

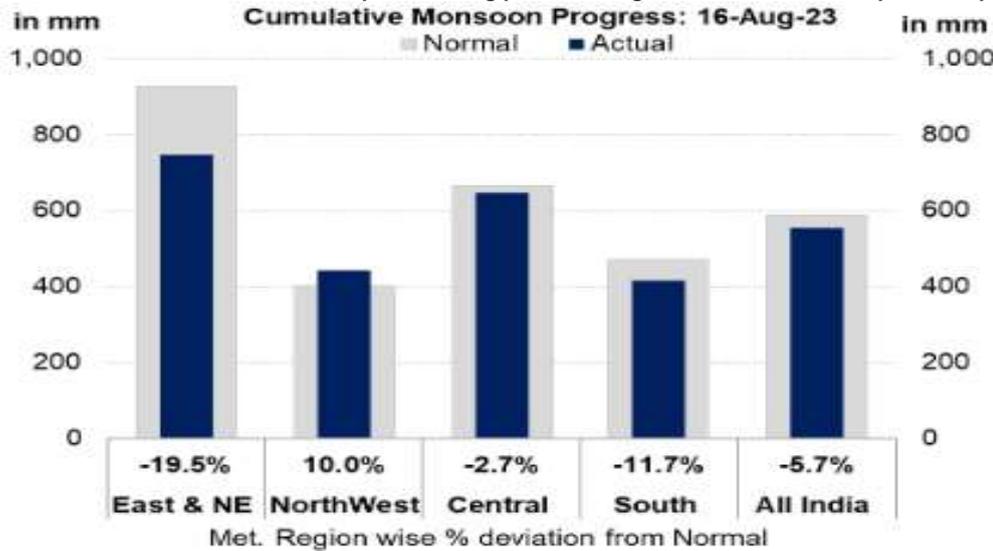
## Monsoon back in deficit

**A deficit monsoon with very poor spatial and temporal dispersion might adversely affect crop sector output. El Niño is now likely to resurface during Sep-Nov.**

### **Monsoon rains are now in a deficit as rains vanish almost across the country.**

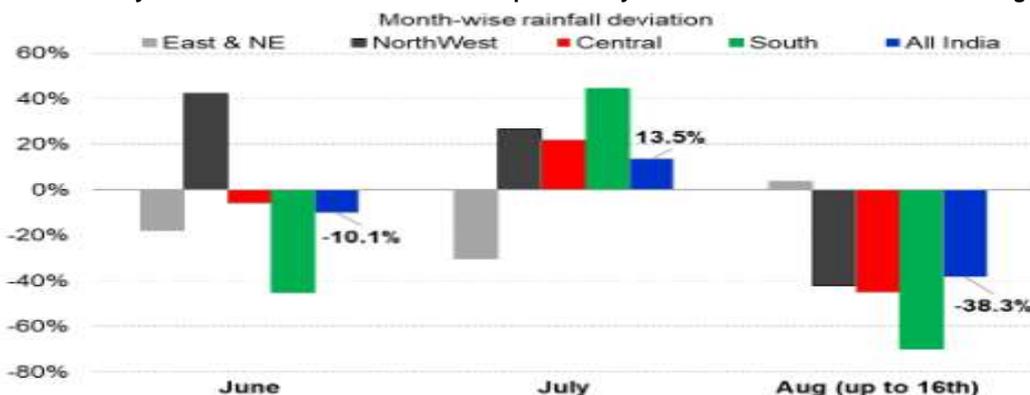
- Monsoon progress remains uneven: initial June deficit of 10.1% was covered by surplus rains in July (monthly surplus of 13.5%) but has been followed by sharply weaker rains in August (monthly deficit up to 16th of 38.3%).
- Overall monsoon deficit of 5.7% as of 16th Aug. stands in stark contrast to peak season surplus of 7.1% on 28th July.
- Apart from the quantitative deficit, quality has also been very low as seen in the lopsided temporal and spatial distribution.
- Monsoon metrics include extremely intense and concentrated rainfall: this has led to retarding cropping activity as much as deficient rainfall especially in the Kharif season where dependence on rains is heavy.
- Spatially, off the four meteorological regions, only North-West is in surplus (10%)
- Around 50% of districts in states of UP, WB, BR, JH, and KL and 37% of all districts have received deficient rains.
- In addition, 21% of districts received heavily surplus rain, which as noted above regards cropping.
- Temporally too, quality of the monsoon has been poor, with dry conditions followed by torrential rains, causing rivers to overflow and flood fields.

