

Monthly Report On

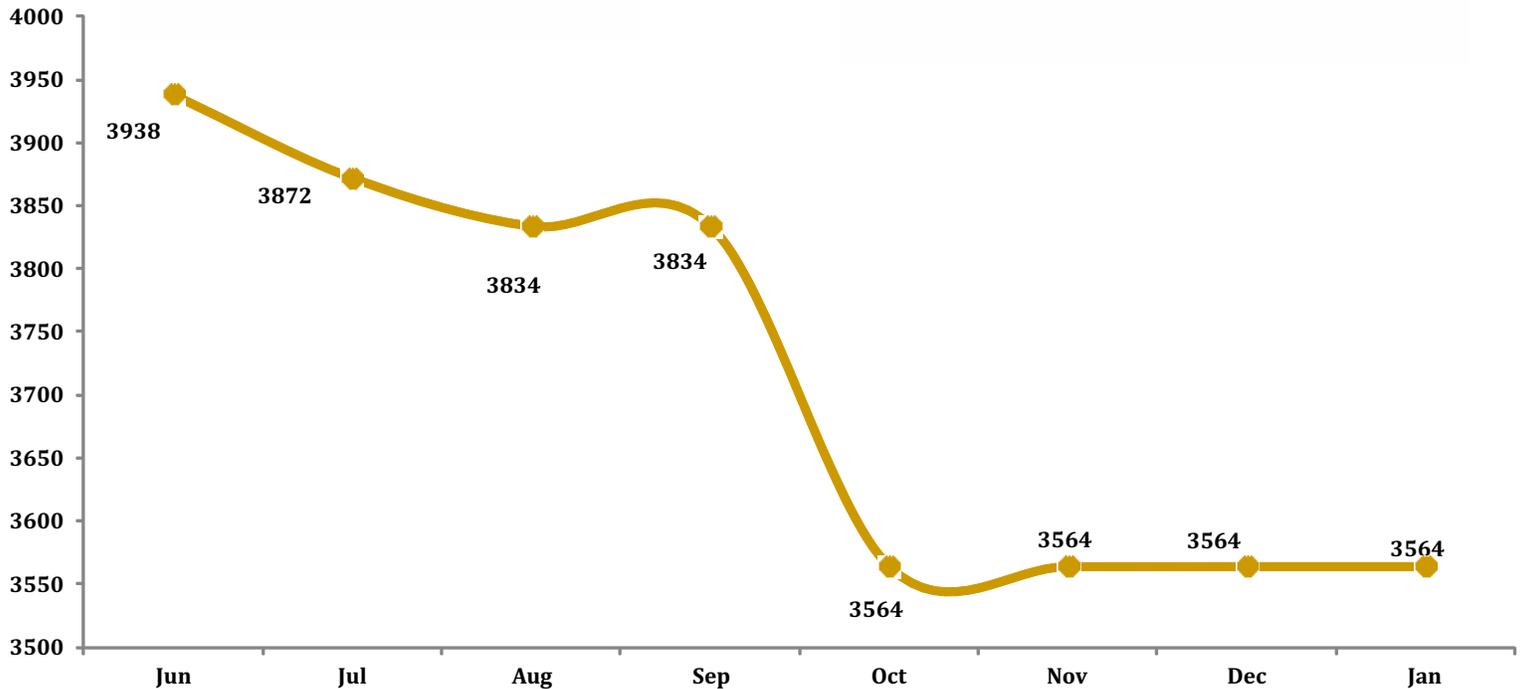
Oilseeds

June 2020



Domestic Fundamentals: Soybean

Forward Curve of Soybean Futures (NCDEX) (Rs./Qtl.)



