

SPECIAL REPORT ON

18 February, 2020

RM SEED

(APRIL)



Moneywise. Be wise.

Summary

Since the beginning of the year the oilseeds have been witnessing correction due to influence of various factors in both domestic as well as in the international markets. Currently, mustard is trading near its two months low after making a high of 4716, owing to prospects of higher output this Rabi season. Last year, the good monsoon influenced the farmers in large manner to take up the sowing of this oilseed as the soil moisture was adequate for this crop. Moreover, due to higher minimum support price of the oilseed farmers in parts of the country preferred this crop. The Centre has fixed the minimum support price of mustard at 4,425 rupees per 100 kg for 2019-20, as against 4,200 rupees the previous year. Though farmers in major mustard growing regions in Madhya Pradesh, Haryana, Uttar Pradesh and West Bengal have shifted to wheat, the area under the oilseed has risen in eastern parts of the country by a similar extent.

Current scenario

This Rabi season, farmers had sown mustard over 6.9 mln ha, 0.4% lower than the year-ago acreage, according to farm ministry data. National average Yield is seen at a maximum of 1.90 tn a ha in most parts of the country, up from an average 1.45 tn a year ago.

India's mustard crop in 2019-20 (Jul-Jun) is expected to remain unchanged on year at 9.34 mln tn as benefits from favourable weather. Winter rainfall in some parts of northern India is also seen boosting yield. Currently, the early-sown crop is in the pod filling stage and healthy.

Attributes	2018/2019	2019/2020	Unit Description
Area Harvested	7,200	7,200	(1000 HA)
Beginning Stocks	369	569	(1000 MT)
Production	8,000	7,700	(1000 MT)
Total Supply	8,369	8,269	(1000 MT)
Crush	6,800	6,800	(1000 MT)
Food Use Dom. Cons.	650	650	(1000 MT)
Feed Waste Dom. Cons.	350	350	(1000 MT)
Domestic Consumption	7,800	7,800	(1000 MT)
Ending Stocks	569	469	(1000 MT)
Total Distribution	8,369	8,269	(1000 MT)
Yield	1.11	1.07	(MT/HA)

Source: USDA

Impact of fundamentals on price outlook

The price outlook of mustard is still bearish & in days to come may remain under pressure due to fresh arrivals. Early sown mustard crop has started arriving at a few districts of Rajasthan, the largest grower of the oilseed. Arrivals started in Dausa, Jaipur, Sawai Madhopur, Jaipur, and Tonk in the middle of this week, and are likely to pick up in a fortnight. Also, arrivals of the new crop have started in parts of Uttar Pradesh, Madhya Pradesh, and Gujarat. The newly harvested oilseed has 48-52% moisture, far higher than the acceptable 10-12%.

Apart from the selling pressure, one more new major factor which is affecting the market sentiments is the outbreak of coronavirus in China. Due to this, the physical demand for the commodities are subdued & China being the major consumer of many, a bearish phase is being seen in the overall commodities market. Mustard, being a part of the oilseeds complex, the negative influence of sluggish demand for bean to edible oil from China is being felt over this counter also.

But despite of this, on the demand side, crushing is likely to pick up in the coming months due to strong demand from oil millers and hopes of arrival of new crop from end of this month. Typically, oil millers carry out crushing operations in full swing during March to June, the peak arrival season for the crop. The recent restrictions on import of palm oil from Malaysia may increase the demand for mustard oil. Already the imports have started coming down & it can be judged from the latest figures which cite that the overall import of vegetable oils during Q1 of 2019-20 i.e. November 2019 to January 2020 is reported at 3,451,313 tons compared to 3,620,316 tons i.e. down by 4.7%.

Going by this trend & Indians becoming more health conscious, we expect that a tectonic shift of demand from palm oil to mustard oil. Hence, the demand from millers & stockiest are expected to rise as they will build their inventory to meet their demand for the rest of the year.

SEASONALITY

Based on the seasonal data of past 10 years, it is analyzed that slowly & steadily this counter gives positive return month after month starting this February ranging from 0.80-0.85% to 1.70-1.75% till the month of July. Thereafter, a minor correction & then again the upward trajectory resumes on the back of seasonal winter demand.