**Chart 1: Actual monsoon rains compared to long period averages - overall rains in surplus but spatial distribution remains skewed**



Source: Axis Bank Business and Economic Research Team

**Chart 2: Monthly distribution of monsoon rains – surplus of July has turned into a severe deficit in August.**



Source: Axis Bank Business and Economic Research Team

### **Quality issues are also hidden in sowing indicators**

- Kharif coverage, though overall marginally better compared to last year, masks damage caused due to poor quality rainfall.
- Coverage under pulses is lower by 8% compared to previous year: arhar (-5%), urad (-13%) and moong (-7%) and this could aggravate the problem of rising pulses' prices unless supply measures are taken.
- The sharp increase in vegetable prices might therefore prove to be the precursor to events that may crop up later.
- As an example, consider tomato prices, which initially rose on excess rains due to transportation disturbances, though over time, crop damage in hilly regions of North India exacerbated the issue. Prices of tomatoes have since cooled off from peak levels but remain elevated.
- Shortages due to lower foodgrains output could be more damaging for inflation, given the longer time-period required for course correction and in some case may have to wait for the next Kharif crop.

### **Extrinsic vs intrinsic volatility**

- Global implied volatility benchmarks tend to move together, with periods of low and high volatility clustering across asset classes which is a consequence of financialized, algo-driven markets.
- INR volatility measures also tend to track these extrinsic measures, moving close to EMFX implied volatilities. But there are divergences which open and close over time.
- These divergences are due to factors intrinsic to the INR, and also largely align with the three phases of INR management noted above.
- A chunk of movements in intrinsic volatility are explained by sensitivity to volatile global hot money flows.
- This is seen when the CAD and capital flows ex FPI and RBI forwards (both proxies for stable gradual flows) are superimposed with hot money FPI flows.
- When stable capital flows are much larger than the CAD, there is a large margin for FPI volatility to be absorbed, leading to low intrinsic volatility.
- In contrast, when the gap is small or negative (2008, 2011, 2014, 2018 and 2022), volatility increases sharply.

### **EI-Niño alert continues with development likely during Sep-Nov period**

- The Southern Oscillation Index (SOI) reversed rapidly, to deeply negative levels. Even though momentum has stalled recently, levels below -7 are indicative of EI-Niño conditions.
- The Australian Bureau of Meteorology's El Niño alert continues (in the latest release on 15th Aug), with El Niño development likely during Sep-Nov'23.
- Though the Sea Surface Temperatures (SST) in the tropical Pacific are exceeding thresholds, the weaker than average Trade winds are not yet consistent with atmospheric conditions usual during El Niño events.
- At the same time, the Indian Ocean Dipole (IOD) which is currently neutral is likely to turn positive during Sep-Nov'23 - normally supporting rainfall in the Indian sub-continent. This will likely offset the negative effects of El Niño.
- Revival of monsoon rains is imperative at this juncture to support Kharif crops, and to be assured of improved agriculture output in the year.

