

On the Occasion of Dhanteras & Diwali

Special Report on

Cotton, Soybean & Jeera



Price Chart of Cotton Futures (MCX)



Source: Reuters

Cotton futures December contract on MCX is posing a strong support near 21100 & is expected to show a rally towards 24500-24800 levels. One can buy near 22100, keeping a stop near the support levels. The underlying fundamentals are positive amid projections of lower crop output & higher prospects of exports to countries like Bangladesh & Vietnam. The mills are getting active in buying cotton as stocks with them are depleting at faster pace. Mills have not made major procurement of cotton during the last 30-45 days due to tight availability and higher rates, but now they are likely to buy aggressively in order to replenish stocks for smooth operations.

INDIAN SCENARIO

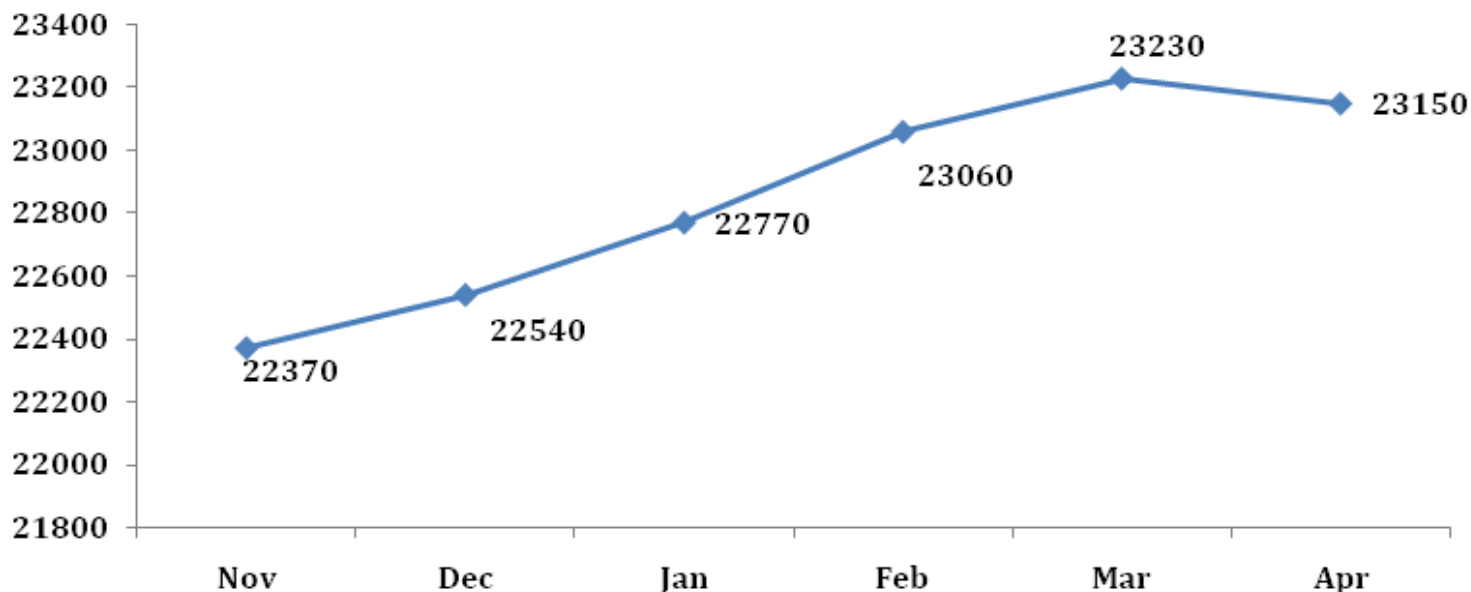
- The US Department of Agriculture's Foreign Agricultural Service has projected India's cotton production in 2018-19 (Aug-Jul) at 36.5 mln bales, down nearly 2% from the previous year and 200,000 bales lower than the official USDA estimate.
- All-India yields for cotton are now forecast at 502 kg per ha, down 1% compared to the previous year.
- Dry weather in the key growing regions of Gujarat and Maharashtra have hampered crop development and will likely to affect yields of standing crop
- In the present scenario, the yields in Gujarat to be 10 percent lower than last year. The crop is in the boll development/formation stage. There are reports of pink bollworm and whitefly infestation in major cotton growing districts in the state.
- Similarly, yields in Maharashtra are expected to be lower by 7 percent than last year, as pink bollworm infestations continue to be reported across the state.
- In Madhya Pradesh, at present the cotton is in the flowering/ boll formation stage.
- In the state of Andhra Pradesh, the crop is at the flowering / vegetative state. There are some observations reported on pink bollworm infestation, but these are below the economic threshold levels.
- Total new crop arrivals, since Oct 1, have reached 2.64 million bales, up 22.45% from 2.16 million bales arrived during the same period last year.

