



# The Fertiliser Association of India

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## Current News

Current news on the latest developments in fertiliser, energy, weather, agriculture, agri-business, logistics, economy, and other related areas

*(The views expressed in the news items are not necessarily of FAI)*

Thursday, February 02, 2012	
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## **WEATHER**

### **Japanese expert warns of deficit monsoon for India**

A widely respected Japanese researcher-cum-scientist has warned that India might be faced with a deficit monsoon this year. The warning comes from Prof (Dr) Toshio Yamagata, Dean of University of Tokyo Graduate School of Science, and Head of the Application Laboratory of Japan Agency for Marine-Earth Science and Technology (Jamstec).

#### **DEFICIT IN NORTHWEST**

It is not yet known from the forecast, since made available to *Business Line*, the likely extent of deficit. It was as high as 23 per cent during the latest lean monsoon year of 2009. That was also the worst monsoon deficit to be recorded in more than three decades. Dr Yamagata's latest forecast indicates deficit in north-west India, adjoining parts of central India and east-central India during the crucial June to August this year. State-wise, deficits are indicated for almost entire Rajasthan, Haryana-Delhi-west Uttar Pradesh, Andhra Pradesh and adjoining east Maharashtra.

#### **NORMAL FOR SOUTH**

Monsoon rains are indicated to be normal to excess for Jammu and Kashmir, Himachal Pradesh and Uttarakhand in the rest of the northwest; Bihar, Gangetic West Bengal and Orissa in the east; Gujarat in the west; and most of southern peninsula. North-west India, except possibly Uttar Pradesh, will get its share of rains in the September to November period, the forecast says. Deficit is indicated for adjoining east and central India during this period. Once again, southern peninsula is forecast to receive normal to excess rainfall during this latter three-month period.

#### **IOD EXPLAINED**

Dr Yamagata blamed 'an unexpected developing' Indian Ocean Dipole (IOD) for the likely poor performance of the Indian monsoon this year. The Indian Ocean event mimics the El Nino-La Nina phenomena, its mega-sized cousin in the east equatorial Pacific, but has a more immediate impact for Indian monsoon.

The IOD has positive and negative phases. During a positive phase, sea-surface temperatures are comparably high to the west of the Indian Ocean. It has a benign influence on the concurrent Indian monsoon. The situation is exactly reversed in the case of a negative event, when the temperature anomaly shifts to the east and with it associated convection and cloudiness.

#### **MOISTURE ROBBED**

This robs the approaching monsoon current from south-west and west Indian Ocean of the moisture needed to rain down over land. It would also translate into above normal winter rains over Indonesia and Australia, which are currently proving the forecast true. Dr Yamagata said that the ongoing La Nina condition would start decaying from the ensuing summer of 2012. It was this La Nina that helped turn out a successful Indian monsoon last year.

