

EXPECTATIONS FROM UNION BUDGET 2017-18 IN COMMODITIES MARKET



COMMODITIES

PRE-BUDGET EXPECTATIONS FOR COMMODITIES MARKET

The countdown has begun for the Union Budget 2017-18. It will be presented on 01st Feb 2017. This time budget will be announced one-month in advance, instead of the traditional practice of declaring it on last day of February. The whole idea of advancing annual financial plan is to complete the spending and tax proposals before beginning of next fiscal.

After a brief disruption arising out of demonetization, the market is expected to come on track in the first half of 2017. On the other hand, the Union Budget may provide further hints on government steps to curb black money and more importantly widen the tax payer base, rather than increasing burden on the existing tax payers. Expectations are running high and have created a buzz among all the stakeholders. Implementation of GST will also give higher impact on the commodities market.

Commodity markets expectations

- Demanding for CTT to be abolished as transactions in Indian commodity markets, to boost volumes.
- To allow banks and mutual funds to participate in the commodity futures segment as this will increase the depth of the market.

Bullion industry expectations

- The All India Gems and Jewellery Trade Federation (GJF) have recommended that the Finance Minister increase the mandatory PAN card limit to Rs 5 lakh and above. It has also urged the government to reduce import duty on gold to at least 5 per cent in the Union Budget 2017-18.
- Jewellers should be enabled sell the Ashoka Chakra Gold coins launched by the prime minister through their retail stores.
- The All India Gems and Jewellery Trade Federation (GJF) have also recommended Goods and Services Tax (GST) at 1.25 per cent for the gems and jewellery sector, so that it helps the industry become compliant and organised.
- Gems and jewellery industry has also recommended that the difference between import duty of raw material (gold & silver) and finished jewellery (gold & silver) to be maintained at minimum 10 per cent.
- Expectation of the formation of domestic council for the sector to address various issues pertaining to the industry, including generation of reliable database and regulation of fair trade practices and to help the government in forming industry friendly policies for trading and manufacturing.
- The high import duty on gold bullion at 10 per cent has been adversely affecting the industry. This has built a parallel economy, leading to wide scale gold smuggling. It is also affecting domestic retail and manufacturing industry adversely. Bringing down duty to at least 5 per cent will eliminate the grey market.
- Given that the government will have to implement GST this year, there lies high probability that this budget will at least realign rates to facilitate GST transition. Given that GST rates expected to be 4% or 5% for gold, an import duty of 6% will make a total of 10-11%, which matches the current levies on gold. Hence, there is a rationale to lower duties to enable a swift transition to GST.

EXPECTATIONS OF COMMODITIES MARKET FROM UNION BUDGET 2017-2018

Base metals industry expectations

- Given the structural constraint of non-availability of copper concentrate, Indian producers set up custom copper smelters (similar to the business models of China, Japan and Korea) based on imported concentrate. Nearly 90% of the requirement for copper concentrates is met through imports. Also, Indonesia has recently imposed a ban on the export of copper concentrate which was later replaced with massive export tax to discourage export from Indonesia. Similarly the other exporting country like Democratic Republic of Congo is also taking steps to ban export of copper concentrate. Hence, it is recommended that copper concentrate be exempted from basic customs duty to ensure domestic availability of copper concentrates.
- In view of the rising imports and considering the excess capacity in Indian refined copper industry, it is recommended that the Basic Customs Duty on copper products be increased from 5% to 10%.
- Recommendation for the imposition of export duty on alumina at 5% ensuring its domestic availability for aluminium production. Simultaneously, we also recommend for removal of import duty on alumina

Expectations for agriculture sector

- In Budget 2017-18, the government should spell out a mechanism for doubling the nominal income of farmers and all primary producers in the rural sector in three years. Enact a Farmers' Income Guarantee Act to tackle long-term agricultural crisis.
- The Income Guarantee Act should spell out the mechanism for ensuring and achieving income guarantee for all farmers. Such a mechanism should have the prices should be remunerative, its benefits should be available to all farmers, it must cover farmers against all forms of crop loss and price deficiency.
- Govt. should adequately address all fundamental and structural issues relating to agriculture and all segments of rural primary production, there has to be substantial increase in allocation for agriculture, especially to implement the proposed income guarantee scheme.
- This budget, there should be a clear prioritization for minor irrigation projects and watershed development, with the aim of providing protective irrigation to irrigated dry crops in rainfed areas. The rainfed areas which constitute 60% of the cultivated area are most distress-prone. Watershed investments need full attention and cannot be scaled down in any way.
- Union Budget should ensure that tenant farmers or lessee farmers get access to bank loans on high priority, Bhoomiheen Kisan Credit Scheme and NITI Ayog report highlighting the need to support lessee farmers, there should be a 'Credit Guarantee Fund' to increase the bankers' confidence in lending to non-land owning licensed cultivators, both as individual farmers and in joint liability groups.
- Government should provide investments into working capital, decentralized storage infrastructure, processing and value addition facilities for farmer collectives, for more direct and branded marketing by producer collectives etc.
- It is projected that low interest loans, subsidies, etc., could be included in the budget to move the focus of farmers towards high-value agricultural products and away from the traditional rice-wheat cropping systems.
- Reports of wastage in commodities have been reported regularly & our country needs more investments in the warehousing sector. In this context, exemption of Service tax on warehousing services for all processed commodities will help in reducing costs.
- Interest subvention schemes would be continued with a higher budgetary allocation. The measures may include continuing with a scheme to grant concessional loans to farmers, incentives for states to automate Primary Agricultural Credit Societies (PACs) and higher allocations to the National Bank for Agriculture and Rural Development.
- A boost to using technology across the value chain of the farm cycle is expected. This may include using technology and IT systems to adopt high-yield and resistant seed varieties, utilise water for irrigation efficiently, and adopt modern farming

EXPECTATIONS OF COMMODITIES MARKET FROM UNION BUDGET 2017-2018

practices (crop rotation, phase sowing, drip irrigation, harvesting, etc.).

