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Impact of Demonetization, Indian and Global economy

Paper by

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MD, TransGraph Consulting Pvt Ltd



Impact of Demonetization

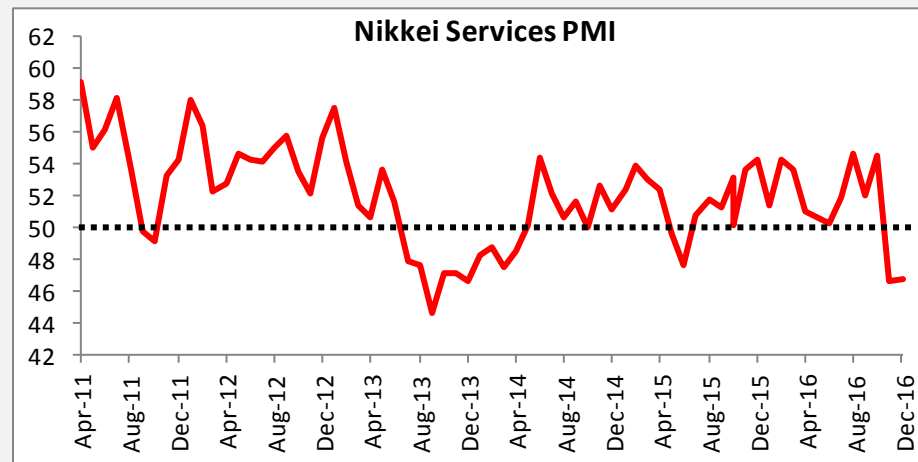
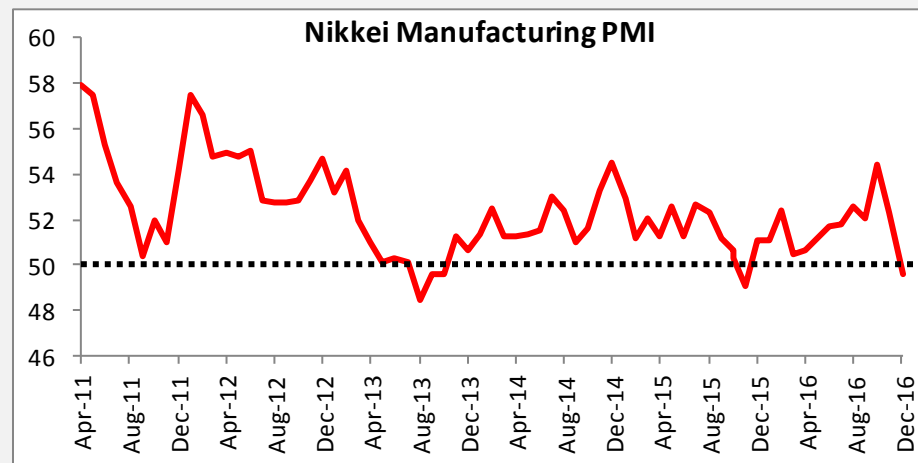


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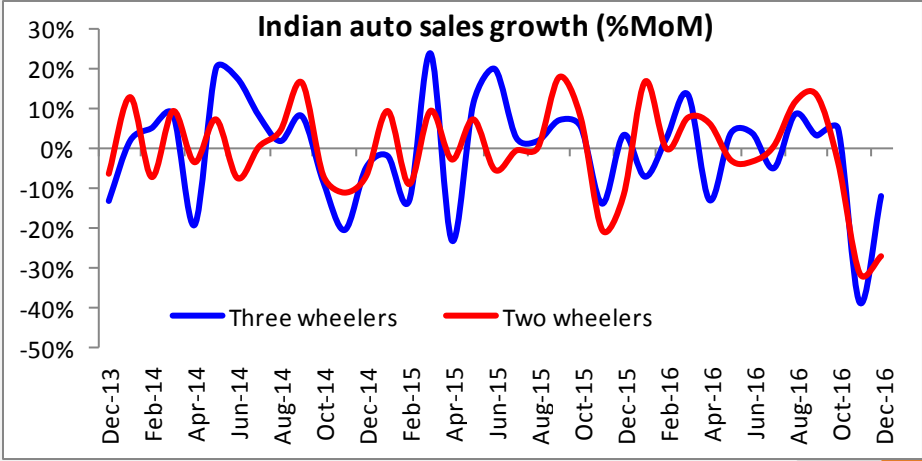
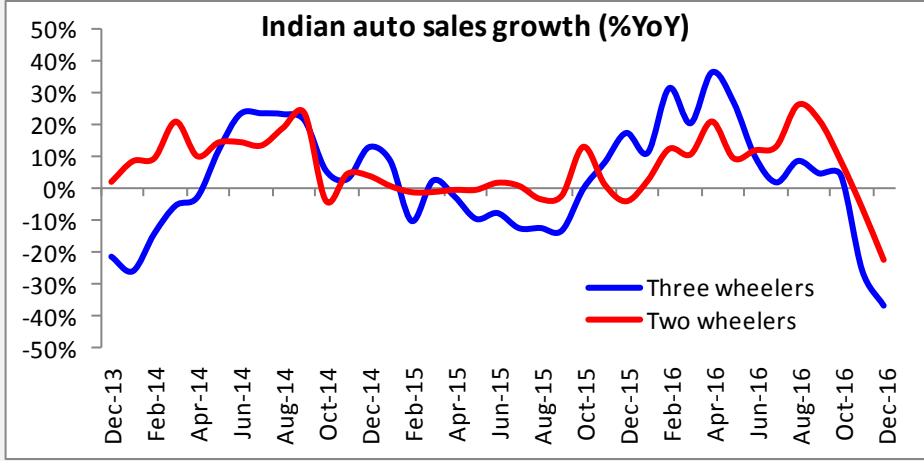
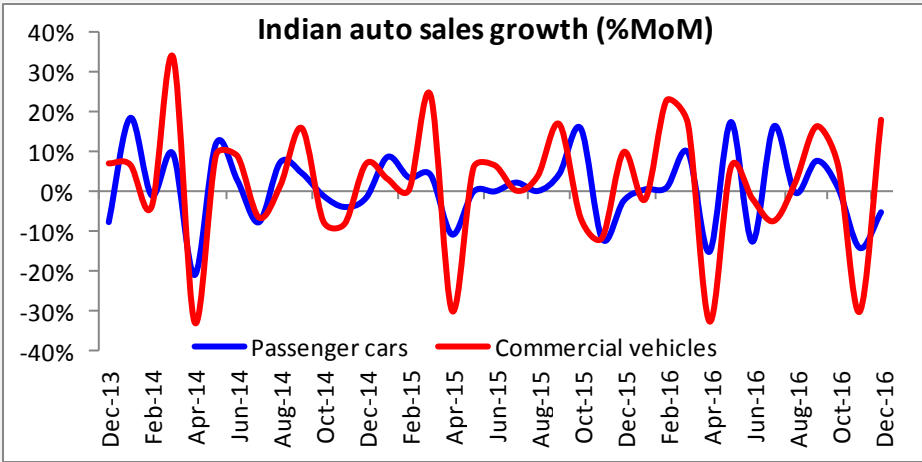
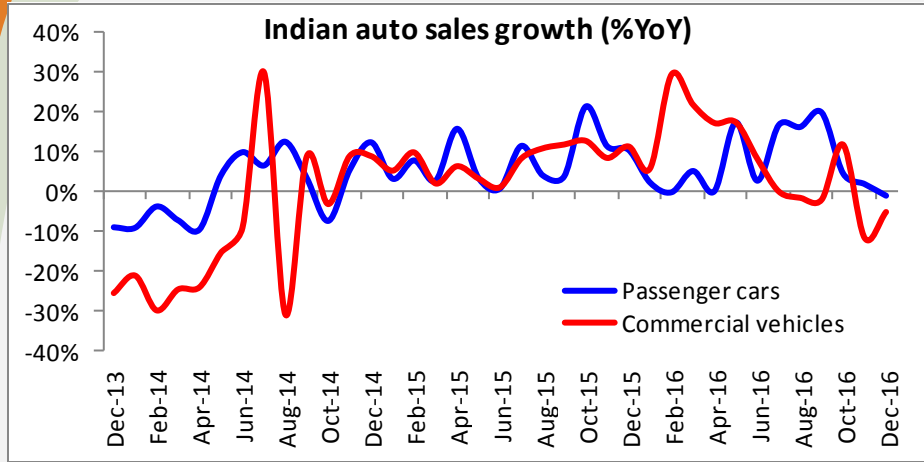


