Ecowrap

EFFECTIVE FOODGRAIN PROCUREMENT HOLDS THE KEY: FOOD PRICES COULD SOFTEN

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Aug'19 CPI inflation printed at 3.21%, but stripping aside gold and silver, CPI inflation actually declined in Aug'19 to 3.03%. Core inflation was at 4.25%. We expect FY20 CPI to average at 3.4%. However, given the rainfall scenario, it is hard to determine the exact course of production of major crops (rice, wheat, pulses and oilseeds) as both excess or deficit rains are not good for production and we have witnessed an uneven distribution of rainfall this year. In North, East and West India almost all the states (barring Punjab & Rajasthan) received deficient rainfall which might negatively impact price and wheat production. Central India, on the other hand, received excess rainfall where pulses and oilseeds are the major crops. Only Southern states received normal rainfall but these are the states where cash crops are primarily sown. However, it is likely that food grain production in current fiscal will be better than earlier estimates. It is thus imperative that Government does effective procurement of crops.

The data on quantum of food grain procurement by Government agencies shows that 38% rice and 36% of wheat and 8% of pulses have been procured out of their total production in 2019, while for pulses there is a slowdown in procurement in 2019 compared to previous year.

In this regard, given the slew of measures the Government is announcing for several sectors, it is also imperative that the rural sector gets due attention. **We estimate that the actual impact of MSP pass through during July'18 and Aug'19 has been a negative 26 basis points.** The declining trend is clearly showing that there has been inadequate procurement happening on the ground. In this context, Government can instruct that Model Agricultural Produce and Livestock Marketing (APLM) Act of 2017 is implemented by all the States within a specified timeframe.

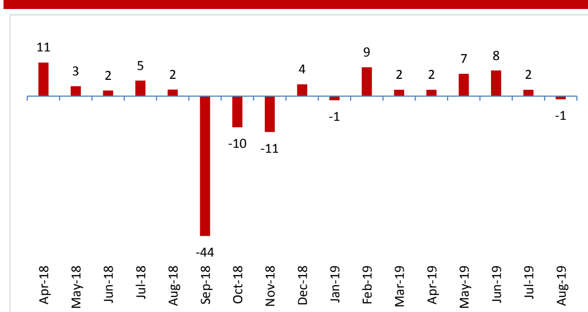
Also, WPI data for Aug'19 will come in couple of days and we expect core WPI to turn negative at (-) 0.12% after exhibiting continuous fall from a high of 5.16% in Oct'18. The negative core WPI is eventually conveying weak pricing power. As such, on the growth front, we are now estimating GDP growth at 6.1% for FY20, with a definitive downward bias. Our leading indicators show an acceleration of only 30% indicators in the month of July (Q2) as against 35% acceleration in Q1 FY20 when the GDP growth was 5%. Also, the Jul'19 IIP numbers, look better than Jun'19 with June IIP now revised downwards to 1.2%. The good thing, is that GDP growth for Q2 might just be a tad better, with a favourable base and thus Q1GDP could be the trough!

We expect RBI to frontload rate cuts in October policy and cut rates by 40 basis points. We also expect RBI to take repo rate below 5% in the current fiscal. However, we still believe, monetary policy can only work up to an extent and aggressive rate cuts may not propel credit demand. In this context, we point out the similar conundrum regarding the possibility of whether GST cuts will rev up auto demand. Echoing the same logic, the question is if GST cuts are uncertain, whether interest rate cuts could also be uncertain in current circumstances!

CPI INFLATION

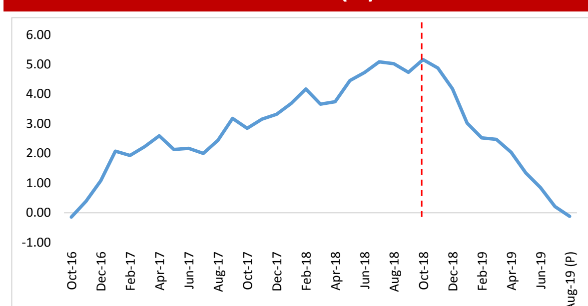
- Overall CPI inflation increased to 3.21% in Aug'19. The increase is owing to rise in food and beverages prices, especially vegetable prices.
- The core CPI has been notched down slightly, as all the components have seen some cooling off in prices.
- For a better understanding of the impact of MSP on CPI Headline inflation, we constructed MSP Inflation Pathfinder to estimate the realised impact (both direct + indirect) of MSP increase on CPI inflation Trajectory on a real time basis. **We estimate that the actual impact of such MSP pass through during July'18 and Aug'19 has been a negative 26 basis points**. The declining trend is showing that there has been inadequate procurement happening on the ground.
- The CPI inflation, as in the previous months has remained comfortably within the Reserve Bank of India's target level of 4%(+/-2%). Retail inflation remained well within the RBI's comfort level of 4% for about 12 months now. We expect FY20 CPI to average at 3.4%.
- WPI data for Aug'19 will come in couple of days and we expect it to be 0.85%. The interesting thing is that, core WPI is expected to turn negative at (-) 0.12% after exhibiting continuous fall from a high of 5.16% in Oct'18. The negative core WPI is eventually conveying lack of purchasing power which is a disturbing sign. The last time core WPI was negative in Oct'16 (-0.15%).
- Also the Jul'19 IIP numbers show that capital goods and consumer goods are still showing de-growth and this raises further concerns on the demand front. Overall IIP grew at 4.3% vis-à-vis 6.5% in Jul'18.