- Free e-NAM from bondage of APMC market yards and allow trading hubs (with minimum prescribed criteria) to be created at Gram Panchayat/village haat level, linked to e-NAM portal. This will unleash a marketing revolution in the country and create huge employment potential in rural areas.
- To promote efficiency in procurement operations the Government of India (GOI) has recently announced a new policy of engaging private sector players for Eastern states. The same should be extended for pulses procurement where GOI has announced its policy for creation of a buffer stock for 2 million MT of pulses.
- The Customs Duty Differential between Crude Oils and Refined Oils should be minimum 15% which will immediately help in increased refining of vegetable oils in domestic market and reduce imports of Refined Oils, thereby reducing outflow of the incremental FOREX. Increased Vegetable oil refining in domestic market will also result in to increased production of refining by-products like Fatty Acids Distillate (viz. PFDAD from Palm Oil) which are used for the production of Oleochemicals and Toilet Soaps. This will also help the local industry to source these raw materials at competitive prices.
- It is expected that farmers might get some additional benefits as well as greater access to cashless transaction modes so that they can purchase seeds, fertilizers and other agricultural essentials with greater ease.
- Overall, the budget this year is broadly expected to focus on increasing budgetary allocations for agri-development.
- Adequate and timely provision of subsidy for both urea and NPK fertilisers, given the large backlog of subsidy outstanding.
- Further rationalisation of subsidy for NPK fertilisers, given the decline in international prices of key raw materials and fertilizers.
- Measures to help improve growth rate of agriculture such as investments in irrigation projects, management of soil health and better availability of farm credit.

This budget is expected to take up issues like agricultural policy, farmers' income, minimum support price, and measures to mitigate the effects of demonetisation.

SMC Global Securities Ltd. (hereinafter referred to as "SMC") is regulated by the Securities and Exchange Board of India ("SEBI") and is licensed to carry on the business of broking, depository services and related activities. SMC is a registered member of National Stock Exchange of India Limited, Bombay Stock Exchange Limited, MSEI (Metropolitan Stock Exchange of India Ltd.) and M/s SMC Comtrade Ltd is a registered member of National Commodity and Derivative Exchange Limited and Multi Commodity Exchanges of India and other commodity exchanges in India. SMC is also registered as a Depository Participant with CDSL and NSDL. SMC's other associates are registered as Merchant Bankers, Portfolio Managers, NBFC with SEBI and Reserve Bank of India. It also has registration with AMFI as a Mutual Fund Distributor.

SMC is a SEBI registered Research Analyst having registration number INH100001849. SMC or its associates has not been debarred/ suspended by SEBI or any other regulatory authority for accessing /dealing in securities/commodities market.

The views expressed by the Research Analyst in this Report are based solely on information available publicly available/internal data/ other reliable sources believed to be true. SMC does not represent/ provide any warranty expressly or impliedly to the accuracy, contents or views expressed herein and investors are advised to independently evaluate the market conditions/risks involved before making any investment decision. The research analysts who have prepared this Report hereby certify that the views /opinions expressed in this Report are their personal independent views/opinions in respect of the subject commodity.

DISCLAIMER: This Research Report is for the personal information of the authorized recipient and doesn't construe to be any investment, legal or taxation advice to the investor. It is only for private circulation and use. The Research Report is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon as such. No action is solicited on the basis of the contents of this Research Report. The Research Report should not be reproduced or redistributed to any other person(s) in any form without prior written permission of the SMC. The contents of this material are general and are neither comprehensive nor inclusive. Neither SMC nor any of its affiliates, associates, representatives, directors or employees shall be responsible for any loss or damage that may arise to any person due to any action taken on the basis of this Research Report. It does not constitute personal recommendations or take into account the particular investment objectives, financial situations or needs of an individual client or a corporate/s or any entity/s. All investments involve risk and past performance doesn't guarantee future results. The value of, and income from investments may vary because of the changes in the macro and micro factors given at a certain period of time. The person should use his/her own judgment while taking investment decisions.

Please note that SMC its affiliates, Research Analyst, officers, directors, and employees, including persons involved in the preparation or issuance of this Research Report: (a) from time to time, may have long or short positions in, and buy or sell the commodity thereof, mentioned here in or (b) be engaged in any other transaction involving such commodities and earn brokerage or other compensation or act as a market maker in the commodities discussed herein(c) may have any other potential conflict of interest with respect to any recommendation and related information and opinions. All disputes shall be subject to the exclusive jurisdiction of Delhi High court. All disputes shall be subject to the exclusive jurisdiction of Delhi High court.