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SOUTH-WEST MONSOON OUTLOOK 2020

Normal monsoon to support 4.0% agricultural growth in FY2021

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The India Meteorological Department's (IMD's) second stage Long Range Forecast (LRF) has predicted the volume of rainfall in the southwest monsoon season of 2020 (June-September) at 102% of the long period average (LPA), with an error range of +/-4% (refer Exhibit 1). The timely onset of the monsoon over Kerala on June 1, 2020, and the expectation of normal rainfall in July 2020, which is a crucial month for the sowing of kharif crops, are encouraging signs for the agricultural outlook.

The IMD had released its first stage LRF for the southwest monsoon rainfall for 2020 on April 15, 2020, which had estimated the volume of rainfall at 100% +/-5% of the LPA indicating normal monsoon (96%-104% of LPA) rainfall. Subsequently, on June 1, 2020, it released its second stage LRF update for 2020, which has pegged the southwest monsoon rainfall at an all-India level to be normal at 102% of the LPA with a model error of +/-4% (98-106% of LPA).

The IMD continues to place the likelihood of a normal monsoon at 41%. However, the likelihood of excess (more than 110% of LPA) and above normal (104-110% of LPA) rainfall has been revised upwards to 14% and 25%, respectively, on June 1, 2020, relative to the initial projections of 9% and 21%, respectively. Consequently, the probability of below normal (90-96% of LPA) and deficient (less than 90% of the LPA) rainfall has been revised down to 15% and 5%, respectively, from 20%, and 9%, respectively.

The IMD indicated that El Nino Southern Oscillation (ENSO) neutral to cool ENSO neutral conditions are prevailing over the equatorial Pacific Ocean. The latest forecasts for Monsoon Mission Coupled Forecasting System and other global climate models, indicate that cool ENSO neutral conditions are likely to prevail during most of the monsoon season in 2020. However, some models indicate a possibility of development of weak La Nina conditions in the later part of the season.

Moreover, the IMD expects a well distributed monsoon rainfall on a spatial and temporal basis. The monsoon rainfall over the various sub-divisions, i.e., Northwest, Central, Northeast, and South Peninsula is expected to be at 107%, 103%, 96%, and 102%, respectively, of the LPA. Further, the monthly rainfall during July 2020 and August 2020 is likely to be 103% and 97%, respectively, of the LPA, both with a model error of +/-9%. Well distributed rainfall in the month of July tends to be crucial to support sowing.

The rainfall during the pre-monsoon season (March-May) stood at 120% of the LPA on a pan-India basis (refer Exhibit 2), which is classified as excess precipitation. On a disaggregated basis, Central India (204% of LPA) has recorded large excess rainfall, Northwest India (131% of LPA) has received excess rainfall, and East and Northeast India (106% of LPA), and the South Peninsula (96% of LPA) have received normal rainfall, during this season. Subsequently, the monsoon rainfall over Kerala has begun on the normal date, i.e. June 1, 2020, which is an encouraging sign.

Reservoir storage at an all-India level stood at 34% of FRL as on May 28, 2020, remaining well above the year-ago levels (20% of FRL; refer Exhibit 3), even as the YoY gap has narrowed in the recent months (the peak gap was in December 2019, when reservoir storage stood at 81% of FRL as on December 26, 2019, relative to 53% of FRL as on December 27, 2018). In terms of region-wise distribution, reservoir storage was higher than the year-ago levels in central (42% vs. 25%), western (35% vs. 11%), eastern (33% vs. 33%) and southern (25% vs. 11%) regions, and mildly lower in the northern (39% vs. 42%) region, as on May 28, 2020.

With favourable precipitation and reservoir levels, the sowing of summer crops has commenced at a healthy pace, with the total acreage rising by ~36% on a YoY basis, as on May 22, 2020. The YoY increase in total area sown has been broad-based, driven by coarse cereals (+40.8%), pulses (+32.6%), rice (+37.9%), and oilseeds (26.4%; refer Exhibit 4).

Going forward, the volume, spatial and temporal distribution of the monsoon in 2020 would be crucial in sustaining the pace of kharif sowing and supporting yields. A well-distributed monsoon in conjunction with the abundant reservoir levels in seasonally adjusted terms, should support a 4.0% agricultural GVA growth in FY2021 over FY2020, in our view, which would bolster rural farm incomes and sentiment. However, the reports of swarms of locusts over parts of western India could potentially result in crop damage, which poses a risk that we will continue to monitor.