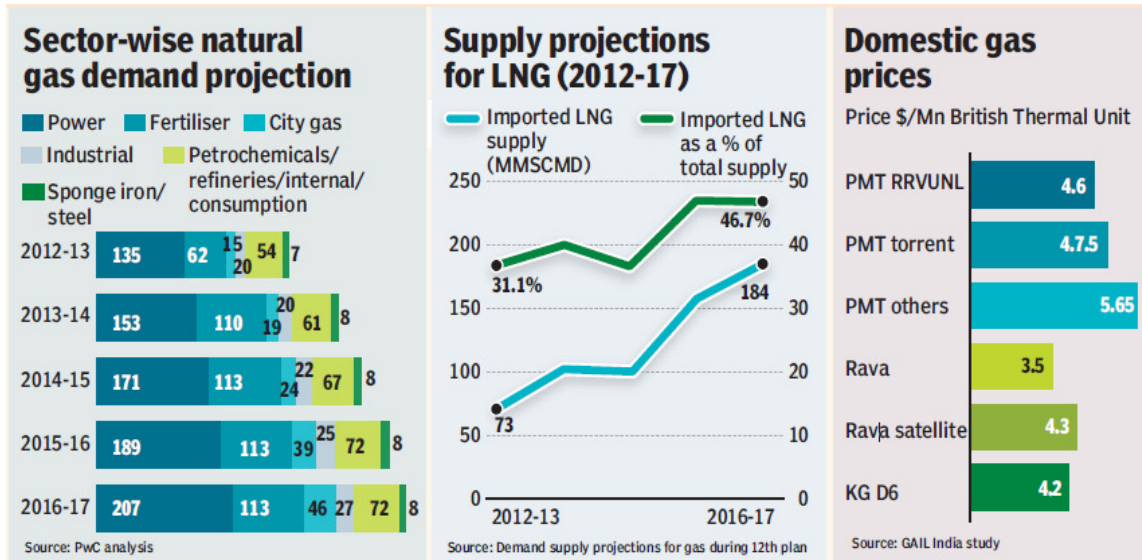
The La Nina would also sustain the colder-than-normal condition over many parts of the world in following seasons. Northern Eurasia and the US will experience warmer-than-normal climate in the spring.

*Source: The Hindu Business Line, Thursday, February 02, 2012*

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## ENERGY

Natural gas to be sold at \$7 in new regime; cheer for Reliance, ONGC



From 2014, the price of natural gas, a key input for many industries including power and fertiliser, will be raised under a new policy regime to \$7 per unit from the current regulated price of \$4.20. The system of a global average price being considered by the government will benefit domestic producers Reliance Industries and ONGC. The new price will be half that of LNG imported from spot markets at present.

With domestic gas output stagnating, the share of imported LNG in the gas pool is bound to rise. Executives from power companies said they are willing to buy gas at this price as it is still cheaper than imported LNG. Fertiliser companies have held the view that the price of \$7 will be viable only if it includes transportation and other costs. The revised price which the government is working on delinks gas price from that of crude oil and benchmarks it to the average of the US and Asian market prices. The average of the price at which natural gas futures contracts are traded on Nymex called the Henry Hub price and that of the Asia Pacific LNG works out to about \$7 per million British thermal units (mmBtu) after adjusting for certain costs.

The proposal was made in the Saumitra Chaudhuri pooling of natural gas which is under the government's consideration. "For gas based projects, the main issue now is availability of fuel. Supply, even at the proposed price (\$7 a unit), will aid faster growth of power generation," said a board-level official at the country's largest power producer NTPC. "The upward revision in price would, of course, mean higher electricity charges for consumers," the official said.

Fertiliser producer Iffco, however, has a different take. The company finds \$7 viable only if it is inclusive of all other costs such as marketing margins and freight charges (delivered price). Right now, the landed price of \$4.20 per mmBtu works out to \$6.50-\$7 including all such charges and it works fine for the company. "However, if the proposed price does not include these, then the delivered price will go up to \$11-12, which is not acceptable," said Iffco managing director US Awasthi. Producers of urea get subsidy on the price-controlled commodity but exceeding the cost of production beyond its import parity price is not viable.

A senior NTPC official said viability of the new price will depend on the willingness of state electricity boards to buy power at the resultant higher price.

Some experts said the proposed gas price sounds competitive compared with the energy cost of new power projects based on expensive imported coal. "Gas price has pass-through status in power and fertiliser sectors; hence, the revised price could be acceptable to these sectors," said Tarun Surana, equity research analyst at Sunidhi Securities & Finance. Imported coal has become more than 100% expensive in the last two years, leading to a jump in power generation costs.

NTPC now produces about 3,600 MW from gas based plants and wants to set up another 10,000MW of capacity including at Kawas and Gandhar which are in legal dispute with Reliance Industries over gas price. Most of the capacity expansion is delayed over lack of gas.