Source: NCDEX

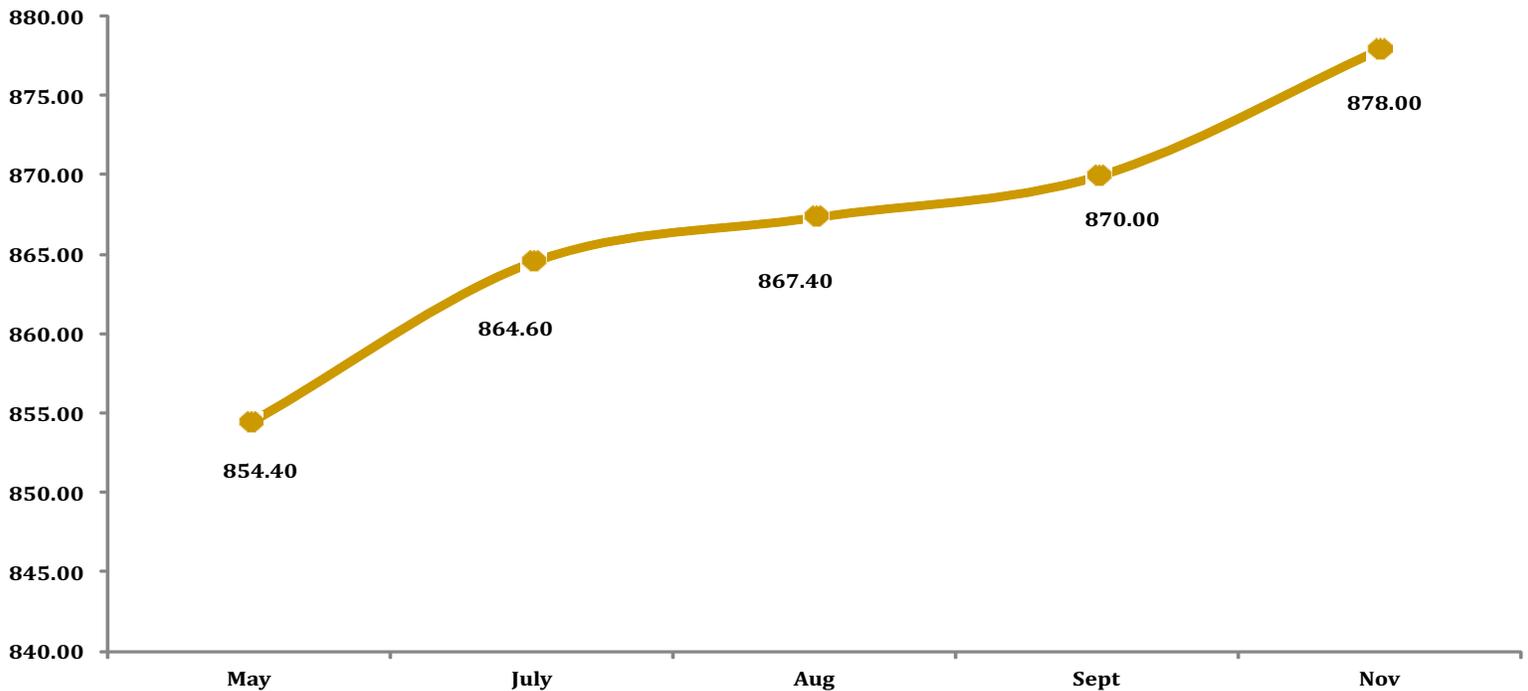
Closing as on 8th June, 2020

Fundamentals

- Soybean futures (July) is in backwardation due to likely higher acreage in upcoming kharif season due to higher MSP & good returns. If monsoon progresses well in the major growing areas, during the time of swing, then we may see correction in this counter moving down towards 3700-3630, facing resistance near 3945 levels.
- Among major oilseeds, MSP of soybean was raised by 4.6% to Rs.3,880 per quintal.
- Expectations of normal rainfall this monsoon season will likely see acreage under soybean crop rise by around 10% to nearly 12.4 mln ha in 2020-21 (Jul-Jun) kharif season. According to farm ministry data, soybean was sown across 11.3 mln ha in 2019-20.
- Farmers will wait till the rains lead to an optimum moisture level before starting plantation of the crop in non-irrigated areas. The sowing is expected to start when the soil receives about 4 inches of moisture in depth terms.
- After covering Maharashtra, the monsoon current typically reaches Madhya Pradesh by mid June and it covers the entire country by second week of July.
- IMD forecasting adequate rainfall this monsoon will definitely push up soybean area in key growing regions in the country
- On Jun 1, India Meteorological Department raised its projection of rainfall during the Jun-Sep monsoon season to 102% of the long-period average of 88 cm. In April, it had said that the monsoon will be normal and rainfall during the season would be 100% of the long-period average. Rainfall of 96-104% of the long-period average is categorised as a normal monsoon.
- Sowing in Madhya Pradesh is seen at 5.9-6.1 mln ha in 2020-21, up from 5.6 mln ha in the previous year.
- In Vidarbha, farmers are replacing the area under cotton with soybean whose seeds have become costlier this season.

