11 September, 2018

Monthly Report On

Oilseeds

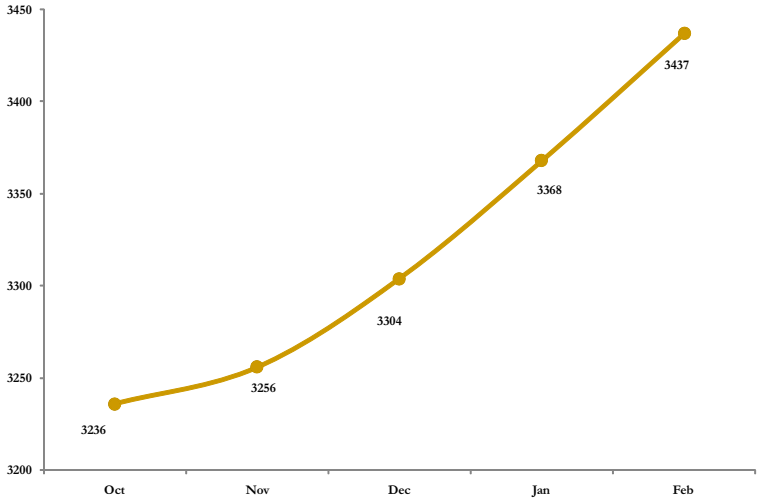
September 2018

smc

Moneywise. Be wise.

Domestic Fundamentals: Soybean Futures (October)

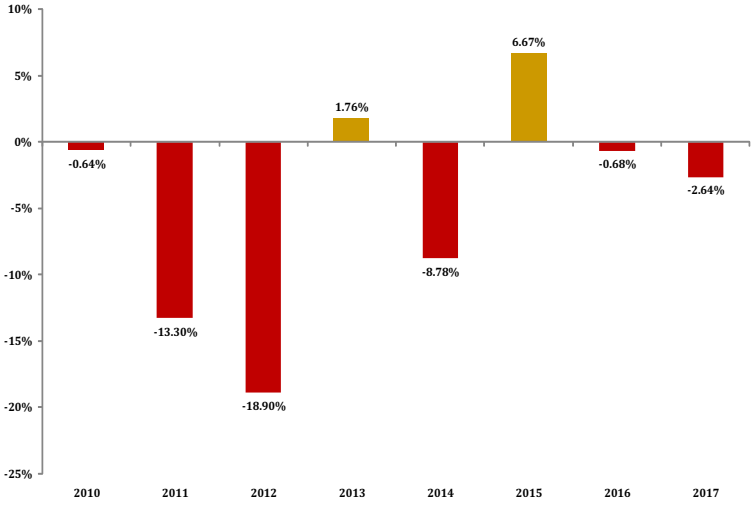
Forward Curve of Soybean Futures (NCDEX)