Sharp dip in PMIs clearly indicating impact of demonetization

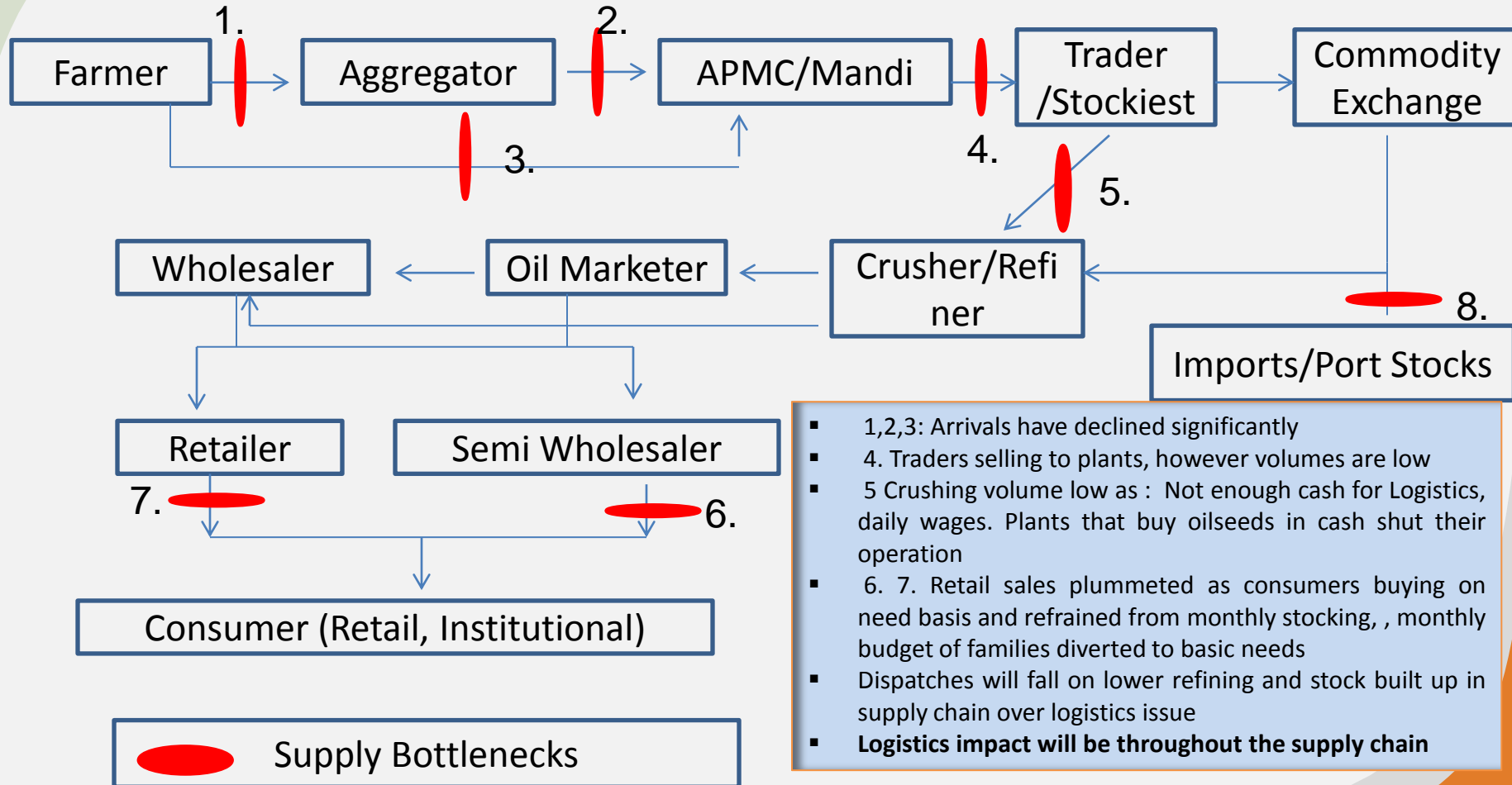
- **Manufacturing** activity has **contracted in December** as companies saw new work and output dip due to cash crunch with average delivery times also lengthening with demonetization impact on transport sector and the overall growth sentiments for OND
- Even **services** sector remained in **contraction for two consecutive months** with the negative sentiments post demonetization with the cash-driven sectors such as financial services, hotels, restaurants, renting and business activities suffering the most as consumers curbed discretionary spending



Passenger car sales unaffected but commercial vehicles, 2W and 3W affected significantly by cash crunch in Nov-Dec'16 – Indicating dampening of Rural demand



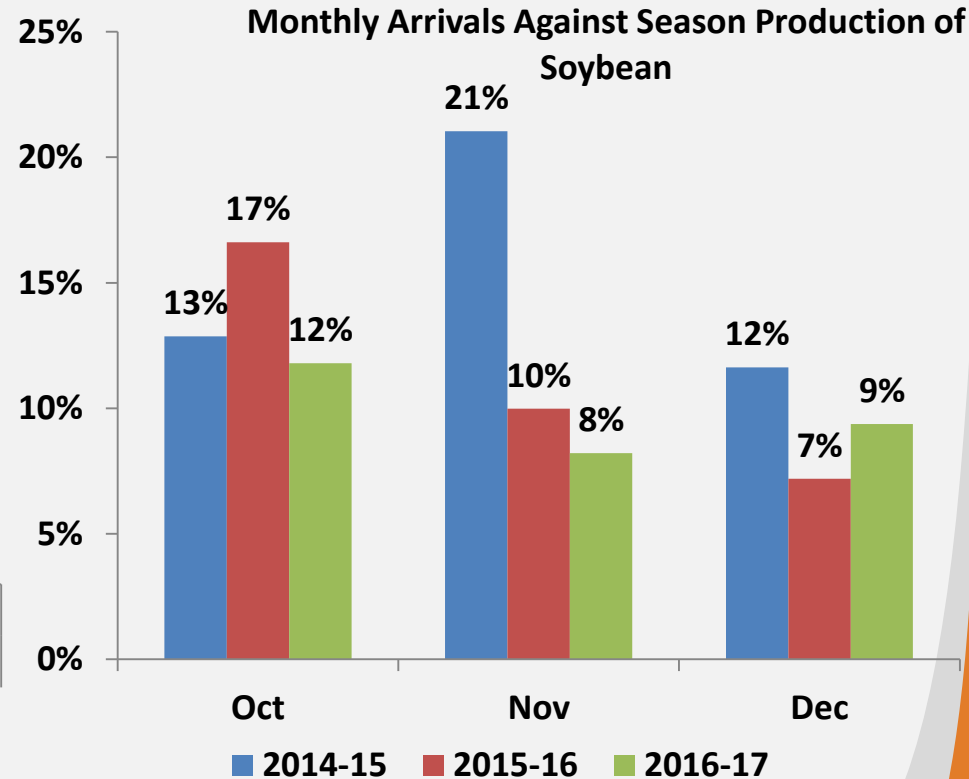
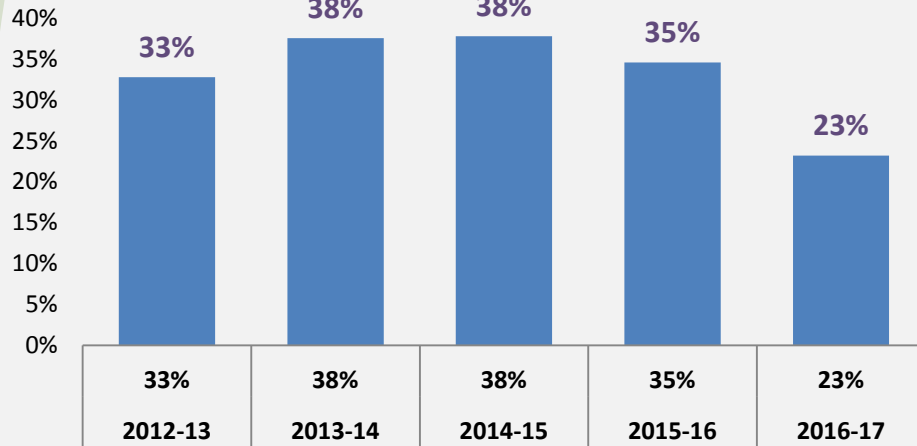
Demonetization Impact on Oilseed and Edible oil Supply Chain



- 1,2,3: Arrivals have declined significantly
- 4. Traders selling to plants, however volumes are low
- 5 Crushing volume low as : Not enough cash for Logistics, daily wages. Plants that buy oilseeds in cash shut their operation
- 6. 7. Retail sales plummeted as consumers buying on need basis and refrained from monthly stocking, , monthly budget of families diverted to basic needs
- Dispatches will fall on lower refining and stock built up in supply chain over logistics issue
- **Logistics impact will be throughout the supply chain**

OND Arrivals are low due to demonetization.

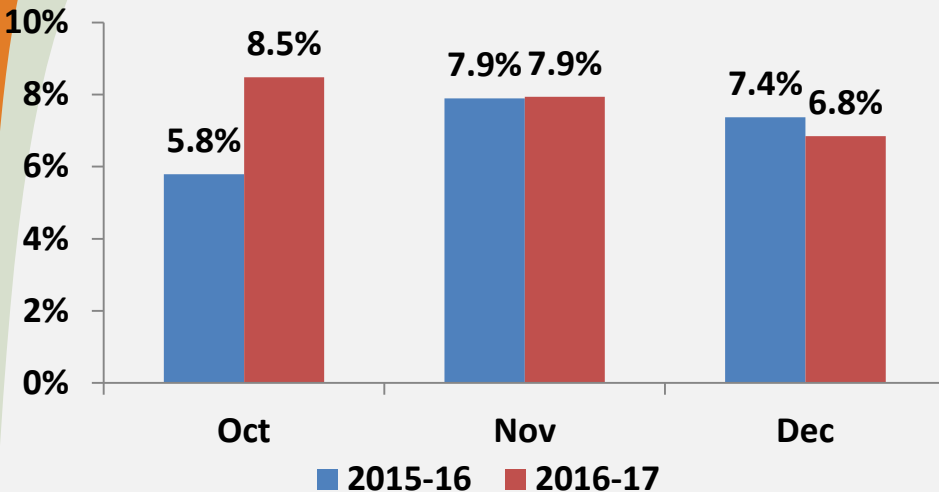
%age Monthly GN arrival of Yearly Production