Exhibit 1: IMD's April and June forecasts of monsoon rainfall and actual rainfall

Year	IMD April Forecast	IMD June Forecast	Actual rainfall (% of LPA)
2015	93% +/- 5% of LPA	88% +/- 4% of LPA	86%
2016	106% +/- 5% of LPA	106% +/- 4% of LPA	97%
2017	96%+/- 5% of LPA	98% +/- 4% of LPA	95%
2018	97%+/- 5% of LPA	97%+/- 4% of LPA	91%
2019	96% +/- 5% of LPA	96% +/- 4% of LPA	110%
2020	100% +/- 5% of LPA	102% +/- 4% of LPA	

Source: IMD; ICRA research

Exhibit 2: Rainfall relative to LPA

	Total	East and North East	Northwest	Central	South
Monsoon (Jun 1-Sep 30)	110%	88%	98%	129%	116%
Post-Monsoon (Oct 1-Dec 31)	129%	93%	176%	163%	116%
Winter Monsoon (Jan 1- Feb-29)	99%	92%	86%	188%	63%
Pre-Monsoon (Mar 1- May 31)	120%	106%	131%	204%	96%

Exhibit 3: Reservoir Storage Levels as a percentage of Total Live Capacity

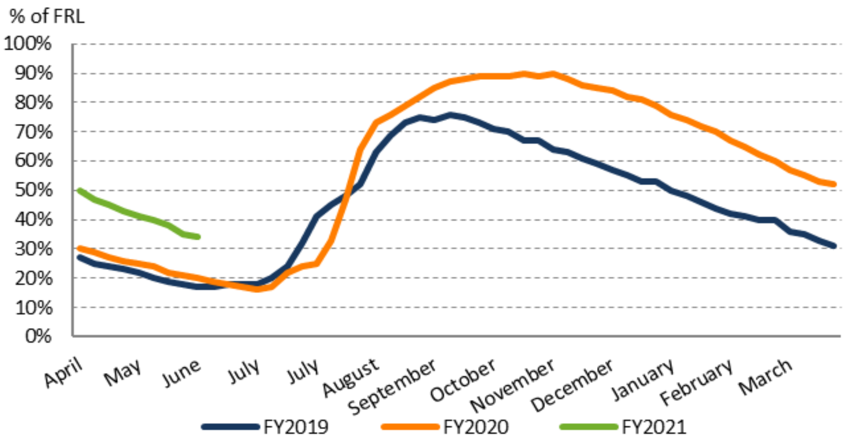
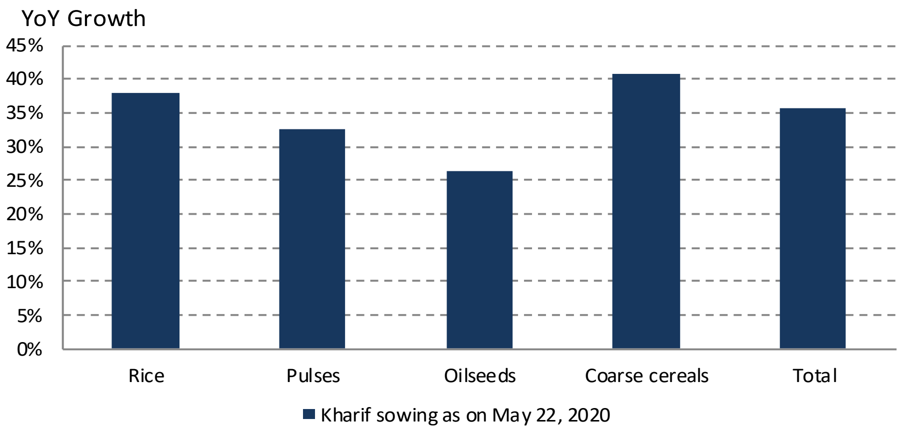


Exhibit 4: Summer sowing trends of major crops



Source: Central Water Commission (CWC); Ministry of Agriculture and Farmer's Welfare; ICRA research

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