International Fundamentals: Soybean CBOT

Forward Curve of U.S Soybean futures (per bushel)



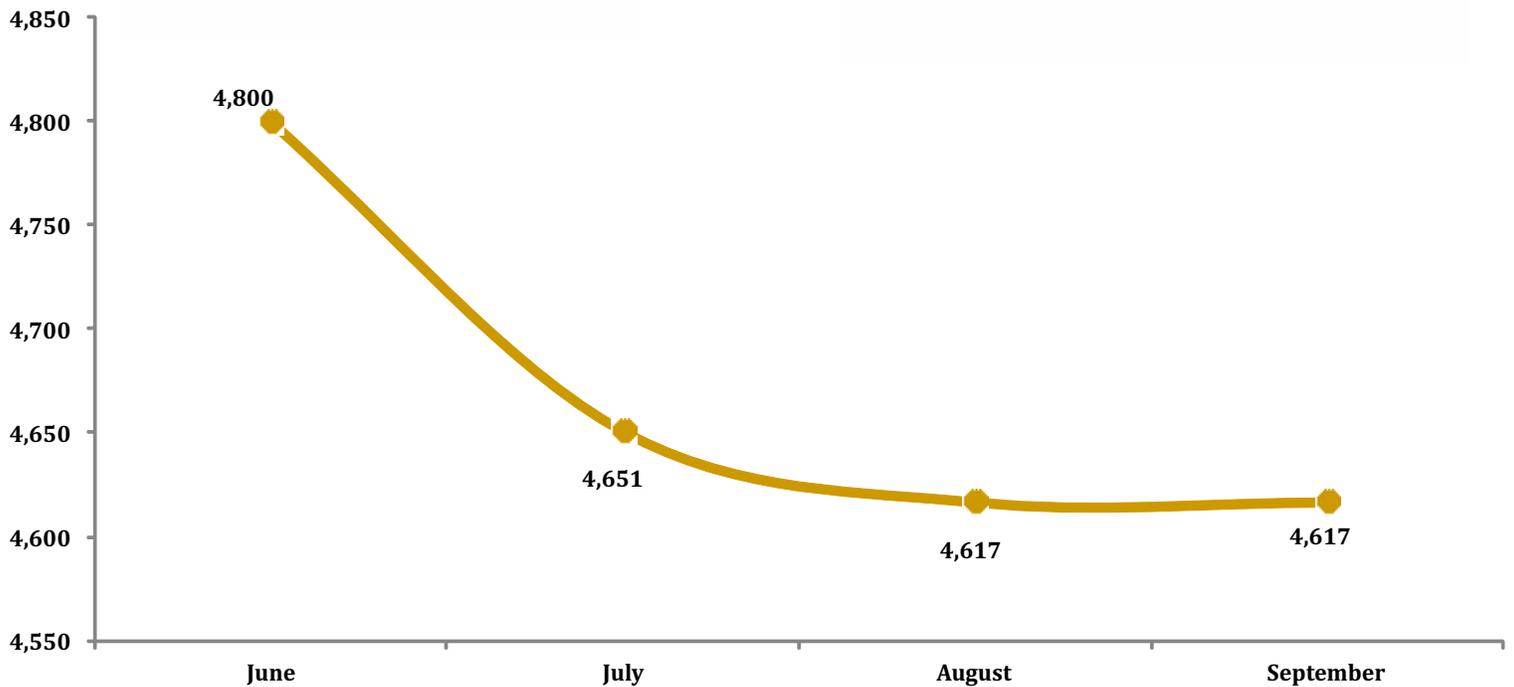
Source: Barchart

Closing as on 8th June, 2020

Fundamentals

- On CBOT, U.S. soybean futures (July) will probably continue to remain trapped in the range of \$8-8.80 a bushel. However, the downside is expected to remain capped owing sustained demand of soymeal from China.
- The counter is getting support from strong demand from China, but in days to come gains may get checked by a U.S. Department of Agriculture (USDA) report that showed the crops were in better-than-expected condition.
- The USDA said 72% of the U.S. soybean crop is in good to excellent condition. The USDA said soybean planting was 86% complete.
- On the demand side, U.S. exporters reported large sales of soybeans widely thought to be bound for China, which has accelerated buying this week amid rising prices in top supplier Brazil.
- China may be sourcing more soybeans from the U.S., but the United States isn't China's main buying destination right now. Chinese Customs data shows China's total soybean imports jumped up 40% in May compared to April, with the biggest buys happening in Brazil. According to the data, Brazilian shipments to China shot up 27% compared to May 2019.
- However, this situation may take a turnaround as the U.S. dollar is giving a tuff fight against the Brazilian currency.
- The Real. over the last three weeks, has rallied 16%. The strength in the real – at the same time the U.S. dollar has dropped by 7% – has made U.S. soybeans cheaper than Brazilian soybeans. This change in currency values opened the door for large U.S. soybean exports last week. Expect to see another week of active U.S. soybean exports.