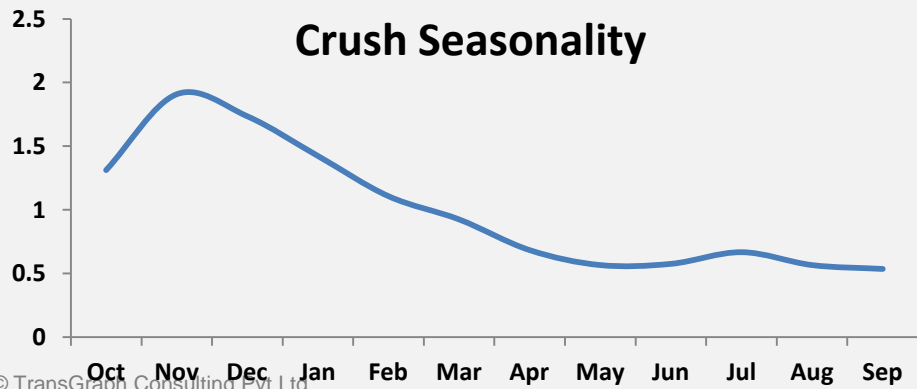
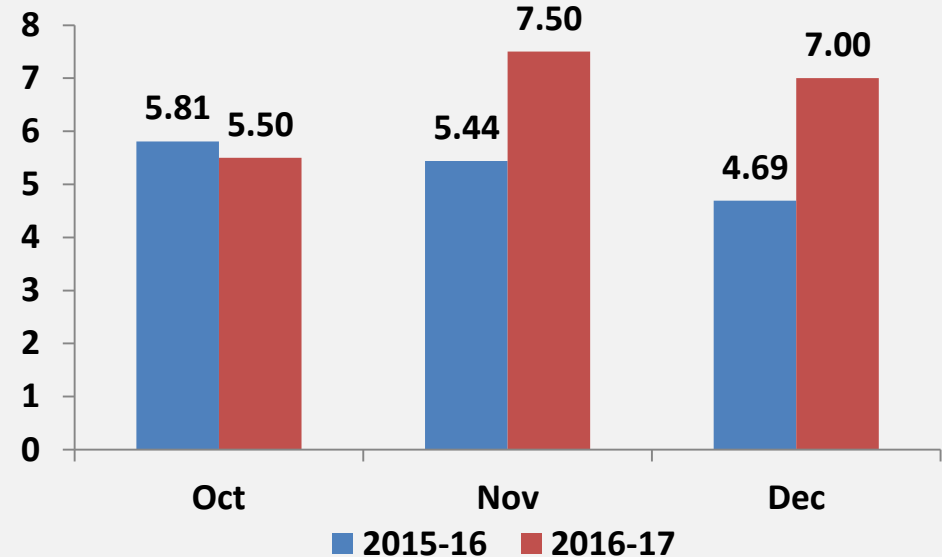
Despite higher production, arrivals in OND period stood lower due to poor farmer selling owing to cash squeeze with the traders owing to demonetization

Soy Crush is lower in Nov & Dec 16 in terms of % of production

Monthly Crush Against Season Production of Soybean



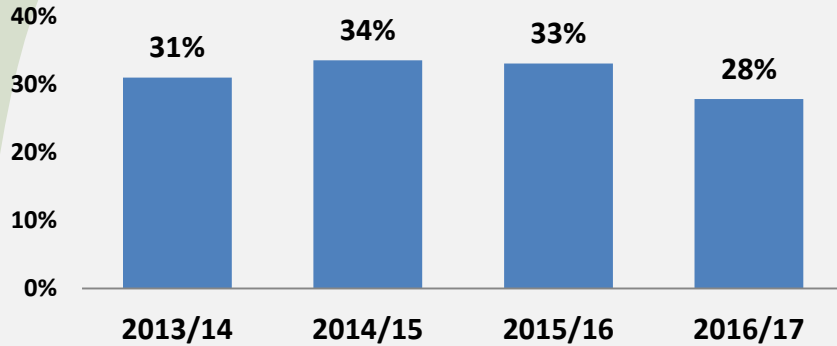
Soybean Monthly Crush (Lakh Tons)



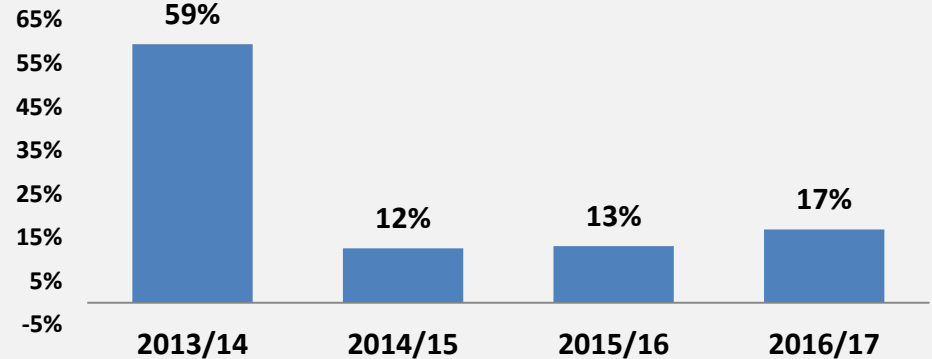
▪ Demonetization has impacted crush gradually since availability of bean declined post demonetization. Thus in Oct 8.5% of bean produced was crushed which declined to 6.8% which ideally should be high in Nov and should be close to 12-14% of the crop

% ONDJ arrival in total production.. Decline in arrivals is seen in case of Y-o-Y higher production

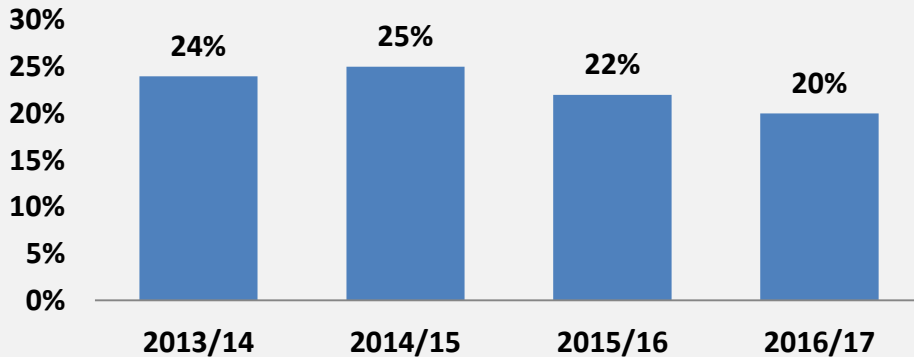
Paddy - Rice



Corriander

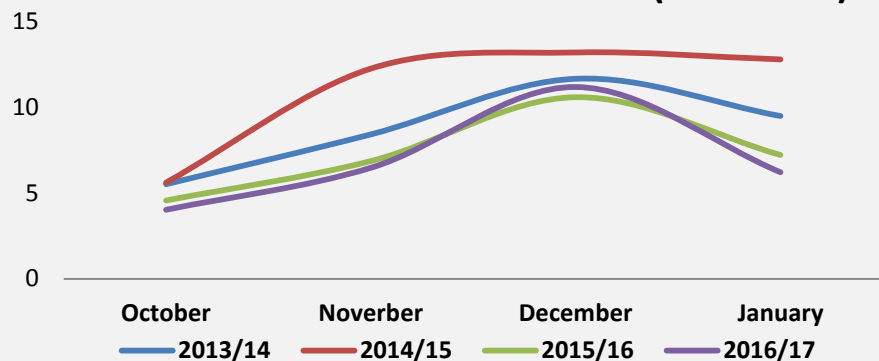


Cotton

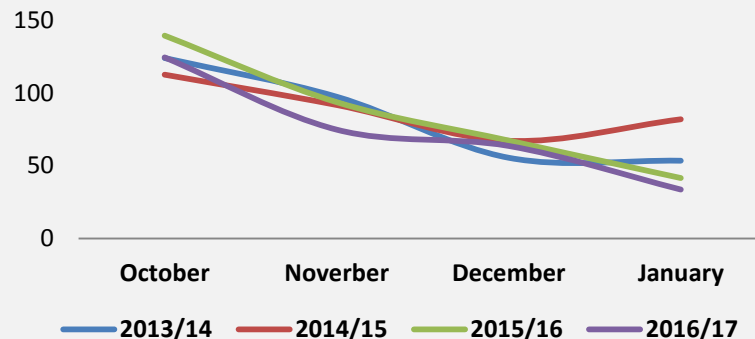


■ Similar situation of lower arrivals is witnessed in both paddy and cotton. However, in spices like coriander, the impact is not seen due to lower crop size

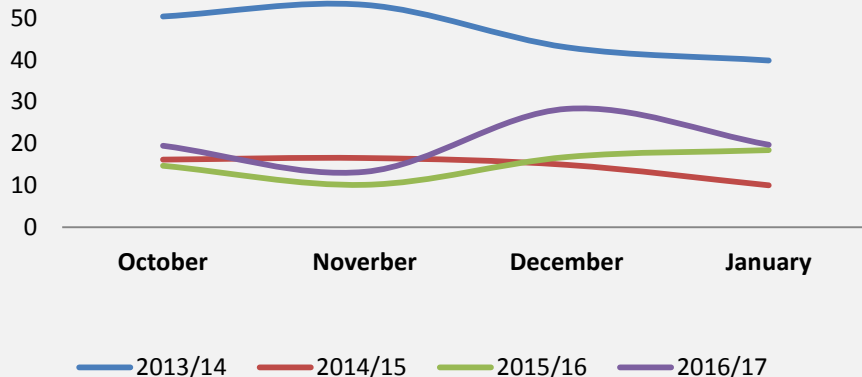
All Indian cotton arrivals (Lakh Tons)



all Indian Paddy arrivals(Lakh tons)



All over India Corriander Arrivals(Thd. Tons)



2016 OND period witnessed lowest arrivals in the last 4 years in both cotton and paddy crops

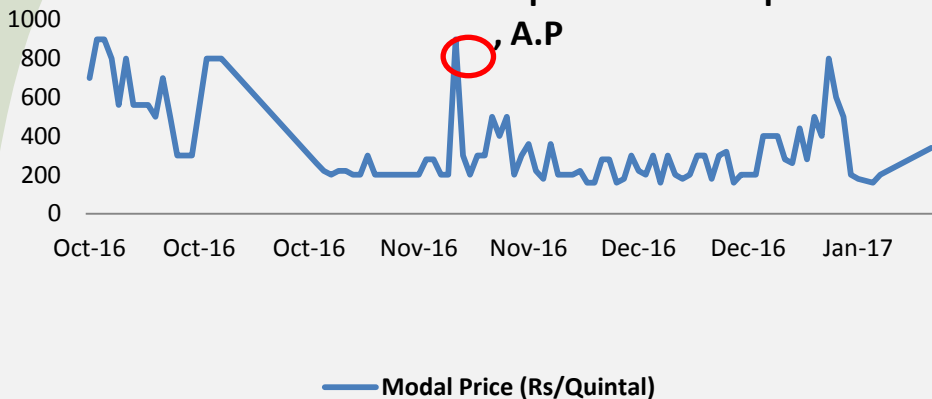
Cash crunch resulted in fall in demand of edible oils..

