

# **SPECIAL REPORT ON**

# **Report on Liquidity Enhancement Scheme**

# **in Guarex and Its Outlook**



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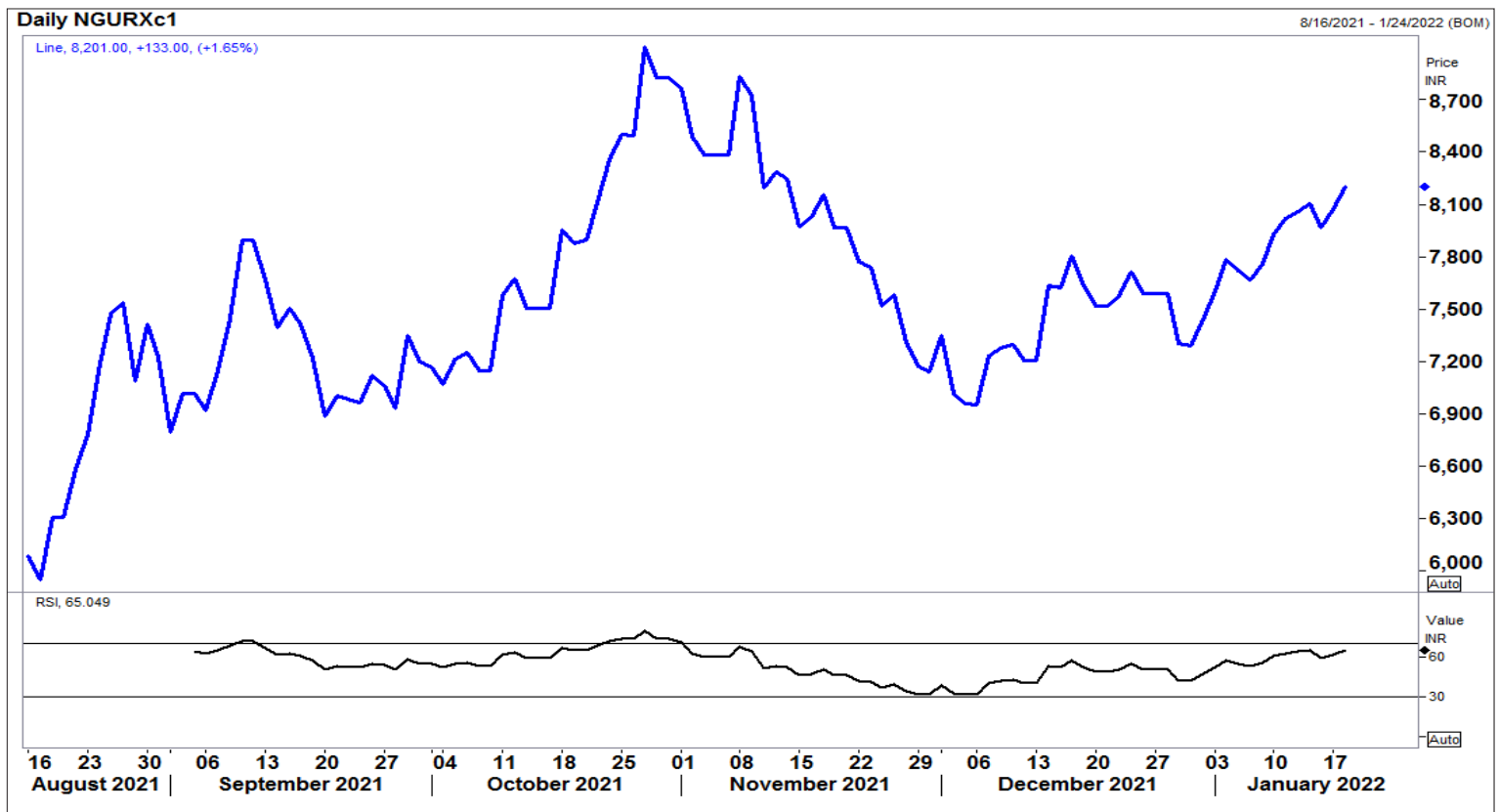
NCDEX has launched Liquidity Enhancement scheme for the Guarex from 17th Jan 2022. **Under the liquidity enhancement scheme**, brokers and other market intermediaries are given incentives for a specified period of time to bring in liquidity and generate investor interest in commodity contracts which have limited trading activity.

India's first sectoral index in the Agri commodities basket i.e. GUAREX was launched for the first time in August 2021 by the National Commodity and Derivatives Exchange Limited (NCDEX).

NCDEX GUREX provides real-time commodity futures price index, designed to provide exposure of Guar Complex Commodity to market participants. The index is based on the liquid Guargum and Guarseed futures contracts traded on NCDEX. **The Index act as an important tool in benchmarking and trading for the market.**

This index product is offering a lot of opportunities to value chain participants in terms of risk management as well as various trading strategies. The index is based on the liquid Guar Gum and Guar Seed futures contracts traded on NCDEX.

