

Monthly Report On Cotton, Chana, Castor Seed & Guar Complex August 2021



Factors to watch

- Sowing progress in Gujarat and Maharashtra
- Weather forecast in the country
- Monsoon progress in Aug- Sep
- Stocks with CCI and mills
- Mill demand for cotton in domestic market

Highlights

- YTD prices increase is 29.9% higher
- Cotton area is lagging by over 7% this season.
- 2020/21 production down to 354.50 lakh bales compared to 360 lb previous year
- Exports of cotton pegged at 77 lakh bales in 2020/21
- Opening stock estimated at 82.5 lakh bales at the start of 2021/22

MCX Cotton - Jul-Aug 2021



Source: Reuters & SMC Research

- In the month of July, cotton futures in MCX jumped more than 9% and touch all-time high levels of 27,830 rupees per bale. Prices rise during the month was due to higher demand from the mill and lower supplies in the domestic market. Moreover, higher international prices also kept domestic prices firm in July.
- According to the agriculture ministry's estimates, cotton acreages as on Aug 13 is 116.70 compared with the previous year's 125.48 lh, lower by 7.55. The lower acreage is largely attributed to delayed rains.
- India is projected to produce 29 million bales of cotton in 2021/22, 2.5 percent (700,000 bales) above the previous year, as slightly higher yield expectations of 486 kg per hectare are forecast based on unchanged area of 13 million hectares.
- Higher international prices had seen India managing to export 77 lakh bales (each of 170kg) outside the country during 2020/21 (Oct-Sep) cotton years.
- During the current cotton season 2020-21 (Oct20-Sep-21), CCI has procured 92 lakh bales. Now have exhausted all its stocks and left with only 9 lakh bales due to the strong demand for cotton.

Outlook

Currently cotton prices in the country is trading at all time high levels and we expect the prices to correct due to two major reasons. At higher prices the demand for cotton by the mills is tumbling and the second reason is the sowing progress in the country is continuing well in all the states. As per the reports the domestic mills have the stocks for next two months consumptions and so they can go slow in procuring cotton if the prices are high. However, the month of August and September is very crucial for cotton as they go into the flowering period which is most susceptible of attack of pests. The market should remain well supported above 26000 levels with the possibility to spike higher in case something goes wrong on the weather front too. The support and resistance will 25,500 and 28,000 respectively.

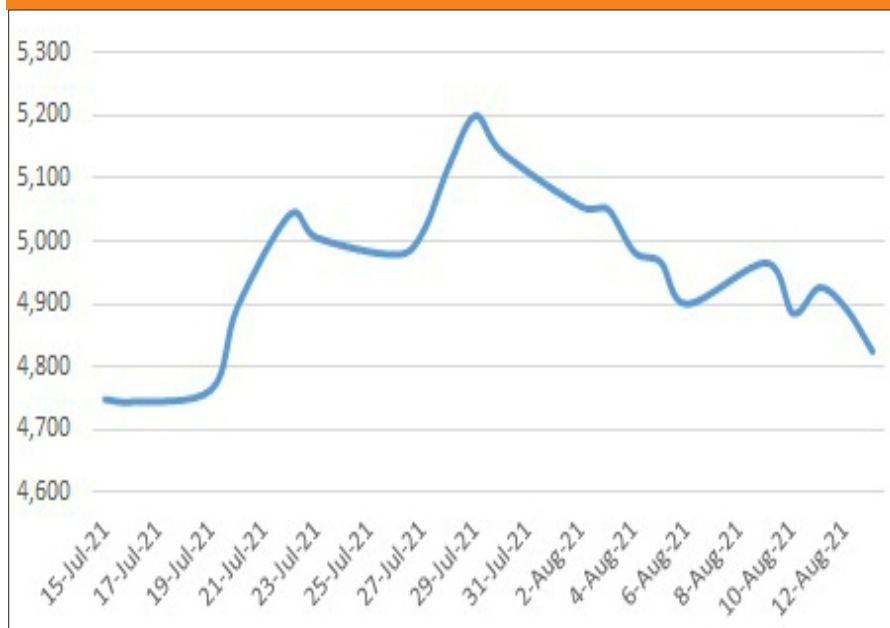
Factors to watch

- Festival Demand
- Stock limit by the government
- Stocks with traders and importers
- Imports of pulses
- Monsoon progress in Aug- Sep
- NAFED sales quantity and price

Highlights

- YTD prices increase is 8.9% higher
- Last year production was 11.9 million tonnes
- Import of chana attract 60% import tax
- Chana comes under the stock limit till 31st Oct 2021.

Chana Futures - Jul-Aug 2021



Source: Reuters & SMC Research

- During the start of the July month the prices were well above the 5000 rupees per 100 kg but it slipped to 4700 levels due to stock limit implemented by the government to ease the prices. After relaxation in stock limit, prices of chana increases consistently and traded above 5000 levels in all important spot markets.
- The Central Government on 19th July 21 amended the stock limit order earlier prescribed in the first week of July. The stock limits will be applicable only on Tur, Urad, Chana and Masoor for a period up to 31st October 2021. Importers of pulses has been exempted from stock limits.
- The stock limit for wholesaler, retailer and millers will be 500 MT, 5 MT and last the 6 months' production or 50% of annual installed capacity, whichever is higher respectively. However, all legal entities including importers will continue to declare their stocks on the web portal of the Department of Consumer Affairs.
- In the 4th Advance estimate for 2020/21, the Agriculture Ministry expects the chana crop to be about 11.99 million tonnes (mt). However, millers estimate the crop to be between nine mt and 9.5 mt, marginally lower than last year's 9.5 mt.