No of Households (Crores)					Indian Port S&D month wise (Thd tons)																	
24.84																						
Before demonetization																						
					Aug'16	Sep'16	Oct'16	Nov'16	Dec'16	Jan'17	Feb'17											
					P	P	P	P	P	P	P											
Household Consumption(Lakh Ton)					13.14	12.72	12.41						Opening stocks	770	755	860	705	655	695	770		
Non-Household Consumption (Lakh Ton)					5.63	5.45	5.32						Imports	1249	1377	1156	1156	1174	1278	1108		
After Post-Demonetization										Dispatches	1264	1272	1311	1206	1134	1202	1134					
House hold	Estimated Per household decline (KG)				1.00	0.80	0.45						Closing stocks	755	860	705	655	695	771	744		
	Net decline in demand (Lakh Ton)				2.48	1.99	1.12						LY stocks	925	780	1020	1020	1110	1055	910		
	Actual Demand (Lakh Ton)				10.66	10.73	11.29															
Non-House hold	Estimated %age decline				19.23 %	18.35 %	7.50%															
	Net decline in demand (Lakh Ton)				1.08	1.00	0.40															
	Actual Demand (Lakh Ton)				4.55	4.45	4.92															
Actual demand decline (lakh ton)					3.56	2.99	1.52															
% of demand rationing					18.97 %	16.46 %	8.57%															
M-O-M change in port dispatches (lakh ton)					-1.05	-0.72	0.68															

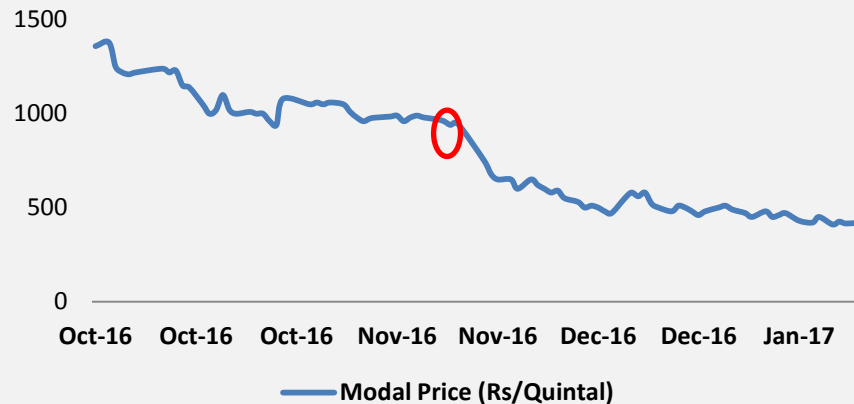
- Due to cash crunch, Nov & Dec'16 are the most affected months in terms of edible oil consumption

Fall in Vegetable prices @ benchmark markets since De-monetization in Nov'16

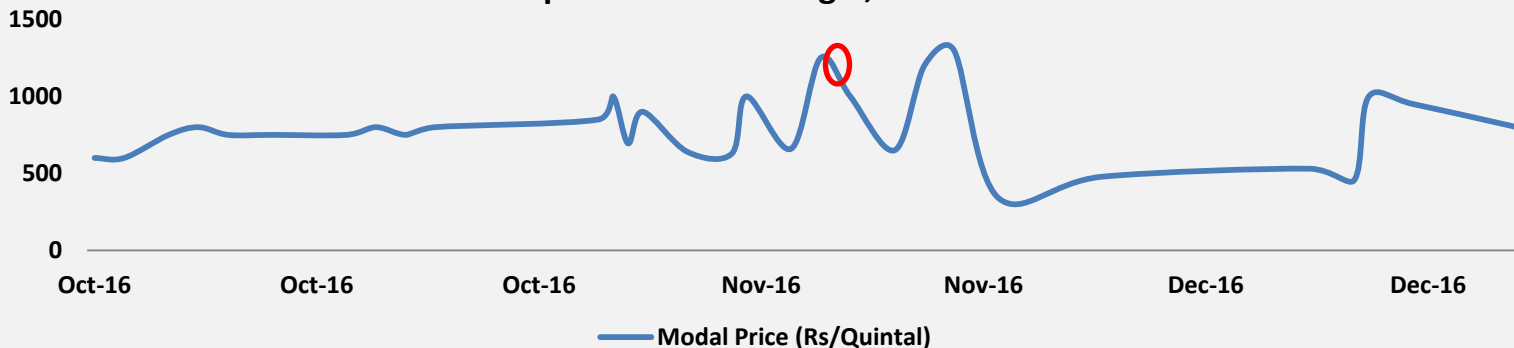
Medium size onion price at Madanpalli



Local Potato price at Agra, UP

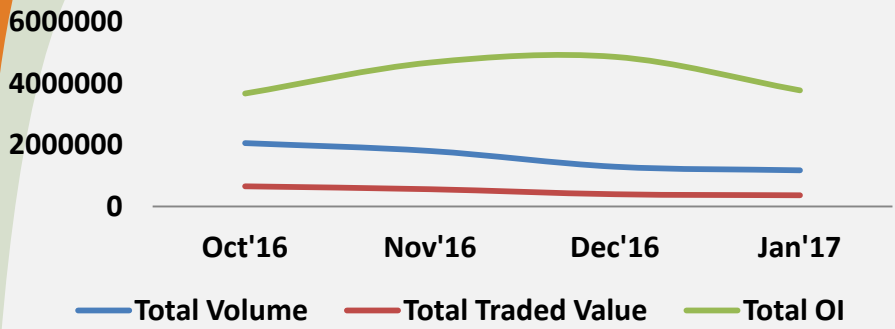


Onion price at Ahmednagar, Maharashtra

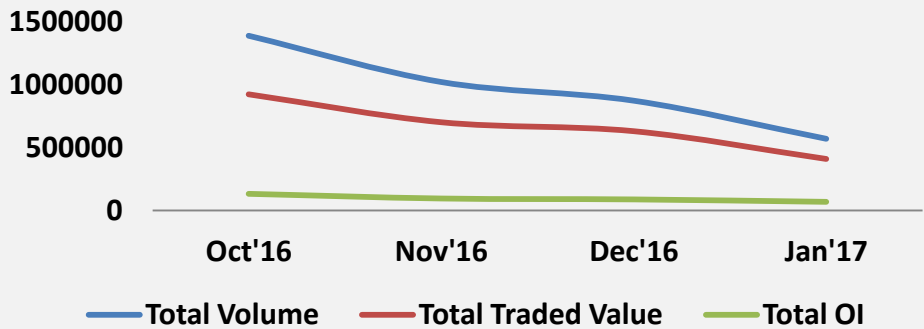


Drastic fall in Ncdex Futures traded Volumes amidst IT scrutiny measures...