Cotton India as of October 2018							
Attribute	18/19 Oct'18	Change	18/19 Sep'18	17/18	16/17	15/16	14/15
Area Harvested (1000 HA)	12,300	+400(+3.36%)	11,900	12,400	10,850	12,300	12,850
Beginning Stocks (1000 480 lb. Bales)	8,680	-2900(-25.04%)	11,580	7,880	7,044	10,586	8,559
Production (1000 480 lb. Bales)	28,700	-	28,700	29,000	27,000	25,900	29,500
Imports (1000 480 lb. Bales)	1,500	-	1,500	1,700	2,736	1,072	1,226
Total Supply (1000 480 lb. Bales)	38,880	-2900(-6.94%)	41,780	38,580	36,780	37,558	39,285
Exports (1000 480 lb. Bales)	4,400	-	4,400	5,200	4,550	5,764	4,199
Use (1000 480 lb. Bales)	25,500	-	25,500	24,700	24,350	24,750	24,500
Loss (1000 480 lb. Bales)	0	-	0	0	0	0	0
Total Dom. Cons. (1000 480 lb. Bales)	25,500	-	25,500	24,700	24,350	24,750	24,500
Ending Stocks (1000 480 lb. Bales)	8,980	-2900(-24.41%)	11,880	8,680	7,880	7,044	10,586
Total Distribution (1000 480 lb. Bales)	38,880	-2900(-6.94%)	41,780	38,580	36,780	37,558	39,285
Stock to Use % (PERCENT)	30.03	-10(-24.41%)	39.73	29.03	27.27	23.08	36.89
Yield (KG/HA)	508	-17(-3.24%)	525	509	542	458	500

Source: USDA

- The US agency has estimated opening stock of cotton for 2018-19 at 15.6 mln bales, higher than the opening stock of 14.3 mln bales in 2017-18.
- Imports have been estimated at 1.9 mln bales in 2018-19, compared with 2.2 mln bales in the previous year.
- On the demand side, consumption by mills in 2018-19 is seen at 32.1 mln bales, slightly higher from 31.4 bales a year earlier. Exports are seen falling to 5.5 mln bales from 6.7 mln bales in 2017-18.
- Considering consumption and exports, the closing stock at the end of 2018-19 is pegged at 16.6 mln bales, up from 15.6 mln bales the previous year.
- The Cotton Association of India has pegged the country's cotton production in 2018-19 (Oct-Sep) at 34.8 mln bales (1 bale = 170 kg), down nearly 5% from a year ago.

Forward curve of Cotton futures



Closing Price as on 2nd November, 2018

Source: SMC Research

Price Chart of Cotton Futures & Spot



On the international market, cotton futures is expected to take support near 76 cents & witness a move upside towards its first resistance near 81 cents per pound & if sustains above this, then 83 cents per pound. Cotton prices were grasped under a bearish trend due to the lack of China's participation on the export front & prolonged stronger dollar owing to ongoing trade war. However, some good news have started flowing into since last week on the trade front in the terms of a President Trump tweet suggesting that US and China "discussions are moving along nicely" ahead of the scheduled G-20 meeting at the end of November. Apart from the above, weather poses questions to the supply side of the U.S. balance sheet, greater uncertainty likely exists on the demand side.

