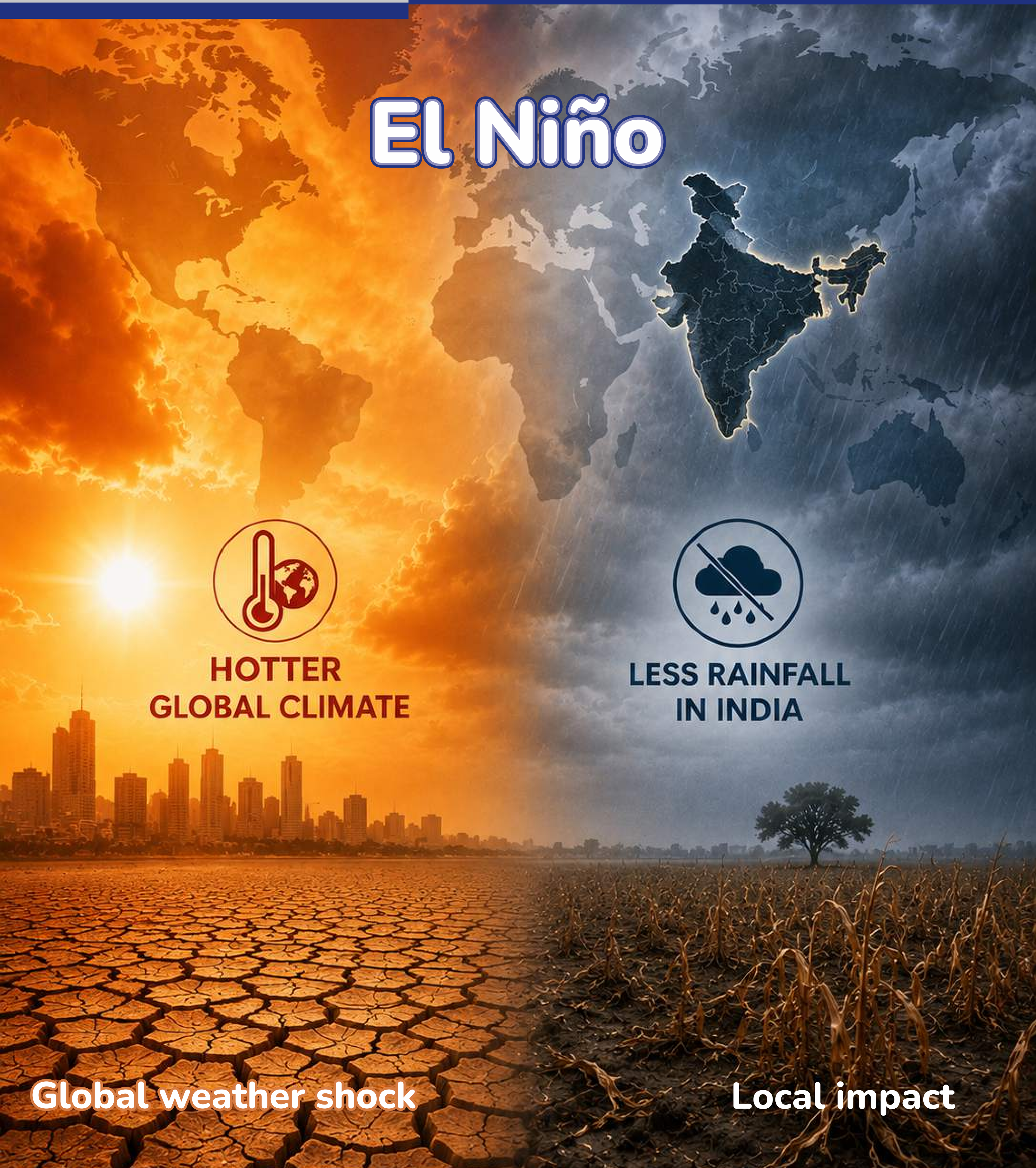
July 09, 2026

India | ECONOMICS
Thematic Research

JM Financial

El Niño



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El Niño

Global weather shock; local impact

As global and domestic meteorological agencies forecast an intensification of El Niño conditions in 2026, we evaluated its potential impact on the Indian economy by analysing trends in 13 key metrics over the last two and a half decades. Our assessment revealed that the disruptive impact was most evident in the agri segment, which forms 18% of the economy. Tractor sales were most sensitive to El Niño conditions, while credit offtake by micro and medium enterprises dropped significantly. On the positive side, 2W sales, FMCG volumes and credit growth remained resilient during El Niño periods. Although India's food situation remains comfortable, rabi sowing in rainfed states like MH, KL, RJ, MP, KA, CH and northeastern states will remain vulnerable. If the renewed hostilities in West Asia do not sustain, we expect GDP growth to moderate to 6.5–6.7% in FY27 and do not foresee any rate hikes by the RBI in 2026.

- **Brace for hot temperature, less rainfall**: Global weather agencies are forecasting hotter and drier climatic conditions and assign a 90% probability that the event will persist through late 2026 and into early 2027. This broader warming trend due to climate change is evident in the intense early-summer heatwave across Europe and large parts of the US. The monsoon season started in India with a (-39.8%) negative deviation from normal in Jun'26, and considering the expectation of 'below normal' rainfall in the crucial agricultural window of Jul'26, the deficit in rainfall is unlikely to be fully eliminated. Moreover, 'neutral' Indian Ocean Dipole (IOD) leaves no scope for a cushion against the Pacific El Niño.

- **Disruptive impact on agri economy and MSMEs:** Our assessment of the impact of weather conditions on the Indian economy across 13 parameters in the last 2.5 decades indicates that El Niño has a profound impact on India's agriculture economy (18% of GVA). Growth in agri GVA was flat in El Niño years, while it was ~350bps weaker versus La Niña years, on average. Its severe impact was evident in deficit rainfall, decline in kharif sowing, fall in food production and uptick in food inflation versus during La Niña episodes. Tractor sales were most sensitive to El Niño conditions, recording substantially weaker sales growth in comparison to La Niña periods. Even as overall credit growth improved during El Niño periods, credit offtake by micro and medium enterprises fell significantly during El Nino periods, reflecting the vulnerability of this segment to weather-related shocks.

- **Constructive impact on 2W, FMCG volumes and credit growth**: In addition to the disruptive impacts, our assessment threw up some positive aspects as well. Firstly, growth in two-wheeler (2W) sales during El Niño periods outpaced that during La Niña years by a wide margin. This is contrary to conventional wisdom, which associates 2Ws with the rural economy and, hence, expects negative impact of severe weather conditions in that segment. Secondly, we observed that volume growth in the FMCG category is slightly better during El Niño years; however, it is the neutral years that reported significant improvement in volumes. Thirdly, there was a noticeable improvement in credit growth in El Nino years, which was mainly led by consumer durable and gold loans. Moreover, high temperature increased power demand.

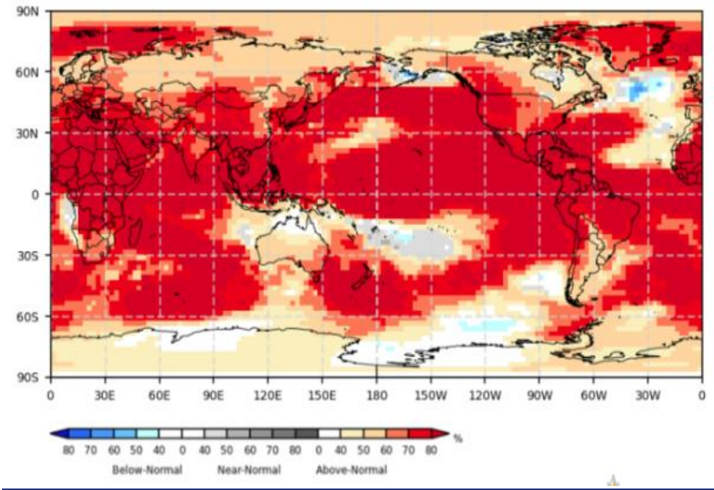
- **Rabi sowing in rainfed states at risk**: India's comfortable position on foodgrain production and stock would ensure availability and keep a check on prices. Moreover, fertiliser stock also exceeds buffer requirements. The government's contingency plans should ensure sowing is carried out at the right time, and of appropriate seeds, especially in 47.3% of India that is rainfed. Reservoir levels have depleted below LPA; hence, the impact of deficient rainfall will be felt in states with insufficient irrigation cover. We observed that in addition to the northeastern states, large states like Maharashtra, Kerala, Rajasthan, MP, Karnataka and Chhattisgarh are vulnerable to deficient rainfall. Rabi sowing will be at risk in these states.

- **Base case – Growth moderates; no rate hikes**: Considering the impact on Agri GVA, we estimate a downside scenario in which growth moderates to 6.5–6.7% in FY27 versus 6.9–7% post the ceasefire between US and Iran. Except for the recent spike, crude oil price fell +35% from its peak, easing inflation expectations globally and reflecting in softening yields. In our view, market expectations of a rate hike by the US Fed as early as Sep'26 is premature and likely to be pushed further. As of now, we are not factoring in a rate hike by the RBI in 2026. We expect domestic yields to bottom out at current levels while expecting a shallow appreciating bias in the INR, on the back of debt inflows. However, renewed hostilities in West Asia would add upside risk to inflation and further downside risk to our growth expectations.

Hitesh Suvarna
hitesh.suvarna@jmfl.com | Tel: (91 22) 66303351

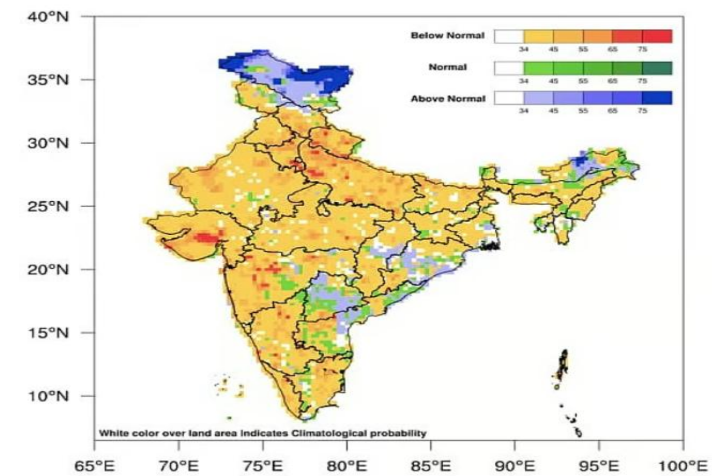
Story in charts

Exhibit 1: Global temperature pattern expected during Jul-Aug'26



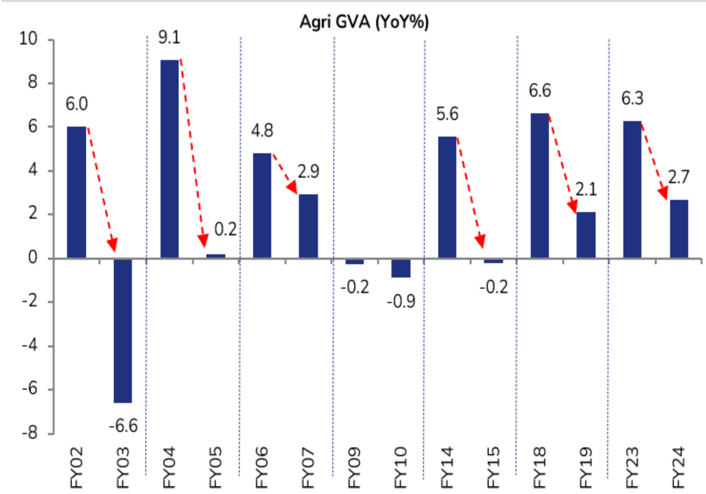
Source: WMO, JM Financial | Probabilistic Multi-Modal Ensemble Forecast for period July-Aug