Source: NCDEX

Closing as on 10th September, 2018

Historic return of Soybean futures (NCDEX) in the month of September



Source: Reuters & SMC Research

S2	S1	Pivot	R1	R2
2989	3105	3275	3391	3561

Fundamentals

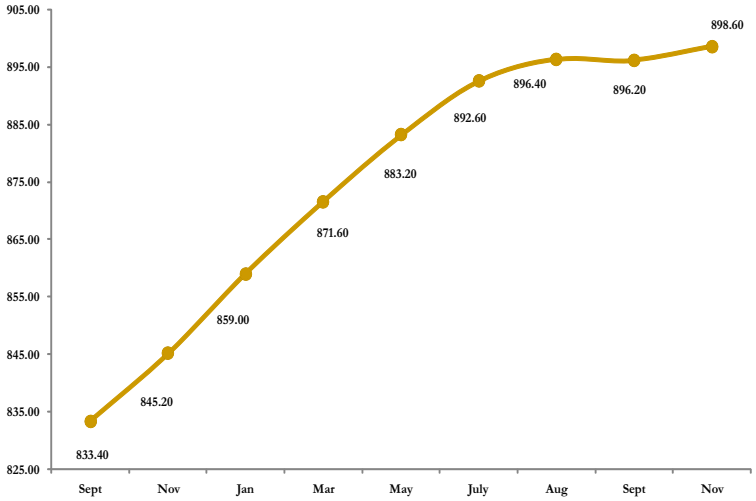
- **Looking at the charts & tracking the fundamentals, it seems like soybean futures (October)is expected to trade on a bearish note & may even test 3100 levels, facing resistance near 3300 levels.Apart from this, the market participants may avoid fresh buying ahead of the monthly report to be published by the USDA providing comprehensive forecast of supply and demand for U.S soybean, along with season-average price forecasts due on September 12.**
- Farmers in the country had sown soybean across 11.19 mln ha, up 6.3% from a year ago, according to data from the farm ministry.Higher sowing in the key growing areas of Madhya Pradesh, Maharashtra, and Rajasthan due to adequate rain boosted the acreage under the oilseed,
- India's soybean output is set to jump about 20 percent to over 10 million tonnes in the 2018/2019 crop year that starts in October, according to the Solvent Extractors' Association of India (SEA).
- New crop soybean has hit the Sangli market, while in Latur, another key market for the oilseed, soybean arrivals will commence from October and the crop is in the flowering stage.
- The amount of land in India planted with soybeans for the 2018/2019 crop year had risen to 111.92 lakh hectares as of Sept 7, according to government data, up from 105.26 lakh hectares at the same time the previous year.
- Going ahead, the market participants would keep an eye on the weather & the development of the crop, along with the quality. In news, it is reported that soybean crop in Madhya Pradesh is at risk with pest attack threatening yields may give a word of caution to the sellers in the domestic market. In some cases, the pest attacks have been found to be above the economic threshold level. The humid weather at present is turning congenial for breeding of pests on the crop.
- Regarding crop status of this Kharif season, soybean crop in Madhya Pradesh is at risk with pest attack threatening yields.
- Incidents of attacks by white grub, semi looper caterpillar, girdle beetle, red spider, tobacco caterpillar and white fly have been reported in many parts of the state. They are quite likely to pose a threat on the productivity if not controlled in time.In some cases, the pest attacks have been found to be above the economic threshold level.Early sown crop is in pod-formation to grain-filling stage, while late sown crop is in vegetative stage.
- In Rajasthan, incessant rains have been a major cause of concern for farmers, who fear destruction of the maturing soybean crops after two days of heavy rainfall in the

Hadauti region.Soybean crop would mature after September 22 so there is no major loss to such crops.According to the figures of Kharif crop cultivation, soybean is sown in around 5.50 lakh hectares.

- In Maharashtra, among the eight districts of Marathwada, Aurangabad has received the lowest rainfall &soybean are among kharif crops that have suffered some damage in some areas of the district due to deficient rainfall.
- In news, with growing import dependence on cooking, the government is likely to announce a over Rs 10,000 crore scheme under which oilseeds farmers will be compensated if the rates fall below the minimum support price. The agriculture ministry has prepared a cabinet note proposing a new mechanism 'Price Deficiency Payment' on the lines of Madhya Pradesh government's BhavantarBhugtanYojana (BBY) to protect oilseeds farmers.Under the proposed scheme, the government will pay to farmers the difference between the MSP and monthly average price of oilseeds quoted in major wholesale markets.

International fundamentals: Soybean Futures (November)

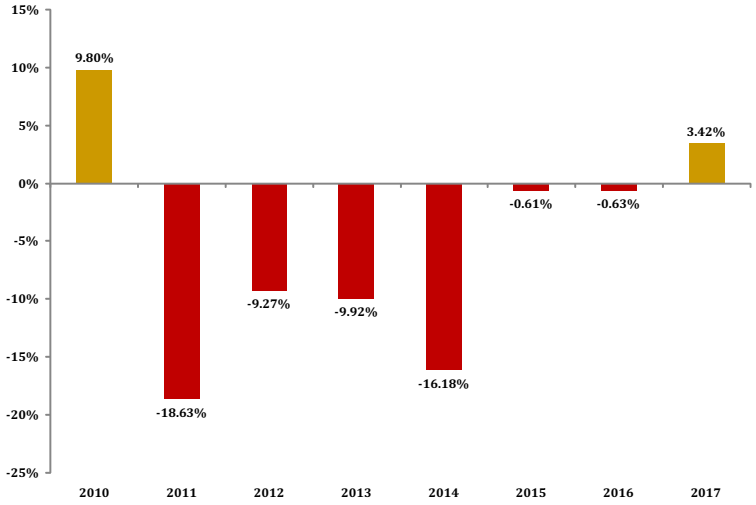
Forward Curve of U.S Soybean futures (CBOT)



