

**Monthly Report On**

1st February, 2018

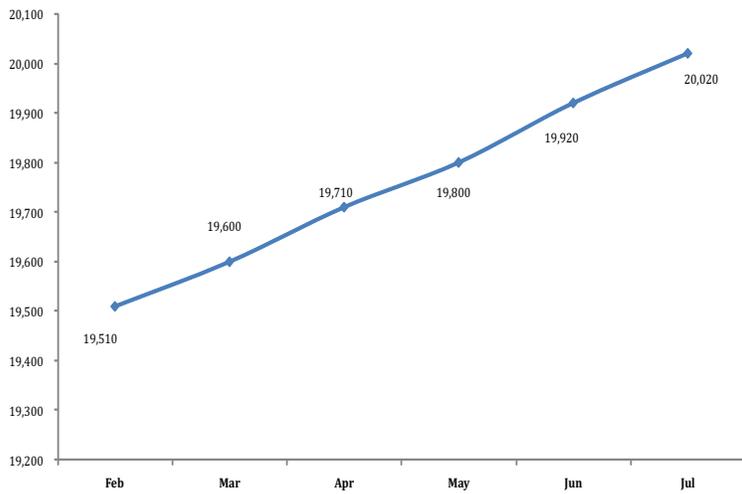
# **Kapas, Guar & Chana**

**February 2018**



Moneywise. Be wise.