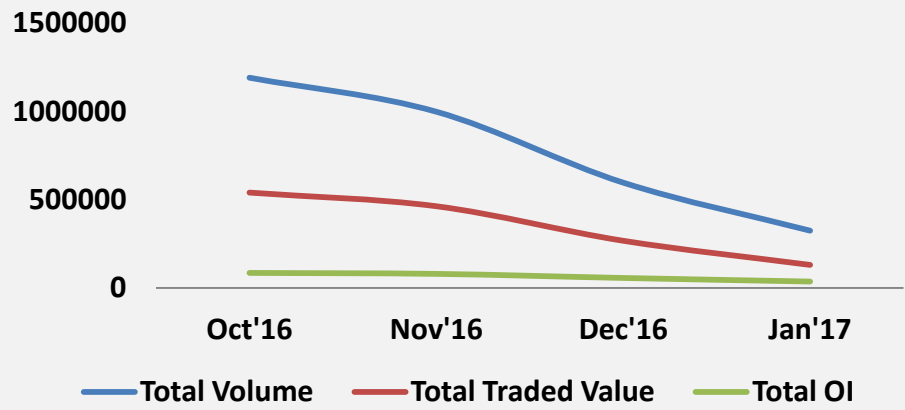
NCDEX Soybean



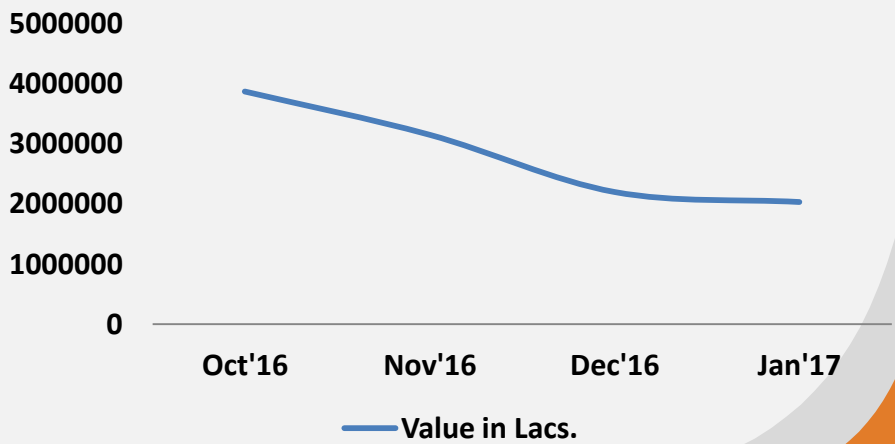
NCDEX Soyoil



NCDEX RM Seed



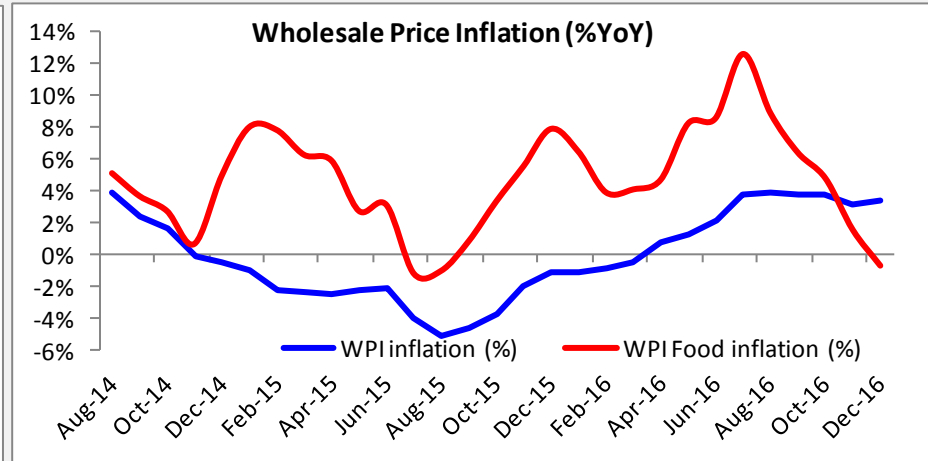
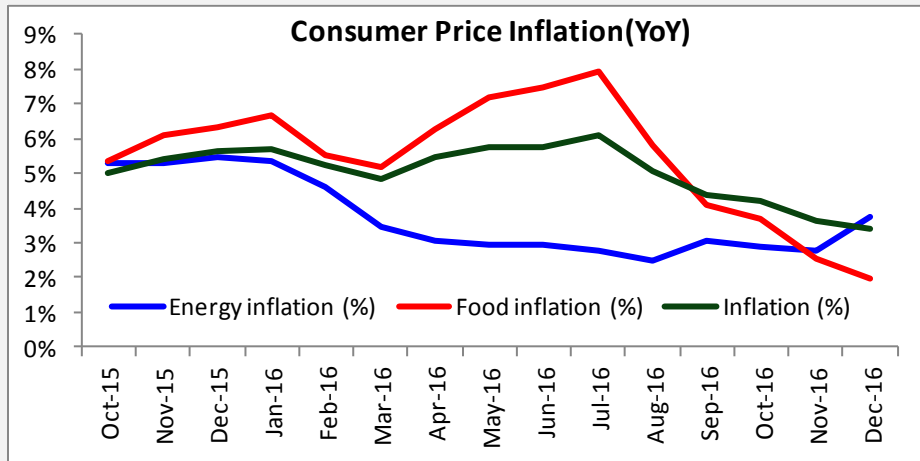
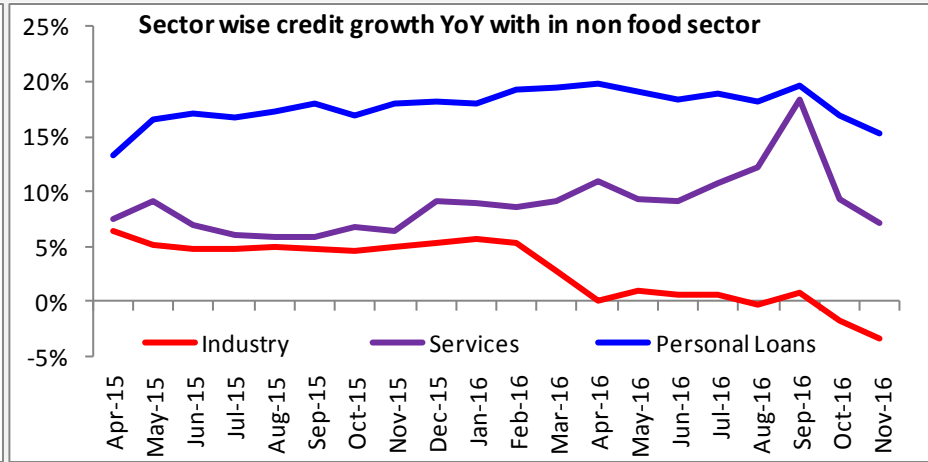
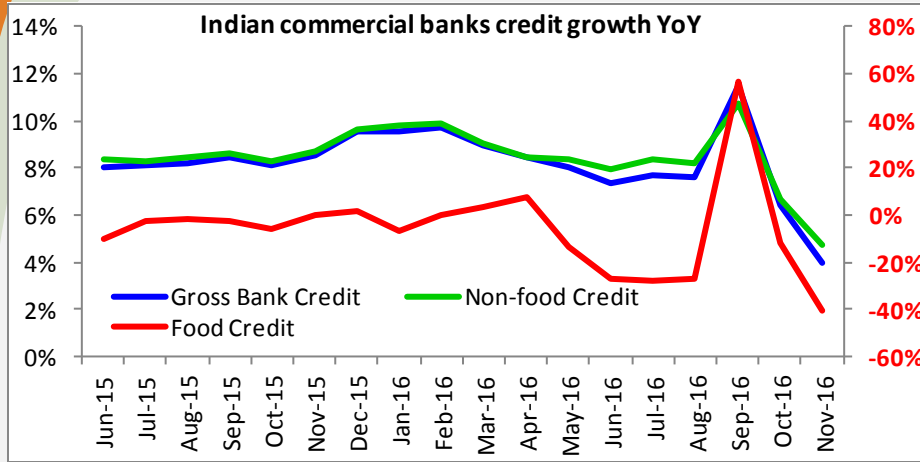
NCDEX All Commodities



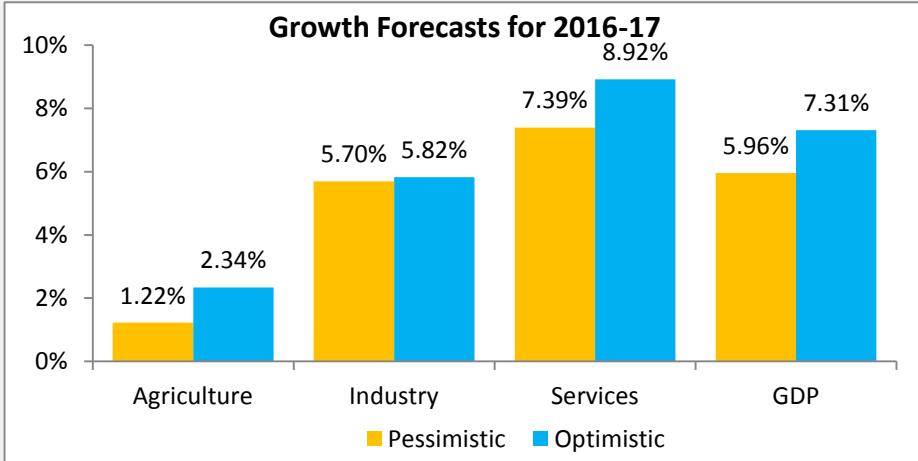
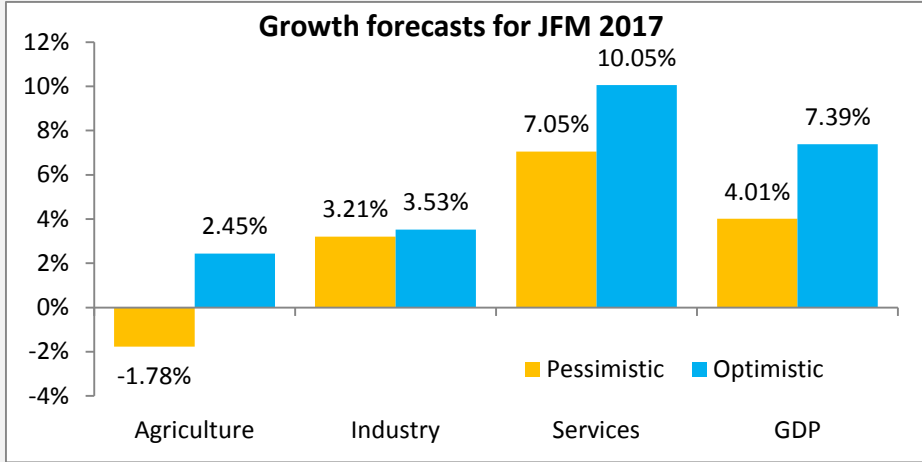
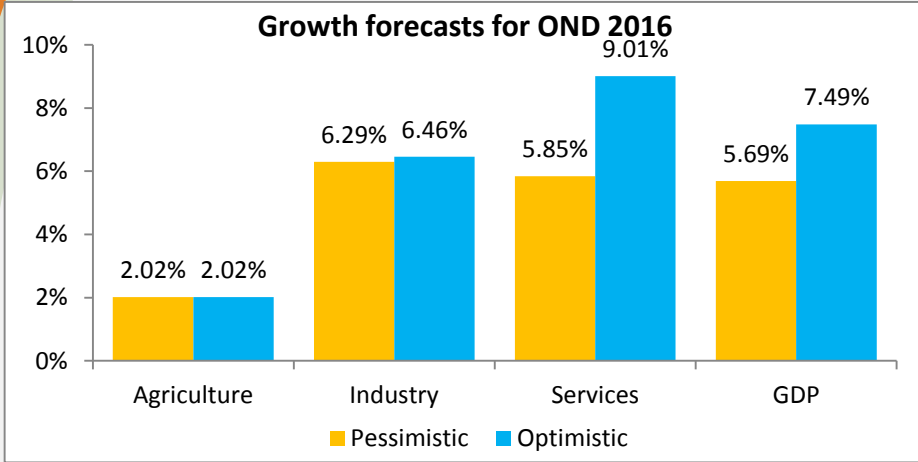
Indian economy



With dip in inflation post demonetization, further rate cut of 0.5% is likely; Industry credit is severely constrained