Source: CBOT

Closing as on 10th September, 2018

Historic return of U.S Soybean futures (CBOT) in the month of September



Source: Reuters & SMC Research

S2	S1	Pivot	R1	R2
7.81	8.12	8.59	8.90	9.38

Fundamentals

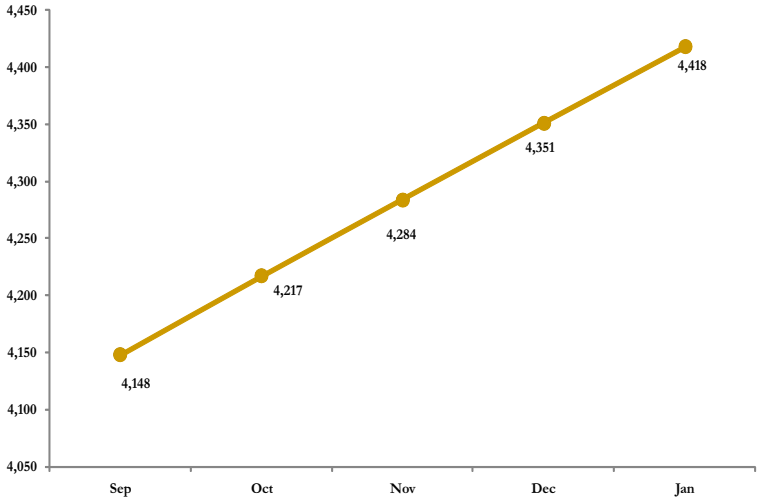
- **U.S Soybeans (November) is seen trapped in a consolidation zone of $8.25-9.00per bushel since past three weeks& a similar trend is likely to be seen in coming weeks also. The market sentiments are sour after U.S. President Donald Trump threatened to escalate the trade war between Washington and Beijing, potentially affecting global oilseed trading.**
- Traders are now bracing for the U.S. Department of Agriculture's monthly supply and demand report due 12th September. They expect the agency to place U.S. soybean yield at a record 52.2 bushels per acre and U.S. ending stocks at a burdensome 830 million bushels, above last month's 785 million.
- Investors have adopted the most bearish stance toward CBOT soybeans since late January, as the ongoing trade war between the United States and the largest soybean buyer, China, continues to be the primary anchor on the market.
- In the week ended Sept. 4, hedge funds and other money managers extended their net short position in soybean futures and options to 62,749 contracts from 53,642 in the previous week, according to data from the U.S. Commodity Futures Trading Commission.
- Chinese bookings for U.S. soybeans in the 2018-19 marketing year that began on Sept. 1 stand at a 13-year low, and the domestic harvest is likely to comfortably exceed records.
- U.S. President Donald Trump warned he has tariffs ready to go on $267 billion worth of Chinese imports in addition to the $200 billion of its goods already facing the risk of duties.
- The market continued to receive support from the successful trade negotiations between Mexico and the U.S. However, the industry is still keenly watching to see if Canada will also be included in the renegotiation of the North American Free Trade Agreement.
- Soybean traders are paying close attention to politics in South America. Argentina has had a series of economic woes and is in the midst of a complete meltdown. Brazil continues to struggle with logistical issues and trucking complications.
- Brazil industry group Abiove revises up country's 2018 soybean export forecast to record 76.1 million tonnes, up 3.5 pct from 73.5 million tonnes in previous prediction. In 2018, outlook for Brazil soybean stocks to 1.465 million tonnes from 3.865 million tonnes in previous forecast as exports soar.Brazil 2018 soybean output seen edging up to

118.8 million tonnes versus 118.7 million tonnes previously.