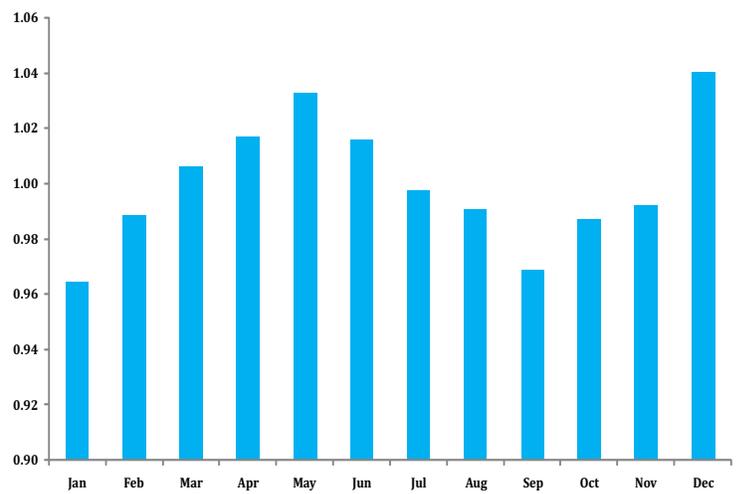
## Forward curve of Cotton 29MM futures



Source: NCDEX

Closing as on 31st January, 2018

## Kapas futures Seasonal Index



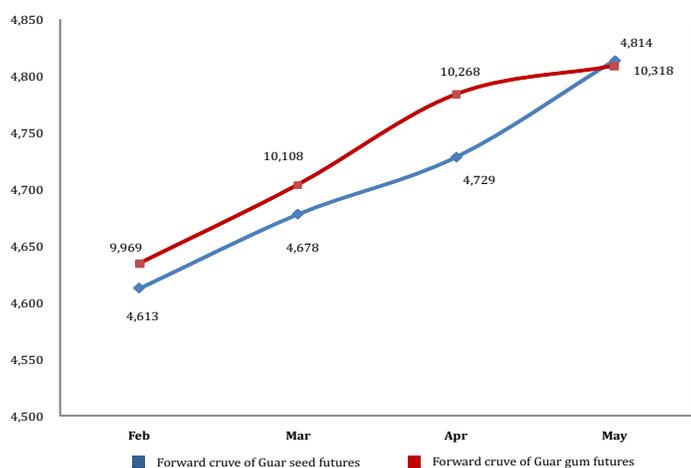
Source: Reuters & SMC Research

S3	S2	S1	Pivot	R1	R2	R3
888	926	955	992	1021	1059	1088

## Fundamentals

- **The downside in Kapas futures (April) may remain capped & in days to come, the counter is likely to take support near 960 levels & owing to lower level buying, an upside momentum can be seen towards 1000-1015 levels.**
- Last month, kapas futures tumbled owing to supply pressure of arrivals. Daily cotton arrivals at all the major markets from across the country totalled to an estimate of 149,500 bales in the afternoon session as on January 29. Total new crop arrivals, since Oct 1, has reached 14.46 million bales (41.3% of total estimated production at 35 million bales), up 10% from same period in the previous year at 13.15 million bales.
- In the international market, hedge funds are abundantly optimistic about cotton prices. But just as the excitement escalates, farmers are gearing up to increase plantings in the U.S., the world's top exporter. Cotton has been the recent star of the crop world, with prices heading for a third straight monthly gain. The advance was underpinned by demand that's poised to increase to the highest since 2008. That captured the attention of investors, who have piled into speculative wagers that futures will keep climbing. But it's also caught the eye of American farmers who are in the midst of making planting decisions at a time when grain prices have stayed historically low.
- U.S. cotton plantings this year will probably reach the highest since 2011, a Bloomberg survey showed. The rising acreage could be why commercial traders such as textile mills have taken the opposite approach of hedge funds and are holding a huge short position, or bets on falling prices.
- Speculators sharply increased their net short position in raw sugar contracts on ICE Futures U.S. in the week to Jan. 23, lifting it to a record high, U.S. Commodity Futures Trading Commission (CFTC) data showed.
- Back at home, Maharashtra has lowered its estimate of cotton production in 2017-18 by 43 percent to 60.48 lakh bales from 106.15 lakh bales in 2016-17 due to a sharp fall in yields, according to the second advance estimate released by the state government. The first advance estimate had earlier pegged total cotton production in the state at 95 lakh bales. Maharashtra witnessed a dry spell from June end to early August that hit kharif crops in the growth stage. A massive pink bollworm attack on cotton crop, too, led to such an unprecedented cut in output estimate.
- As of date, around 44 lakh bales have arrived in Maharashtra and various traders still believe around 25-30 lakh bales would be yet to arrive for the remainder of season.
- As per first advance estimate of the Centre, India's total cotton production in 2017-18 is estimated at 322.73 lakh bales as compared to 330.92 lakh bales in 2016-17 (as per fourth advance estimate).
- The Cotton Corporation of India (CCI), so far, has bought 6.2 lakh bales (of 170 kg each) this season. From the 6.2 lakh bales, 3.67 lakh bales have been purchased under the Price Support Scheme at a minimum support price of ,270 per quintal and the remaining 2.53 lakh bales has been purchased under CCI's commercial operations.

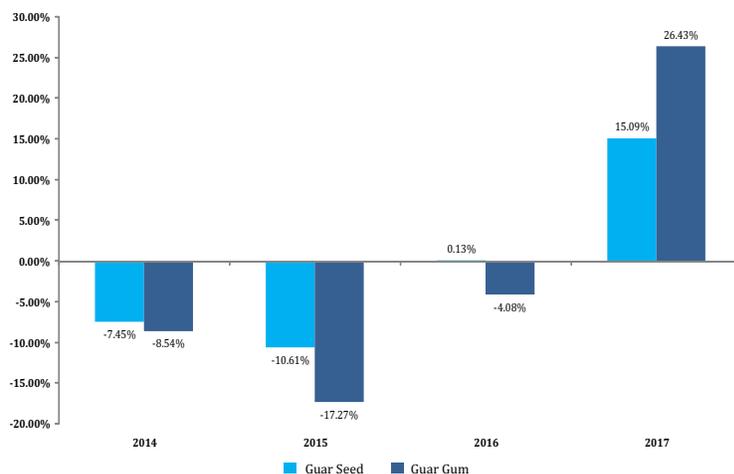
## Forward curve of Guar futures



Source: NCDEX

Closing as on 31st January, 2018

## Historic returns of Guar futures during month of February



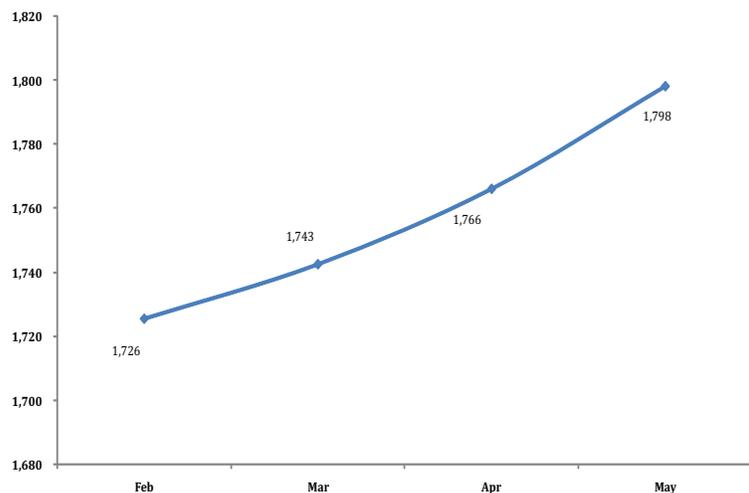
Source: Reuters & SMC Research

S3	S2	S1	Pivot	R1	R2	R3
3683	3929	4303	4549	4923	5169	5543
8063	8583	9345	9865	10627	11147	11909