Fundamentals of the international cotton are as follows:

- With global cotton mill use forecast to exceed production, world stocks are expected to decline 6.4 million bales by season's end, as lower stocks in China in 2018/19 more than offset higher stocks outside of China.
- Global cotton consumption in 2018/19 is projected at a record-high 127.8 million bales, 4.5 million bales above 2017/18. Growth in cotton mill use expanded significantly in 2017/18—rising more than 6 percent—as the global economy's strength led to increased consumer demand for textile and apparel products. However, less robust mill use growth (3.6 percent) is forecast for 2018/19, partly reflecting concerns about global economic growth.
- Based on the latest cotton supply and demand projections, world ending stocks are forecast at 74.4 million bales in 2018/19, 8 percent (6.4 million bales) below a year ago and the lowest in 7 years.
- According to USDA's October Crop Production report, 2018 U.S. cotton production is estimated at nearly 19.8 million bales, marginally above last month's forecast but about 1.2 million bales below the 2017 crop.
- With the reduced U.S. demand projection in October and the slightly higher U.S. production estimate, the U.S. ending stocks estimate increased 300,000 bales this month to 5.0 million bales.

U.S. cotton exports and share of global trade



Note: 1 bale = 480 pounds.

Source: USDA, *World Agricultural Supply and Demand Estimates* reports.

Source: USDA

- U.S Cotton stocks are expected to rise 700,000 bales during 2018/19 to their highest level since 2008/09. However, the implied stocks-to-use ratio (26 percent) is estimated at the highest in only 3 years and 3 percentage points above 2017/18.
- On the exports front, Net all-cotton weekly export sales for this season and next fell to a combined 116,100 running bales, with sales for 2018-19 of 25,000 RB (Running bales) hitting a marketing year low for the second straight week. China canceled 90,200 RB for 2018-19 and booked that amount for 2019-20.
- Commitments for 2018-19 inched up to 9.303 million RB as the lead over a year ago narrowed 160,000 RB to 1.594 million. New-crop bookings reached 1.596 million RB, up from forward sales last year of 774,000 RB.

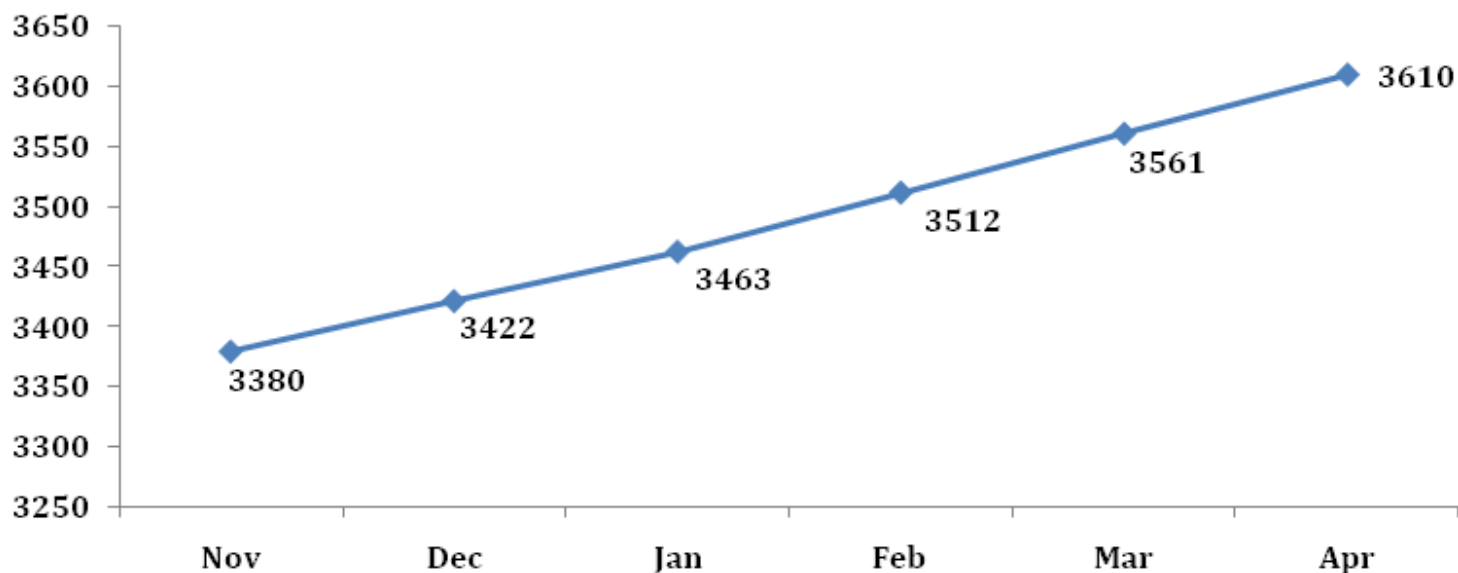
Oilseed, Soybean India as of October 2018