MSP Path Finder (in BPS)



Source: SBI Research

Core WPI (%)



Source: SBI Research: P: SBI Projection

MONSOON 2019: UNEVEN SPATIAL DISTRIBUTION

- Though the overall monsoon is 3% more than the LPA (i.e. normal), the spatial distribution is quite uneven. Of the 16 major states, 10 states have either deficient rains or excess rains. Only 6 states received normal rains. This will have major impact on foodgrains production and subsequently on CPI inflation and procurement policies of Government. In North, East and West India almost all the states (except Punjab & Rajasthan) received deficient rainfall which will have negative impact on rice and wheat production. Central India on the other hand received excess rainfall where pulses and oilseeds are the major crops. Only Southern states received normal rainfall but these are the states where cash crops are primarily sown.
- It is hard to determine the exact course of production of major crops (rice, wheat, pulses and oilseeds) as both excess or deficit rains are not good for production. However, it is likely that food grain production in current fiscal will better earlier estimates .

NEED FOR EFFECTIVE PROCUREMENT

- The data on quantum of food grain procurement by Government agencies shows that 38% rice and 36% of wheat and 8% of pulses have been procured out of their total production in 2019, while in 2018, the procurement figures stood at 34% for rice and 36% for wheat and 18% for pulses. There is a slow down in procurement of pulses in 2019 compared to previous year. Though the procurement window for pulses has not yet closed, this figure could slightly improve but may not match 2018 figure.
- In this regard, we believe time is now most opportune for Government to ensure that the Model Agricultural Produce and Livestocks Marketing (APLM) Act of 2017 is implemented by all the States, in order to get benefit from the Act. This will make marketing system more competitive by attracting new players and do away with the monopolistic and oligopolistic tendencies of the present players of the APMC markets.

FRONTLOADING RATE CUTS

- GDP growth has slowed down from 5.8% in Q4FY19 to 5.0% in Q1FY20 on account of slowing down of consumption, low automobile sales, deceleration in air traffic movements and declining Government capex. Further, our leading indicators show an acceleration of only 30% indicators in the month of July (Q2) as against 35% acceleration in Q1 FY20 when the GDP growth was 5%. We are now estimating GDP growth at 6.1% in FY20, with a clear downward bias.
- We believe that RBI could now frontload rate cuts of 40 bps in October policy. We also expect RBI to take repo rate below 5% in the current fiscal.

State-wise Progress of Monsoon (till 11 September)

Region/State	% Departure	Category	Major Crops
East & North East India	-20%	-	-
West Bengal	-25%	Deficient	Rice, Potato, Wheat, Pulses, Vegetables
Jharkhand	-30%	Deficient	
Bihar	-23%	Deficient	
North West India	-9%	-	-
Uttar Pradesh	-25%	Deficient	Wheat, Rice, Pulses, Oilseeds, Potatoes, Sugarcane, Coarse cereals
Haryana	-39%	Deficient	
Punjab	-6%	Normal	
Rajasthan	32%	Excess	
Central India	21%	-	-
Odisha	4%	Normal	Rice, Pulses, Oilseeds, Sugarcane, Fruits, Coarse Cereals, Onion
Madhya Pradesh	26%	Excess	
Gujarat	32%	Excess	
Maharashtra	29%	Excess	
South Peninsula	10%	-	-
Andhra Pradesh	-7%	Normal	Rice, Pulses, Oilseeds, Sugarcane, Cash Crops
Telangana	-4%	Normal	
Tamil Nadu	-5%	Normal	
Karnataka	24%	Excess	
Kerala	13%	Normal	
All India	**3%**	-	-

Source: SBI Research

Production / Procurement of foodgrains (Fig in LMT)

Crop	2016-17		2017-18		2018-19	
	Prod.	Proc.	Prod.	Proc.	Prod. #	Proc.
Rice	1097.0	381.1	1127.6	381.8	1156.3	437.8*
Wheat	985.1	308.2	998.7	358.0	1012.0	341.3
Coarsegrains (Jowar, Bajra, Maize & Ragi)	415.9	0.7	447.5	0.9	412.4	2.0**
Pulses	231.3	3.34	254.2	45.51	232.2	19.4***

Source: SBI Research, # As per Third Advance Estimates released by DAC&FW, *As on 09.07.2019, ** As on 30.06.2019, *** As on 04.07.2019

Mapping of Leading Indicators and GDP Growth

Year	Quarter	% of indicators showing acceleration	GDP growth (%)
FY18	Q1	58	6.0
	Q2	70	6.8
	Q3	67	7.7
	Q4	70	8.1
FY19	Q1	70	8.0
	Q2	64	7.0
	Q3	61	6.6
	Q4	45	5.8
FY20	Q1	35	5.0
	Q2 (Jul)	30	

Source: SBI Research

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