## Fundamentals

- Last month, Guar gum futures (March) has shown a breakout on technical charts accompanied with increased both open interest & volumes. The uptrend is likely to continue in days to come & can test 11000-11500.
- Guar seed futures (March) is giving a higher closing since past three months & last month the counter rallied the most, thanks to the rising crude oil prices. Going ahead, the upside momentum is expected to continue as it has the potential to test 4900-5100 levels.
- The rising open interest in March contract and reduction in February contract both in guar seed & guar gum is indicating roll over of positions to forward month (March). Bullish movement is expected to continue ahead as open interest have increased along with price.
- Guarseed surged at the benchmark Jodhpur market, also Guargum edged higher due to strong buying from crushers, traders and stockists supported by increased inquiry in export amid rising crude oil prices.
- India's guargum exports in Apr-Nov surged 42% on year to 321,570 tonnes, data from the Agricultural and Processed Food Products Export Development Authority showed. Export of guargum in FY18 can go up to 4 lakh tonnes.
- On the supply side, this season arrivals from Oct 1, 2017 to Jan 25, 2018 stood at 34.82 lakh bags from estimated production of 50 lakh bags this season, which means 70% of crop has already been hit the market. Now the total availability of Guarseed in the country is estimated at around 115 lakh bags (including 100 lakh bags as carryover from previous crop 2016-17).
- There is still 9 months time left for the season to end and if the export demand continues to stretch month-on-month, then the balance sheet will be pretty tight and may rally to extend in upcoming months. Selling by stockists and farmers are slow, and they are releasing their only as per their financial stock.
- Production of guar seed in Rajasthan, the top producer of the commodity, is seen rising 10% on year to 15.4 lakh tonne in 2017-18 (Jul-Jun), the second advance estimates released by the state government showed.
- Activity in the spot market is said to be robust as buyers as the market participants are buying these commodities due to positive fundamentals.
- On the international market, Oil prices have hit three-year \$71.28 a barrel last month on the back of strong demand, geopolitical risks, a weaker U.S. dollar and efforts by the Organization of the Petroleum Exporting Countries to curb supply. Meanwhile, the dollar was poised for its longest stretch of weekly declines since 2010.
- Oil prices have climbed nearly 49% from June, benefiting from production cut efforts led by the Organization of the Petroleum Exporting Countries and Russia. The producers agreed in December to extend current oil output cuts until the end of 2018.

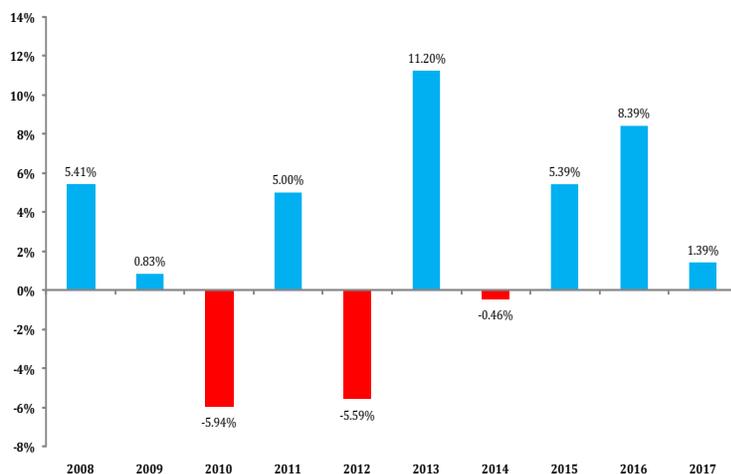
## Forward curve of Cocud futures



Source: NCDEX

Closing as on 31st January, 2018

## Historic returns of Cotton Oil seed cake futures during month of February



Source: Reuters & SMC Research

S3	S2	S1	Pivot	R1	R2	R3
1491	1583	1663	1755	1835	1927	2007

## Fundamentals

- **Cotton Oil seed cake (March) is likely to witness consolidation for few weeks in the range of 1650-1850 levels.**
- Strong demand and concern about crop amid pink bollworm attack to cotton crop in key growing regions have pushed cotton seed oilcake prices sharply up this season.
- Cotton seed oilcake prices so far, this season (Oct'17 -Sept'18) rose to Rs 1888/100kg at the Akola spot market.
- The recent correction in cotton seed oilcake prices was attributed to poor domestic demand due to ample availability of other feed material at very competitive rates.
- Milk prices in key producing states are steady compared with same period last year.
- Milk production, which was around 17-22 million tonnes in the 1960s, increased to 165.4 million tonnes during 2016-17. Particularly, it has increased by 20.12% during 2016-17 in comparison to 2013-14. Similarly, per capita availability has increased from 307 grams in 2013-14 to 355 grams in 2016-17, registering 15.6% growth.
- At present, the demand from cattle feed manufacturers or farmers has slowed down as they have opted to shift to cheaper substitute like pulses chunni, along with grains, mainly millets (bajra) and maize (makka).
- Cottonseed oilcake is available in the range of Rs 1,675/100k in Kadi, whereas pulses (tur, chana, urad, moong) chunni and grains (millets and maize) is available in the range of Rs 1000-1425.
- Cottonseed oilcake production during the first three month (Oct-Dec) of current season 2017-18 is estimated higher around 24.25 lakh tonnes. Cottonseed oilcake stock in the country is pegged somewhere around 3.60 lakh tonnes, which is sufficient to cater present poor demand.
- It is estimated that the country has received around 141 lakh bales (170kg each), 40% of estimated production of 350 lakh bales this season, which means that still 60% of cotton is left with farmers.
- Ample availability of cotton seed oilcake stock along with other substitutes, lackluster demand is expected to weigh on prices.

## Weekly spread of Guar seed futures (February - March)



Source: Reuters

## Weekly spread of Guar Gum futures (February - March)



Source: Reuters

## Weekly spread of Cotton Oil seed cake futures (February - March)



Source: Reuters

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