NEWS FLASH – 5th April, 2016

SUGAR

West, South may face severe water stress this summer

As the country braces for a long and drier than usual summer season, water levels in 91 major reservoirs across the country do not look promising. There could be a serious drawdown if the heat wave persists beyond June.

From Central Water Commission (CWC) data as of Thursday, the level in the reservoirs is a combined 25 per cent of their full capacity.

More than the national average, the regional picture is of greater concern. A severe drinking water, power and irrigation crisis looms in parts of Andhra, Telangana, Karnataka and Maharashtra. Levels in the reservoirs of southern and western India are 17 per cent and 21 per cent, respectively, of their full capacity.

Worryingly, this is also part of the area which might see 0.5-1 degrees Celsius above normal temperature in April-June, according to the India Meteorological Department forecast of Thursday.

IN DIRE STRAITS

Water levels in major river basins as on March 31, 2016

Basin	Capacity at FRL*	Storage* as in March	
		2015	2016
Ganga	28.09	11.47	8.77
Indus	14.73	4.713	3.54
Narmada	17.41	6.38	5.21
Tapi	7.39	2.83	1.93
Mahi	4.012	1.94	1.04
Sabarmati	0.73	0.12	0.21
Rivers of Kutch	0.887	0.1	0.14
Godavari	15.39	5.62	3.36
Krishna	32.83	7.87	3.26
Mahanadi & other EPRS	13.18	7.50	5.16
Cauvery & EFRS	8.35	2.45	2.05
West Flowing rivers of South	14.76	6.14	4.93
Total*	157.79	57.17	39.65

*In bn cubic meters; *Total capacity of all river basins in the country;
FRL= Full reservoir level;
EFRS: East-flowing river systems
Source: Central Water Commission

It said maximum temperatures in the core heat wave zone that included the meteorological sub-divisions of Marathwada, Vidharbha, Madhya Maharashtra, coastal Andhra and Telangana was expected to stay above normal. This could lead to quicker than expected drying of water in regional reservoirs.

The CWC data showed the water level in the Yeldagri and Manikdohi dams of Maharashtra were around four and eight per cent, respectively, of their full levels. Yeldagri is the second largest dam in the state's Marathwada. The Girna (Nashik), Ujjani (Solapur) and Paithan reservoirs have already gone dry. The Nagarjunasagar reservoir in Andhra is dry. Levels in the Almatti, Malaprabha and Tungabhadra reservoirs are less than 10 per cent of their full capacity.

All 12 river basins have water levels less than last year at this time.

"The winter rainfall was less and if the summer turns out to be drier than usual, it can cause severe shortage of water in vulnerable areas as in the next three months demand will peak," Bharat

Sharma, coordinator at International Water Management Institute — India Programme told Business Standard.

He said there is a serious mismatch between demand and supply of water in Vidharbha, Marathwada, Odisha, Telangana, Andhra as these areas do not have adequate canal irrigation, while the ground water is also falling.

"The production of green fodder and summer vegetables, on which the livelihood of millions of small farmers depend, could also get impacted and also lead to conflicts in highly populated areas with low piped water supply," Sharma said.

IMD's forecast also said the warmer than normal temperatures might prevail over all the 36 sub-divisions of the country during the April-June period, with temperatures in Northwest India expected to be at least one degree above normal.

It plans to issue regular heat wave alerts and other warnings, valid for the next 15 days.

(Source- http://sugarnews.in/increase-in-offtake-sweetens-sugar/)

Risk of once-in-100-year drought means one more India rate cut

The risk India will suffer because of below-average monsoon rain for a third year probably means the RBI has room for just one interest-rate cut before an extended pause

The risk India will suffer because of below-average monsoon rain for a third year, a once-in-a-century event, probably means the central bank has room for just one interest-rate cut before an extended pause.

Thirty-five of 39 economists surveyed by Bloomberg see the Reserve Bank of India (RBI) lowering the repurchase rate to 6.5% from 6.75% on Tuesday, one predicts no change while three forecast a reduction to 6.25%. The median estimate in a separate survey shows the benchmark will drop to 6.50% this quarter and to 6.25% in the October-December period and stay there till at least June 2017.

Two years of back-to-back drought have meant India's reservoirs are three-quarters of the past decade's average. Water scarcity could hurt crops, worsen price pressures and dent growth in Asia's third-biggest economy. RBI governor Raghuram Rajan would also be wary of the recent recovery in oil prices that could imperil inflation targets.