*Source: The Financial Express, Thursday, February 02, 2012*

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## **FERTILISER**

### **India pushes for long-term fertiliser deal with Belarus**

India is keen on entering into a long-term agreement with Belarus to secure supplies of potash fertiliser, while domestic pharmaceutical companies can set up joint-ventures in Belarus, minister of commerce and industry Jyotiraditya M Scindia said.

Scindia, who is on an official visit to the eastern European country, discussed the issue with its Prime Minister Mikhail V Myasnikovich on Tuesday, an official release said. "India has world renowned capacity in producing low-cost, high-quality bulk and generic drugs," the statement said. "Supply of such drugs and investment in producing pharmaceutical products in Belarus through joint ventures by Indian companies will provide win-win situation for both countries."

Belarus imports nearly 70% of its pharmaceutical requirements. "It will also help fulfill Belarus' target of domestic production of 50% of all drugs required," the statement said. On fertilisers, Scindia said it is currently the main item of export from Belarus to India. "India is interested in setting up a joint-venture in Belarus for production of potash fertiliser," he said.

Belarus is one of the largest producers and suppliers of potash. Potash is the main import item of India from Belarus. Scindia, accompanied by senior officials, led the Indian delegation at the fifth session of the India-Belarus Inter-Governmental Commission (IGC) for economic, trade, industrial, scientific, technological and cultural cooperation at Minsk.

*Source: Hindustan Times, Wednesday, February 01, 2012*

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## Why the Fertilizer Space Remains a Good Bet - Neha Chamaria

From production cuts to falling crop prices, a flurry of recent developments and news has left the fertilizer space in the lurch. Many believe it's going to be a tough ride for fertilizer stocks now. I second that, but only partially.

Most of the issues that have cropped up seem to have bearing only in the short term. I believe the fertilizer industry remains a good bet in the longer run. Here's why.

### Temporary hiccups

The first event that caught many off guard was the announcements of production cuts by chemical majors **PotashCorp** (NYS: POT) and **Mosaic** (NYS: MOS) . After temporarily shutting down two facilities, PotashCorp plans to close its third potash mine in Saskatchewan for four weeks in February. Mosaic is reducing its phosphate production in the next three months, citing cautious buyer behavior and oversupply in the market as reasons.

The interesting thing is that these very companies are expecting bumper demand -- Potash forecasts record potash industry shipments in 2012, and Mosaic expects record phosphate demand for the full year. They are also expanding in a big way. So I'm not reading much into the cuts, as the outlook for the longer term remains upbeat.

### Emerging economies to fuel growth

The other factor that strengthens my bullish stance is the rising demand for fertilizers in developing nations. Canpotex -- the three-member cartel of Potash, **Agrium** (NYS: AGU) , and Mosaic that controls the export of potash from Saskatchewan-- had a rocking 2011, with India and China signing deals at high rates.

Here too, there has been a small hiccup, as India says it will refrain from signing new potash contracts until July owing to enough inventories in hand to meet current needs. This may slow down the order flow for Canpotex, but only for a short while. India will need more fertilizers as crop production in the country goes up in tandem with the burgeoning population. Additionally, India might reintroduce state control on fertilizer prices (primarily for potash and phosphate), which is likely to boost usage and hence exports to the country.

### It's a full circle

The biggest challenge for fertilizer companies probably is a dip in crop prices -- something we are already witnessing after the U.S. Department of Agriculture came out with its latest report on higher stockpiles of essential crops. A lower crop price realization may make farmers overlook or delay fertilizer application. Yet demand for crops like corn (which needs a lot of nutrients) is likely to stay put as it is a staple food item and is used both for livestock feed and for producing ethanol. And let's not forget that corn is a big export commodity. China's biggest-ever purchase of 900,000 metric tons of American corn last year was proof of the crop's surging demand. No wonder, then, that major nitrogen players **Terra Nitrogen** (NYS: TNH) and **CF Industries** (NYS: CF) have predicted record corn plantations this year.

