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India

Grain and Feed Update

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Report Highlights:

No significant changes in the PSD for rice, wheat and corn to report. Despite forecast record production, MY 2019/20 government wheat procurement fell behind last year on higher purchasing by private trade. The Government of India (GOI) raised the import duty on wheat to 40 percent on April 26, 2019. Fueled by back-to-back bumper harvests and strong procurement over the last two years, food grain (rice and wheat) stocks held by the government on June 1, 2019, are estimated to reach a record 84 million metric tons, creating significant storage challenges.

Commodities:

Wheat

Rice, Milled

Corn

Author Defined:**IMD Forecasts Near-Normal 2019 Monsoon...**

On April 15, 2019, the [Indian Metrological Department \(IMD\) in its first long-range forecast](#) predicted that the 2019 southwest monsoon (June-September) will be near normal for the country as a whole. The IMD forecast the 2019 monsoon to be about 96 percent of the long-period average (LPA; 89 centimeters for the period 1951-2000) with a model error of +/- five-percent. Overall, IMD expects the country to have well distributed rainfall during the monsoon season, which will be beneficial to the upcoming *kharif* season (fall harvested) crops.

The IMD will issue the second long grange forecast for the 2019 monsoon in the first week of June, factoring in additional information about the extreme sea-surface temperature conditions over the Pacific and Indian Ocean Dipole. See [IN9044](#) for more details.

India's southwest monsoon provides over 70 percent of the country's annual rainfall and essential soil moisture for unirrigated cultivated area (55 percent of total) during the *kharif* crop season. Normal monsoon rains are also critical for the winter planted *rabi* crops by ensuring adequate soil moisture at the time of planting, besides ensuring adequate surface/ground water in the irrigated areas throughout the year.

... Government Sets Ambitious Grain Production Target for Upcoming Season

Favorable monsoons during 2016 - 2018 supported bumper harvests for most grains in the Indian crop years (ICY; July-June) 2016/17 to 2018/19. With the IMD's forecast for a near-normal 2019 monsoon, sources report that the Ministry of Agriculture and Farmers Welfare (MoAFW) has set-up an ambitious grain production target for ICY 2019/20 at 291 million metric tons (MMT), a nearly 10 MMT increase over the latest ICY 2018/19 production estimate. The GOI production target includes 116 MMT of rice (vs. record 115.6 MMT for ICY 2018/19), 100.5 MMT of wheat (vs. record 99.7 MMT in ICY 2017/18), 48.3 MMT of coarse grains (vs. record 47 MMT in ICY 2017/18), and 26.3 MMT of pulses (vs. record 25.2 MMT in ICY 2017/18). However, well-distributed rainfall across the monsoon period (June-September) and major states will be crucial for supporting planting and production prospects for major grains in the upcoming ICY 2019/20.

WHEAT

No significant changes in the PSD to report.

MY 2019/20 Production Forecast Unchanged

Post continues to forecast MY 2019/20 wheat production at a record 100 MMT from 29.9 million hectares on forecast record yield based on the initial harvest reports from the major producing states. Extended winter conditions and scattered rains during January-April during important crop growth and development stages through harvest (April) have supported record yields across the wheat growing areas. Post field travel to the major wheat producing states in north and central India suggest higher-than-normal yields (5-year average excluding adverse weather year 2015/16) in most growing states. Due to untimely rains in April, the wheat harvest was delayed by 10-15 days in most states, but there are no reports of any quality damage as rains were light and interspersed with clear, sunny weather.

The industry continues to estimate the crop in the range of 98 to 102 MMT, while the government's second advance estimate reports wheat harvest at 99.1 MMT. At this stage, Post continues to forecast MY 2019/20 wheat production at 100 MMT with expected yields of 3.36 MT/hectare (vs normal yield of 3.22 MT/hectare). The MoAFW is expected to come out anytime with the third advance estimate incorporating the anticipated yield at the time of harvest. The provisional reports from the official crop cutting surveys assessing crop yields are likely to be available in June-July in major states, and will be subsequently assimilated in the official fourth advance estimate to be released in August 2019.