Exhibit 2: Rainfall forecast for Jun-Sep'26



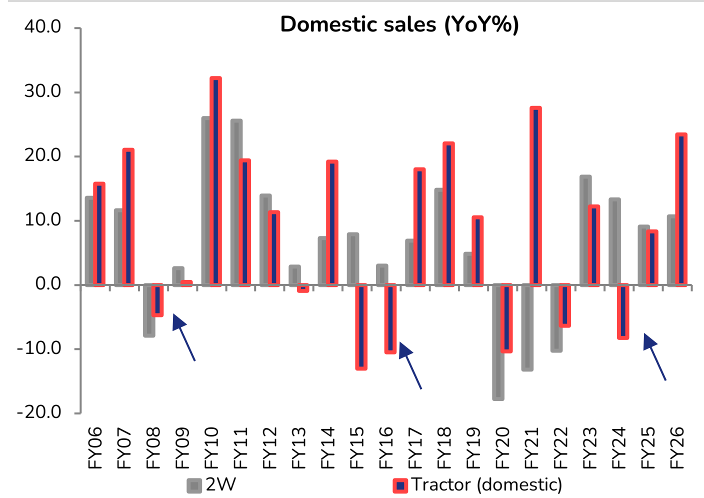
Source: IMD, JM Financial

Exhibit 3: Agri GVA fell 350bps on average in El Niño years



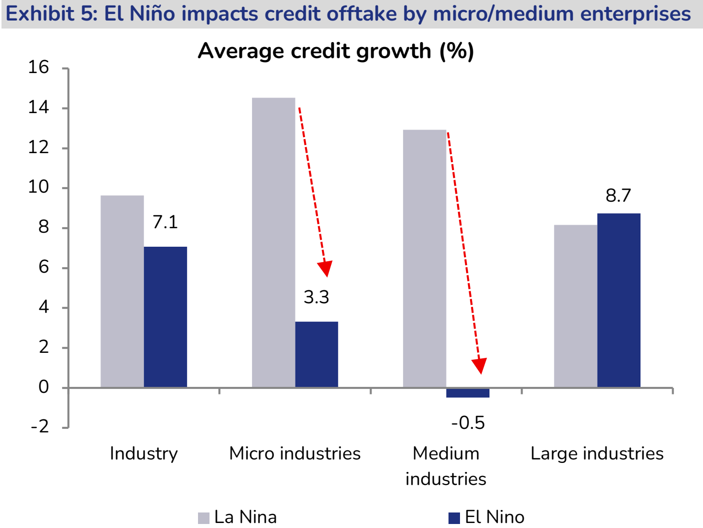
Source: CMIE, JM Financial

Exhibit 4: Tractor sales more sensitive to El Niño versus 2W sales



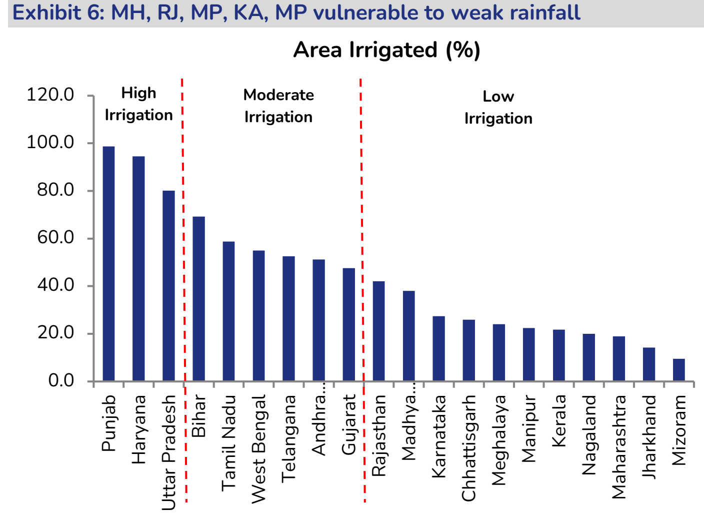
Source: CMIE, JM Financial

Exhibit 5: El Niño impacts credit offtake by micro/medium enterprises



Source: CMIE, JM Financial

Exhibit 6: MH, RJ, MP, KA, MP vulnerable to weak rainfall



Source: Ministry of Agriculture and Farmers Welfare, JM Financial | Data pertains to 2022-23

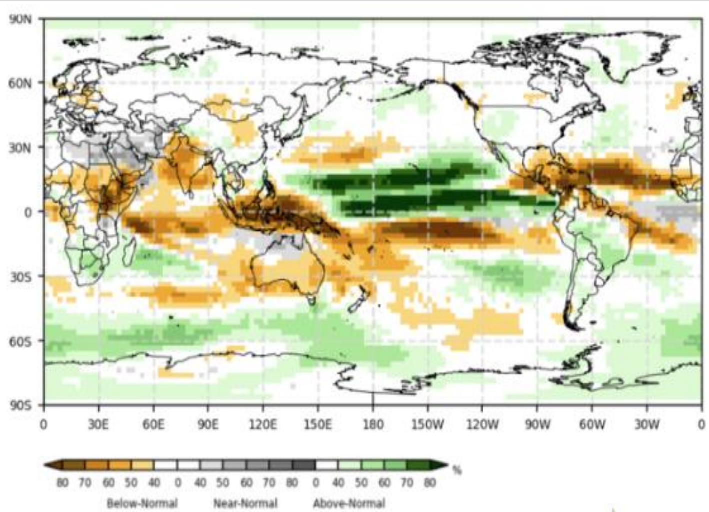
El Niño: Global economy feeling the heat

The El Niño episode in 2026 has entered a pronounced intensification phase, marking a material shift in the global climatic outlook. Leading meteorological agencies, including the World Meteorological Organisation (WMO) and the National Oceanic and Atmospheric Administration (NOAA), assign a *90% probability that the event will persist through late 2026 and into early 2027*. Sea surface temperature anomalies across the equatorial Pacific calculated by the Nino 3.4 Index reached +1.7°C by mid-Jun'26, consistent with a moderate-to-strong El Niño. The current trajectory suggests an elevated probability of further strengthening, raising the risk of the event evolving into a disruptive "Super El Niño" with potentially significant implications for global weather patterns, agricultural output, commodity prices, and macroeconomic conditions.

Europe and large parts of the US are experiencing an intense early-summer heatwave, driven by a combination of a strengthening El Niño, persistent high-pressure "heat dome" systems, and the broader warming trend from climate change. Temperatures have exceeded 40°C across parts of Spain, Portugal, Italy and France, while several US states have recorded temperatures above 38°C. The extreme heat has boosted electricity demand, heightened wildfire risks, and raised concerns over agricultural output and labour productivity. From a macroeconomic perspective, prolonged heatwaves could intensify food and energy inflation while disrupting economic activity through climate-related supply-side shocks.

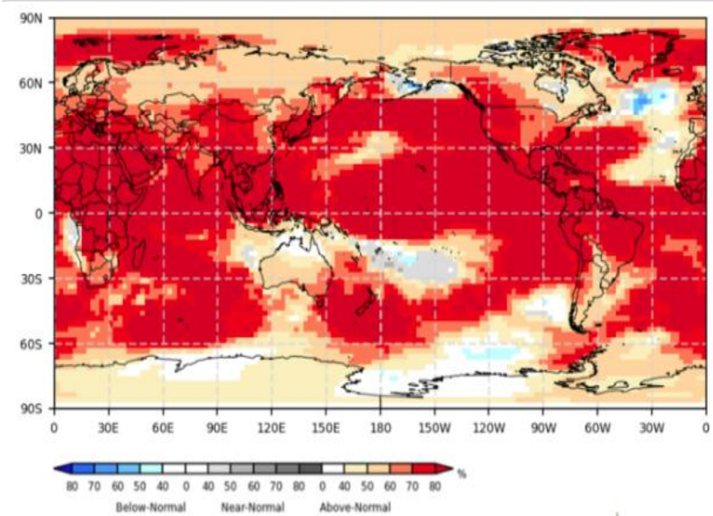
Unlike Europe and the US, India has not witnessed widespread extreme heat in recent weeks as the advancing southwest monsoon has moderated temperatures across several regions. However, the monsoon has had a weak start, with Jun'26 rainfall ending 39.8% below normal, making it the fifth-driest June since 1901, while the *IMD has forecast rainfall in India to be below 94% of the Long Period Average (LPA)* in Jul'26 as El Niño conditions strengthen. The delayed and uneven rainfall has already slowed kharif sowing in Jun'26 (-22.7% as on 26th Jun'26), which later picked up marginally in the first week of July (-20.8% as on 3rd Jul'26), highlighting the risk that a stronger El Niño could weigh on agricultural output, elevate food inflation, and dampen rural demand in the coming months

Exhibit 7: Rainfall pattern expected globally during Jul-Aug'26



Source: WMO, JM Financial | Probabilistic Multi-Modal Ensemble Forecast for period July-Aug | Link

Exhibit 8: Global temperature pattern expected during Jul-Aug'26



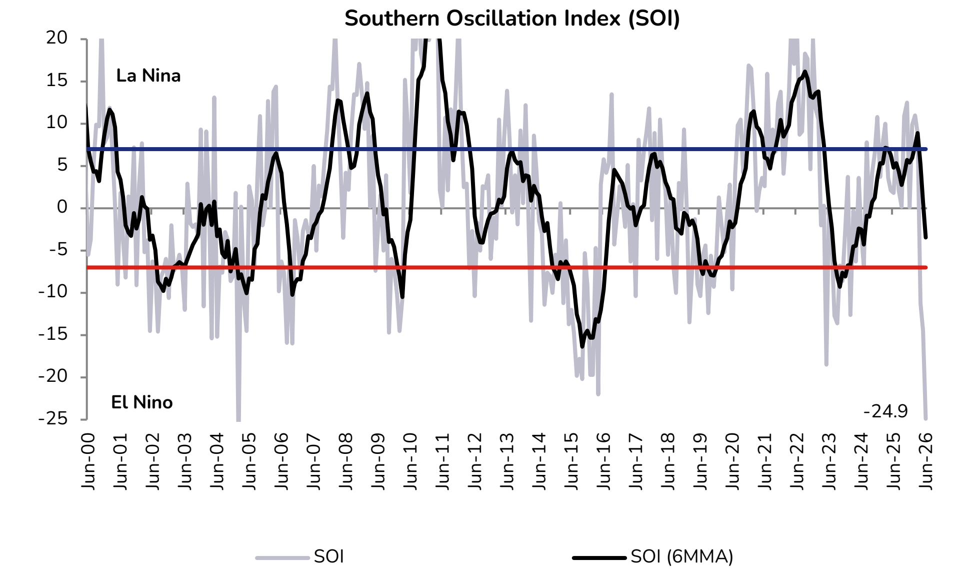
Source: WMO, JM Financial | Probabilistic Multi-Modal Ensemble Forecast for period July-Aug

Southern Oscillation Index in deep El Niño territory

The Southern Oscillation Index (SOI) has fallen into El Niño territory (below -7) on multiple occasions since 2000, with notable episodes during 2002–03, 2004–05, 2006–07, 2009–10, 2015–16, 2018–19, and 2023–24. The current decline in the SOI is comparable to the levels observed during the 2004–05, 2015–16 and 2023–24 El Niño episodes, all of which subsequently evolved into established El Niño conditions, suggesting an elevated probability of a similar progression in the current cycle.

The SOI acts as a major predictor of monsoon in India. *A negative SOI reading has historically associated with below normal monsoon rainfall, drought like conditions*, which eventually impacts kharif sowing, leading to crop failure. On the flip side, positive SOI is generally associated with above-normal monsoon, favouring agricultural output and aiding groundwater replenishment.