Attribute	18/19 Oct'18	Change	18/19 Sep'18	17/18	16/17	15/16	14/15
Area Harvested (1000 HA)	11,000	-200(-1.79%)	11,200	10,400	11,183	11,605	10,911
Beginning Stocks (1000 MT)	160	-	160	810	338	200	600
Production (1000 MT)	10,350	-150(-1.43%)	10,500	8,350	10,992	6,929	8,711
MY Imports (1000 MT)	150	+50(+50%)	100	150	79	53	11
Total Supply (1000 MT)	10,660	-100(-.93%)	10,760	9,310	11,409	7,182	9,322
MY Exports (1000 MT)	200	-50(-20%)	250	250	269	134	234
Crush (1000 MT)	9,000	-	9,000	7,600	9,000	5,500	7,700
Food Use Dom. Cons. (1000 MT)	450	-	450	450	450	360	340
Feed Waste Dom. Cons. (1000 MT)	850	-	850	850	880	850	848
Total Dom. Cons. (1000 MT)	10,300	-	10,300	8,900	10,330	6,710	8,888
Ending Stocks (1000 MT)	160	-50(-23.81%)	210	160	810	338	200
Total Distribution (1000 MT)	10,660	-100(-.93%)	10,760	9,310	11,409	7,182	9,322
Yield (MT/HA)	0.94	-	0.94	0.80	0.98	0.60	0.80

Source: USDA

- Farmers registered under this scheme can get the benefit if they sell their produce between Oct 20 and Jan 19.
- Farmers are showing interest in the scheme and the registered ones are bringing in crops in large scale.
- Harvest of soybean started early October, and the crop is hitting the spot markets in full swing,
- Demand in soybean is said to be good from crushers as they are buying the commodity on bulk scale amid good overseas commitments for soymeal.
- Further domestic demand for soymeal is also said to be good from consumption centres. Stockists too are buying soybean in good quantity with expectations of better return ahead.

