Monsoon forecasts: Likely to be near normal but uncertainties remain

- Indian Meteorological Department has forecast ‘near-normal’ monsoons for India in 2019 with the seasonal rainfall expected to be 96% of Long Period Average (LPA) with a model error of +/- 5%
- The risk from El-Nino remains but the intensity is likely to weaken in the latter part of the monsoon season
- Further clarity will emerge with the Second-Long Range Forecast which is due in June 2019

Indian Meteorological Department (IMD) has published their forecast for southwest monsoon 2019. The forecast suggests that India will have a ‘near-normal’ monsoon this year with the seasonal rainfall expected to be 96% of LPA (with a model error of +/- 5%). The Long Period Average (LPA) refers to the average rainfall over the last 50 years. However, private weather forecasting agency, Skymet, gave its forecast earlier this month, pegging the monsoons as ‘below normal’ with the seasonal rainfall likely to be 93% of LPA (with an error of +/- 4%). Also, according to the IMD forecast, the probability for southwest monsoon to be near and above normal monsoon is 51%.

<table>
<thead>
<tr>
<th>Category</th>
<th>Rainfall Range (% of LPA)</th>
<th>Forecast Probability (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deficient</td>
<td>&lt; 90</td>
<td>17</td>
</tr>
<tr>
<td>Below Normal</td>
<td>90 - 96</td>
<td>32</td>
</tr>
<tr>
<td>Near Normal</td>
<td>96 -104</td>
<td>39</td>
</tr>
<tr>
<td>Above Normal</td>
<td>104 -110</td>
<td>10</td>
</tr>
<tr>
<td>Excess</td>
<td>&gt; 110</td>
<td>2</td>
</tr>
</tbody>
</table>

*Source: IMD, ICICI Bank Research*

One of the key factors affecting Indian monsoon is El-Nino, which is a climate pattern that describes the unusual warming of surface waters in the eastern tropical Pacific Ocean. The El-Nino effect has a negative impact on Indian monsoons. The intensity is likely to be stronger in the initial months and may fade in the latter part of the season. However, there is some disparity between the two bodies on the relative strength of the El Nino occurrence. While IMD, on one hand, believes that there are weak El-Nino conditions prevailing over the Pacific Ocean, Skymet expects the same to be moderate.

Meanwhile, Australian Bureau of Meteorology in their latest forecast predicted that the chances of El-Nino developing are 70%. However, recent reports suggest that the sea surface temperature (SST) anomalies are warmer than average across the tropical Pacific Ocean but has cooled slightly in the west Pacific Ocean, for the week ending 14th April, 2019. Hence, as of now, only three out of their eight models predict the El-Nino. This implies that the El Nino phenomenon, if present, would probably be short lived and weak.

Another phenomenon of relevance is the Indian Ocean Dipole (IOD). This is an irregular oscillation of sea-surface temperature, in which the western Indian Ocean becomes alternately warmer and then colder than the eastern part which becomes beneficial for monsoon. The IOD conditions are neutral right now. Also, IOD conditions are expected to remain positive to neutral during monsoon which the IMD believes will offset somewhat the shortfall in the second half of the monsoon season.
As widely tracked as the Indian monsoons are, the relationship between food prices and rainfall are no longer as robust as earlier. As seen in the graph below, even though rainfall has been suboptimal over the past few years, food prices have declined consecutively over the same period. Food inflation would have declined on account of multiple reasons, some of them are the rise in food grain stock, excess supply, fall in global food prices and better open market operations for food stocks.

The ‘near-normal’ forecast for monsoon does not yet paint a clear picture for 2019, because even if rainfall is in the estimated range, the spatial and temporal distribution will be a key factor in deciding the actual impact of the monsoons. As seen over the last few years, even though the central region receives plenty of rainfall the north-east receives deficient rainfall. Also, the intensity with which the region receives rainfall varies greatly across India.

Nearly 200 districts had reported drought like situation in 2018, which brings the importance of spatial distribution into sharper focus. Also, mid-June to August is the crucial period when kharif crops (the Indian summer crops) are sown, and El-Nino’s impact is forecast to be stronger in that period, which could result in a delay in sowing or suboptimal food grain production.

Thus, as a lot of uncertainties cloud the monsoon outlook even after the latest forecast, further clarity will be available only after the release of the second IMD forecast which is scheduled in June. Also worth watching would be the next outlook on El-Nino by the Australian Bureau of Meteorology (due in May), which will give a better view on monsoons. Food prices in CPI have started to rise although the increase has been more pronounced in WPI. We expect this trend to continue although core inflation is likely to offset the impact. We expect overall CPI to average ~3.9% YoY for FY2020. We do not rule out further accommodation by the Monetary Policy Committee although action would be data dependent and outcomes of monsoons, trajectory of food and fuel and fiscal situation would be important to monitor.
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