Forward Curve of Mustard futures (NCDEX) Rs./Qtl



Source: NCDEX

Closing as on 8th June, 2020

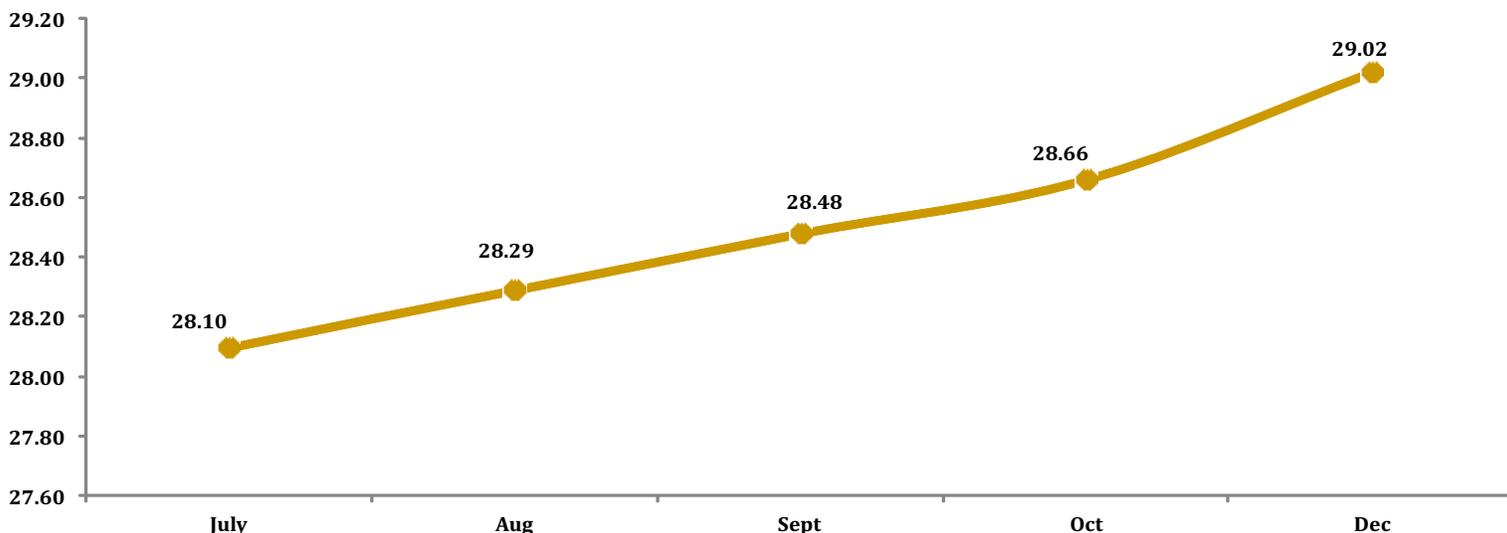
Fundamentals

- **Mustard futures (July) is trading near its yearly high at 4729 & also close to previous year high at 4755. In days to come, we may see that owing to higher demand & shortage of supply, these higher levels may get surpassed. The counter has the potential to test 4800-4900, taking support near 4540 levels.**
- Typically, oil millers carry out crushing operations between March and June, the peak arrival season.
- Crushing of mustard seeds by mills in India rose 6.7% on year to 800,000 tn in May, as per data from the Mustard Oil Producers Association of India. Mustard crushing during the same period last year was at 750,000 tn. Crushing of the rabi oilseed is over 26% higher from 650,000 tn in April.
- Relaxations in the nationwide lockdown primarily in key mustard producing regions ramped up crushing of the oilseed. The easing of the lockdown for farm sector accelerated pace of transportation of the crop from farms to mandis, and from mandis to oil mills. Inadequate transport facilities had hit crushing in April.
- Arrivals of the oilseed in May were at 1.45 mln tn, against 1.15 mln tn a year ago, the data showed.
- Crushing is likely to gather momentum following further relaxations in the lockdown effective from Jun 8.

Fundamentals

- In this edible oil counter CPO futures (June), buy on dips would be the appropriate approach as the overall trend is bullish & has the potential to move higher towards 790-720, taking support near 660-630 levels.
- Soy oil futures (July) will also be witnessing a bull run towards 840-860, taking support near 790 levels. These edible oil complex are also getting support from the weaker rupee against dollar, which is steady and managing to stay above 74.90, since past three months.**
- The main factor that will act as a catalyst for the edible oil counter & prices may flare up is the news that India is considering raising import taxes on edible oils as the country seeks to become self-reliant by boosting local oilseed production with the help of tax revenues. There are talks that the tax could be raised by 5%, but that a decision had not yet been taken.
- India currently levies 37.5% and 45% import tax respectively on crude and refined palm oil. Imports of crude soybean oil, crude sunflower oil and rapeseed oil attract 35% import duty.
- India annually imports around 15 million tonnes of edible oils, including more than 9 million tonnes of palm oil and about 2.5 million tonnes each of soybean and sunflower oil.
- Secondly, with lockdown witnessing an ease & HoReCa business coming slowly back on track, the consumption of edible oil is likely to rise. Whereas, there is a crunch on the supply side as India's imports of edible oil fell by 40 per cent to 7.07 lakh tonnes in May, lowest in the month since 2011.
