4th October, 2017

Monthly Report On

Kapas, Guar & Chana

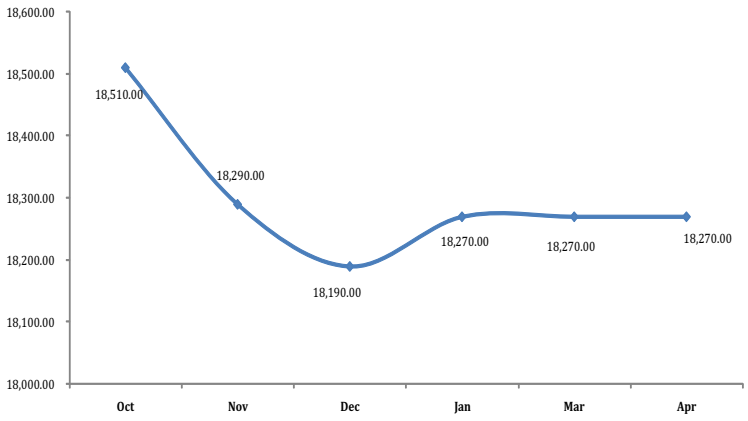
October 2017

smc

Moneywise. Be wise.

KAPAS (APRIL)

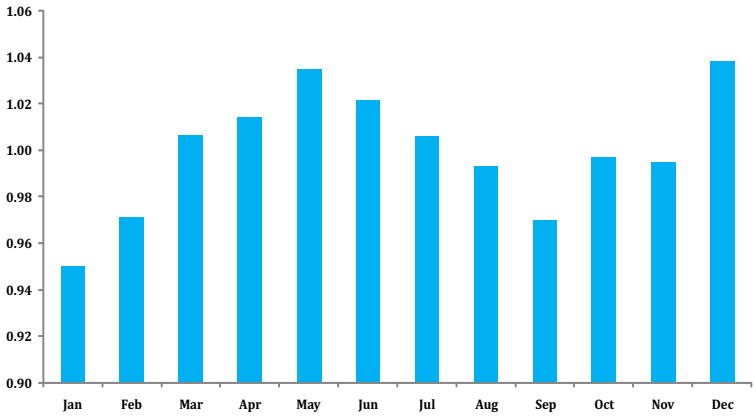
Forward curve of Cotton 29MM futures



Source: NCDEX

Closing as on 3rd October, 2017

Historic returns of Kapas futures during month of October



Source: Reuters & SMC Research

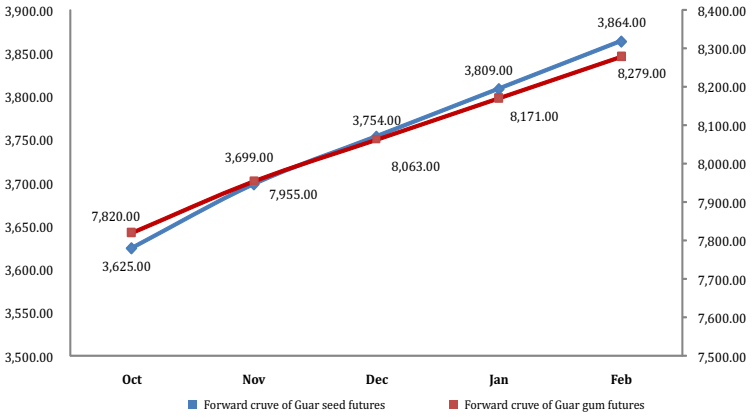
S3	S2	S1	Pivot	R1	R2	R3
796.00	823.50	847.00	874.50	898.00	925.50	949.00