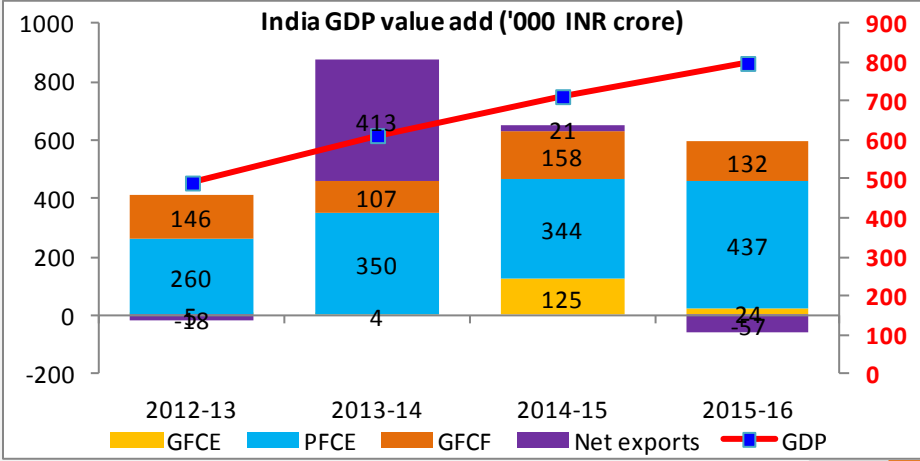
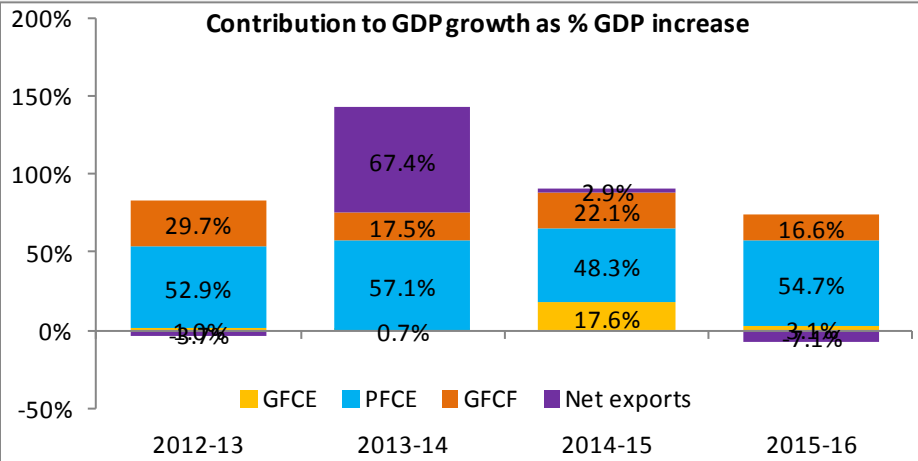
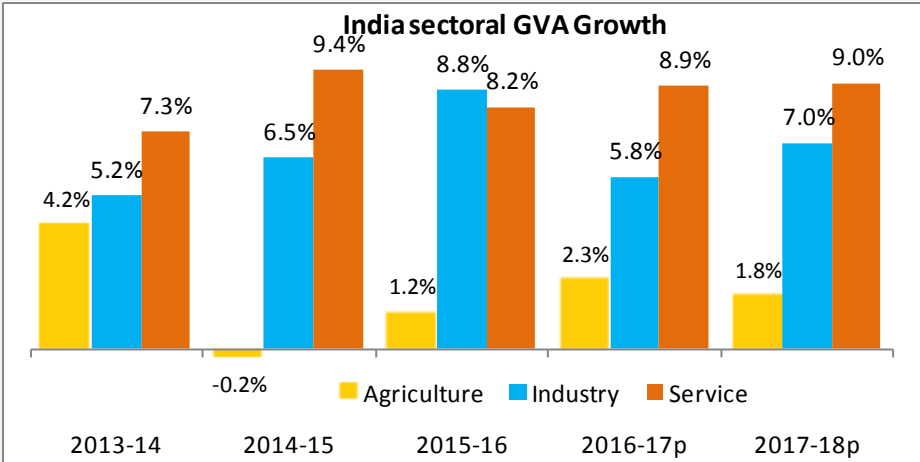
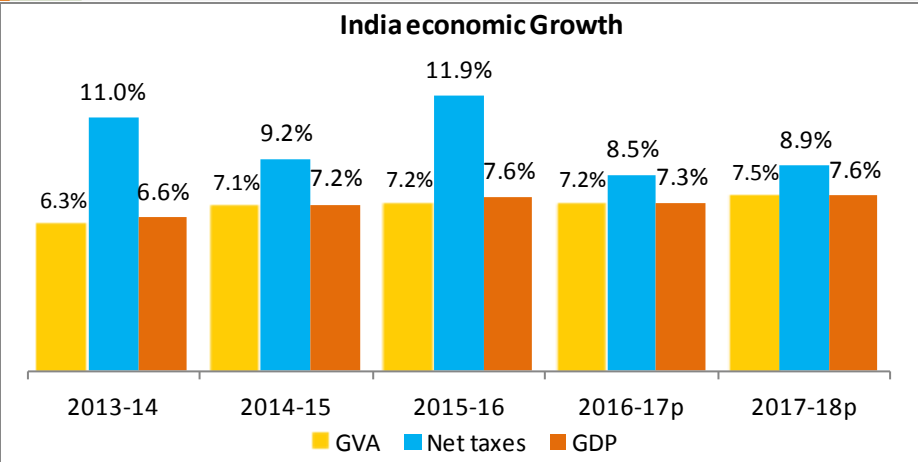


Impact of demonetization on Indian economy; Growth likely to be lower in industry sector



- Cash driven transport and retail business to witness more impact in the short term
- FMCG business growth to slow down in JFM as well

Demonetization to impact growth in FY'17



GFCE – Government Final consumption expenditure; PFCE – Private Final consumption expenditure
 GFCF – Gross fixed capital formation

Indian Fiscal budget targeted at 3.2% in 2017-18

	2015-16	2016 – 17 RE	2017-18 BE	2016-17 growth	2017-18 growth
Net Tax revenue to centre	9.4	10.9	12.3	15.4%	12.7%
Non-tax revenue	2.5	3.3	2.9	33.2%	-13.7%
Total revenue receipts	12.0	14.2	15.2	19.1%	6.5%
Recoveries of loans	0.0	0.1	0.1	431.5%	7.8%
Other receipts	0.4	0.5	0.7	8.0%	59.3%
Total capital receipts	0.4	0.6	0.8	27.9%	49.2%
Total receipts	12.4	14.8	16.0	19.4%	8.1%
Scheme expenditure on revenue account	5.5	6.3	6.7	15.7%	6.7%
Scheme expenditure on capital account	1.8	2.4	2.7	32.8%	13.7%
Total scheme expenditure	7.3	8.7	9.5	20.0%	8.6%
Expenditure other than schemes	10.7	11.4	12.0	7.4%	5.0%
Total expenditure	17.9	20.1	21.5	12.5%	6.6%
Fiscal deficit	5.5	5.3	5.5		
GDP	135.7	151.2	169.3		
Fiscal deficit (% of GDP)	4.06%	3.53%	3.23%		

Source: Union Budget 2017-18, INR Lakh Crore

Key Sector allocations in Union budget

	Sector	2016-17	2017-18	% change
1	Agriculture and Allied sectors	0.53	0.59	11.06%
2	Rural Development	1.15	1.29	11.84%
3	Infrastructure	3.59	3.96	10.46%
3s	of which Transport	2.17	2.41	11.29%
4	Social sectors	1.76	1.95	10.92%
4a	Education and Health	1.15	1.30	13.42%
4b	Social sectors with welfare orientation	0.61	0.65	6.25%
5	Employment Generation, Skill and Livelihood	0.15	0.17	16.16%
6	Scientific Ministries	0.34	0.37	8.95%
	Total	7.52	8.34	10.86%

Source: Union Budget 2017-18, INR Lakh Crore

India Balance of Payments indicating further build in forex reserves

India Balance of Payments (USD Bn)

Item	2012 – 13	2013 – 14	2014 – 15	2015 – 16	2016 – 17p	2017 – 2018p
Current Account						
Merchandise trade balance	-195.7	-147.6	-144.2	-130.1	-108.0	-129.0
Invisibles	107.5	115.2	116.2	107.9	100.0	109.0
Total Current Account	-88.2	-32.4	-27.9	-22.2	-8.0	-20.0
CAD as % of GDP	-5.2%	-2.0%	-1.6%	-1.3%	-0.4%	-1.0%
Capital Account						
FII	34.7	8.7	40.9	-4.1	6.0	9.0
FDI	22.4	24.3	32.6	36.0	47.0	36.0/51.0
Others*	42.6	22.4	16.4	9.2	-16.0	10.0
Total Capital Account	99.7	55.4	90.0	41.1	37.0	55.0/70.0
Balance of Payments	14.2	22.1	61.4	17.9	29.0	35.0/50.0