Government Procurement Slides Behind Last Year...

Despite the forecast record harvest, government procurement is slightly behind last year due to higher private sector buying in many states with new user buyers and government policy announcements. Total government procurement of wheat in MY 2019/20 under the minimum support price program through May 26, 2019, was reported at 33.2 MMT compared to 33.9 MMT during the same period last year.

**Table 1. India: Government Procurement of Wheat, by State
(Quantity in MMT)**

State	MY 2017/18	MY 2018/19	MY 2018/19	MY 2019/20
	April-March	April-March	April 1- May 26	April 1- May 26
Punjab	11.71	12.69	12.66	12.91
Haryana	7.43	8.78	8.74	9.32
Madhya Pradesh	6.73	7.31	7.06	6.73
Uttar Pradesh	3.70	5.29	3.82	3.00
Rajasthan	1.25	1.53	1.45	1.20
Others	0.02	0.18	0.14	0.05
Total	30.83	35.80	33.85	33.21

Source: Food Corporation of India, GOI.

Note:

1. Government buys most of the wheat marketed in the states of Punjab and Haryana as high local taxes preclude private purchases. Private trade competes with government in other states due to relatively lower local taxes and premium prices for quality wheat.
2. Minimum support price for MY 2019/20 is INR 18,400 (\$267), per MT, compared to INR 17,350 (\$251), per MT, in MY 2018/19).

Wheat procurement in the northern states of Punjab and Haryana has been at record levels, supporting forecast record MY 2019/20 production. Procurement in other states has been lagging behind last year on higher purchases from private trade. Procurement in the northern states is almost over and will continue through the end of June in other states. At the current pace of procurement, overall MY 2019/20 procurement is estimated to reach 35 MMT, slightly lower than last year on expected higher procurement by private trade. Nevertheless, it will be more than sufficient for the government's annual wheat requirement (25.4 MMT) for its ongoing food security programs'.

... Animal Feed Industry Active...

Market sources report higher early season purchases of wheat by the animal feed industry in several states due to the relatively high prices of corn and other coarse grains. Typically, the animal feed industry would purchase 'spoiled and inferior' quality wheat throughout the year to supplement energy in the feed rations. Corn prices during March/April scaled well above INR 19,000 (\$280), per MT, compared to INR 18,000 (\$260), per MT, of wheat in major producing states, encouraging animal feed manufacturers to actively purchase wheat in the open market and raise the percentage of wheat in the feed rations. While precise estimates are not available, sources report that about 1.5 to 2.0 MMT of wheat were bought in the first two months of the marketing season by commercial feed units, supporting strong opening market prices in most states, especially where government procurement operations are relatively less efficient.

