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THIRD TIME UNLUCKY? In the past 5 drought years barring the last markets posted positive returns, but if rain fails & markets fall it could be a 'buying opportunity'

Markets may Not Withstand a Poor Monsoon this Year

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ET Intelligence Group: The past data on the extent of monsoon and the stock market movement shows that the benchmark indices continued to gain even in the years of severe drought. However, this year, experts are concerned whether the broader market would continue to stay unaffected if the monsoon is below normal for the third year in a row given the low reservoir levels and shrinking farm income.

The monsoon accounts for 80% of the country's total rainfall and contributes to more than 50% of water requirements for farming. In the past five drought years barring the last fiscal, markets posted positive returns during June-August period (the peak monsoon period) and in the second half of the calendar year. A drought year is when deviation from normal rainfall is more than 10%. The median return of markets during the monsoon period in the previous five

drought years was 5.4% and the average rainfall deviation was 16.8%, according to the data compiled by ETIG.

There are three key reasons for the rising concern among investors. First, in at least past 50 years, India never faced drought for three consecutive years, which raises uncertainty if monsoon were to falter in 2016.

AGRI CONCERNS

This will be fourth crop produce in a row that will turn cash negative in case of inadequate monsoon

Second, water levels in India's 91 large reservoirs have depleted by one-third from the year ago levels. If monsoon is erratic, it would impact water availability for industrial and agricultural use. Third, a deficient monsoon will compress farmers' income more. In

Want A Good Monsoon

Market Return and Rainfall Deviation

	Rainfall Deviation (%)	Sensex Return (%)	June-Aug	June-Dec
2003	-19.2	0.64	6.84	
2005	-13.8	7.38	36.56	
2010	-21.8	5.57	17.68	
2015	-12.3	7.91	11.40	
2016	-14.3	-5.62	-6.22	
Median return	-16.78	5.37	18.12	

Source: compiled by ETIG



the current year, it will be the fourth crop produce in a row that will turn cash negative for farmers in case of an inadequate monsoon. Nearly half of the country's population is dependent on farm income and it contributes about 18% to the country's GDP. Analysts believe that a fall in equities due to fear of deficient monsoon

would be an excellent buying opportunity. Nomura said in a report, "Even as we are headed into unchartered territory, markets should take rains in their stride and that the ongoing industrial recovery would play a larger role for market returns. Any fall in the market on monsoon concerns would be, therefore, a buying opportunity."

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