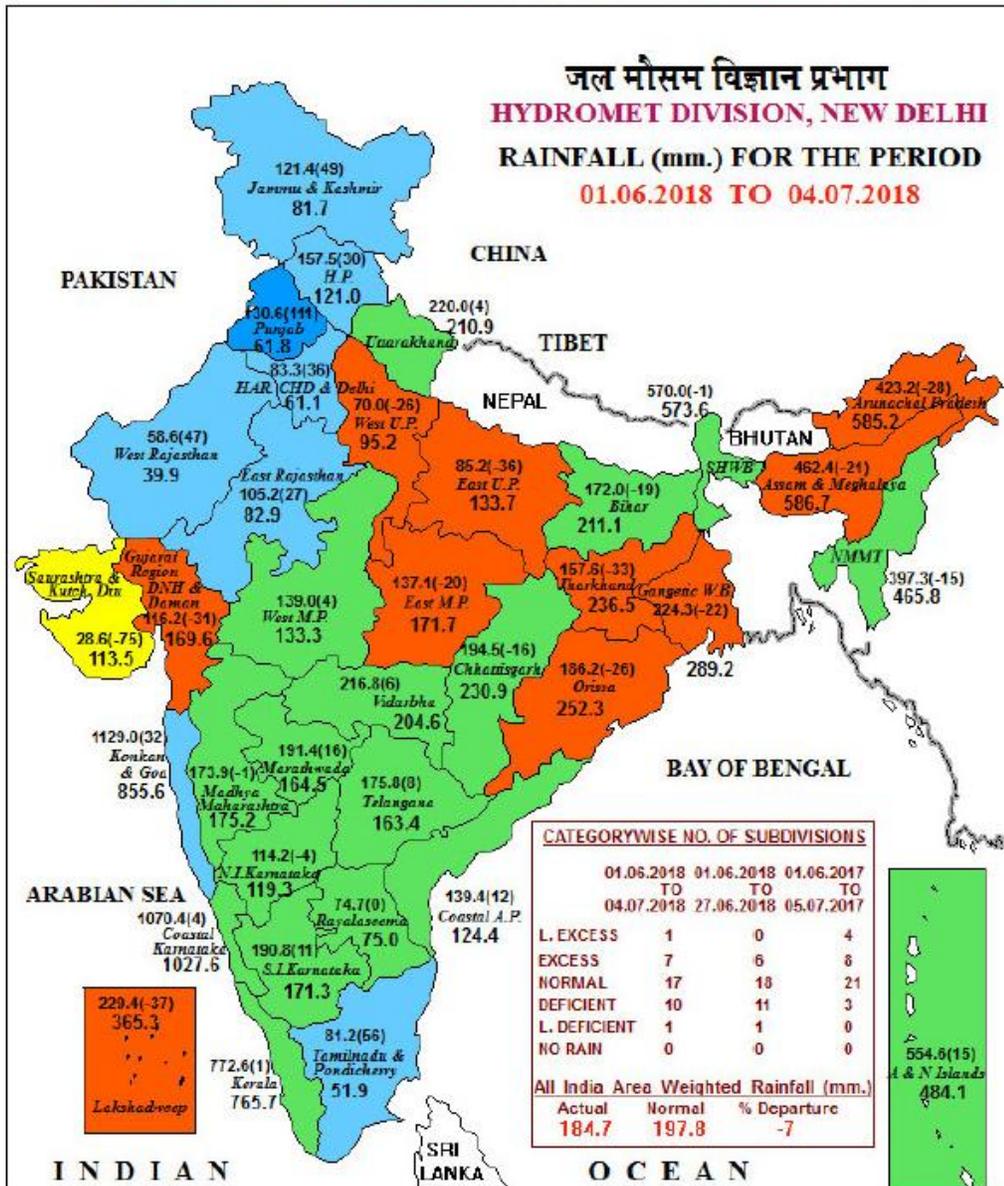
Appendix 1. India: Daily Mean Rainfall Over Normal Rainfall until July 11, 2018



Source: Indian metrological Department, GOI

Appendix 2. India: Cumulative Southwest Monsoon Rainfall Until July 4, 2018.

भारत मौसम विज्ञान विभाग INDIA METEOROLOGICAL DEPARTMENT



LEGEND: ■ L. EXCESS (+60% OR MORE) ■ EXCESS (+20% TO +59%) ■ NORMAL (+19% TO -19%)
■ DEFICIENT (-20% TO -59%) ■ L. DEFICIENT (-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.

Source: Indian Metrological Department, GOI.