Growing global population and rising spending power (especially in the emerging nations) should keep the demand for fertilizers firm. Add unfavorable weather (like the kind Argentina -- the second-largest corn exporter in the world -- is currently facing) to the equation and we may again see less-than-expected yields pushing up prices.

### **The Foolish bottom line**

Fertilizer makers performed superbly last year, although their stock prices proved laggards. Fear seems to be holding these stocks back, but I see no reason for panic as we'll need fertilizers as long as crops are grown, and crops will be grown as long as we need to feed ourselves.

*Source: Daily Finance, Thursday, February 02, 2012*

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## **AGRI-BUSINESS**

### **Rice may extend decline as supply increases, says FAO**

Rice prices will probably extend a decline in the coming months as demand for imports weakens, while supplies and reserves expand, according to the United Nations' Food & Agriculture Organization.

The global milled-rice trade may drop 5% to 32.8 million tonnes in 2012 from a record 34.5 million tonnes in 2011 on improved crop prospects in key importers, the FAO said in a statement today, without giving a precise price forecast. Imports may drop in Bangladesh, Indonesia, Nepal, Nigeria and the Philippines, the Rome-based agency said.

Lower prices of the staple for half the world may extend a decline in global food costs, which have lost 11% since reaching a record last February, according to an index compiled by the FAO. The FAO Rice Price Index fell 7% from October to the end of January on competition among exporters, it said.

"The downward trend in rice prices is expected to persist in coming months as demand continues to weaken, and harvests in Northern Hemisphere countries and those along and south of the equator add supplies," the FAO said in the statement. The price of 100% grade-B white rice from biggest shipper Thailand, a benchmark grade, was set at \$546 per tonne on January 18, 18% below a three-year high on November 16. Prices have dropped after India ended a ban on non-basmati shipments.

Exports from India may increase after the lifting of the ban, while a government program in Thailand to buy rough rice at above-market rates is likely to cut shipments from that country, the FAO said in the statement.

Global unmilled output may climb 3% to 721 million tonnes in 2011-2012, equivalent to 481 million tonnes of milled rice, it said. The gain was driven by bigger harvests in Bangladesh, China, India, Pakistan and Vietnam, that beat falls in Indonesia, Japan, Myanmar, Thailand, Europe and the US, it said.

Total rice inventories may climb by 10 million tonnes to 151 million tonnes, it said. That's enough to cover 32% of projected global demand, the agency said. World food prices fell in the last quarter and may continue to drop this year as supplies increase, the World Bank said yesterday. The prospects for a decline in 2012 prices are favorable, the bank said in its Food Price Watch publication.

*Source: The Financial Express, Thursday, February 02, 2012*

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## **ECONOMY**

### **Economists call for cut in oil, food and fertiliser subsidies**

#### **Prescriptions**

- **Economists also suggested decontrol of diesel prices, levy higher excise duty on diesel cars**
- **Move to hike duty on diesel cars has been opposed by car makers like Mercedes Benz**
- **Some experts pushed for organised retail that will help in containing the prices of food items**

With fears of fiscal deficit overshooting to 5.5 per cent of GDP, economists on Wednesday pitched for cut in oil; food and fertiliser subsidies mobilise higher revenues and make investments more attractive in the forthcoming budget to revive sagging economic growth. Economists also suggested decontrol of diesel prices, levy higher excise duty on diesel cars and use cash transfer system to distribute subsidies directly to the beneficiaries among others.

The move to hike duty on diesel cars has however been opposed by some diesel car makers like Mercedes Benz saying such a move was unwarranted as diesel cars consumed less than 5 per cent of total fuel consumption in the country. At a pre-budget meeting with finance minister Pranab Mukherjee on Wednesday, economist like M Govinda Rao of NIPFP said the government should increase taxes and rollback cut in excise duty done in 2009 as part of fiscal stimulus to minimise the impact of global crisis on growth.