Exhibit 9: SOI in deep El Niño territory



Source: Bureau of Meteorology – Australia, JM Financial | 6MMA = 6 month moving average

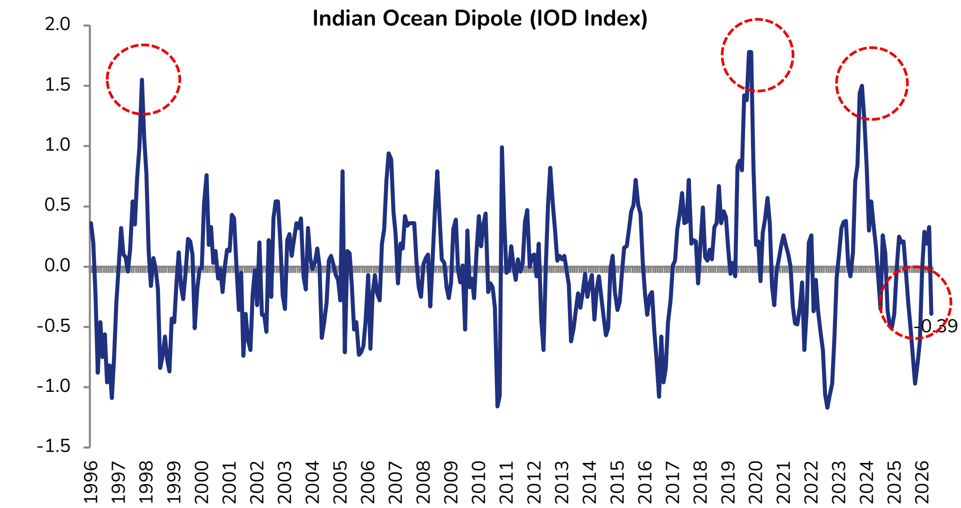
Will IOD rescue India this time?

Regardless of an El Niño condition in the Pacific Ocean, a *positive Indian Ocean Dipole (+IOD) can act as a powerful counterweight to El Niño*. Historically, a strong +IOD—often called the "Indian Ocean's El Niño"—warms the western Indian Ocean near Africa and cools the eastern side near Indonesia (exhibit 11). This shift pumps massive amounts of moisture toward the Indian subcontinent, frequently neutralising the drying effects of a Pacific El Niño. But current meteorological data suggests it will not fully rescue India's monsoon this year.

The India Meteorological Department (IMD) confirmed that neutral IOD conditions are prevailing. This means *there is currently no active "climatic cushion" to stop El Niño from suppressing rainfall.* While international models like Australia's Bureau of Meteorology (BOM) indicate a positive IOD could develop later in the season, it is only expected to materialise around late August or September. Because July is the most crucial month for crop sowing and reservoir filling, this late-season boost will arrive too late to save kharif crops, but it is fingers crossed for the upcoming rabi season.

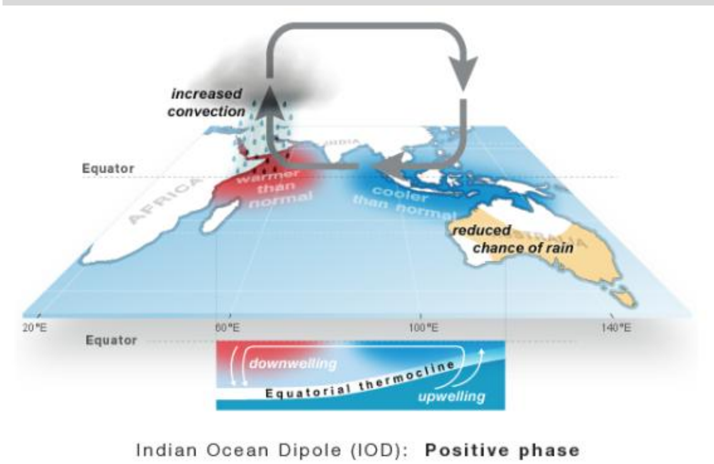
The positive reading on the IOD index in 1997, 2019 and 2023 cushioned the Indian economy from the severe impact of El Niño. Currently the IOD index is at -0.39 (exhibit 10), which is considered neutral (+-0.4 degree Celsius); hence, *as per IMD, it is unlikely to absorb the severe impact of the El Nino conditions.*

Exhibit 10: IOD Index neutral currently, unlike in 1997, 2019 and 2023



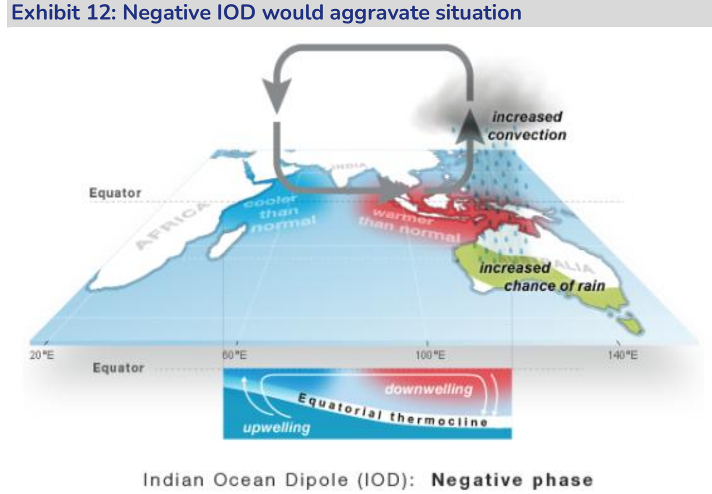
Source: IMD, JM Financial

Exhibit 11: Positive IOD is beneficial for India



Source: Bureau of Meteorology – Australia, JM Financial

Exhibit 12: Negative IOD would aggravate situation



Source: Bureau of Meteorology – Australia, JM Financial JM Financial

Monsoon progress till now in India

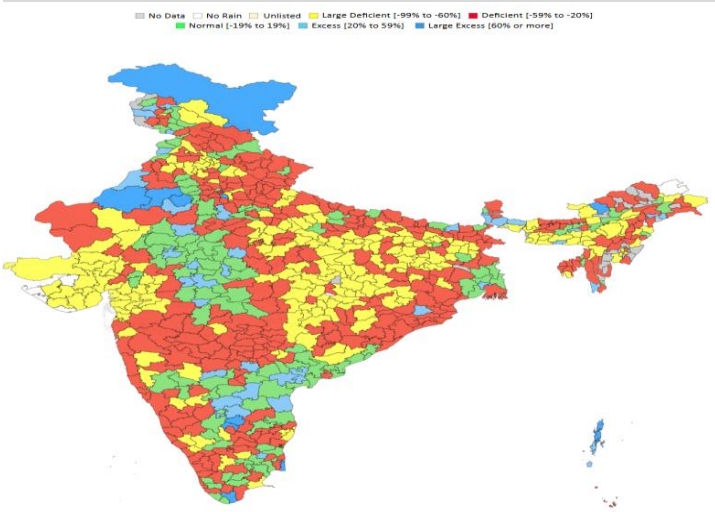
The 2026 southwest monsoon has witnessed an uneven progression, with an early onset followed by a prolonged pause that resulted in *negative deviation of 39.8% from the normal monsoon in June*—the weakest June performance in over a decade. Rainfall deficits were particularly severe across Central India (-50.4%), East and Northeast India (-39.9%), Northwest India (-31.2%), and the South Peninsula (-27%) as on 30th Jun'26. However, monsoon activity has revived since the end of June, advancing into the central part of India, which received a positive deviation while all other regions continue to record negative deviation (exhibit 16). While the recent revival should support rainfall during early July, the overall seasonal outlook remains contingent on the evolving El Niño conditions.

July is the most critical month of India's southwest monsoon, accounting for around one third of the season's total rainfall (about 280.4mm out of the seasonal LPA of 868.6 mm). It is also the peak period for kharif sowing, reservoir replenishment and groundwater recharge.

Following the 39.8% rainfall deficit in June (99.5mm received versus a normal of 165.3mm), *India would need approximately 346 mm of rainfall in July, or 123.5% of the month's Long Period Average (LPA), to fully eliminate the cumulative June-July rainfall deficit.* However, the IMD has forecast below-normal July rainfall (<94% of the LPA), implying that a full recovery from the weak start to the monsoon is unlikely during the month's crucial agricultural window, i.e., Jul'26.

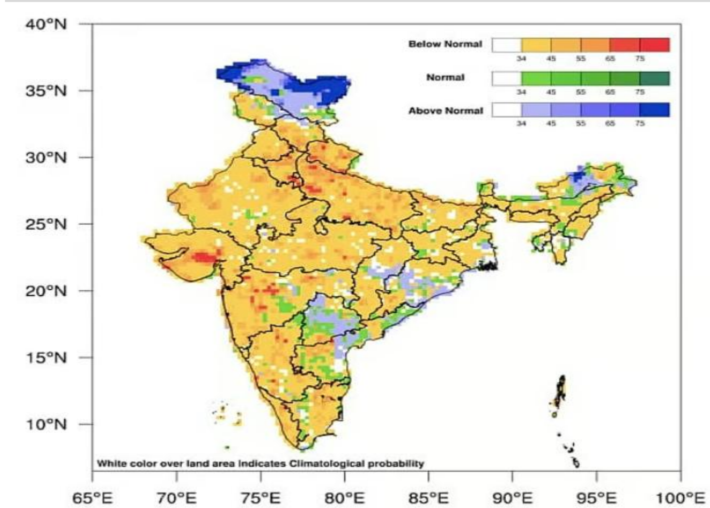
This puts states with weak irrigation cover at risk of deficient rainfall, impacting rabi sowing in states like Maharashtra, Kerala, Rajasthan, MP, Karnataka, Chhattisgarh and northeastern states (exhibit 27).

Exhibit 13: State-wise cumulative deviation in rainfall up to 30th Jun'26



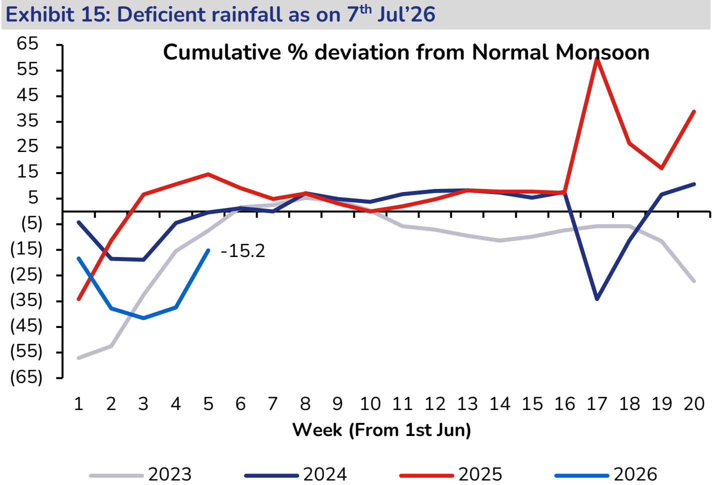
Source: IMD, JM Financial | As on 30th Jun'26 Link

Exhibit 14: Rainfall forecast for Jun-Sep'26



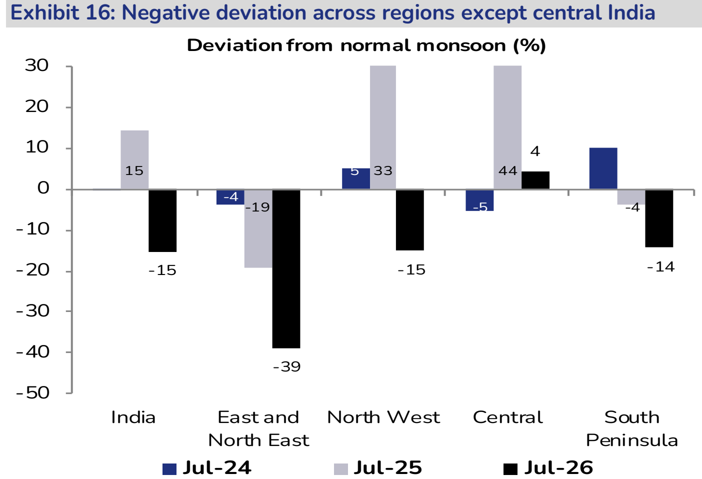
Source: IMD, JM Financial | Link

Exhibit 15: Deficient rainfall as on 7th Jul'26



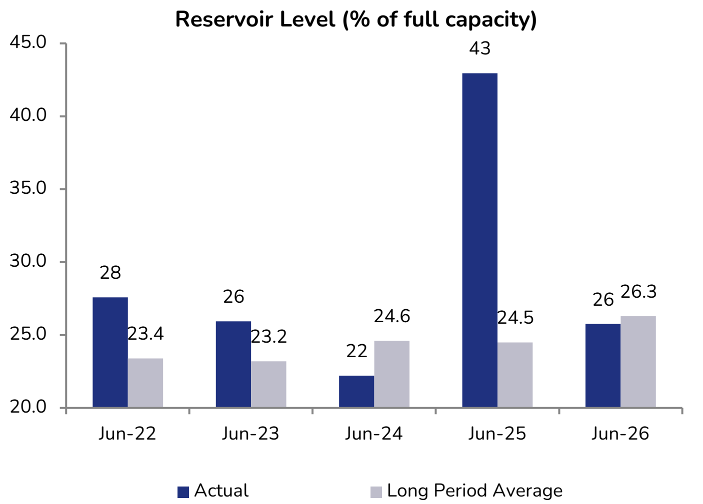
Source: CMIE, JM Financial | Latest as on 8th Jul'26