Forward curve of Soybean futures



Closing Price as on 2nd November, 2018

Source: SMC Research

SOYBEAN

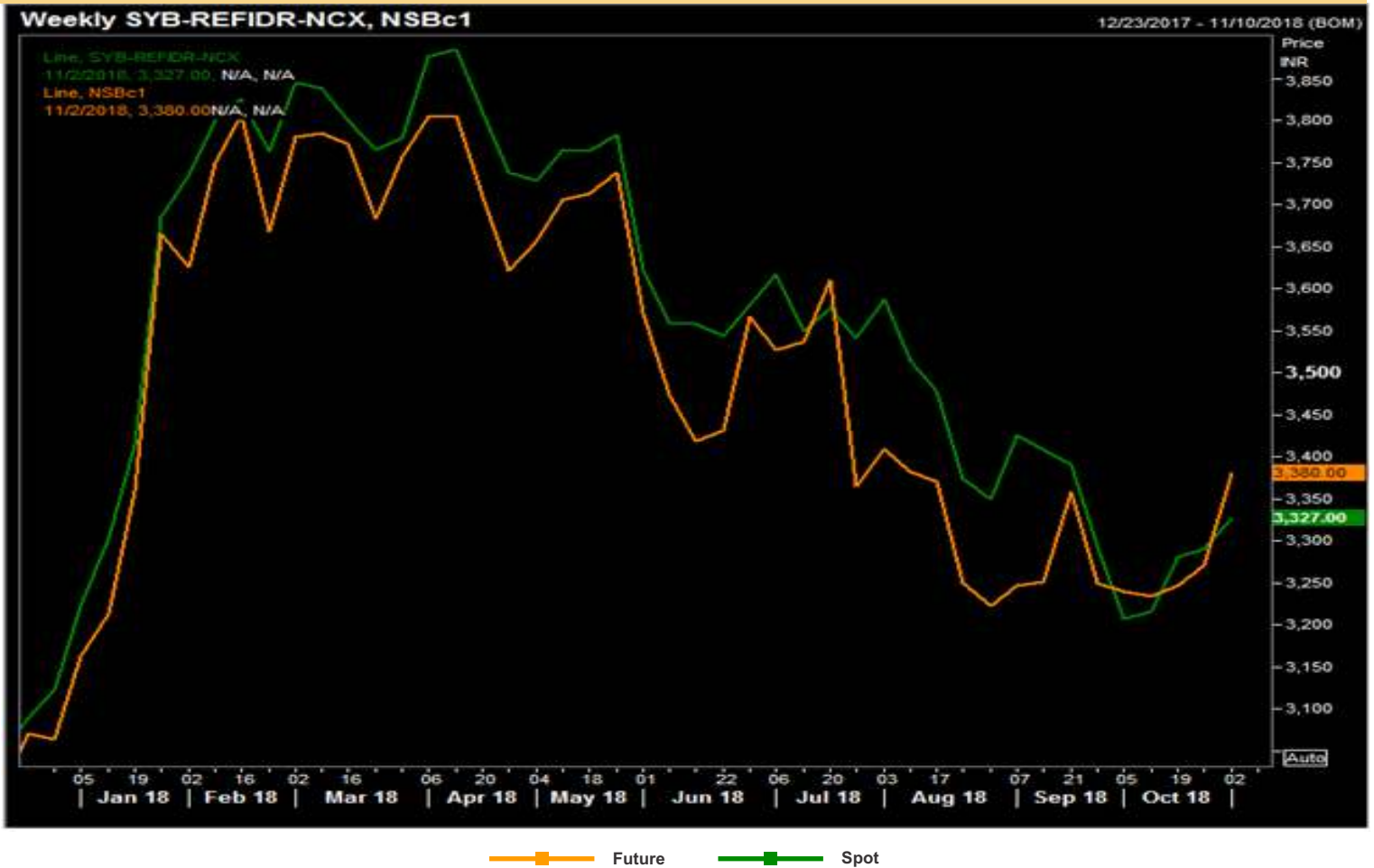
- The trade sentiments have improved after telephonic conversation between U.S. and China president on trade issue. An easing trade worries will fuel CBOT soybean price and also support domestic market as well.
- India soymeal export prospects seem better this season amid ample crop along with competitive rates in the international market.

Crush Margin

Crush Margin - Soybean				
Particular			Amount	Realization
Soybean	Rs/Quintal	A	3,327	33,270
Ref Soy Oil	Rs/10 Kgs	B	763	13,193
Soymeal	Rs/Tonnes	C	27,017	22,154
Gross Crush Margin (Per Ton)		(B+C)-A		2,077

Source: NCDEX

Price Chart of Soybean Futures & Spot



Price Chart of Jeera Futures (NCDEX)