- Meanwhile, China imported 9.15 million tonnes of soybeans in August, up 14 percent from July, customs data showed, as buyers in the world's top importer continued to buy from Brazil after Beijing imposed tariffs on U.S. shipments.
- China will start allowing soybean imports from Ethiopia, customs authorities said on Friday, as the world's top importer seeks to reduce its reliance on supplies of the oilseed from the United States amid a trade row with Washington.
- China's domestic soybean market is being closely watched as the world's top consumer of the oilseed may rely more heavily on its domestic crop than previously, after Beijing slapped 25 percent tariffs on American cargoes in early July.
- Imports in the coming months before November should be over 7 million tonnes per month, but supplies might tighten afterwards, as Brazil's soybean season neared its end.
- Going forward, market attention will be turning toward the monthly U.S. government crop report on 12th September that will update officialcorn and soybean harvest forecasts.
- The market participants expect the report will raise the government's forecast for soybean production to 4.649 billion bushels, basedon yields of 52.2 bushels per acre.
- Heavy rains across the U.S. Midwest and a murky outlook on international trade appear ready to drive down the soybean market.
- Weather issues will continue to hang over the market in the near-term.

Mustard Futures (October)

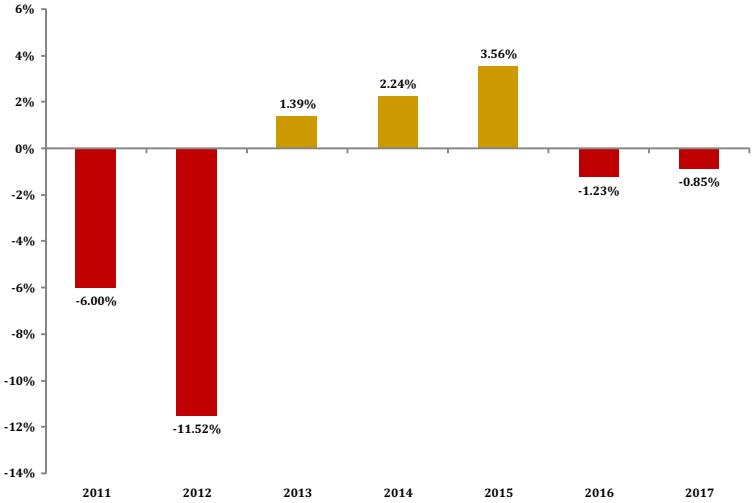
Forward Curve of Mustard futures (NCDEX)



Source: NCDEX

Closing as on 10th September, 2018

Historic return of RM Seed (NCDEX) in the month of September



Source: Reuters & SMC Research

S2	S1	Pivot	R1	R2
3873	3972	4102	4201	4331

Fundamentals

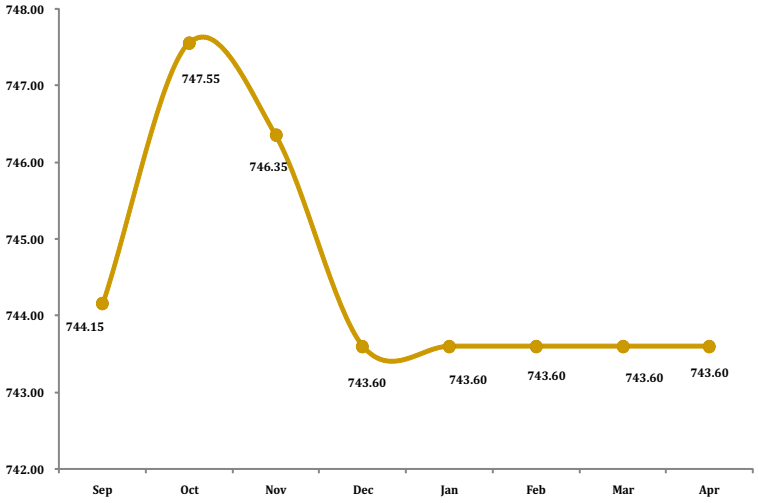
- **A positive bias can be seen in mustard futures (Oct) and it is expected to trade higher towards 4300-4350 levels, taking support near 4100. There is optimism that this month the crushing is likely to be higher improved demand from oil millers and mustard meal exporters. Moreover, going by its seasonality the demand for mustard oil typically increases during the monsoon season with increased consumption of deep fried snacks.**
- The improved demand for mustard oil and cake proved to be beneficiary for crushers in gaining better crush margins along with lifting demand for mustard seed considerably.
- Mustard oil mills across the country crushed 500,000 tn of the oilseed in August, up 11% from a year ago, according to data compiled by the Mustard Oil Producers Association of India.
- Crushing could have been higher but for dwindling mustard seed arrivals with the start of the lean season.New crop arrivals begin in February, and gain momentum by March. Arrivals remain in full swing till May and start shrinking from June.
- During Mar 1-Aug 31, total mustard seed supply was at 5.8 mln tn. Arrivals in Rajasthan, the top producer, were at 1.9 mlntn, in Uttar Pradesh at 830,000 tn, and 400,000 tn in Madhya Pradesh and Chhattisgarh put together.
- India's mustard output for 2017-18 (Jul-Jun) is seen at 7.1 mlntn, up from 6.9 mlntn in the previous year, according to a revised estimate by the Central Organisation for Oil Industry and Trade and the Mustard Oil Producers Association of India.