Fundamentals

- **Kapas futures (April) may witness a consolidation in the range of 850-905 levels.**
- The market began new season on a bearish tone as the focal point remains on large crop prospects is heavily weighing on cotton prices.
- Cotton planting reached 122.59 lakh ha as of September 29, ahead 19 percent compared to same period last year at 102.79 lakh ha according to Ministry of Agriculture.
- Buying interest remained limited or on a hand to mouth basis as spinners anticipates the on-going downtrend to persist amid various bearish cues.
- Traders anticipate prices to persist downtrend hence buying interest is much lower than anticipated and dull yarn offtake, domestically as well as internationally, which has curbed buying enthusiasm of local mills. In a period of one month, spot prices nose dived Rs 335-338/maund, on average, nearing the 1 year low levels on October 3.
- Further, dull yarn market has curbed buying enthusiasm of various spinning mills in both domestic as well as international front.
- New cotton spot prices tumbled Rs 200-650/candy, on average, across Central India, marginally firm in Karnataka while old nosedived Rs 1,800/candy in Maharashtra at the beginning of the new cotton season.
- The stock, in both Central/South, contained higher amount of moisture ranging between 20-30 percent has also contributed to limiting buying interest in immediate delivery basis.
- The sentiments in the international are also bearish as ICE cotton futures is trading lower on strengthening dollar index and favorable weather conditions over Texas. The benchmark December contract at 67.57 cents/lb, hit a 6 week low.
- Further, favorable weather conditions developing over Texas dissolved most of the uncertainty over delay in crop maturity. Most of the large producing cotton regions were experiencing hot and sunny weather conditions which are supportive for the final stage of crop growth.
- The USDA's weekly crop progress report on 2nd October, showed about 17 percent of the cotton crop in the United States had been harvested by the week ended Oct. 1 as against a five-year average of 13 percent for the corresponding period. About 57 percent of the crop was in good or excellent condition compared with 60 percent in the prior week, report said.
- World cotton production is projected to increase by 10% during 2017/18 reaching 25.4 million tons. Higher cotton prices during 2016/17 and better cotton price ratios to other competing crops during 2017 planting campaign resulted in expansion of cotton area by an estimated 3 million hectares to over 32 million hectares.
- Because world production is projected to edge over mill use during 2017/18, world ending stocks could increase moderately and reach 18.7 million tons with stocks to use ratio remaining little changed at 75%.

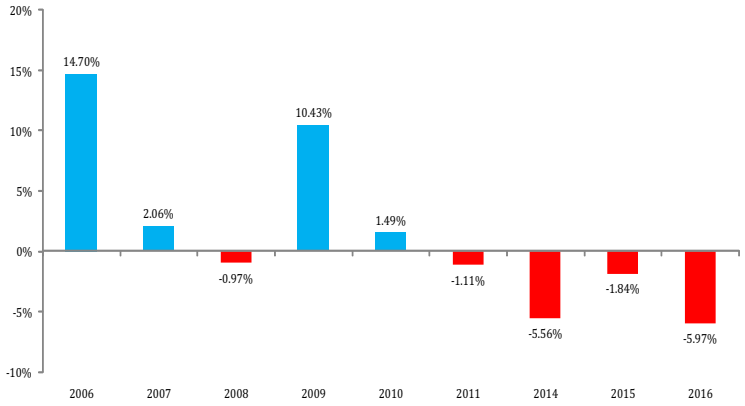
GUAR SEED & GUAR GUM (NOVEMBER)

Forward curve of Guar futures



Source: NCDEX

Historic returns of Guar futures during month of October



Closing as on 3rd October, 2017

Source: Reuters & SMC Research

S3	S2	S1	Pivot	R1	R2	R3
3266	3450	3631	3815	3996	4180	4361
6863	7261	7706	8104	8549	8947	9392

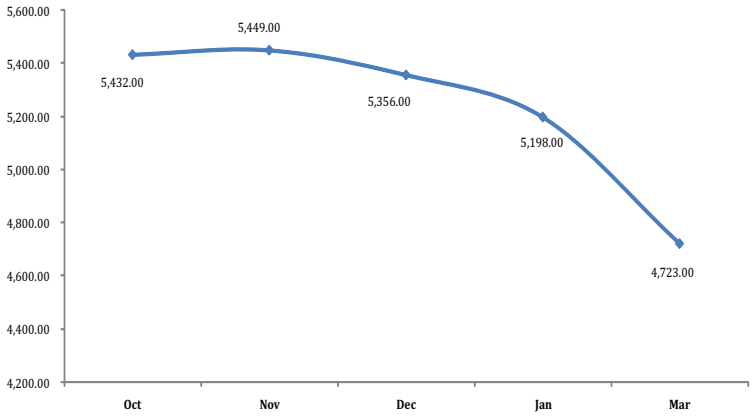
The Securities and Exchange Board of India has allowed the National Commodity & Derivatives Exchange to launch options trading in guar seed. National Commodity and Derivatives Exchange, which received the regulatory nod for options on guar seed futures said it will launch the contract with strike intervals of 25 rupees for the first two option expirations and 50 rupees from the third expiration. The bourse also said in a circular that total available strikes will be 20 in the first two expirations and 10 in subsequent expirations. For example, if ruling price of guar seed futures at the time of launching options is 4,000 rupees, the available strikes for options trading in first two expirations will be from 3,750 rupees to 4,250 rupees at an interval of 25 rupees.