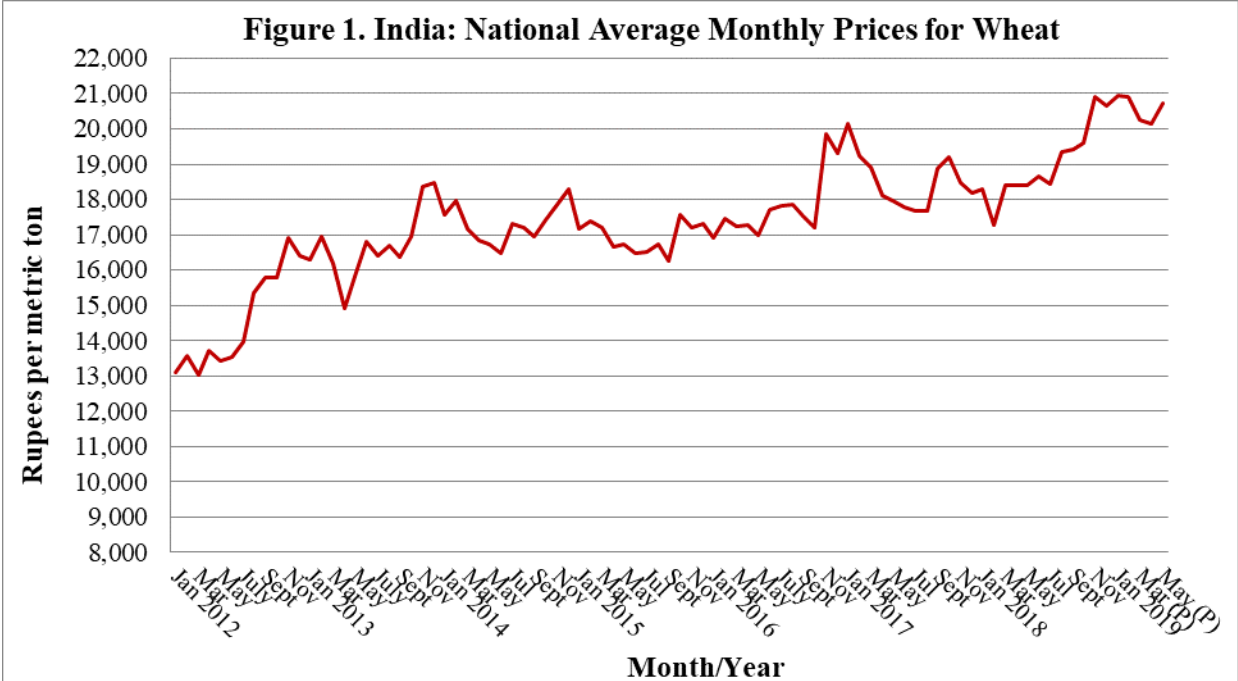
... GOI Announces Higher Open Market Sale Price of Wheat...

Due to the increase in MSP, the Food Corporation of India (FCI) announced a significant increase in the reserve prices for government wheat auctioned to private trade under the open market sale scheme (OMSS). On April 30, 2019, the FCI announced the [reserve price for wheat for sale under OMSS for the first quarter of MY 2019/20](#) (April-June) at INR 20,800 (\$301), per MT, with an increment of INR 550 (\$8), per MT, in the subsequent three quarters. This has been a substantial increase over the [reserve price for MY 2018/19](#) of INR 19,000 (\$275), per MT, for the second quarter (July-September) with the

quarterly increment of INR 250 (\$3.6), per MT. Consequently, private wheat millers have also been more pro-active in purchasing wheat, covering longer than normal periods of their consumption requirement compared to previous years.

... Prices Steady

Despite forecast second consecutive record crop, domestic prices have been steady around the government’s MSP in most producing states due to the ongoing government procurement and higher offtake by private trade. Prices in the major producing states currently range from INR 18,250 (\$265) to INR 18,900 (\$274), per MT, while the prices in the non-producing states are higher ranging from INR 19,300 (\$280) to INR 26,700 (\$389), per MT, due to varying transportation costs and local taxes.



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

Market Prices are likely to remain steady through the next few months (June-July). With reports of the government intending to liquidate about 10 MMT of wheat stocks through OMSS, future price movements are likely to be driven by OMSS sale prices and monthly releases of government wheat.

Government Wheat Stocks Swell...

Despite lower-than-initially expected government wheat procurement, government-held wheat stocks are expected to swell to a near record 47 MMT compared to 43.8 MMT last year. Abnormally high rice stocks (estimated at 37 MMT on June 1, 2019) are likely to fuel the food grain stocks to a massive record level of 84 MMT (vs. previous record 82.3 MMT on June 1, 2012). Crop surveys in major grain surplus states showed that government warehouses are already choking with huge rice stocks and

carryover of wheat from last year. Sources report that about 15 MMT of new crop wheat will have to be stored outside on wooden plinths with plastic covers. These stocks will be highly susceptible to damage from adverse weather, pests, vermin and pilferage, especially after the onset of 2019 monsoon in July.