Exhibit 16: Negative deviation across regions except central India



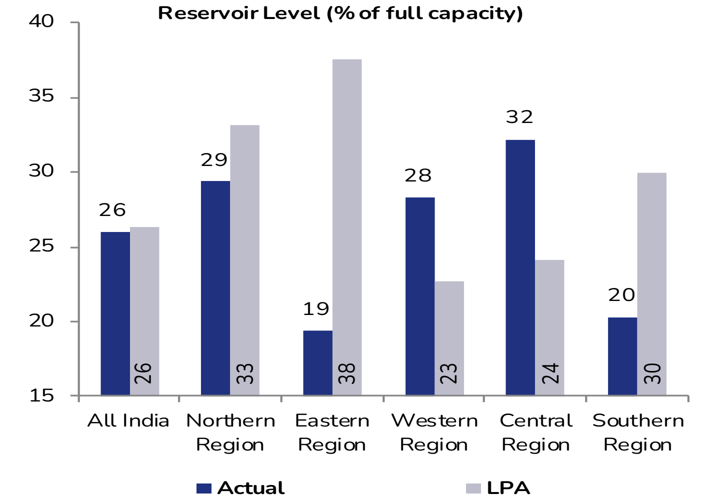
Source: CEIC, JM Financial | As on 8th July

Exhibit 17: Reservoir levels depleted closer to Long Period Average



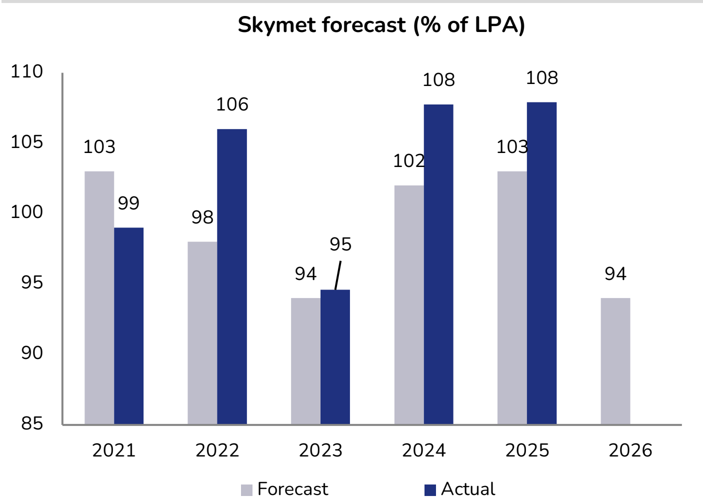
Source: JM Financial | As on 2nd Jul'26

Exhibit 18: Western and Central regions have sufficient water



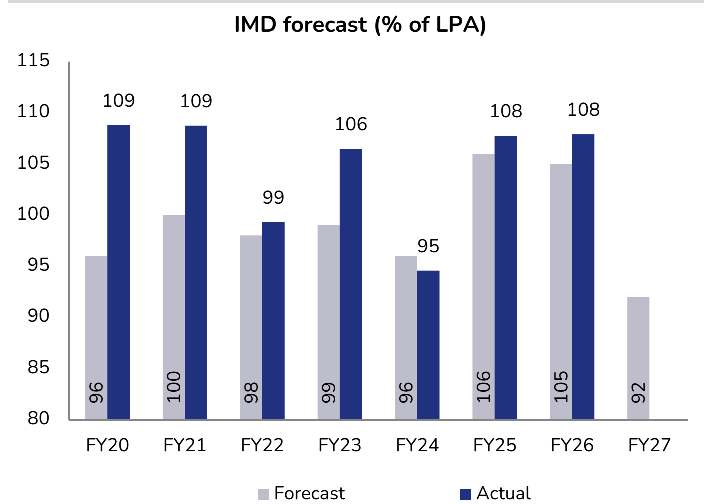
Source: JM Financial | As on 2nd Jul'26

Exhibit 19: Skymet forecasts below-normal rainfall...



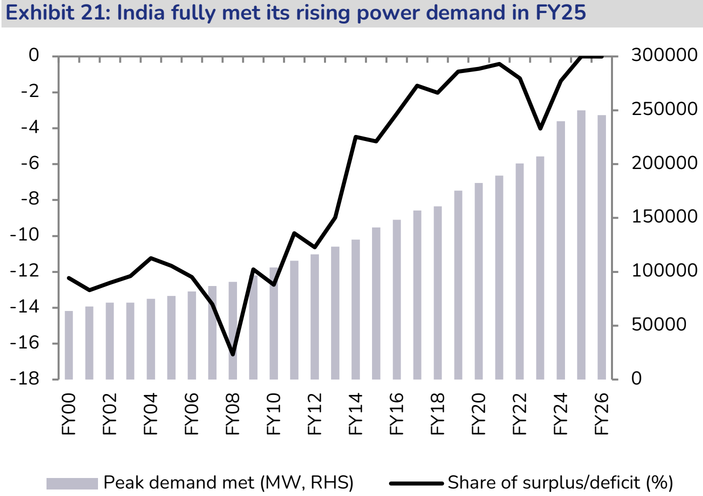
Source: Skymet, JM Financial

Exhibit 20: ...even IMD expects below-normal monsoon



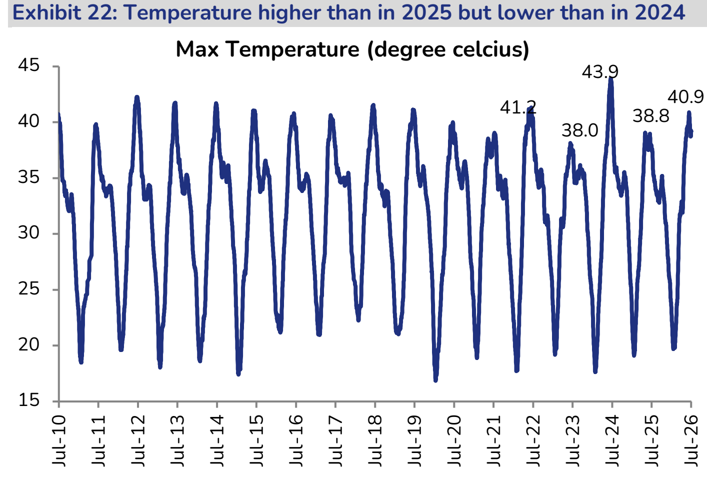
Source: IMD, JM Financial

Exhibit 21: India fully met its rising power demand in FY25



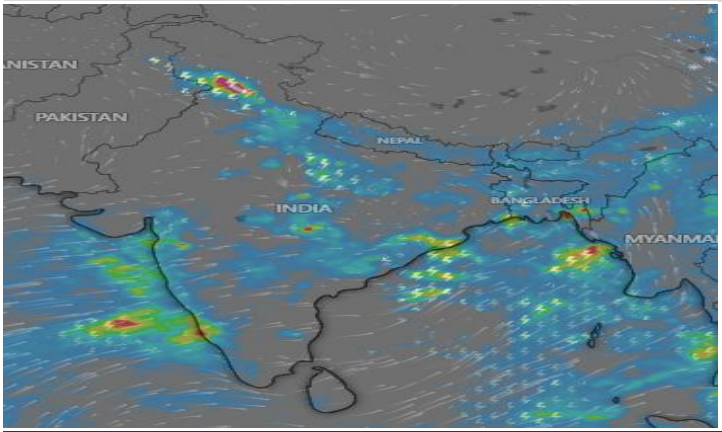
Source: CEA, Ministry of Power, JM Financial

Exhibit 22: Temperature higher than in 2025 but lower than in 2024



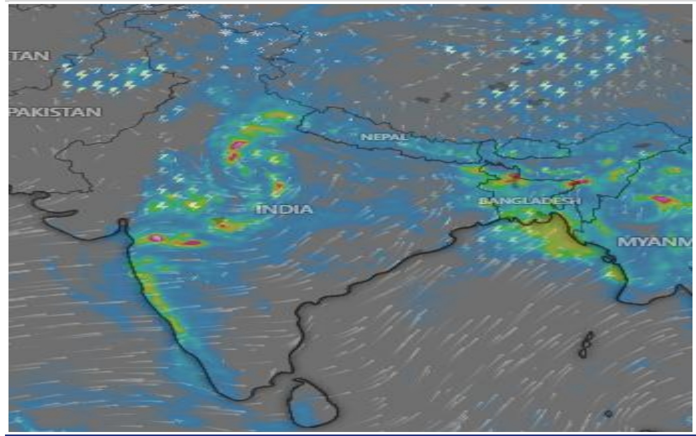
Source: IMD, JM Financial | New Delhi | 30 Day Moving Average used

Exhibit 23: Rainfall map as on 1st Jul'26



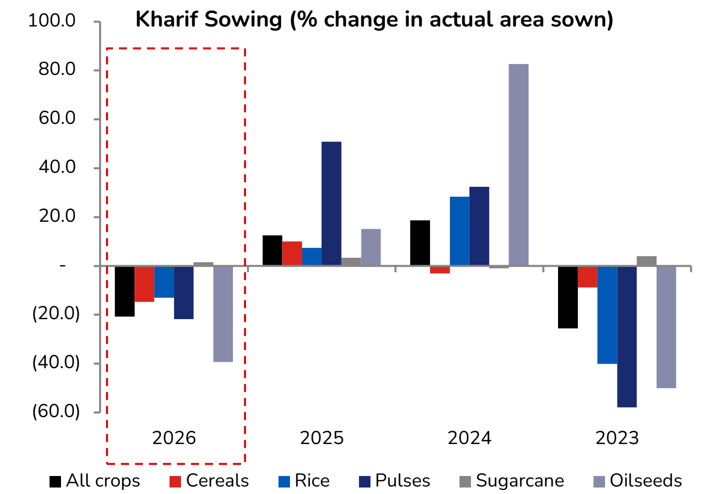
Source: Windy, JM Financial

Exhibit 24: Rainfall map as on 8th Jul'26



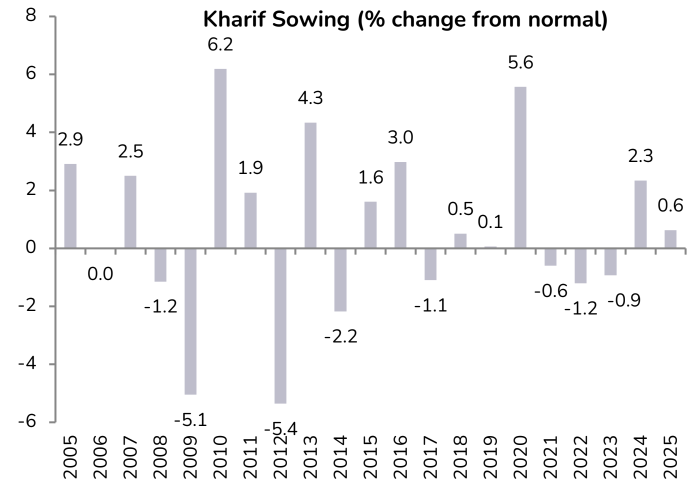
Source: Windy, JM Financial

Exhibit 25: Kharif sowing impacted across crops due to delayed rain



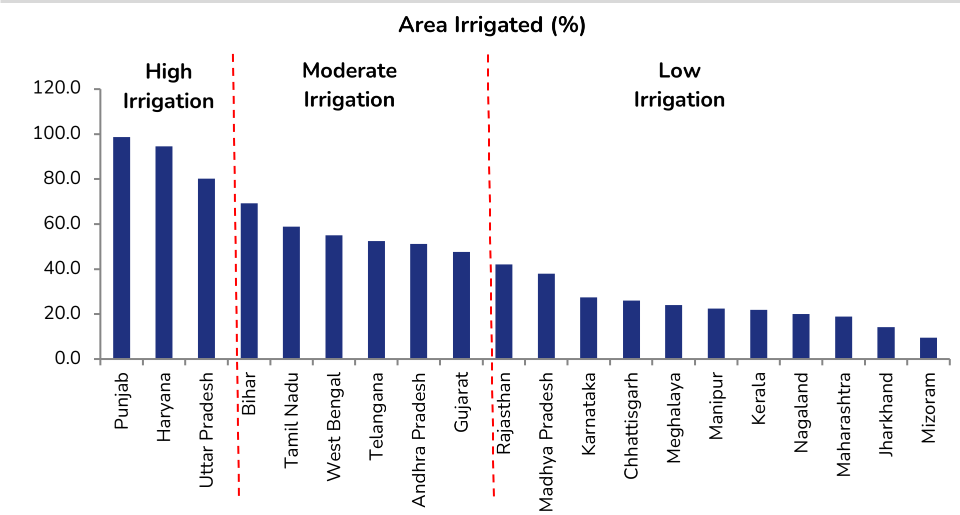
Source: CMIE, JM Financial | As on 3rd Jul'26