Outlook

Chana prices is expected to be little sideways in the month of August due to sufficient stocks with the trader and importers. Moreover, declaration of stocks by the importers and big traders is keeping the close watch on the stocks in the country. This provision helps the government monitor the chana prices which may not fluctuate much unless there is big demand. Therefore, we expect the prices to trade in the range of 4500 to 5250 levels.

Factors to watch

- Sowing progress in the country
- Export demand for Oil and Meal
- Carryover stocks
- Stock with the oil millers
- Monsoon progress

Highlights

- YTD prices is 8.9% higher
- Last year production down by 29.5%
- Exports of castor oil increase by 17.5% (Jan-Jun 2021)
- Castor seed area in India down 2.89 lh compared to 3.22 last year as on 13th Aug

Castor Futures - Jul-Aug 2021



Source: Reuters & SMC Research

- In July, Castor seed futures jumped about 10% mainly due to consistent demand for its derivatives – oil and meal. We have seen robust exports figures for the castor oil exports as well as meals. Moreover, record increase in vegetable oil in the country also contributed to the demand for castor oil in the industrial uses.
- India's castor oil exports are estimated to have increased by 17.5% to 3.63 lakh tonnes in the first half (Jan-Jun) of calendar year 2021. In Jun 2021, India's castor oil exports rose 51% on year to nearly 81759 tonnes, which is the largest single month export, according to data from The Solvent Extractors' Association of India. Castor meal exports in the first half of 2021 increased by more than 33% to 182,639 tonnes compared to last year's 121,954 tonnes. In Jun 2021, India's castor meal exports jumped 45 % on year to 30,530 tonnes, which is the largest single month export. India is the world's largest producer of castor seed and castor oil. The country exports about 90 percent of the oil globally with China being the major buyer.
- According to SEA, castor seed production this season (July 2020-June 2021) down by 4.45 lakh tonnes or 29.5% at 15.10 lakh tonnes against a record 19.55 lakh tonnes the previous season. This will result in production of 9.58 lakh tonnes of castor oil as the seed yields 49 percent oil when crushed.
- Castor area in Gujarat – the main growing state as on 9th Aug is sown in only 33% of normal sowing area of 6.4 lakh hac. However, area is higher as compared to last year acreage. Farmers in Gujarat planted castor in 2.16 lakh hac compared to 1.86 lakh hac last year same period. But country area is down 2.89 lh compared to 3.22 last year as on 13th Aug 2021.

Outlook

We are expecting good demand to continue for the rest of the season. The price of castor seeds this year is higher by more than 25% compared to last year prices. We expect the Castor (Sep) prices to remain higher in August to trade towards 6000 levels due to robust domestic demand for the industries and purchases of castor oil mainly from China. There are hopes of rise in sowing this year in key growing areas on the back of higher prices may, however, check the surge in prices. Forecast of normal monsoon rains will also boost sowing prospects.

Guar Complex

Factors to watch

- Sowing progress in Rajasthan
- Monsoon progress
- Export demand for guar gum
- Demand for guar derivations in domestic market
- Carryover stocks

Highlights

- YTD guar seed prices rise 27.8% till August 13
- Early sown guar crop recovering with the water stress condition, chances of yield loss
- Area under guar drastically decrease in Rajasthan
- The carryover stocks of guar seed are declining over the year due constant falling in guar acreage
- Feed industry demand increasing due to record higher prices of soybean

Guar Seed Futures - Jul-Aug 2021



Source: Reuters & SMC Research

- Guar seed futures prices jumped higher by about 9% in July while in the first 15 days of August it surged closed to 12% and now the active Guarseed (Sep) contract trading near 5000 levels.
- Guar acreage in Rajasthan is declining over the years due to higher stocks and stagnant price. Now the stock levels are lower and the demand for guar seed is increasing for its derivatives Churi & Korma for animal feed. Guar meal is used as animal feed and naturally rich in protein and Carbohydrates. Due to recent surge in soybean and its meal prices, the feed industry is looking for the alternatives.
- Since guar is an agricultural product that is grown without the influence of chemicals or preservatives it happens to be the best alternatives for animal and poultry feed.
- As per the Department of Agriculture data, guar is sown in 18.36 lakh hac as on 13th August in Rajasthan – the main producing state compare to 23.5 lakh hac last year same time. The area is down almost by 5 lakh hac due to deficient and irregular rainfall in the guar growing districts. The current condition will definitely affect the yield of the crop.

Outlook

Guar seed prices are trading is higher by more than 15% compared to last year prices. We have seen higher prices this year mainly due to lower carry over stocks and good industrial & feed demand for the guar gum derivatives. Moreover, the recent jump in prices is witnessed due to lower area under guar by almost 5 lakh hac due to erratic monsoon and dryness in major guar areas in Rajasthan. This may affect the yield and quality of guar seed in the coming season. Guar seed futures (Sep) prices trade positive towards the 5200/5500 in coming weeks.

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