- Edible oil imports have been declining since the imposition of lockdown from March 25 to prevent the spread of the coronavirus pandemic. The nationwide lockdown continues to be in place till June-end, with relaxations in non-containment areas.
- Palm oil imports, which comprise more than 60 per cent of the total edible oil shipments, declined by 52.69 per cent to 3.87 lakh tonnes in May this year from 8.18 lakh tonnes in the year-ago month.
- This decline in imports of palm products have directly benefited the imports of soft oils, viz. soybean and sunflower, which is evident by their increase in imports by 7 per cent and 11 per cent, respectively, during November-May period of this oil year, thanks to household demand in consumer packs.
- The overall edible oil imports during November-May period of 2019-20 oil year also declined by 18 per cent to 68.89 lakh tonnes from 83.84 lakh tonnes in the year-ago period, mainly due to 76 per cent fall in shipments of RBD palmolein.
- However, the industry is expecting that with the easing of lockdown, the average vegetable oil import was expected to rise to about 1.3 million-1.4 million tonnes per month from July until September
- In some states hotels and restaurants have also been permitted to reopen. This will give a push to the demand.
- Relations between India and Malaysia are back on the upswing increasing its purchases of rice and sugar in recent months.
- In coming months, India is buying 200,000 tonnes of palm oil for the June-July period from Malaysia.
- BMD CPO futures (Aug) is facing some resistance near 2400, however it seems that based on the strong fundamentals of rising demand, it can go for 2500, taking support near 2260 MYR/ton.**
- CBOT Soy oil futures (July) is expected to trade with a positive bias in the range of 26-30 cents per pound.**
- Indonesia, the world's largest palm-oil producer, has cut the cost assumption of converting crude palm oil into biodiesel by 20% to \$80 per metric ton, according to the Energy and Mineral Resources Ministry. The revision, effective this month, is needed to ensure the mandatory program to blend 30% of palm-biofuel with 70% gasoil, known as B30, continues even as the price gap between biodiesel and gasoil rises because of the pandemic. The ministry reduced the biodiesel market price index in June to 6,941 rupiah/liter from May's revised 8,352 rupiah/liter. A lower index will reduce the price gap for the B30 program.
- Malaysia announced on June 5 it would fully exempt palm oil from export duty this year, in a move that traders estimated could boost shipments of the edible oil by 1 million tonnes in the second half of year. Exports of crude palm oil, crude palm kernel oil and processed palm kernel oil will all be exempt from duties from July through to December.
- Factoring in the removal of the duty, Malaysian crude palm oil is about \$15 cheaper than rival Indonesia, which this month raised its export levy by \$5 to \$55 per tonne to raise funds for a domestic biodiesel programme.