Some other economists like Rajiv Kumar of Ficci did not want a rollback of excise duty cut saying this would act as a dampener for fresh investment to pump-prime the economy. One E way forward to reverse the falling tax-GDP ratio was to introduce e list in service tax to negative list in service tax to widen the service tax base, implement some elements of direct tax code on capital gains tax and wealth, abolish Securities Transaction Tax and reforms in tax administration system. The tax-GDP ratio has fallen from 12 per cent to 10 per cent in recent years.

Other economists included Surjit Bhalla from Oxus Research & Invests., Nitin Desai, Bharat Ramaswamy, ISI, Delhi, Ajit Ranade, Aditya Birla Group and Rohini Somanathan, Delhi School of Economics. FM said that the current year was a challenging one, as we had to face the problem of inflation, fiscal deficit and maintenance of sustainable and inclusive growth. But "we are hopeful that by the end of March, headline inflation will be between 6 and 7 per cent while the growth rate may be around 7 per cent plus," he told the economists.

The economists said the primary task of this year's Budget should be to restore a sense of confidence among the investors both domestic and international in India's growth story. The message of fiscal consolidation should be sent through the budget and wanted expenditure on populist measures be reduced and the leakages of funds in implementing them be curbed. Certain participants suggested that mega projects that are held up for long might be cleared especially relating to power, mining and steel to send a positive signal to the corporate world. APMC Act may be amended and perishable commodities such as fruits and vegetables be taken out of its purview. Many experts suggested high expenditure on health and education sector.

Some experts pushed for organised retail that will help in containing the prices of food items and infrastructure status to aviation sector and housing among others.

*Source: Financial Chronicle, Thursday, February 02, 2012*

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## **Govt raises cash-credit limit for FCI**

The government has finally raised the cash-credit limit of Food Corporation of India (FCI), the country's premier grain procurement agency, by Rs 10,000 to Rs 44,000 crore. This would help the Corporation access funds more easily from banks.

The earlier limit of Rs 34,000 crore was inadequate as grain procurement touched record levels. This also led to delay in the payment of state-mandated minimum support price (MSP) to farmers in several places. The decision came along with speedier allocation of food subsidy.

The food ministry has long been pressing the finance ministry to raise the FCI's cash-credit limit to help it access funds easily from banks. "At present, we are not under any financial stress," said chairman Siraj Hussain, indicating the raised cash-credit limit and release of pending food subsidy had helped improve its position.

A consortium of 44 banks, led by the State Bank of India, provided the cash-credit limit. The Corporation's authorised and paid-up capital is Rs 2,500 crore. It was not allowed to borrow more than 10 times its capital and reserve fund.

Officials said banks charge penalty above Rs 35,000 crore of credit and if FCI overdraws, then interest outgo shoots up. FCI's fund crunch increased in recent years as the government's annual procurement of grains rose manifold, which correspondingly pushed up the storage, warehouse and handling charges.

As on January 1, the government had 56 million tonnes of grain in its warehouses, much above the buffer and strategic requirement of 25 million tonnes. In the 2011-2012 Budget, the food subsidy has been estimated to be Rs 60,085 crore.

The fund requirement of FCI and state procuring agencies also shot up due to factors such as announcement of bonus incentive of Rs 50 per quintal for wheat, raising the MSP of paddy by Rs 80 per quintal and additional foodgrain allocations for above poverty line and below poverty line families, apart from record procurement.

*Source: Business Standard, Thursday, February 02, 2012*

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**FOREIGN EXCHANGE RATES – Wednesday, February 01, 2012**

Currency Name	Buy (₹)		Sell (₹)	
	TT	Bill	TT	Bill
Dollar	49.34	49.37	49.24	49.23
Euro	64.77	64.81	64.65	64.63
Pound Sterling	77.76	77.80	77.62	77.60
100 Yen	64.85	64.89	64.69	64.67

*Source: The Hindu Business Line, Thursday, February 02, 2012*

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