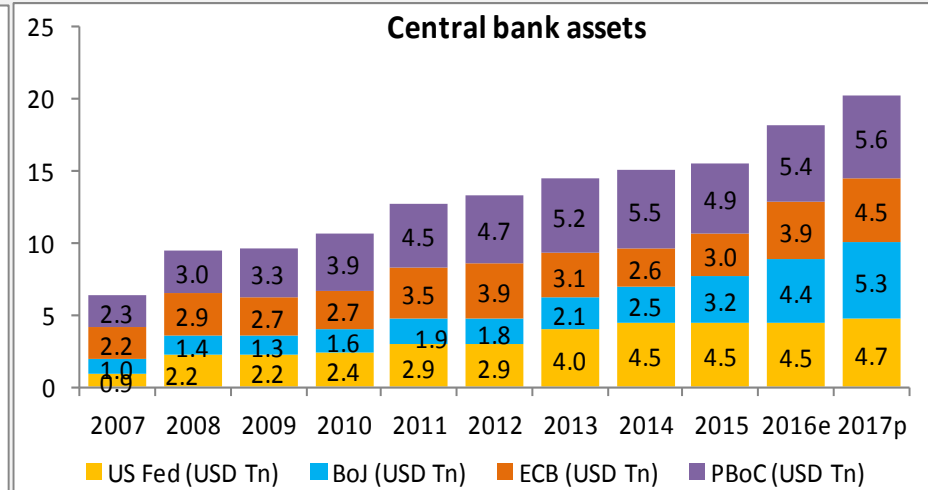
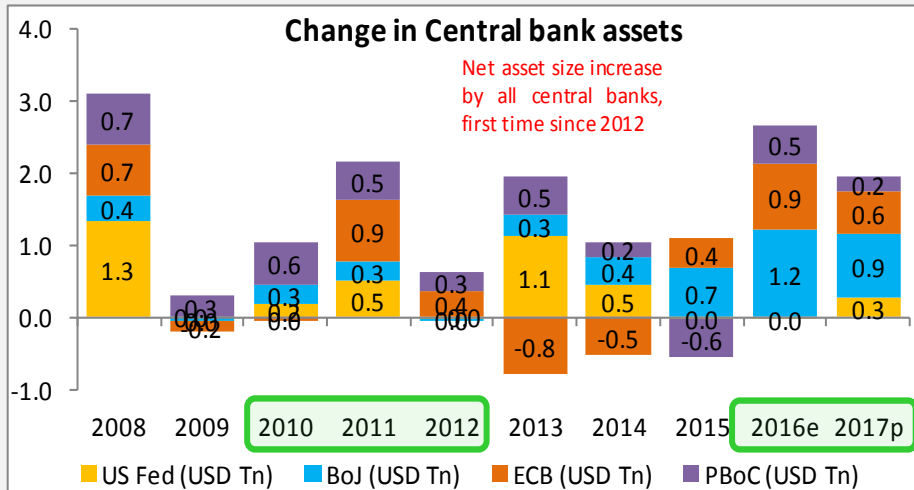
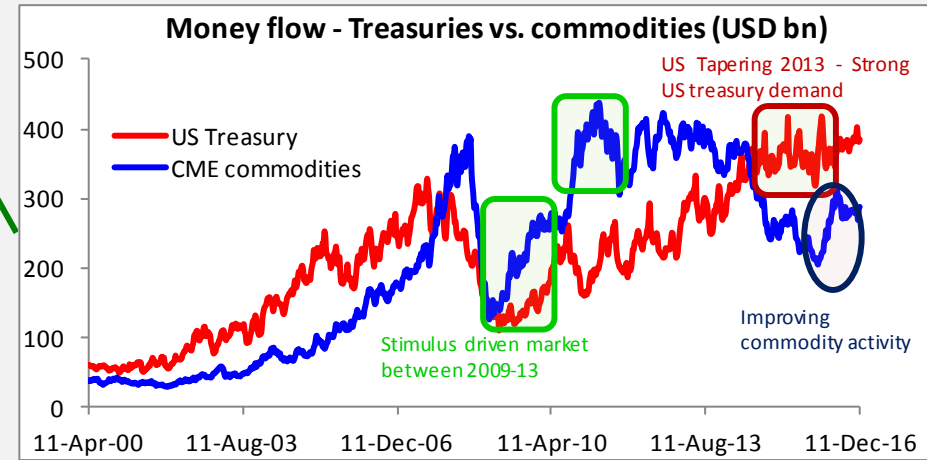
*Note: Others include net commercial borrowings, short term loans, banking capital and other capitals

Global economy



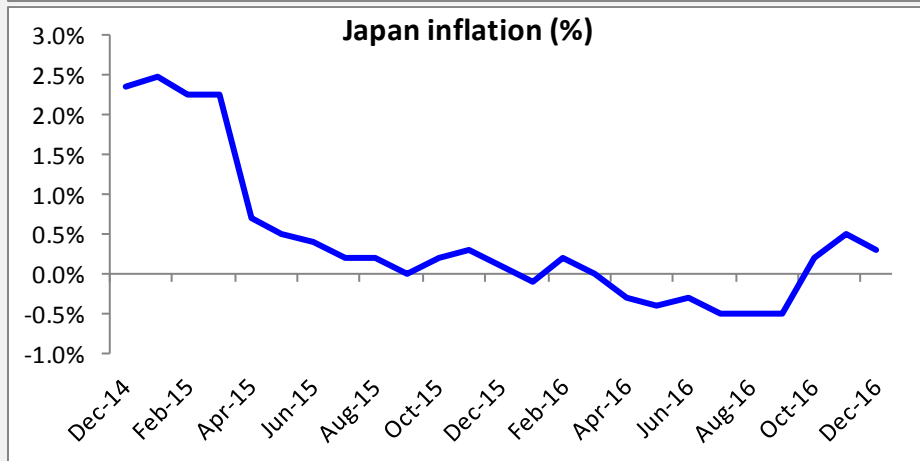
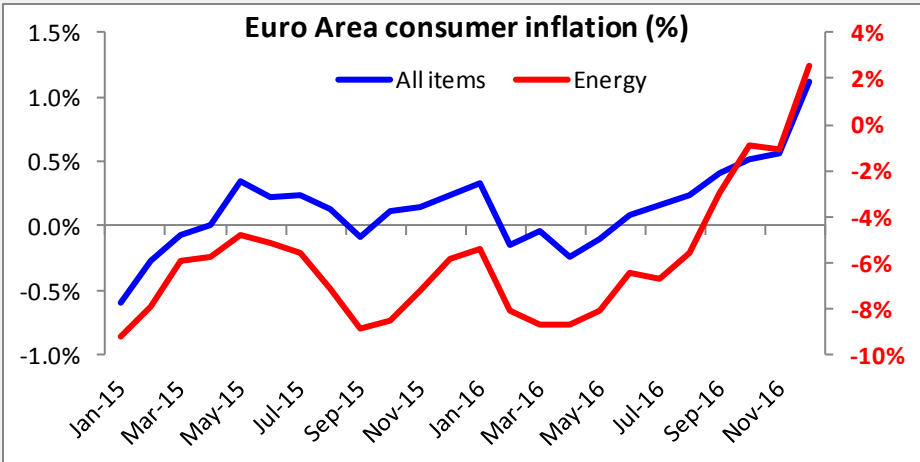
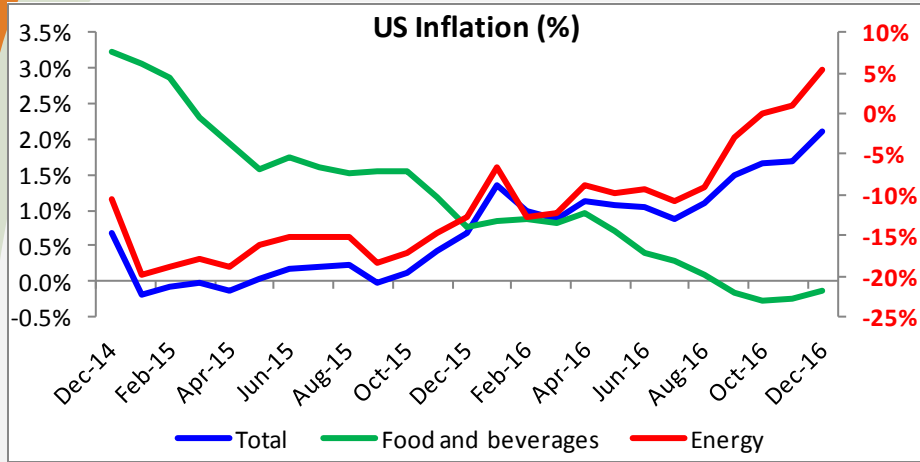
Stimulus support remains intact for treasuries and commodities

- Money flow shifting from treasuries to commodities
- 2.6 trillion USD in 2016 and 2 trillion USD in 2017: highest stimulus since last 3 years
- Net increase in assets by all central banks for first time since 2012 likely to support commodity markets



Pick up in inflation in advanced economies to lead to change in respective central banks' stance

TransGraph



- Surge in crude prices and low base effect led to sharp increase in inflation in the recent months
- Although inflation remain below the respective central banks' target levels, sharp surge may induce slight change in stance regarding the monetary guidance for 2017

Global growth – Chinese recovery underway, Euro area and India to sustain current growth

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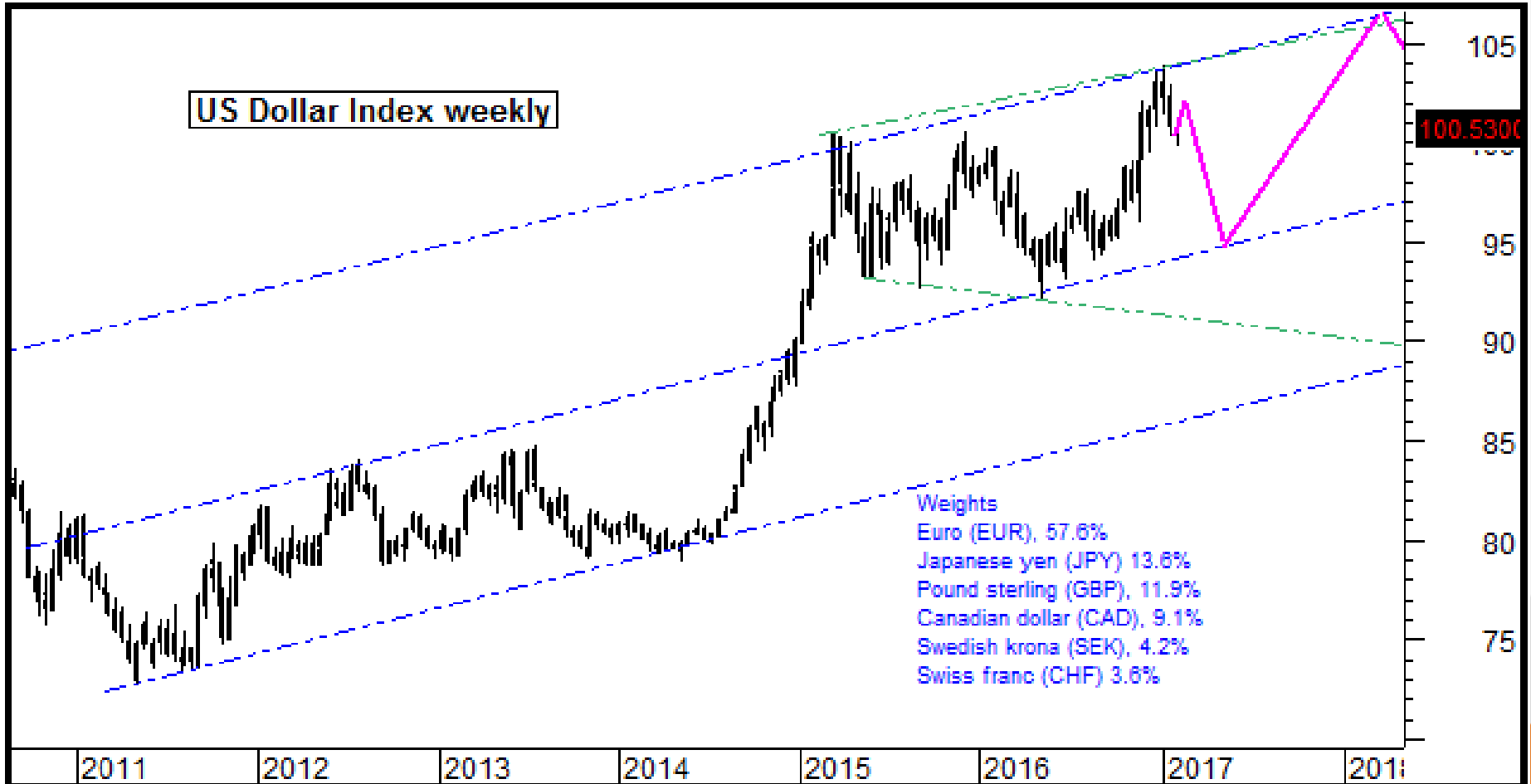
World Economic Outlook						
Region	2015e	2016e	2017p	Value (USD Bn)		
				2015	2016 growth	2017 growth
World	3.20	3.10	2.80	78065	2420	2254
Advanced economies	2.08	1.80	1.60	46566	838	758
Emerging markets	4.02	4.80	4.50	31500	1512	1486
US	2.60	1.70	1.80	16397	279	300
Euro Area	2.04	1.70	1.80	13555	230	248
Japan	0.54	0.50	-0.60	5674	28	-34
China	6.90	6.72	6.50	8862	595	615
India	7.56	7.10	7.60	2367	173	193