... Putting New Government in Dilemma

With food grains spilling out of the warehouses and in the open, and the likelihood of continued surplus grain procurement under the MSP program in the upcoming season, the GOI will have to find a way to handle the ballooning stocks to bring them down to manageable levels. As an immediate step, sources report that the government has been trying to move wheat from the surplus states to deficit states before the onset of the 2019 monsoon. The government has also been exploring renting additional private warehouses, along with storage space available with various agro-processing units. In the longer term, government may take steps to create additional storage space through schemes encouraging private sector investment in storage infrastructure.

The GOI may also consider pushing additional quantities of subsidized wheat and rice through the food security and other welfare programs by raising the allocation under the National Food Security Act and other schemes. The government has decided to offload about 10 MMT of wheat under OMSS at concessional rates, and may raise the quantities by further subsidizing prices. The cost of government wheat is prohibitively high (estimated at over INR 25,000 (\$362), per MT) compared to current global wheat prices, and the GOI is unlikely to subsidize wheat exports given concerns from other trading partners.

Sources report that significant quantities of subsidized grain sold through food security programs find a way into the open market, and higher subsidized sales of grains under OMSS will further depress open market prices for wheat and rice. Given the political expediency of increasing MSP for wheat and rice in the upcoming marketing year, low market prices will push more wheat and rice into the government MSP procurement system, further pressuring the government storage infrastructure already bursting at the seams. Consequently, India is likely to face growing problems of rising government procurement and stocks unless there is a major policy shift in MSP procurement policy and/or domestic crop failure due to adverse weather or failure of the monsoon (probably more than one year).

Government Raises Import Duty

In an effort to preclude any imports of wheat due to higher MSP and the OMSS price, on April 26, 2019, the Ministry of Finance issued a notification raising the basic duty on wheat from 30 percent to 40 percent, ad valorem. Since May 2018, India has imposed an import tariff of 30 percent on wheat (HS1001), which prohibited imports of wheat from any source after accounting for shipping, clearance, and inland transport costs. Further, market sources report that after raising the OMSS sale price, the GOI has raised the import duty to preclude any opportunities for wheat imports even in coastal India, where imported wheat has a significant freight advantage over local wheat transported from north and central India (OMSS sale price plus transportation cost < CIF price plus 40 percent duty).

Trade Prospects Unchanged

Despite record production and abnormally high government stocks, export prospects remain unchanged on expected higher domestic prices due to the GOI policies (MSP and OMSS). Import prospects also remain unchanged as MY 2019/20 imports were already expected to be limited to small quantities of wheat products like pasta for high-end consumer markets.

RICE

No changes of in the official PSD to report.

Procurement and Stocks Surge

Riding on a record harvest and relatively weak export offtake in the second half of the marketing year, MY 2018/19 government rice procurement through May 27 has surged to a record 41.7 MMT, nearly 6.5 MMT higher than procurement during the corresponding period last year.

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Table 3. India: Government Rice Procurement by State, Quantity in MMT

State	MY 2016/17	MY 2017/18	MY 2017/18	MY 2018/19
	October-September	October-September	Oct 1-May 27	Oct 1- May 27
Punjab	11.05	11.83	11.83	11.33
Andhra Pradesh	3.72	4.00	3.70	3.97
Telangana	3.60	3.62	3.45	4.93
Chhattisgarh	4.02	3.26	3.21	4.08
Odisha	3.63	3.29	2.70	3.48
Haryana	3.58	3.99	3.99	3.94
Uttar Pradesh	2.35	2.88	2.92	3.23
West Bengal	1.92	1.67	0.15	1.66
Madhya Pradesh	1.31	1.10	1.10	1.40
Tamil Nadu	1.19	1.01	0.64	1.16
Others	<u>1.72</u>	<u>1.54</u>	<u>1.51</u>	<u>2.53</u>
Total	38.11	38.18	35.20	41.71