Exhibit 26: Variation in kharif sowing has evened out in recent years



Source: CMIE, JM Financial | As on Sep/Oct

Exhibit 27: Maharashtra, Karnataka, Chattisgarh, MP, RJ and Kerala vulnerable to weak rainfall



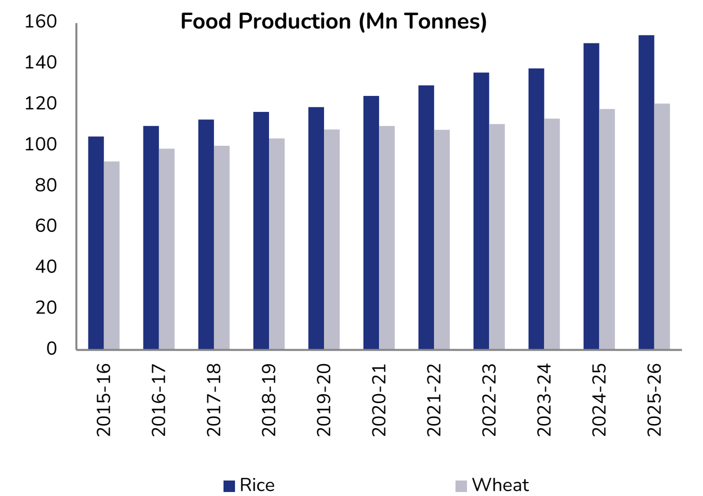
Source: Ministry of Agriculture and Farmers Welfare, JM Financial | Data pertains to 2022-23

India's foodgrain/fertiliser position comfortable

India enters 2026–27 kharif season with one of the strongest agricultural buffers in recent years. Foodgrain production reached a record 357.73mn tonnes in 2024–25, up by over 25.4mn tonnes (7.6%) from 332.3mn tonnes in the previous year, supported by bumper harvests of rice, wheat, pulses and coarse cereals. Government warehouses are also well stocked, with wheat stocks at 53.4mn tonnes against a buffer norm of 27.5mn tonnes, while rice stocks (including unmilled paddy) stood at around 68.2mn tonnes, compared with a buffer requirement of 13.5mn tonnes, as of 1st Jun'26. Collectively, central foodgrain stocks are nearly three times the prescribed buffer norms, providing ample room for the government to stabilise prices, continue welfare distribution and absorb any weather-induced decline in crop output. India also remains the world's largest producer and exporter of rice and the second-largest producer of wheat, strengthening domestic food security.

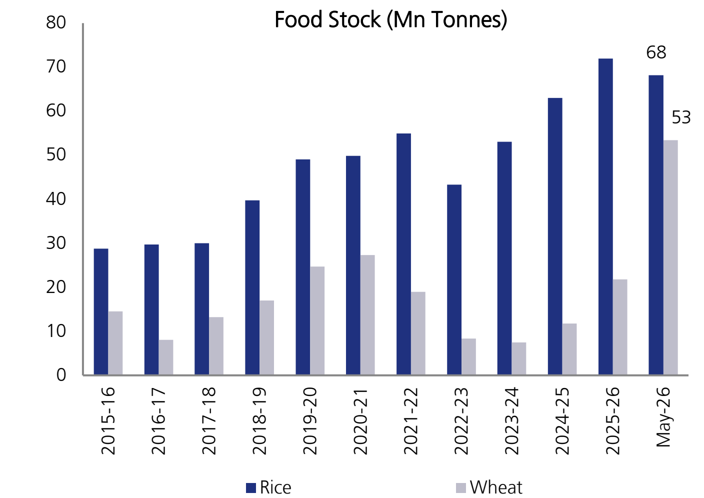
The fertiliser situation is equally comfortable. Ahead of the kharif season, the government indicated that fertiliser availability of 16.3mn tonnes which is 42% of annual demand, comfortably exceeds the buffer requirement (33% of annual demand), with around 6.9mn tonnes of urea, 1.7mn tonnes of DAP, 4.6mn tonnes of NPK and 0.9mn tonnes of MOP expected to be available during the kharif 2026 season (exhibit 31). These supplies are being supported through domestic production, timely imports and advance stocking across states. The Centre has also directed states to closely monitor distribution to ensure timely availability at the district level. Strong foodgrain inventories, coupled with adequate fertiliser availability, provide an important cushion against an uneven monsoon, although final agricultural output will ultimately depend on rainfall during the critical July–August period.

Exhibit 28: Foodgrain production at record high



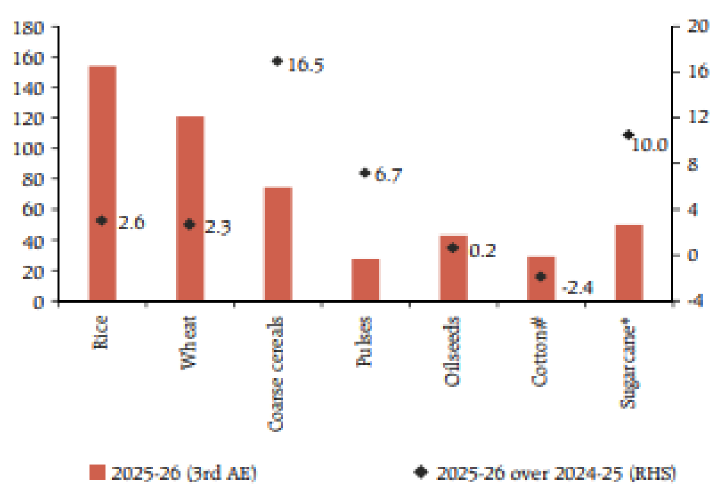
Source: CMIE, JM Financial

Exhibit 29: Food stock comfortably above buffer requirements



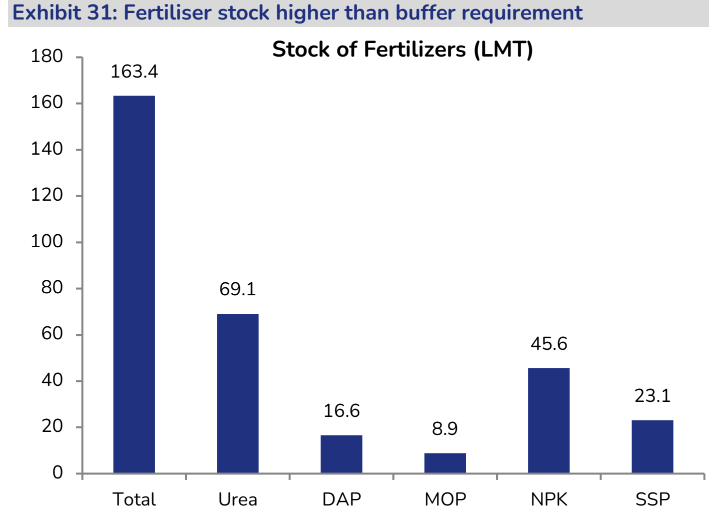
Source: CMIE, FCI, JM Financial | Buffer stock for Rice = 37.8 mn tonnes, Wheat = 35.8 mn tonnes

Exhibit 30: Agriculture crop production – Third advance estimates



Source: RBI, JM Financial | *In 10 mn tonnes, # Mn bales of 170kg each

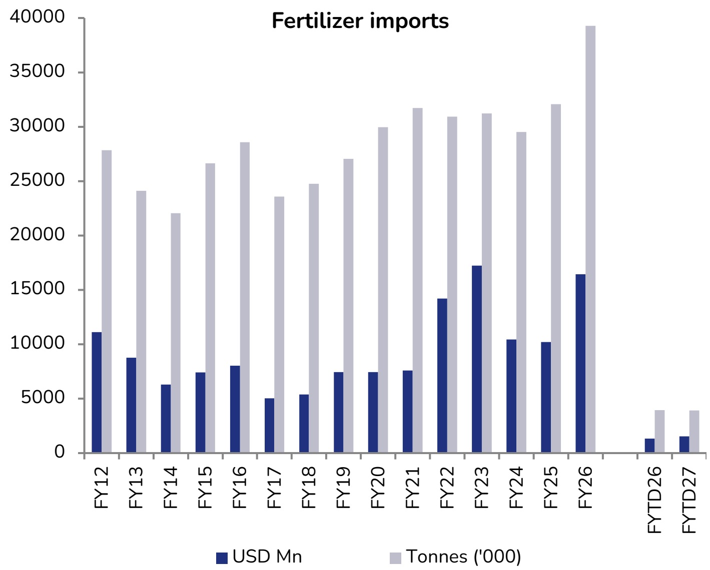
Exhibit 31: Fertiliser stock higher than buffer requirement



Source: Ministry of Chemicals and Fertilizers, JM Financial | as on 2nd July'26

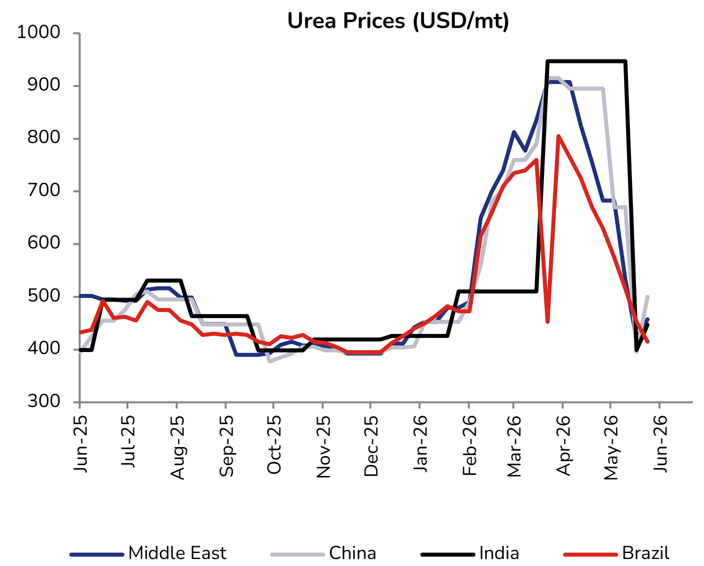
The government's subsidy burden is expected to exceed the budgeted estimates for FY27BE mainly due to the spike in fertilisers prices on the back of supply disruption in the Middle East. However, early resolution of the crisis has led to normalisation of fertiliser prices (-53%) from its peak to pre-war levels (exhibit 33) just before the start of the kharif sowing. Hence, the earlier expectation of fertiliser subsidy exceeding INR 3.4tn versus INR 1.76tn budgeted in FY27BE is now expected to moderate to INR 2.3–2.5tn (exhibit 35).

Exhibit 32: Fertiliser imports grew 22.5% in FY26...