But due to **liquidity related issues** trade participants failed to pick up. Thus, as per the SEBI guidelines under the Liquidity Enhancement Scheme, NCDEX has initiated it for the first time on its platform to improve volumes which facilitate easy entry and exit for the participants. The cross margin benefits also attract industrial participants to hedge their price risk thus proving high level of liquidity and participation in the index product – GUAREX.



Source: Reuters

## Features of GUAREX

1. Based on underlying very liquid Guarseed and Guargum prices.
2. Cash Settled - no delivery.
3. 1 lot GUAREX has 7 tonnes of Guarseed and 3 tonnes of Guargum. Thus, the contract size is about 8 lakh rupees.
4. 10% is the Minimum Initial Margin.
5. Trading hours – 9am to 5 pm.
6. Cross Margin Benefits available in Guarex futures.
7. Expiry on Last Trading day of the month.

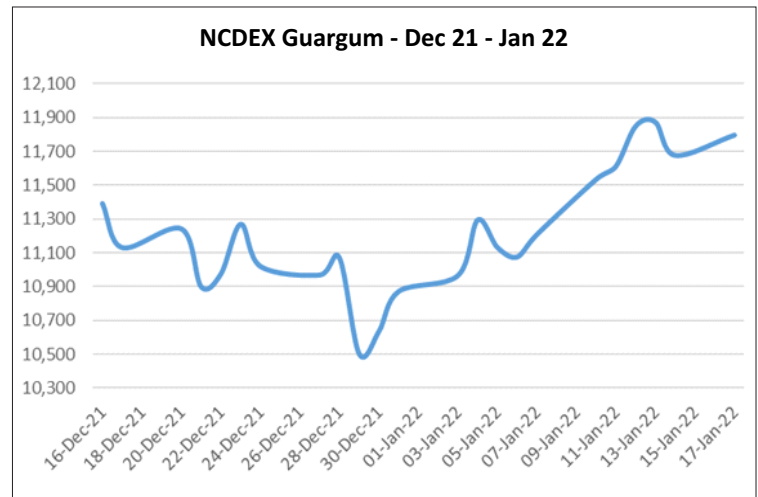
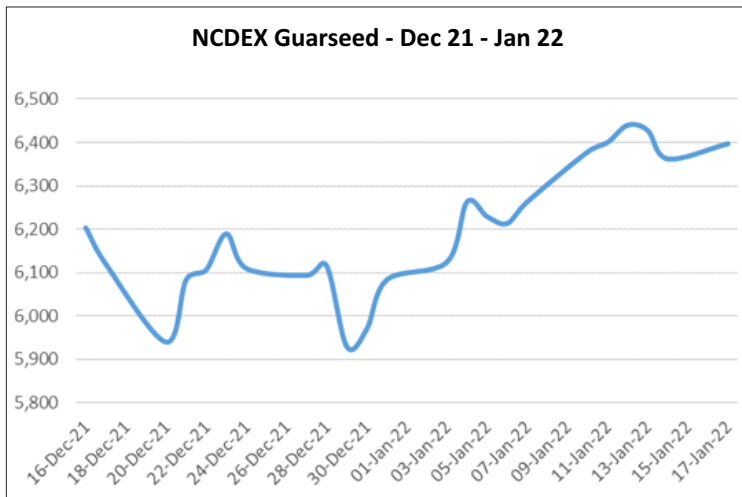
# Report on Liquidity Enhancement Scheme in Guarex and Its Outlook

## Outlook on GUREX

GUAREX index depends on the price movement of guarseed and guar gum. Guarseed is a very important commodity for the industrial use. The by-products of guarseed – 1) Guar gum is vastly used for the various industries like textile, printing, oil drilling mining, cosmetics & pharmaceuticals and constructions. There are many uses in the food industries as a thickening agent and it is found in frozen foods, baked goods, dairy products, beverages, dressing and sauces. The other by-products called Churi- Korma are also used in animal food as it contains high proteins and fibers.

Currently, guar seed and guar gum prices are higher by 60% and 94% y/y respectively, on expectations of tight supplies in 2022, due to lower productions in India, that accounts for more than 90% of total world production. The exports of guar gum and domestic demand for the churi-korma also improving as feed industry is facing higher prices from the traditional feed sources like soybean meals. As per the data released by APEDA, guar gum exports are higher by more than 44% y/y at 2.09 lakh tonnes in 2021/22 (Apr-Nov). The major export destinations during 2021/22 are USA, Norway and China.

We expect guar gum demand will be increasing as the season progresses and exports might surge to pre-covid times. Thus, prices are expected to be bullish on higher export demand. Moreover, US oil rigs are also rising with the current count showing at 492 rigs up 205 compared to last year.



**We are expecting guar seed to remain bullish and trade higher towards 6800 levels, while guar gum most likely to trade towards 12300 levels in short to medium term. Guarex futures is trading near 8000 levels and likely to trade higher towards 8200/8300 with the support at 7800 levels.**

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