Source : IMF, Note: All data in % Change Y/Y, India GDP in FY terms

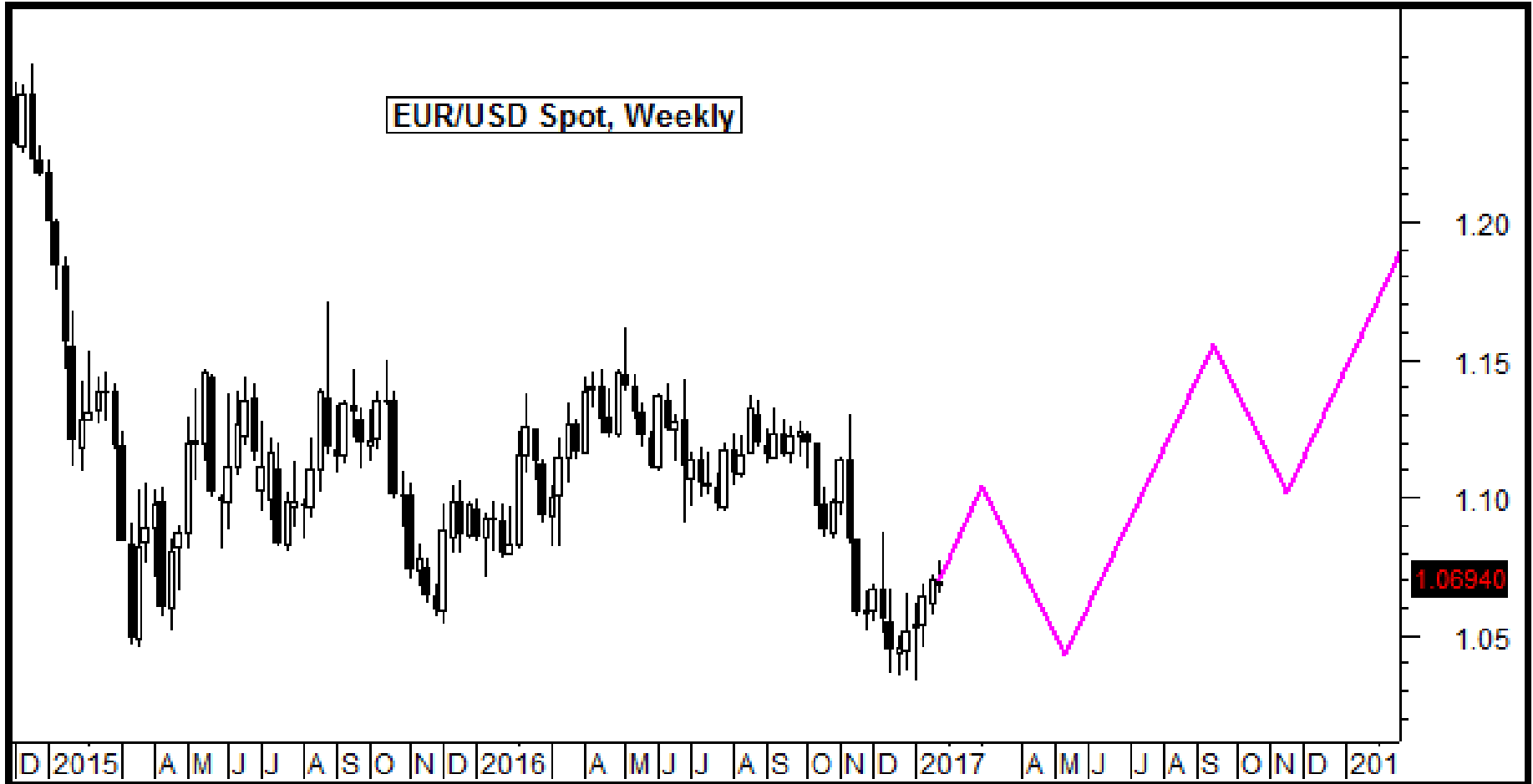
- Consolidation in Euro Area, Political Risk weights on Euro high
- Stabilization in China and India (Demonetization impact to be short-lived)
- Tax cuts and spending increase is likely to constrain US growth in 2017
- Negative real interest rates and debt ceiling to put pressure on US dollar.

Dollar Index likely to trade in the range of 103 – 96 in the coming 4-6 months

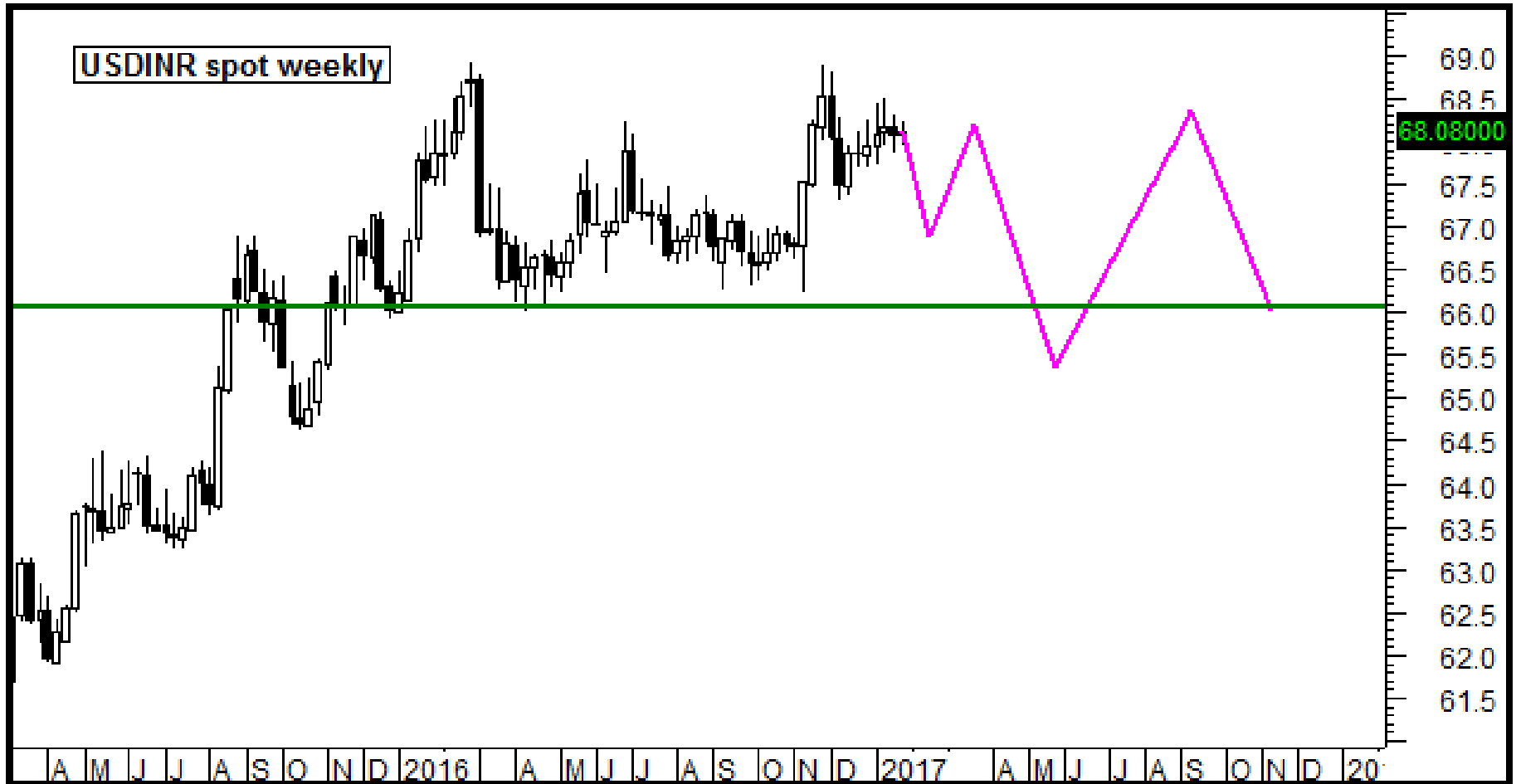
US Dollar Index weekly



Euro to trade positive towards 1.15



USDINR outlook





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