## **Disclaimer:**

The report and information contained herein is of confidential nature and meant only for the selected recipient and should not be altered in any way, transmitted to, copied or distributed, in any manner and form, to any other person or to the media or reproduced in any form, without prior written approval of Axis Bank. The material in this document/report is based on facts, figures and information that are obtained from publicly available media or other sources believed to be reliable and hence considered true, correct, reliable and accurate but Axis Bank does not guarantee or represent (expressly or impliedly) that the same are true, correct, reliable and accurate, not misleading or as to its genuineness, fitness for the purpose intended and it should not be relied upon as such. The opinion expressed (including estimates, facts, figures and forecasts) is given as of the date of this document is subject to change without providing any prior notice of intimation. Axis Bank shall have the rights to make any kind of changes and alterations to this report/ information as may be required from time to time. However, Axis Bank is under no compulsion to maintain or keep the data/information updated. This report/document does not mean an offer or solicitation for dealing (purchase or sale) of any financial instrument or as an official confirmation of any transaction. Axis Bank or any of its affiliates/ group companies shall not be answerable or responsible in any way for any kind of loss or damage that may arise to any person due to any kind of error in the information contained in this document or otherwise. This document is provided for assistance only and should not be construed as the sole document to be relied upon for taking any kind of investment decision. The recipient is himself/herself fully responsible for the risks of any use made of this information. Each recipient of this document should make his/her own research, analysis and investigation as he/she deems fit and reliable to come at an independent evaluation of an investment in the securities of companies mentioned in this document (including the merits, demerits and risks involved), and should further take opinion of own consultants, advisors to determine the advantages and risks of such investment. The investment discussed or views expressed herein may not suit the requirements for all investors. Axis Bank and its group companies, affiliates, directors, and employees may: (a) from time to time, have long or short positions in, and deal (buy and/or sell the securities) thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn commission/brokerage or other compensation or act as advisor or lender/borrower to such company (ies) or have other potential conflict of interest with respect to any recommendation and related information and opinions. The applicable Statutory Rules and Regulations may not allow the distribution of this document in certain jurisdictions, and persons who are in possession of this document, should inform themselves about and follow, any such restrictions. This report is not meant, directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would not be in conformation to the law, regulation or which would require Axis Bank and affiliates/ group companies to obtain any registration or licensing requirements within such jurisdiction. Neither Axis Bank nor any of its affiliates, group companies, directors, employees, agents or representatives shall be held responsible, liable for any kind of consequential damages whether direct, indirect, special or consequential including but not limited to lost revenue, lost profits, notional losses that may arise from or in connection with the use of the information. Prospective investors and others are cautioned and should be alert that any forward-looking statements are not predictions and may be subject to change without providing any notice. Past performance should not be considered as a reference to future performance. The disclosures of interest statements if any included in this document are provided only to enhance the transparency and should not be construed as confirmation of the views expressed in the report. The views expressed in this report reflect the personal views of the author of the report and do not reflect the views of Axis Bank or any of its associate and group companies about the subject company or companies and its or their securities.

This document is published by Axis Bank Limited ("Axis Bank") and is distributed in Singapore by the Singapore branch of Axis Bank. This document does not provide individually tailored investment advice. The contents in this document have been prepared and are intended for general circulation. The contents in this document do not take into account the specific investment objectives, financial situation, or particular needs of any particular person. The securities and/or instruments discussed in this document may not be suitable for all investors.

Axis Bank recommends that you independently evaluate particular investments and strategies and encourages you to seek advice from a financial adviser regarding the suitability of such securities and/or instruments, taking into account your specific investment objectives, financial situation and particular needs, before making a commitment to purchase any securities and/or instruments. This is because the appropriateness of a particular security, instrument, investment or strategy will depend on your individual circumstances and investment objectives, financial situation and particular needs. The securities, investments, instruments or strategies discussed in this document may not be suitable for all investors, and certain investors may not be eligible to purchase or participate in some or all of them.

This document is not an offer to buy or sell or the solicitation of an offer to buy or sell any security and/or instrument or to participate in any particular trading strategy. Axis Bank, its associates, officers and/or employees may have interests in any products referred to in this document by acting in various roles including as distributor, holder of principal positions, adviser or lender. Axis Bank, its associates, officers and/or employees may receive fees, brokerage or commissions for acting in those capacities. In addition, Axis Bank, its associates, officers and/or employees may buy or sell products as principal or agent and may effect transactions which are not consistent with the information set out in this document.

Axis Bank and its affiliates do business that relates to companies and/or instruments covered in this document, including market making and specialized trading, risk arbitrage and other proprietary trading, fund management, commercial banking, extension of credit, investment services and investment banking. Axis Bank sells to and buys from customers the securities and/or instruments of companies covered in this document as principal or agent.

Axis Bank makes every effort to use reliable and comprehensive information, but makes no representation that it is accurate or complete. Axis Bank has no obligation to inform you when opinions or information in this document change. Facts and views presented in this document have not been reviewed by, and may not reflect information known to, professionals in other Axis Bank business areas, including investment banking personnel. Axis Bank accepts no liability whatsoever for any loss or damage of any kind arising out of the use of the contents in this document. Axis Bank's comments are an expression of opinion. While Axis Bank believes the statements to be true, they always depend on the reliability of Axis Bank's own credible sources.

## **Disclaimer for DIFC branch:**

Axis Bank, DIFC branch is duly licensed and regulated in the Dubai International Financial Centre by the Dubai Financial Services Authority ("DFSA"). This document is intended for use only by Professional Clients (as defined by Rule 2.3.2 set out in the Conduct of Business Module of the DFSA Rulebook) who satisfy the regulatory criteria set out in the DFSA's rules, and should not be relied upon, acted upon or distributed to any other person(s) other than the intended recipient.

**Axis Bank Ltd. is acting as an AMFI registered Mutual Fund Distributor under the ARN code of ARN-0019**