"It's difficult to see a clear roadmap for further cuts beyond April, as the RBI may be concerned about uncertain monsoon rains and a rebound in oil prices," said Gaurav Kapur, a senior economist in Mumbai at Royal Bank of Scotland Group Plc. "The central bank would also like to see how a reduction in small savings rates and new rules for banks to calculate their lending rates translate into better policy transmission."

Finance minister Arun Jaitley in his 29 February budget retained a pledge to shrink the fiscal deficit to a nine-year low, soothing RBI concern that government stimulus would stoke prices. Calls for a rate cut intensified after data mid-March showed consumer-price gains in February rose 5.18%, the least in four months and much lower than the 5.52% increase economists estimated.

Jaitley on 30 March reiterated a demand for lower borrowing costs. History shows that India hasn't had three back-to-back droughts in at least 100 years and a new rate-setting system that takes effect 1 April will ensure commercial lenders pass on the central bank's reductions much quicker to customers, he said. The government last month also slashed interest rates on small savings, which competed with banks for deposits.

The lowest rainfall since 2009 parched vast tracts of farm land, hurting rice, corn, sugar cane and oilseed crops last year. About half of India's 1.3 billion population is employed in agriculture, which accounts for roughly 18% of the nation's $2 trillion gross domestic product (GDP).

"This is going to be the last rate cut by Rajan," said Rajeev Malik, Singapore-based senior economist with CLSA Asia-Pacific Markets, who expects the repo rate to be cut by 25 basis points on Tuesday and be held at that level until March 2017. "He has to keep in mind that he can't cut too much now and then realize the inflation guidance of 4% by early 2018 look pretty difficult to achieve."

Bond rally

Sovereign bonds have rallied after the government's budget restraint in anticipation of monetary easing. The yield on benchmark 10-year notes slumped 16 basis points last month, the best March performance for the debt since 1999. It dropped another five basis points on Monday to 7.42%, the lowest close since June 2013. The rupee climbed 3.3% in March, the most since September 2013, and rose 0.1% on Monday to 66.20 a dollar.

A new methodology for setting banks' lending rates is another factor that could discourage further easing by Rajan, whose term ends in September. The shift to the use of marginal cost of funds in determining loan charges is more closely aligned to the market and aimed at improving transmission of the RBI's previous borrowing-cost reductions. Rajan may want to wait and judge its effectiveness.

El Nino

Banks currently use average costing to determine their base rates. This method of calculation has allowed lenders including State Bank of India (SBI), the largest, to reduce their base rates by about 70 basis points or less, much lower than the RBI's 1.25 percentage-point cut in its benchmark since the start of 2015. SBI's base rate stands at 9.3%.

Strong El Nino conditions over the Pacific Ocean that began in 2015 are still continuing, according to a statement from the India Meteorological Department (IMD) last week.

While they may weaken in the middle of 2016, any delay would mean bad news for India's rainy season, according to Tata Asset Management Co. Brent crude prices climbed 14% in the last two months, rebounding from a 12-year low of $27.10 a barrel in January. India imports about three quarters of its oil.

"Assuming the monsoon is good and commodity prices remain stable, I think there is scope for another 25 basis point cut after April," said Anjali Verma, an economist at PhillipCapital Ltd. If not, she added, "this will be the last one for a long time." Bloomberg

(Source- http://www.livemint.com/Politics/RZ9bO793Gx84fhtFYVAj3L/Risk-of-oncein100year-drought-means-one-more-India-rate-c.html)

Sweet deals for sugar mills

Price rises sharply after lower production estimate in India and forecast for a wider global deficit

Sugar companies are likely to see a turnaround in financial performance in the coming quarters, on a spurt in realisation from the sweetener, following a global deficit forecast by the International Sugar Organisation (ISO).

On Monday, the spot market price of sugar hit its highest in four years at Rs 3,750 a quintal at the Vashi market, Navi Mumbai.

There has been a proportionate increase in mill gate realisation, with the ex-factory price up nearly 20 per cent to Rs 3,000–3,100 a qtl. The average cost is estimated at Rs 3,200-3,300 a qtl but producers would generate some profit, with the various incentives offered by the respective state governments and higher realisation from byproducts.

The M-30 grade shot up to Rs 3,317 a quintal in the March quarte, up 18 per cent jump from March last year. It has a low of Rs 2,503 a quintal for the quarter September of 2015. This shows significant improvement in realisations of mills and a clear sign of the sector coming back on track.