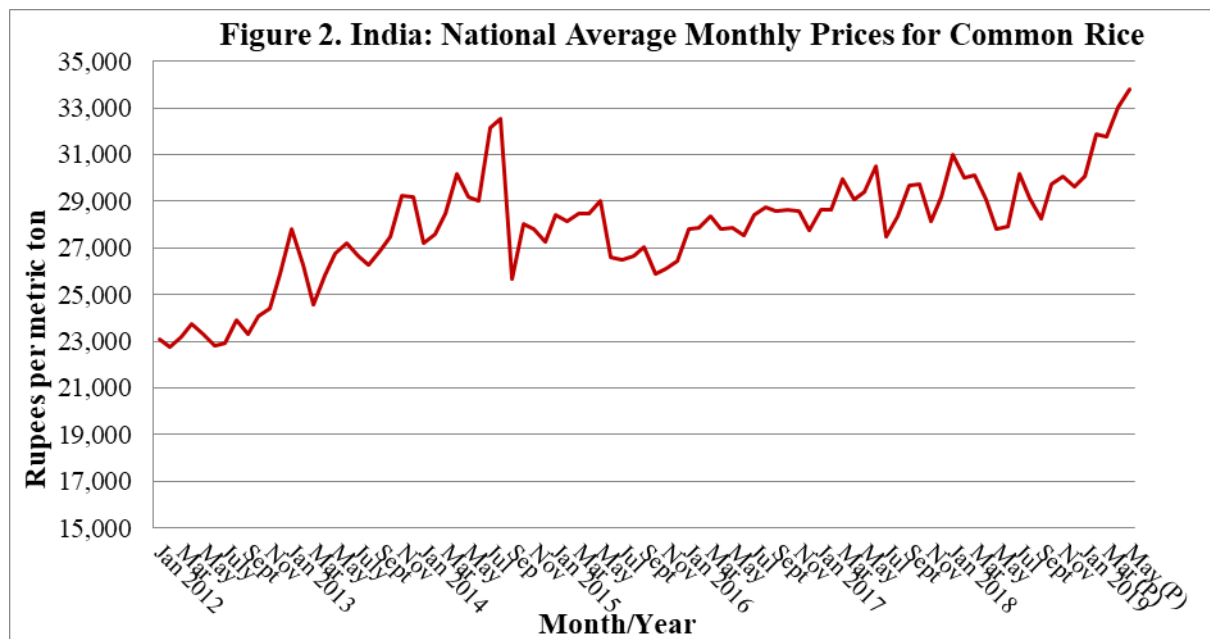
Source: Food Corporation of India, GOI

All major rice-producing states have procured larger quantities compared to last year, except Haryana, supporting forecast record rice production across the country. With additional procurement of *rabi* and summer rice likely to continue in eastern and southern states, government rice procurement in MY 2018/19 is likely to reach at least a record 43 MMT.

Government rice stocks as of May 1, 2019, were estimated at 38 MMT compared to 29.8 MMT during the same time last year, and nearly three times the GOI's target rice stocks of 13.58 MMT (11.58 buffer stocks and 2 MMT strategic reserves).

Firm Domestic Prices

Despite record domestic production and weak exports, domestic prices have gained strongly for most of MY 2018/19 due to a steep increase in the government MSP (unmilled paddy rice INR 17,500 (\$254), per MT, compared to last year's INR 15,500 (\$225), per MT).