Crush Margin- RMSEED

Ex Jaipur	Market Price (Rs/quintal)	Recovery %	Rs./quintal
A. Cost of Seed (after cash discount of 1%)			4,209
B. Benefit of Lab & Weight tolerance (1%)			43
C. Market price of DOC	1,450	59	856
D. Market Price of Kachi Ghani Oil	8,740	40	3,496
E. Total Recovery			4,352
F. Gross Margin (E-(A-B))			185
G. Processing Cost			150
H. Crush Margin (F-G)			35

Edible Oil Complex (Domestic Fundamentals)

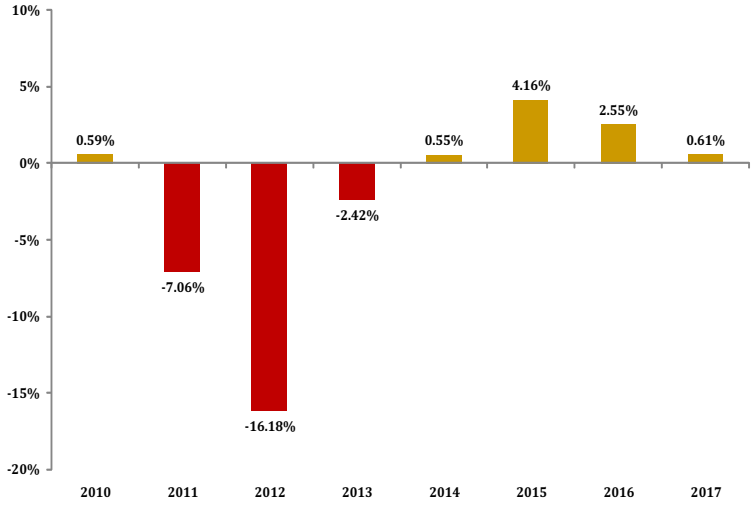
Forward Curve of Refined Soy oil futures (NCDEX)



Source: NCDEX

Closing as on 10th September, 2018

Historic return of Soybean Oil futures (NCDEX) in the month of September



Source: Reuters & SMC Research

Commodity	S2	S1	Pivot	R1	R2
CPO (October)	575	587	596	608	616
Ref. Soy Oil (October)	729	734	739	744	748