Source: Reuters

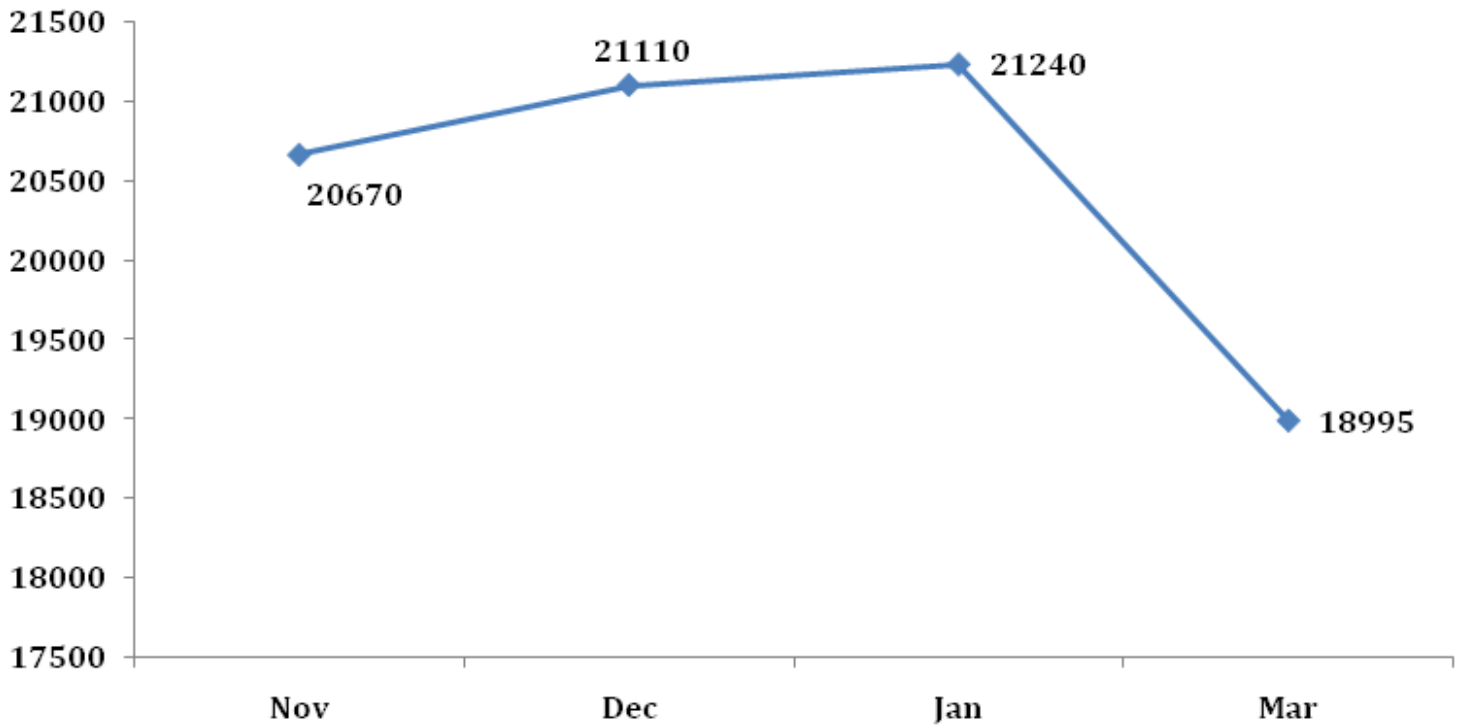
Jeera futures December contract is looking bullish, hence buying is recommended near 19600, eyeing a target of 24600 & keeping a stop loss near 17500 levels. The factors such as lesser carryover stocks in the domestic market, crop getting damage in Syria & Turkey & India being the sole supplier in the international market may push the jeera prices to new high's.

FUNDAMENTALS

- The overseas demand for Indian jeera is expected to increase as the supplies from other sources are limited and of poor quality.
- The stock from Turkey and Syria has been damaged by rain.
- Lack of sufficient rains in some jeera growing regions in Gujarat and Rajasthan, two top producers, may impact the sowing that will begin by the end of the month.
- Sowing of jeera is likely to start after Diwali this year, traders said. Farmers typically begin sowing the spice by Oct 20.
- In the key jeera growing areas, it is almost a failed monsoon this year. The primarily showing figures may be cheering, but going forward, due to lack of adequate water, the crop may not sustain and the production may drop.
- The growing areas of Kutch and Saurashtra in Gujarat, which is the largest grower of the spice, are facing rainfall shortage in the range of 28 to 75 percent.
- As per the Meteorological Department, Kutch district has a rainfall shortage of 74 percent followed by 28 percent in Saurashtra. This has put the dependence on canal water supply from Sardar Sarovar Dam on Narmada River. But the storage level of the dam also has decreased due to less rainfall in the catchment area in Madhya Pradesh thereby endangering the sowing prospects.

- The market expects India's jeera acreage in 2018-19 (Oct-Sep) to fall at least 30% from the previous year's 780,950 ha.
- Farmers are waiting for temperatures to fall a bit adding that soil moisture is also low. Poor soil moisture means lower rate of germination and an adverse effect on yields as a result.
- Moreover, carryover stocks are seen at 200,000-300,000 bags (1 bag = 55 kg), way less than the desirable 500,000 bags. The new crop will only start arriving in February and that will also keep prices propped higher.
- On the other hand, market estimates put exports at about 1.25 lakh tonnes so far and there are chances of it touching a record 1.75 lakh tonnes by the end of this economic year.
- As domestic demand continues to remain firm, a rise in export enquiries from China, Bangladesh, and Singapore may also push prices higher.

Forward curve of Jeera futures



Closing Price as on 2nd November, 2018

Source: SMC Research

Price Chart of Jeera Futures & Spot



—■— Future —■— Spot

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