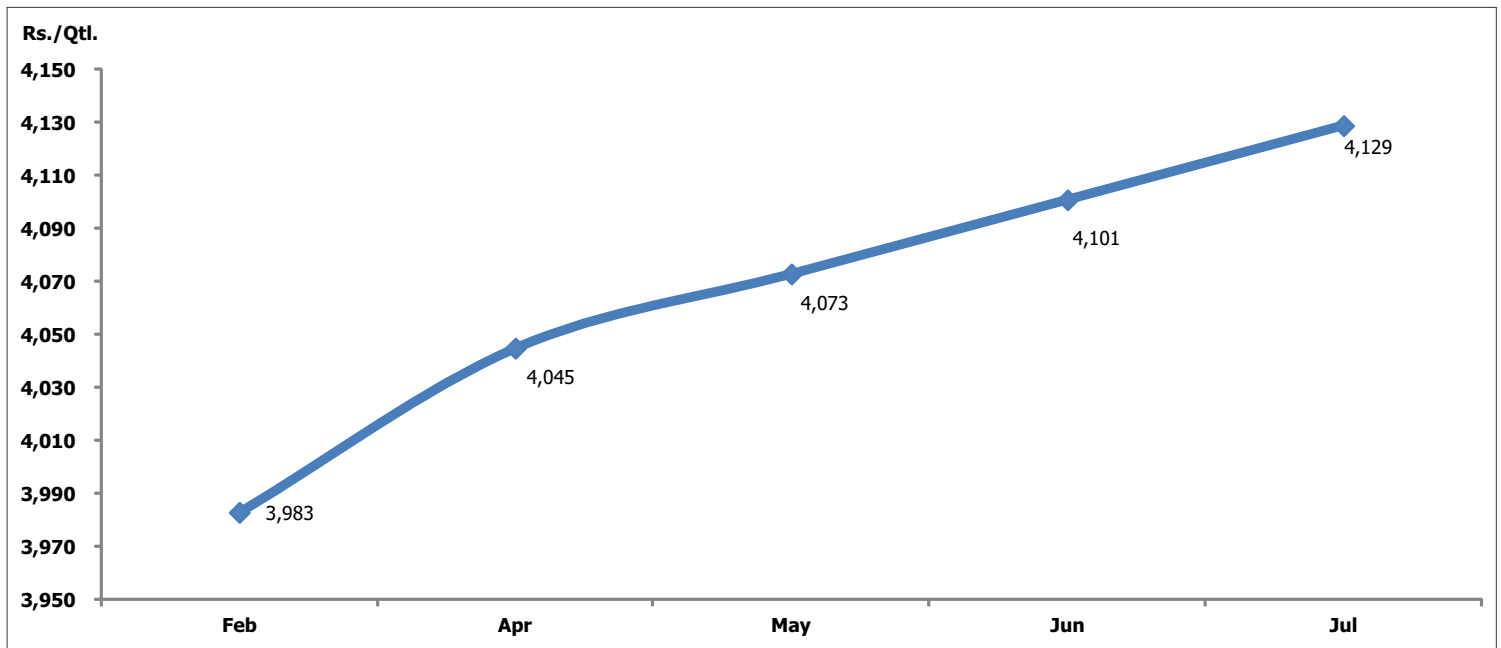
	2011	2012	2013	2014	2015	2016	2017	2018	2019	Average
Jan	3.60%	-12.71%	-17.32%	-5.74%	-22.12%	-10.73%	-11.82%	5.00%	1.63%	-7.80%
Feb	-2.54%	8.86%	-1.94%	5.60%	1.23%	1.25%	0.37%	-1.23%	-3.92%	0.85%
Mar	-6.54%	7.78%	1.59%	-1.31%	0.62%	7.22%	1.56%	-1.81%	-1.91%	0.80%
Apr	2.64%	4.91%	0.32%	2.25%	12.18%	5.77%	-3.81%	-6.33%	-0.27%	1.96%
May	5.08%	-5.52%	0.38%	-3.70%	11.17%	0.77%	-7.34%	4.21%	5.48%	1.17%
Jun	-1.21%	2.64%	-1.79%	4.02%	-0.99%	7.65%	3.62%	1.69%	-0.20%	1.71%
Jul	4.05%	9.96%	-7.49%	1.52%	-0.24%	0.75%	2.49%	4.65%	-0.10%	1.73%
Aug	-0.94%	1.34%	12.16%	-0.83%	1.64%	-3.70%	1.95%	-4.22%	-0.38%	0.78%
Sep	-6.00%	-11.52%	1.39%	2.24%	3.56%	-1.23%	-0.85%	4.79%	0.82%	-0.76%
Oct	10.28%	8.56%	6.00%	2.47%	11.54%	-0.98%	4.23%	-2.18%	8.90%	5.42%
Nov	2.91%	-0.52%	-2.19%	3.85%	-3.65%	6.81%	5.31%	-2.76%	0.35%	1.12%
Dec	19.99%	-0.24%	-5.17%	10.67%	-9.67%	-10.05%	-4.02%	-1.46%	7.80%	0.87%

In the above table, it is very clear that we had projected a correction of about 8% in the month of January & exact happened wherein RM seed witnesses a downfall of about 11.46%. However, the month of February was exclusive as the negative influence of coronavirus took a toll over the commodity prices.



Overall, we expect that the current phase of correction in the April contract to bottom out near 3900-3850. From these support levels, RM seed futures may take a rebound as it is seen historically. Hence, we would advise to accumulate RM Seed futures (April) near support zone, eyeing a target of 4150-4350-4335 levels.

Forward curve of RM Seed futures



Closing on 14.02.2020

Source: NCDEX

The forward curve of RM seed is also depicting that the price outlook is bullish during months ahead.

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