"Mills are certainly on the path of turnaround, due to lower production estimates in the current crushing season and an overall five million tonnes of global deficit forecast by the ISO. Next year, too, production in India is estimated to decline by (at least) two mt, expected to keep the price elevated. Thus, mills' realisation would go up proportionately," said Afshan Sayyad, an analyst with Dolat Capital.

Share prices of most sugar companies have started reacting. In March, these doubled for many companies and analysts believe the trend will continue.

Several global consultancies had last year forecast a deficit of 2.5–3 mt for the current year. ISO raised the deficit forecast to five mt in early March. Consequently, average sugar prices on the benchmark InterContinental Exchange rose to 14.37 cents a pound in March from 11.3 cents in September 2015.

Indian production estimated are lower for the current year and are forecast to fall further next year. Indian Sugar Mills Association (Isma) has estimated 26 mt output this year; the Union food ministry is understood to have cut the estimate further, to 25.6 mt. Last year, overall production was 28.3 mt.

BETTER TIMES AHEAD?

Sugar demand–supply scenario (million tonnes)

	2012-13	2013-14	2014-15	2015-16	2016-17E
Opening stock	7.6	8.2	7.5	9.6	7.1
Production	25.1	24.3	28.1	26.0	26.0
Consumption	23.0	24.0	24.0	25.5	25.5
Exports	1.5	2.0	2.0	3.0	3.0
Closing stock	**8.2**	**7.5**	**9.6**	**7.1**	**4.6**

Note: Crop year data; E: Estimate Source: Dolat Capital

ISO's estimate of a global deficit at five mt this year would make it the first such, after several years of surplus, says Abinash Verma, director-general of Isma, also noting the expectation of a deficit next year, too. "This has helped a rebound in global prices from 11.5 cents a pound about three months earlier to 16 cents a lb now. In India, too, prices have been rising steadily," he said.

Output in Maharashtra is estimated to decline 24 per cent in the 2016-17 cane crushing season, to six mt from an estimated 8.5 mt in season 2015-16 and 9.3 mt in 2013-14. There is drought in some of the major growing regions there and, hence, cane sowing is likely to remain lower. This has raised hope for a surge in sugar prices and mills' realisation.

(Source-http://www.business-standard.com/article/markets/sweet-deals-for-sugar-mills-116033100580_1.html)

Sugar futures climb 0.76% on pick up in demand

Analysts attributed rise in sugar futures to rising demand from retailers as well as bulk consumers in spot market

Sugar prices were up by 0.76% to Rs 3,565 per quintal in futures trade today as traders enlarged positions, driven by uptick in demand in the spot market.

At the National Commodity and Derivatives Exchange, sugar for delivery in May month rose by Rs 27 or 0.76% to Rs 3,565 per quintal with an open interest of 1,25,480 lots.

Similarly, the sweetener for delivery in July contracts gained Rs 23 or 0.63% to Rs 3,700 per quintal in 29,050 lots.

Analysts attributed the rise in sugar futures to rising demand from retailers as well as bulk consumers in the spot market.

(Source- http://www.business-standard.com/article/markets/sugar-futures-climb-0-76-on-pick-up-in-demand-116040400345_1.html)

CO-GEN/ POWER

Power subsidy stays for another year in Delhi

The government on Monday proposed to extend the power subsidy scheme for another financial year. With the current scheme ending on March 31, the government said a provision of Rs 1,600 crore was being made in the budget for this purpose so that those consuming up to 400 units continued to get a 50% subsidy.

"Our vision is to make available affordable and reliable power on an uninterrupted basis to the common man," said deputy chief minister Manish Sisodia.

"The government has made sincere efforts for reallocating costly power to keep tariff low. I am happy to inform you that due to strict monitoring and regular review of power supply situation in 2015-16, we are able to minimise the average load shedding at the level of 0.15%, which is the lowest ever."

Sisodia claimed that the government had fulfilled its promise to reduce electricity bills by 50% for all consumers consuming up to 400 units, i.e., around 90% of the total domestic consumers. "For the first time, this policy has been extended to electricity consumers of the NDMC area," he said.

The current scheme costs the exchequer approximately Rs 1,450 crore. The power subsidy is expected to cover some 36 lakh households in Delhi. It automatically halves the energy charges under the slabs of 0-200 and 201-400 units. A customer who exceeds the 400-unit limit automatically forfeits rights to any subsidy.

(Source-http://indianpowersector.com/2016/04/power-subsidy-stays-for-another-year-in-delhi/)

THOUGHT OF THE DAY:

"The future belongs to those who prepare for it today." -Malcolm X