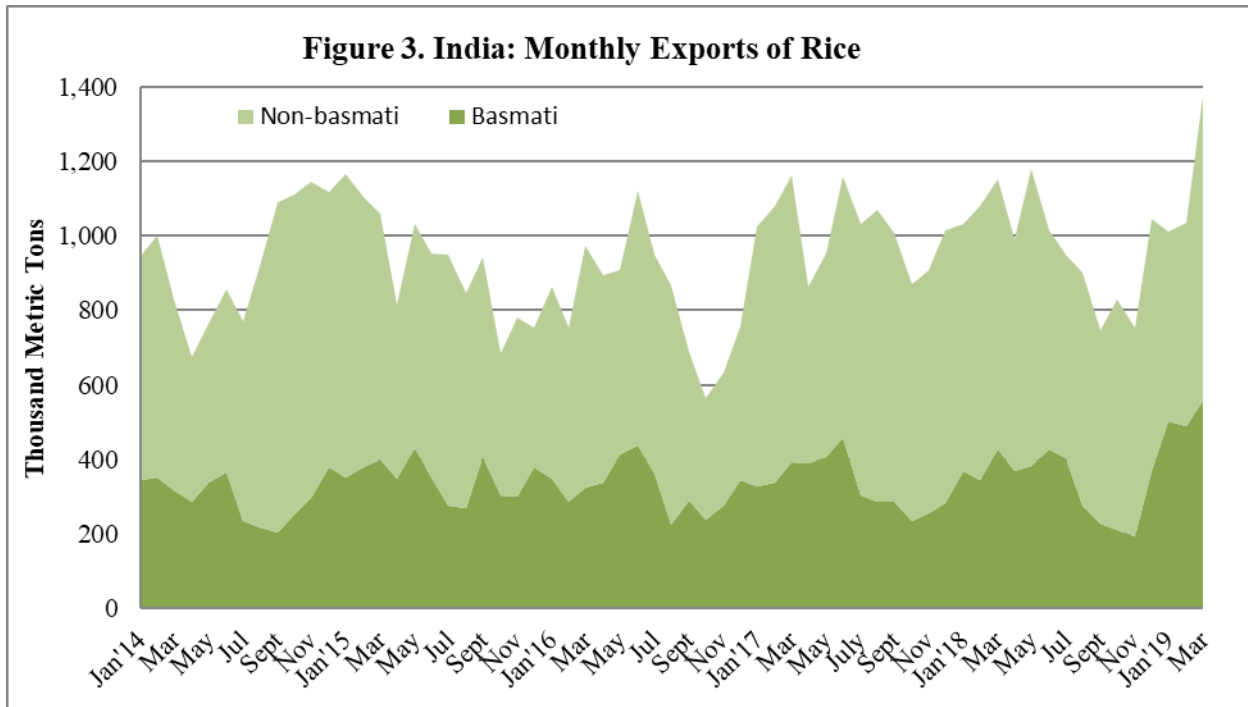


Source: Agricultural Marketing Information Network, Ministry of Agriculture, GOI

Current spot prices for common-grade coarse rice range from INR 24,700 (\$358) to INR 41,200 (\$598), per MT, in major producing states. Prices are likely to remain steady through the last quarter of MY 2018/19 on expected strong *rabi* rice arrivals and weak exports. Nevertheless, prices during the last quarter will also depend on the progress of the 2019 monsoon and its impact on MY 2019/20 rice planting and production prospects.

Exports

Indian rice exports have been robust since the beginning of MY 2018/19 on strong demand for both *Basmati* rice to the traditional markets, especially Iran, and non-*Basmati* rice to traditional African markets due to the GOI's export subsidy (5 percent of FOB value for exports from November 26, 2018 to March 25, 2019).