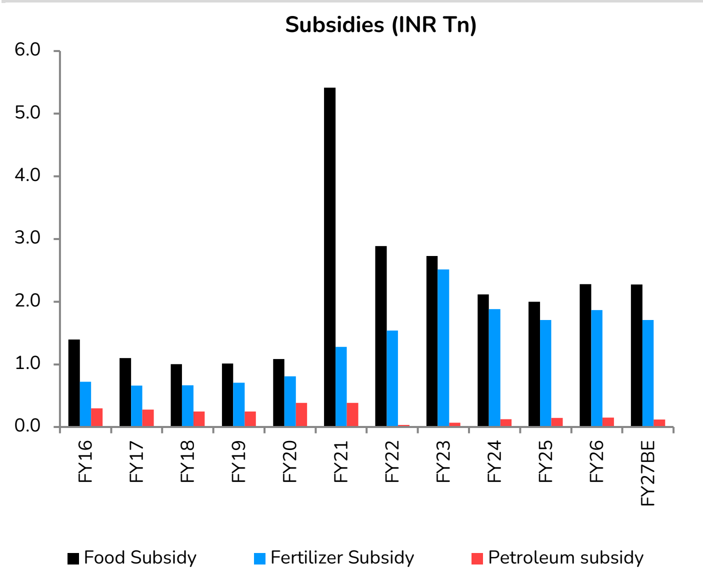
Source: CMIE, JM Financial | FYTD = Apr-May

Exhibit 33: ...while fertiliser prices normalise to pre-war levels



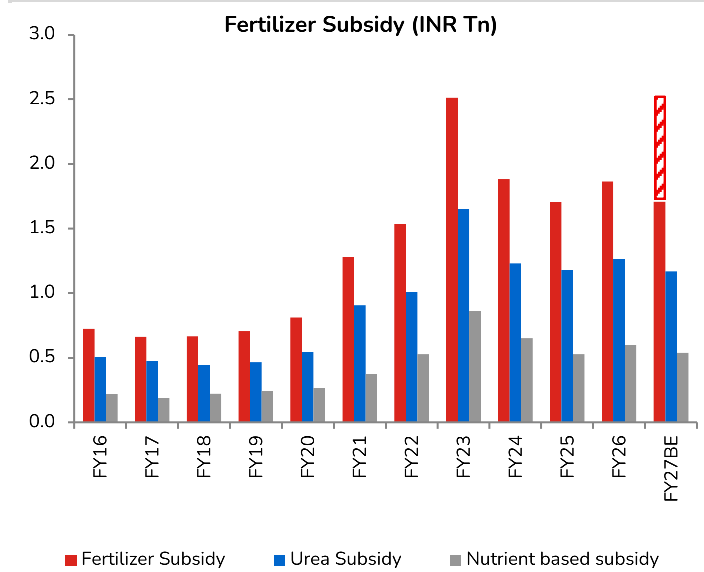
Source: Bloomberg, JM Financial

Exhibit 34: Spending on subsidy likely to increase in FY27



Source: JM Financial

Exhibit 35: Fertiliser subsidy is expected to increase to INR 2.5tn



Source: JM Financial estimates | textured area represents expectations in FY27BE

Government closely monitoring situation

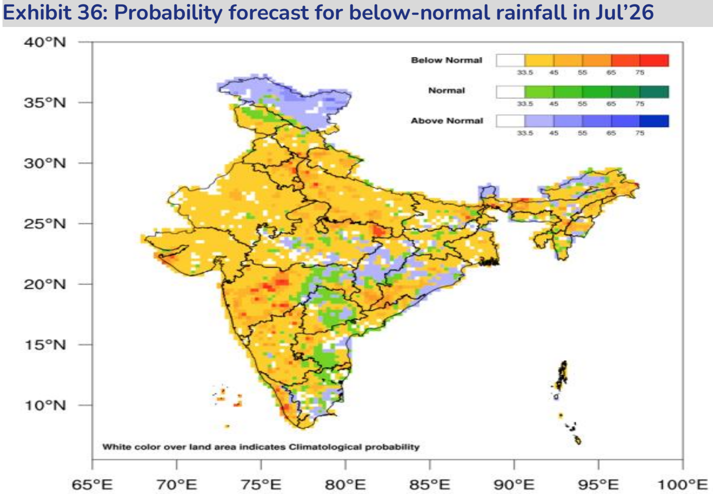
The prolonged weakness in the southwest monsoon has significantly disrupted the sowing of key kharif crops such as rice, maize, pulses, cotton and soybean, particularly in rain-fed regions that depend almost entirely on rainfall in the first half of the monsoon (Jun-July). Recognising the heightened risk posed by a potential El Niño-induced rainfall deficit, the *Union Ministry of Agriculture has activated a dedicated El Niño Monitoring Cell to closely track monsoon progress,* reservoir levels, sowing patterns and crop conditions, while coordinating with state governments on mitigation measures. (Link to the advisory)

In parallel, the ministry, in collaboration with the Indian Council of Agricultural Research (ICAR), is revising and implementing District Agriculture Contingency Plans (DACPs) across 150–200 highly vulnerable rain-fed districts (exhibit 14).

These 150-200 districts are classified as most critical, based on IMD's long-range forecast that showed the below-normal rainfall projections over the Marathwada-north Karnataka belt, with elevated risk across Rajasthan, Gujarat, Madhya Pradesh, Chhattisgarh, and parts of eastern Uttar Pradesh, Bihar and Jharkhand. Nearly the entire country, barring parts of Telangana and some coastal areas of south India, was expected to be affected to some degree.

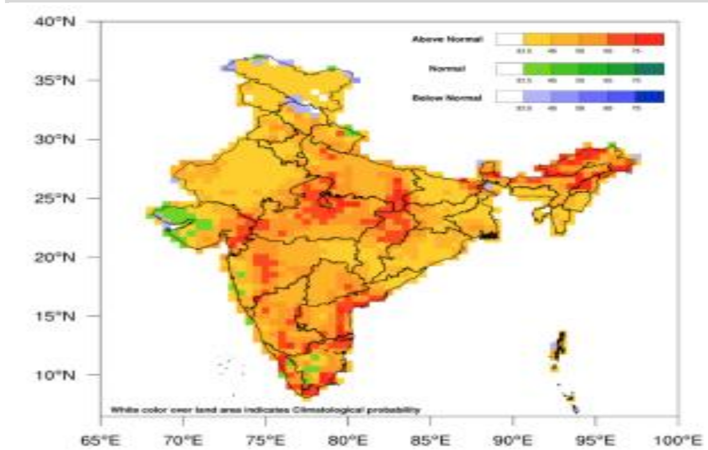
The contingency plans provide location-specific advisories on crop selection, sowing windows, water conservation, soil moisture management, seed availability and alternate farming practices to minimise production losses. Farmers in districts experiencing severe rainfall deficits have been advised to switch from water-intensive and long-duration crops to short-duration, drought-tolerant varieties, including aerobic rice cultivars such as Sahbhagi Dhan and DRR Dhan 42, which require less water and mature in around 100–115 days. The government has also directed states to ensure timely availability of contingency seeds and agricultural inputs so that farmers can quickly adapt if rainfall remains below normal. These proactive measures are intended to cushion the impact of a weak monsoon on agricultural production, stabilise farm incomes and reduce broader risks to rural demand, food inflation and the overall economy, although their effectiveness will ultimately depend on the evolution of rainfall during the remainder of the monsoon season.

Exhibit 36: Probability forecast for below-normal rainfall in Jul'26



Source: IMD, JM Financial

Exhibit 37: Probability forecast for above-normal temperature in Jul'26



Source: IMD, JM Financial

Tractor sales sensitive; 2W and FMCG gain; MSME suffer

As per our assessment of the impact of the weather conditions across 13 parameters in the last 2.5 decades (exhibit 39), the severe impact of the El Niño conditions was evident in deficit rainfall (-10.65 cumulative deviation), decline in kharif sowing (-1% decline in area), decline in food production (-4% YoY) and a 60bps uptick in food inflation on average versus during La Niña episodes. *Tractor sales were most sensitive to El Nino conditions,* recording substantially weaker sales growth (3.5% YoY) versus 10.7% YoY during the La Niña period (associated with excess rainfall).

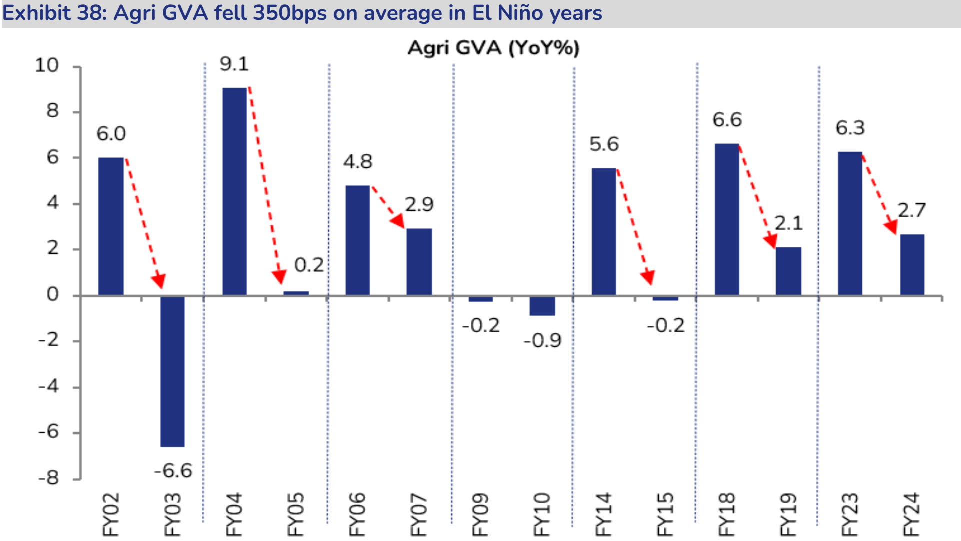
As El Niño is associated with higher temperature and a weaker monsoon, it has a profound impact on the economy, specifically on segments related to the agricultural economy. Considering agriculture forms ~18% of the overall Gross Value Added (GVA), we observed that Agri GVA was flat on average in years associated with EL Niño. But on comparison with the La Niña periods, we observed that growth in *Agri GVA was lower by ~350bps in years associated with El Niño.*

Although maximum temperature was marginally higher (0.20 degree Celsius) during El Niño period versus La Niña, it resulted in *significantly higher growth in peak power demand during El Nino years.* Forecasts by global weather agencies indicate hotter and drier weather conditions globally and particularly in India this year with the onset of El Niño; however, India's rising power demand seems to be fully met since FY25 as reflected in the shrinking power deficit (exhibit 21).

Our assessment also revealed some constructive aspects like the *relatively higher growth in two-wheeler sales (12.1% YoY) during El Nino period*, which was double the average growth during La Niña periods. Secondly, there was a meaningful improvement (350bps) in credit growth during EL Niño periods, mainly driven by consumer loans and gold loans. Lastly, *volume growth of FMCG companies was surprisingly higher during EL Niño periods* versus La Nina, although volume growth was highest during neutral weather conditions, as per our assessment.

On digging deeper within overall credit growth, which improved during El Niño episodes, we observed that the *credit offtake substantially decreased among the micro and medium enterprises* during the El Niño periods (Ex 45), reflecting the vulnerability of this segment to the weather-related shocks.