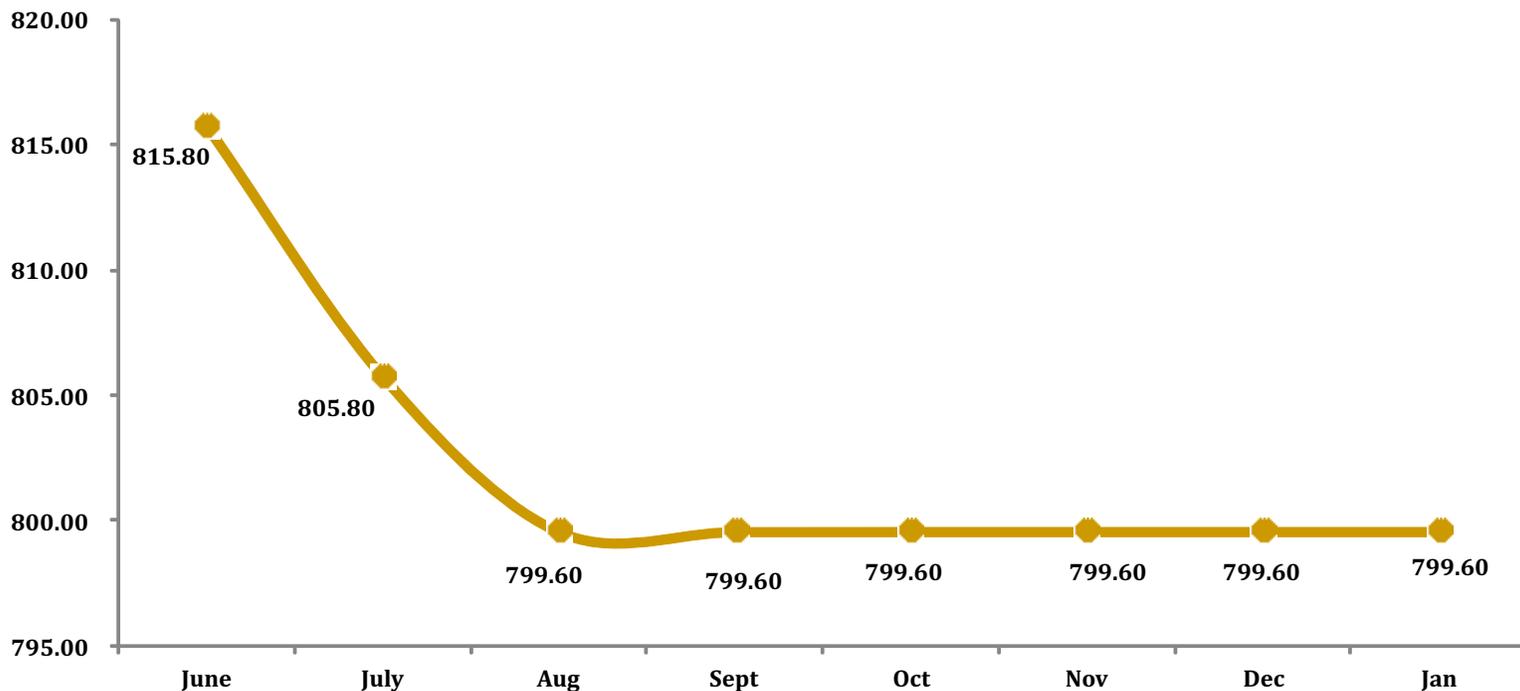
Forward curve of U.S Soybean Oil Futures (Cents per pound)