Source: Monthly exports through March 2019 from DGCIS, GOI

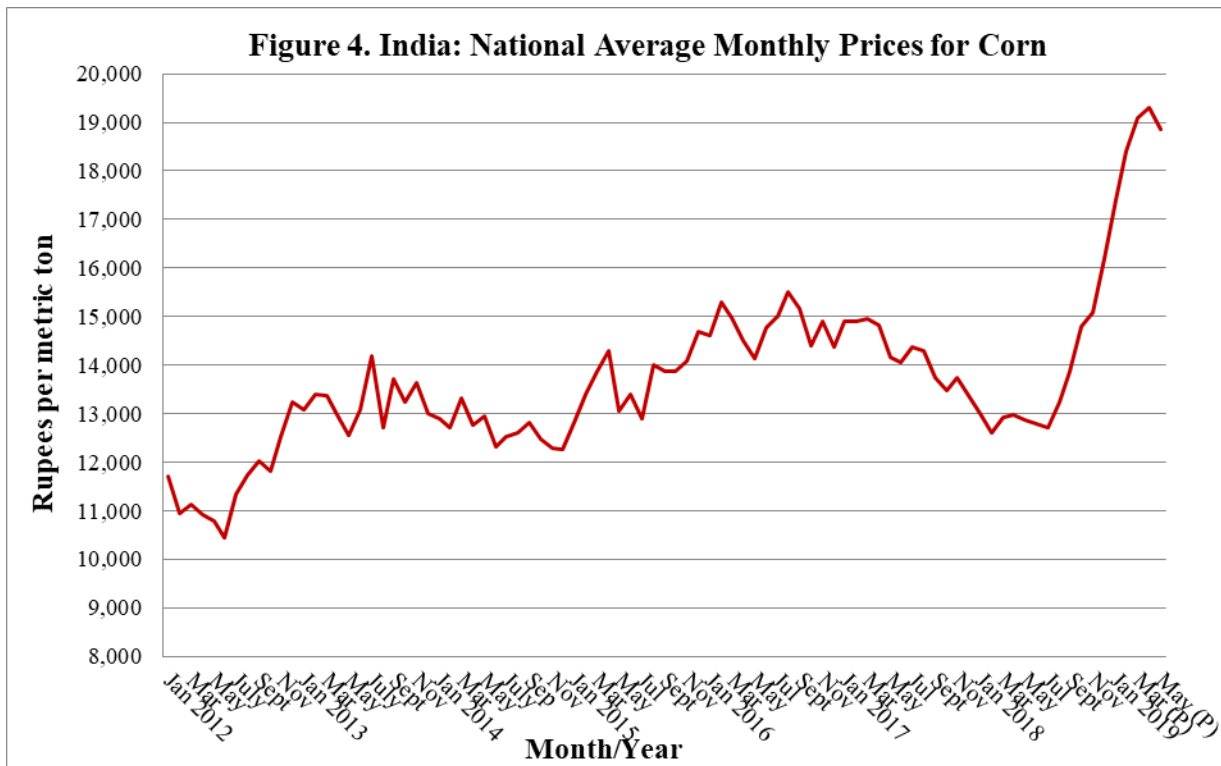
According to preliminary official statistics, rice exports from October 2018 to March 2019 were estimated at 6.05 MMT, nearly the same for the corresponding period last year. Market sources reported a strong surge in the first quarter of CY 2019 on strong exports of long grain *Basmati* rice to Iran under the special rupee payment arrangement (against India’s oil imports from Iran) and non-*Basmati* rice to avail the 5 percent export subsidy before the March 25, 2019, deadline. While official data is not yet available, market sources report slowdown in the pace of exports since April 2019. Rice exporters may also seek an extension of the export subsidy, which could support exports in the last quarter of MY 2018/19.

CORN

No significant changes in the PSD to report.

Prices Firm Despite Arrival of Rabi Crop

Domestic corn prices have flared since the beginning of the MY 2018/19 on reports of crop losses due to drought and a new pest (fall army worm). Prices have remained firm despite the arrival of the new winter planted *rabi* corn crop from April, onwards, suggesting a significant shortfall in domestic production.



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

Domestic corn prices in the major markets are currently ranging from INR 16,700 (\$242) to \$20,780 (\$301), per MT, about 40-50 percent higher than last year's prices. Prices are likely to remain firm, unless the government allows imports of corn with a concessional duty.