Exhibit 38: Agri GVA fell 350bps on average in El Niño years



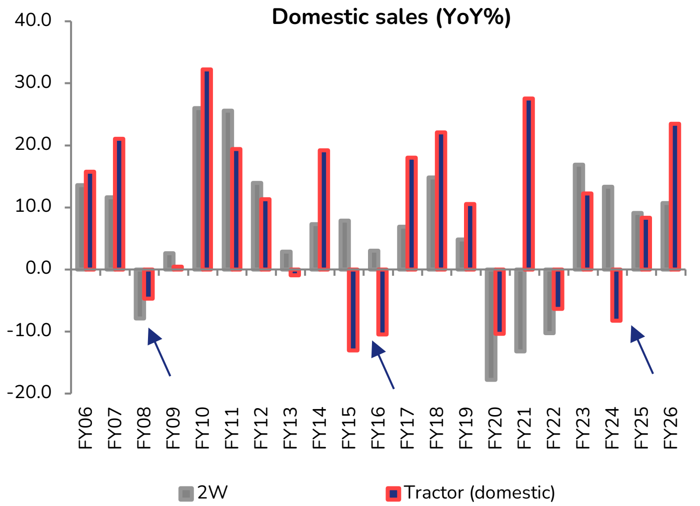
Source: CMIE, JM Financial

Exhibit 39: Impact of weather conditions across 13 parameters in last 2.5 decades

Year	Intensity	CPI Inflation	Food Inflation	2W sales	Tractor sales	FMCG volumes (HUL)	Kharif	Food Production	Reservoir levels	Rainfall	Agri GVA	Power demand	Max Temperature	Credit Growth
		%	%	YoY%	YoY%	YoY%	% change	YoY%	% full capacity	Cu. Deviation	(YoY%)	(YoY%)	degree Celsius	YoY%
2000-01	La Nina - Weak	3.8	-2.9	-1.6	-8.9	-	-	-	20.8	-15.3	0.0	7.4	-	14.9
2001-02	Neutral	4.3	-0.1	15.7	-9.4	-	-	8.1	14.4	-7.7	6.0	4.5	-	13.6
2002-03	**El Nino - Moderate**	4.0	3.1	14.5	-22.9	-	-	-17.9	11.8	-21.4	-6.6	-0.1	-	26.9
2003-04	Neutral	3.9	4.2	11.5	15.7	-	-	22.0	10.1	1.3	9.1	3.8	-	18.4
2004-05	**El Nino - Weak**	3.8	2.5	15.8	18.8	-	-	-7.0	13.4	-4.5	0.2	3.9	-	31.6
2005-06	La Nina - Weak	4.4	3.7	13.6	15.8	7.0	2.91	5.2	10.6	0.4	4.8	6.1	-	38.4
2006-07	**El Nino - Weak**	6.7	8.9	11.6	21.1	8.5	-0.02	4.2	21.5	0.5	2.9	8.0	-	28.5
2007-08	La Nina - Strong	6.2	8.4	-7.9	-4.7	5.2	2.5	6.2	20.8	2.7	5.5	8.1	-	23.0
2008-09	La Nina - Weak	9.1	12.3	2.6	0.5	6.7	-1.15	1.6	19.4	-6.6	-0.2	0.9	-	17.8
2009-10	**El Nino - Moderate**	12.4	15.2	26.0	32.2	3.3	-5.05	-7.0	9.4	-15.9	-0.9	8.5	-	17.1
2010-11	La Nina - Strong	10.5	9.9	25.6	19.4	4.7	6.19	12.1	12.1	0.9	8.8	2.6	45.0	21.3
2011-12	La Nina - Weak	8.4	6.3	13.9	11.3	13.0	1.92	6.1	23.2	-7.6	6.4	6.3	44.0	16.8
2012-13	Neutral	10.4	11.2	2.9	-0.9	9.3	-5.36	-0.8	16.4	-9.0	1.5	4.2	45.4	14.0
2013-14	Neutral	9.7	11.9	7.3	19.2	7.0	4.34	3.1	20.2	6.7	5.6	0.3	45.7	14.2
2014-15	**El Nino - Weak**	6.0	6.5	7.9	-13.0	4.0	-2.18	-4.9	24.3	-8.3	-0.2	9.0	45.5	9.3
2015-16	**El Nino - Very Strong**	4.9	5.1	3.0	-10.5	5.0	1.61	-0.2	25.2	-14.8	0.7	3.5	45.5	10.9
2016-17	La Nina - Moderate	4.5	4.4	6.9	18.0	6.0	2.98	9.4	14.7	-7.2	6.8	4.0	44.0	9.0
2017-18	La Nina - Moderate	3.6	2.2	14.8	22.1	1.0	-1.1	3.6	18.6	-8.5	6.6	2.8	44.6	10.2
2018-19	**El Nino - Weak**	3.4	0.7	4.9	10.5	6.0	0.51	0.1	16.5	-13.6	2.1	7.9	45.0	13.4
2019-20	Neutral	4.8	6.0	-17.8	-10.3	10.0	0.06	4.3	16.2	12.8	6.2	3.8	45.6	6.1
2020-21	La Nina - Moderate	6.2	7.3	-13.2	27.6	2.0	5.57	4.5	31.6	7.5	4.0	3.5	46.0	5.5
2021-22	La Nina - Moderate	5.5	4.2	-10.3	-6.4	3.0	-0.6	1.6	27.2	5.5	4.6	6.7	43.5	8.7
2022-23	La Nina - Moderate	6.7	6.7	16.9	12.2	3.6	-1.21	4.5	27.6	6.7	6.3	6.3	45.6	15.4
2023-24	**El Nino - Moderate**	5.4	7.0	13.3	-8.3	5.0	-0.93	0.8	25.9	-6.6	2.7	12.7	43.7	20.2
2024-25	La Nina - Weak	4.6	6.7	9.1	8.4	2.0	2.34	7.7	20.3	8.6	4.6	2.7	46.8	11.0
2025-26	La Nina - Weak	2.1	0.2	10.7	23.5	2.5	0.63	5.3	30.4	5.1	3.1	-1.8	43.9	16.5
2026-27	**El Nino - Strong**	3.7	4.3			4.2			26.1				45.1	17.7
	Average													
	El Nino	**5.6**	**5.9**	**12.1**	**3.5**	**5.1**	**-1.0**	**-4.0**	**19.4**	**-10.6**	**0.1**	**6.7**	**45.0**	**19.5**
	La Nina	**5.8**	**5.3**	**6.2**	**10.7**	**4.7**	**1.7**	**5.6**	**21.3**	**-0.6**	**4.7**	**4.3**	**44.8**	**16.0**
	Neutral	6.6	6.6	3.9	2.9	8.8	-0.3	7.3	15.5	0.8	5.7	3.3	45.6	13.2

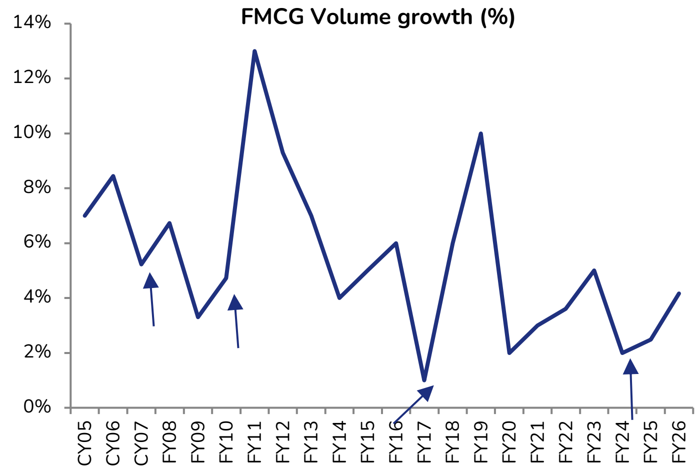
Source: CMIE, CEIC, JM Financial | Year starts from June | FMCG volumes = HUL volumes

Exhibit 40: Tractor sales more sensitive to El Niño versus 2W sales



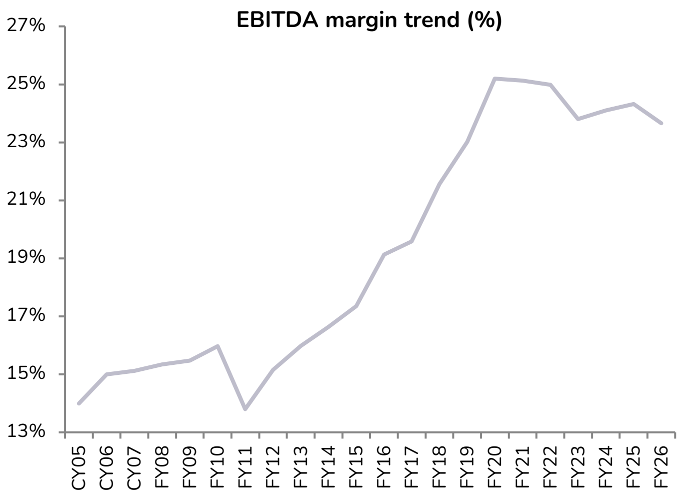
Source: CMIE, JM Financial

Exhibit 41: El Niño not the key driver for FMCG volumes



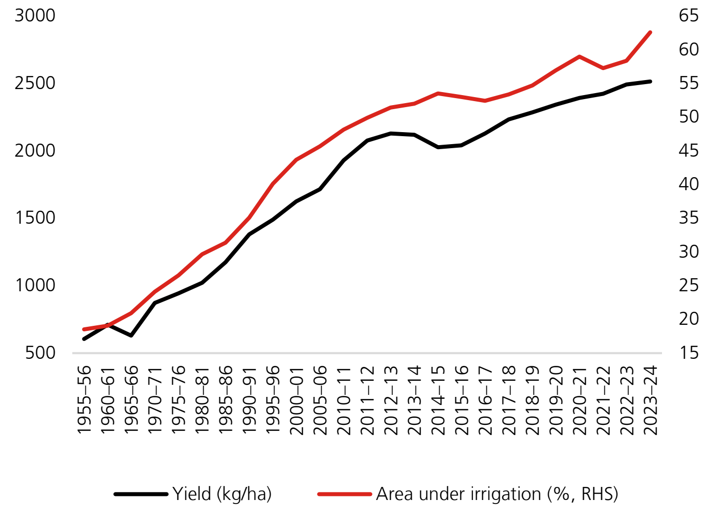
Source: HUL, JM Financial

Exhibit 42: FMCG margin improved significantly during FY11-FY19



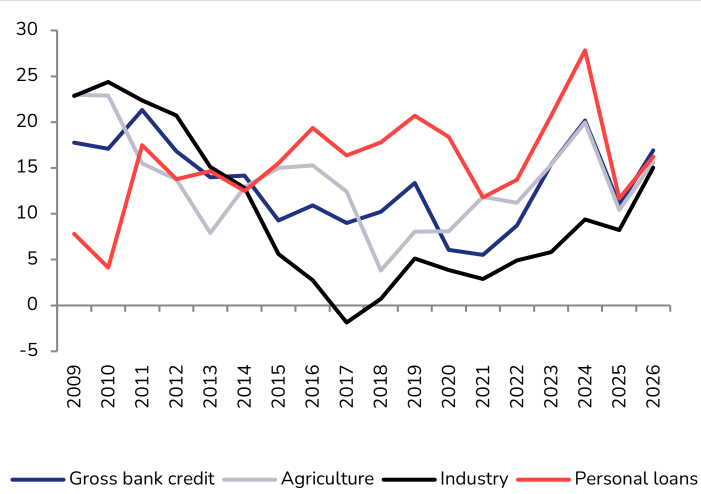
Source: HUL, JM Financial

Exhibit 43: Significant improvement in area under irrigation in India



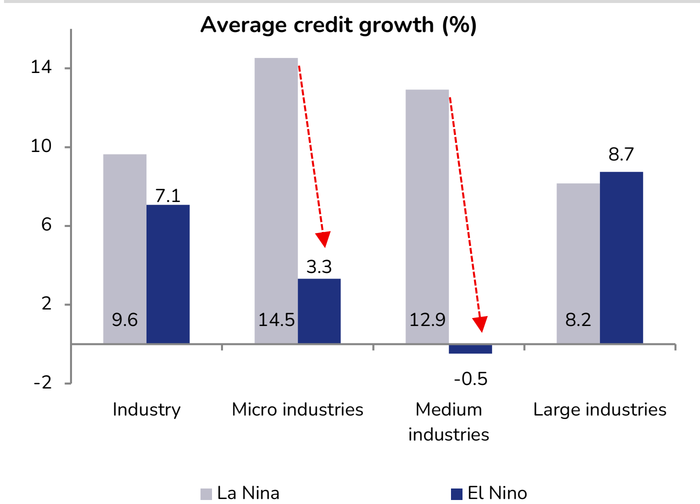
Source: Ministry of Agri and Farmers welfare, JM Financial

Exhibit 44: Credit growth improves in El Niño years



Source: CMIE, JM Financial

Exhibit 45: El Niño impacts credit offtake by micro/medium enterprises



Source: CMIE, JM Financial

Mixed fiscal impact; RBI unlikely to hike in 2026

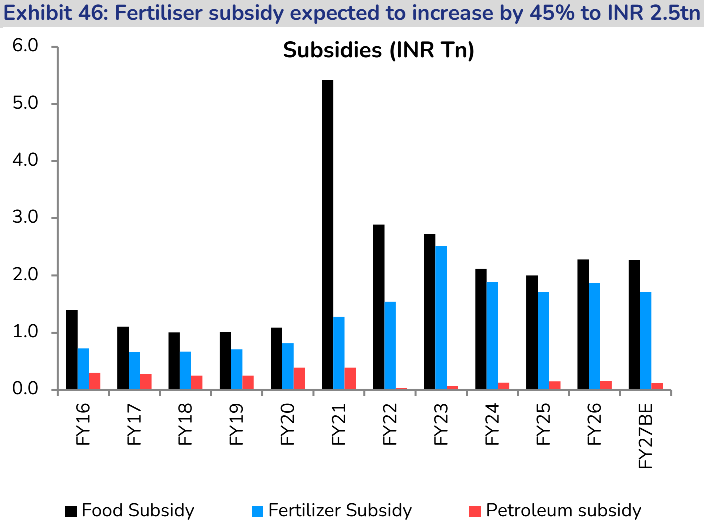
Prior to the emergence of El Niño risks, we expected India's GDP growth to recover to 6.9–7.0% in FY27, supported by the resolution of the West Asia conflict and lower commodity prices. However, the evolving El Niño conditions introduce a significant downside risk to the growth outlook through their potential impact on agricultural output, rural incomes and consumption. Given the uncertainty surrounding the magnitude of weather-related disruptions, *we estimate a downside scenario in which GDP growth moderates to 6.5–6.7% in FY27.* Historical experience suggests that El Niño episodes have, on average, reduced India's Agri GVA (~18% of economy) by approximately 350bps, underscoring the importance of closely monitoring climatic developments over the coming months.