Source: Barchart

Closing as on 8th June, 2020

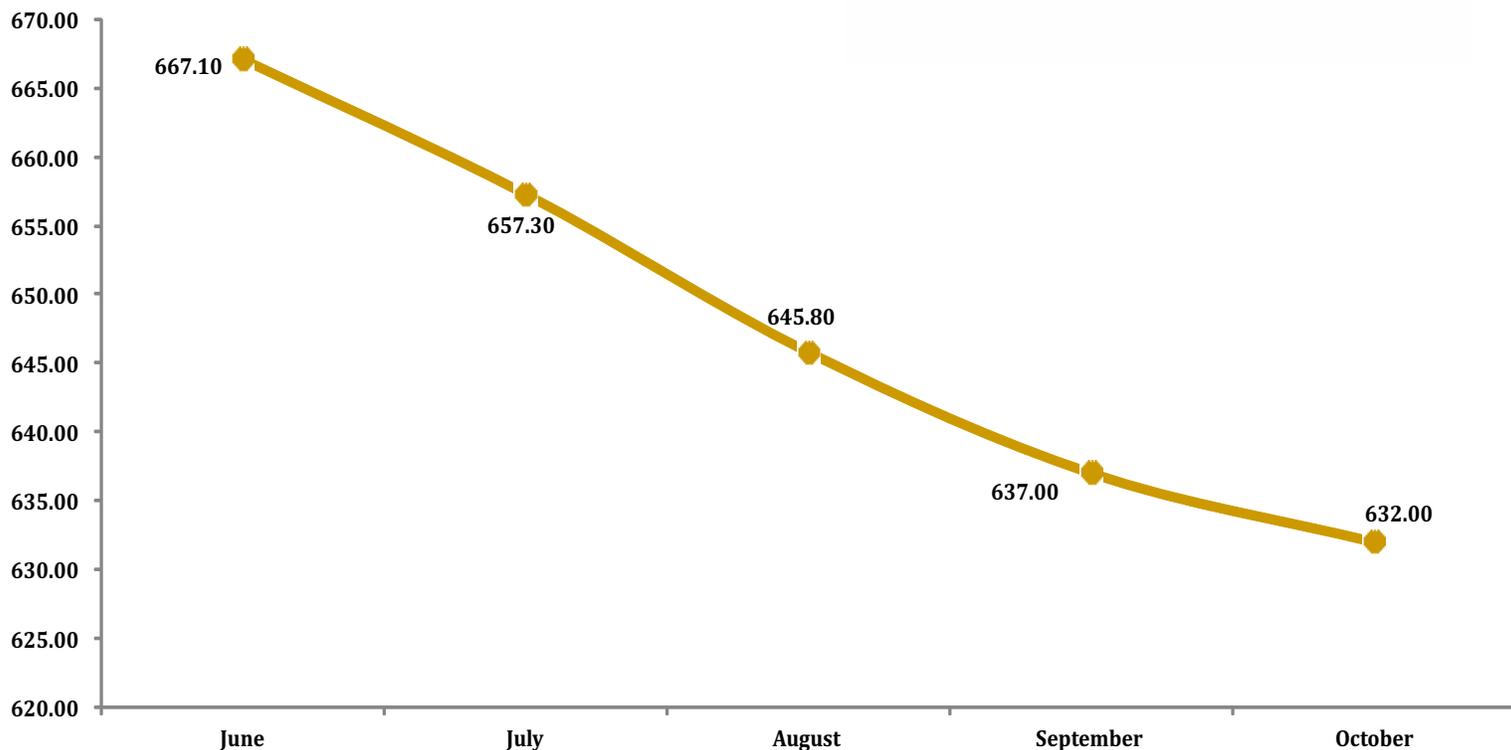
Forward Curve of Refined Soy oil futures (NCDEX) (Rs. 10/Kgs)



Source: NCDEX

Closing as on 8th June, 2020

Forward curve of CPO futures (MCX)



Source: MCX

Closing as on 8th June, 2020

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