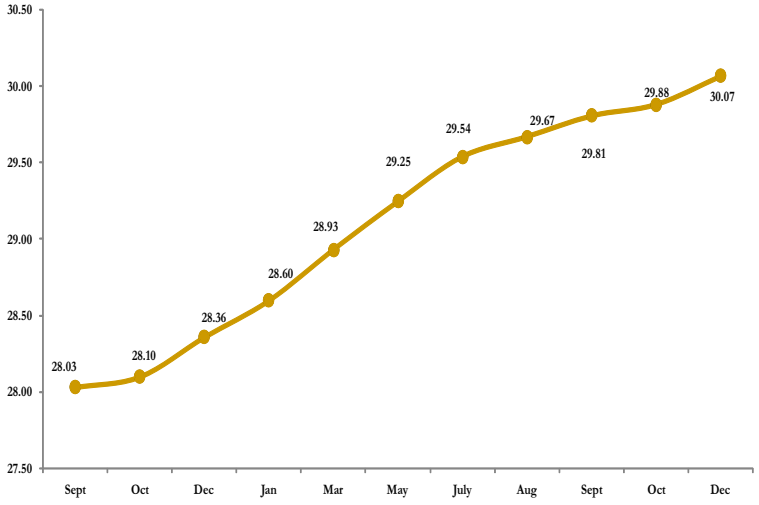
Fundamentals

- In the present scenario, the prices of edible oil counters in the domestic market are being driven by weaker Rupee against Dollar, orelse the demand is lethargic. Adding to it, the international prices of oilseeds and oils are trading sideways to down since many weeks due to ongoing trade war between U.S & China.
- Back at home, the Rupee is trading at all time low, because risk appetite was hit due to prospects of trade relations between the US and China worsening and as upbeat US jobs report led to gains in the greenback globally. As Rupee gets weaker, the importers feel the heat as the imports gets costlier. The current calculation show that the cost of imported soy oil after processing at Indore Rs.756.94/10kg (Calculations with CBOT) &Rs. 751.81 (Calculation With Actual CIF).
- India imports about 15 million tonnes of edible oil annually, but this year it may be around 14.5 million tonnes. There are three reasons for this drop — hike in import duty on edible oils, better oilseed production in the country and a weak rupee that may put pressure on importers.
- In the past three months, edible oil is falling in the domestic market mainly on continuous decrease in tariff prices on edible oil prices and higher stock positions. The tariff value (base import price) crude soya oil has been the lowest in three years, while CPO is at its lowest in two and half years. Tariff value is revised every fortnight by government and is determined taking into account the prices in international markets as well as changes in the foreign exchange rate.
- **Day's ahead, the downside is looking limited in CPO futures (October)as the counter is expected to take support near 585 levels, while the upside can get extended towards 620-625, once it surpasses the resistance near 612 levels.**
- **Refined soy oil futures(October)is expected to trade a volatile note in the range of 740-755 levels. Apart from the above said positive factors, the one which will possibly exert downside pressure is the bearish trend of soybean. In coming days, the harvest of soybean is likely to catch pace & this phenomenon may cap the upside.**

Parity Calculations

Soy Oil Import Parity Calculations		
Particulars	Calculations with CBOT	Calculation With Actual CIF
CBOT|Soy Oil Rate Cents/lbs	28.36	
Premium/Discount Argentina Soy oil	0.90	
FOB Argentina in Cents/Pound	29.26	
FOB Argentina in USD per MT	645	
Freight USD Per MT	54.00	
Soy Degum Oil CIF rate at Kandla as per parity	699	
Soy Degum Oil CIF rate at Kandla (Actual) $/MT	692.00	692.00
Soy Degum oil import Parity $/MT	(7.07)	
Exchange Rate	72.57	72.57
Landed price without customs duty in INR/ MT	50,732	50,218
Customs duty in INR (35% @ Tariff Value)	17,693	17,693
Soc. Wel. Sur. of 10% on 35%	1,769	1,769
Port Expences (INR per MT)	1,000	1,000
Total Landed Cost (INR per MT)	71,194	70,681
Degummed Soy oil Price at Kandla INR/10KG	711.94	706.81
Refining Cost (INR per MT)	2,500	2,500
Freight to Indore (INR per MT)	2,000	2,000
Cost of imported oil after processing at Indore	75,694	75,181
Price in INR/10 Kg excludingTaxes	756.94	751.81