The reopening of the Strait of Hormuz and the sustained decline in crude oil prices should alleviate global inflationary pressures, with positive spillovers to domestic inflation, provided that the recent revival in hostilities between US and Iran do not sustain. We continue to expect CPI inflation to average 4.8–5.0% in FY27. As long as inflation does not remain persistently above the RBI's upper tolerance band of 6%; *our base case does not envisage any policy rate hikes by the RBI in 2026.* Lower energy prices are already being reflected in US gasoline prices, which have fallen below USD 4 per gallon. Consequently, *market expectations for monetary tightening by the Fed are likely to shift towards the end of 2026,* compared with the current expectation of Sep'26.

The fiscal impact of the evolving macro environment is expected to be mixed. While higher fertiliser subsidies amid El Niño conditions could exert upward pressure on revenue expenditure, the de-escalation of the West Asia conflict and the sharp correction in crude oil prices are likely to provide a meaningful offset by lowering petroleum-related fiscal pressures. Crude price had declined 38% from its peak to USD 72.7/bbl before the renewed hostilities between US and Iran sent crude oil prices higher by 9% (USD 78/bl) in the last two days. Moreover, the race for market share among OPEC+ nations has increased the downside risk to crude oil prices. However, the downward trajectory in oil prices is likely to persist only as long as China's demand recovery remains subdued. Overall, the improvement in the fiscal arithmetic should help the government to sustain its capex intensity. However, *risk of curtailment in capex will be clear by the end of FY27, most probably in Q4FY27; till then, we closely monitor the situation.*

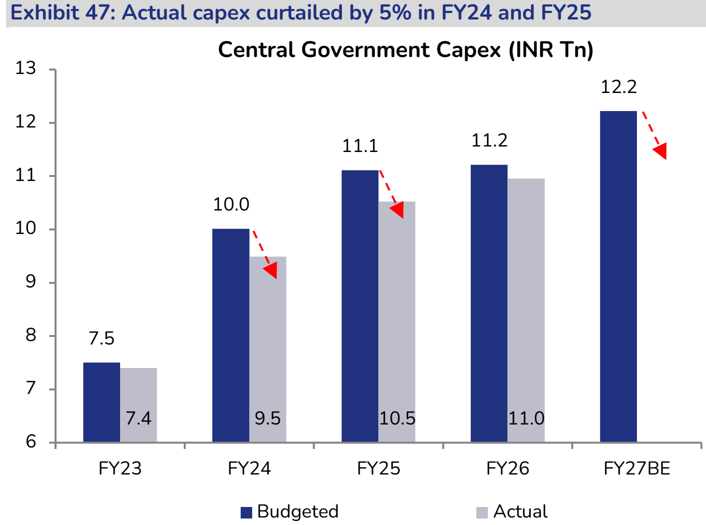
Global bond yields have moderated as easing geopolitical tensions and lower energy prices have improved the inflation outlook. Domestically, the relatively comfortable fiscal position has supported the government securities market, with the benchmark G-sec yield (10 yr) softening by around 37bps from its recent peak of 7.13% to 6.76% currently. The inclusion of additional government securities under the Fully Accessible Route (FAR), coupled with attractive yields on FCNR(B) deposits, has supported debt inflows of approximately USD 6.3bn since Jun'26, with additional inflows expected ahead of the 30th Sep'26 deadline. Nevertheless, despite softer bond yields and a weaker US Dollar Index, the INR has depreciated marginally (0.58%, 95.5/USD) since Jun'26, indicating that external sector dynamics remain challenging, which has reflected in net outflows in the equity segment (-USD 4.8bn since Jun'26). *We expect yields to bottom out at current levels while expecting a shallow appreciating bias in the INR.*

Exhibit 46: Fertiliser subsidy expected to increase by 45% to INR 2.5tn



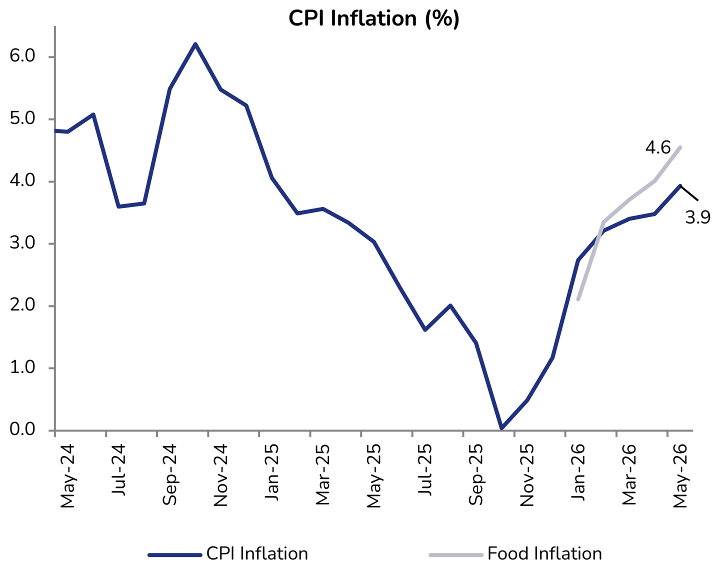
Source: India Budget, JM Financial

Exhibit 47: Actual capex curtailed by 5% in FY24 and FY25



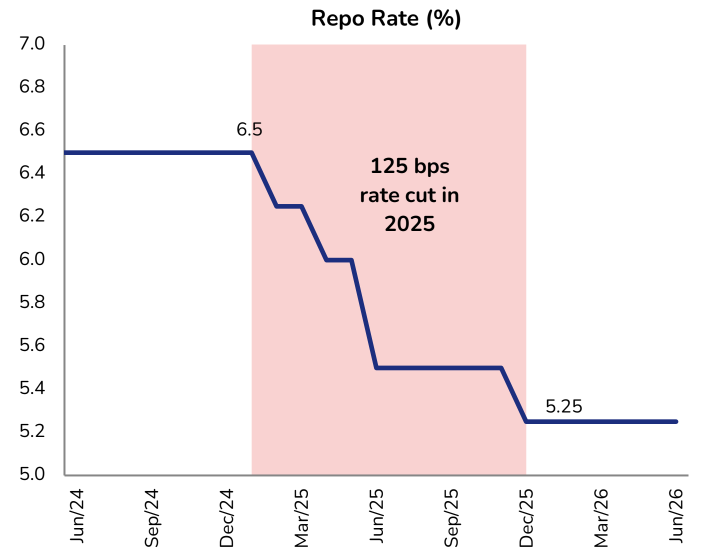
Source: India Budget, JM Financial

Exhibit 48: Upward trajectory in food and headline inflation



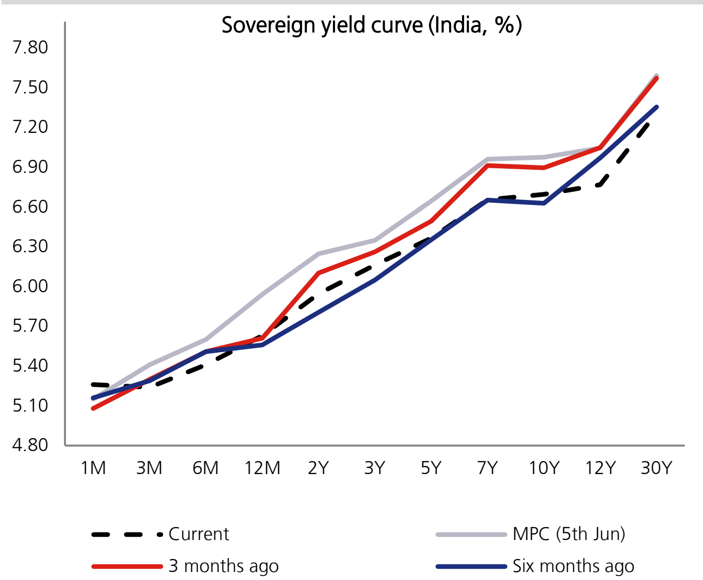
Source: JM Financial

Exhibit 49: Policy rates stable after 125bps cut by RBI in year 2025



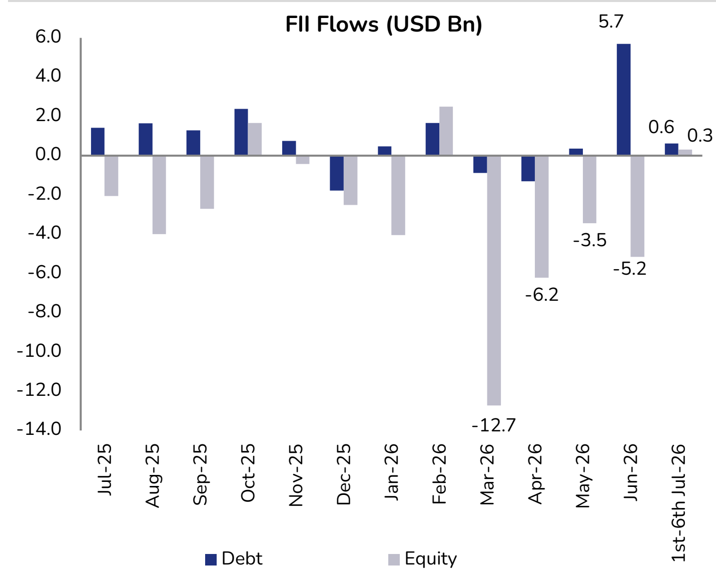
Source: JM Financial

Exhibit 50: Yields softened across the curve in last one month



Source: Bloomberg, JM Financial

Exhibit 51: Inflows in debt segment aided overall FII Flows in Jun'26



Source: CMIE, JM Financial

APPENDIX I

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Rating	**Meaning**
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ADD	Expected return >= 5% and < 15% over the next twelve months.
REDUCE	Expected return >= -10% and < 5% over the next twelve months.
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Corporate Identity Number: U67100MH2017PLC296081
Member of BSE Ltd. and National Stock Exchange of India Ltd.
SEBI Registration Nos.: Stock Broker - INZ000163434, Research Analyst - INH000000610
Registered Office: 7th Floor, Cnergy, Appasaheb Marathe Marg, Prabhadevi, Mumbai 400 025, India.
Board: +91 22 6630 3030 | Fax: +91 22 6630 3488 | Email: jmfinancial.research@jmfl.com | www.jmfl.com
Compliance Officer: Ms. Ashley Johnson | Tel: +91 22 6224 1862 | Email: ashley.johnson@jmfl.com
Grievance Officer: Ms. Ashley Johnson | Tel: +91 22 6224 1862 | Email: instcompliance@jmfl.com