Forward curve of U.S Soybean Oil Futures



Source: CBOT

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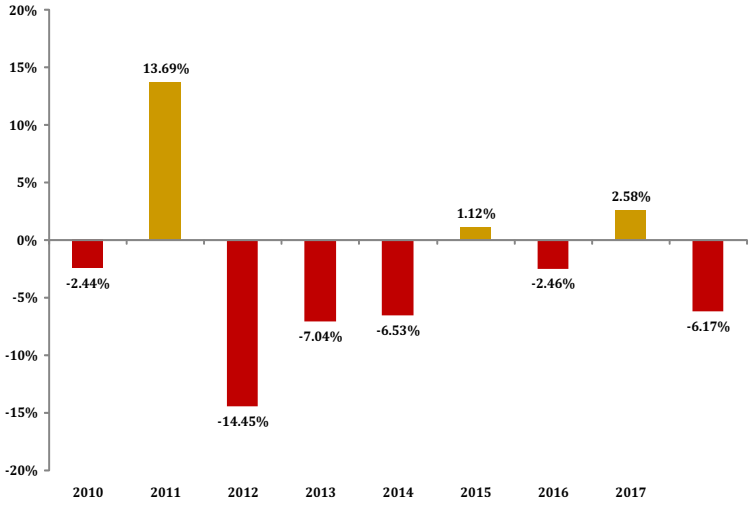
Historic return of Soybean Oil futures (CBOT) in the month of September



Source: Reuters & SMC Research

Commodity	S2	S1	Pivot	R1	R2
CPO Futures (Nov)	2145	2196	2231	2282	2317
U.S Soy Oil (Dec)	27.37	28.07	28.59	29.29	29.81

Fundamentals

- **In CPO futures (November), resistance lines will be positioned at 2,300 and 2,360, whereas support lines will be at 2180, and 2,140. These levels will be observed in the coming weeks. The overall trend is sideways.**
- The palm oil prices are trapped in the bearish zone & being weighed down by bearish production and inventory forecasts for August as well as weaknesses in related edible oils.
- The counter is also getting weighed down by weaknesses in palmolein on China's Dalian Commodity Exchange
- Palm oil production is widely expected to rise in the coming months in line with seasonal trends. A Reuters poll has forecast that August output is likely to have risen 9.9 percent to 1.65 million tonnes, contributing to higher inventory levels, which are seen hitting a six-month top at 2.41 million tonnes.
- August end-stocks are forecast to rise to 2.41 million tonnes, according to the survey by Reuters. That would be a 9% increase from the previous month and its biggest monthly gains since November 2017.
- Malaysia's 2018 full year output however could decline from last year's 19.92 million tonnes, said industry analysts, as production normalizes after a post-El Nino bumper crop.
- Exports of Malaysian palm oil products for September 1 - 10 rose 69.5 percentto 506,212 tonnes from 298,610 tonnes shipped during August 1 - 10, according to independent inspection company AmSpecAgri Malaysia.
- Palm oil demand in recent weeks has been sluggish as sliding emerging market currencies have reduced the purchasing power for palm importers. Higher import duties in key importer India also added to demand weakness.
- Traders, however, are largely expecting Malaysian demand to pick up in September due to a 0% export tax rate for crude palm oil.
- Official palm oil data will be published by the Malaysian Palm Oil Board after 0430 GMT on Sept 12.
- In news, the Primary Industries Ministry has allocated an additional RM23 million provision from the Finance Ministry to carry out promotions on the negative perception concerning the country's palm oil commodity in Europe.
- **U.S soy oil (December)is reeling under the pressure of heavy short positions, however managing to take support near 28 cents. The outlook of the edible oil is dull, hence likely to witness a consolidation in the range of 27.75-29 cents per pound as the appetite by Chinafor U.S soy oil has tanked down. China uses soy for oil, for animal and fish food, and for human consumption. The buying has got diverted to Brazil& Argentina from U.S. It has been reported that Argentina has**

resumedsoyoil exports to China.

- As a side note, Brazilian farmers are now pushing to begin a South American soybean contract that would trade on either a Brazilian or Argentine exchange specifically to better facilitate trade between South America and China.
- The managed-money soybean oil short continues to linger at historically bearish levels, increasing to 88,029 futures and options contracts through Sept. 4 from the previous week's 86,485.

CFTC POSITION – U.S SOYBEAN OIL