Fundamentals

- **Guar seed futures (November) is expected to fall further towards 3600-3400 levels.**
- **Guar gum futures (November) may plunge further & test 7200 levels, while the upside may remain capped as it may face resistance near 8400 levels.**
- The overall sentiments of the guar complex are bearish as market participants are cautious due to expectations of correction in prices as supply is likely to increase in next couple of weeks.
- The supply of new Guarseed crop has started in few producing centers, however it is likely to gather pace this week in other centres as well.
- Guarseed arrivals in Rajasthan are expected to cross 10,000 bags, which is likely to reach to 50,000 bags by Diwali (Oct 17).
- Prices of both gum guar and seed may fall, as peak arrival season begins, but concerns over harvest are likely to keep the pace of decline slower than last year.
- Supplies in the peak season this year may be less than 2016 due to crop damage and fall in production in some states. Last year, nearly 10 million bags of guar arrived in markets across the country, and this year we expect the arrivals to fall to 6 million bags because of poor rains in the initial months.
- The production of guar in Rajasthan, however, remains a curious case as both state government and local traders pose contradictory views.
- Rajasthan government has estimated area under guar in this Kharif season at 3.2 million ha, lower than 3.5 million ha sown last year. However, production of guar seed in the top producing state is seen rising 39.6% on year to 1.96 million tons in 2017-18 (Jul-Jun).
- According to Rajasthan government's first advance estimates, guar seed is likely to fetch a yield of 529 kg per ha sown this season, as against 398 kg per ha last year, which is likely to lift production. On the other hand, traders have pegged guar output in the state this season at 850,000 tn, much lower than 1.4 million tons in the previous year.
- Future trend of Guarseed is heavily dependent on arrivals of new crop as there is uncertainty about production.

smc Moneywise. Be wise.

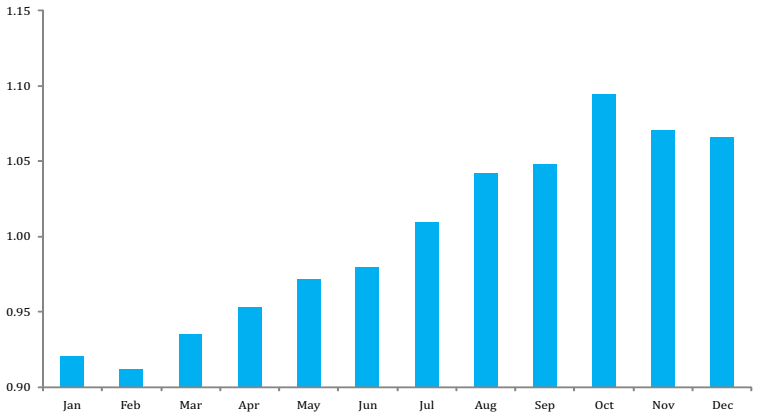
Chana futures Seasonal Index



Source: NCDEX

Closing as on 3rd October, 2017

Historic returns of Chana futures during month of October



Source: Reuters & SMC Research

S3	S2	S1	Pivot	R1	R2	R3
4787	5159	5417	5789	6047	6419	6677

Fundamentals

- **Chana futures (November) is expected to trade with a downside bias in the range of 5000-5660 levels as the supply side is heavier as compared to demand.**
- The demand in processed Chana is still reported slack from wholesale/retail counters and time period is less for upcoming festivals. Stockiest holding Chana is now getting inferior (Danki) and were sold at lower prices. Traders expect higher sowing of Chana in these rabi season due to good rainfall and better prices, which could boost supplies next year and weigh on prices.
- According to the 1st Advance Estimates of production of major Kharif crops for 2017-18, the total production of Kharif pulses is estimated at 8.71 million tonnes which is lower by 0.72 million tonnes than the last year's record production of 9.42 million tonnes. However, kharif pulses estimated production is 2.86 million tonnes more than the last five years average production.
- The sentiments have turned bearish with the news that loaded with a buffer stock of 18 lakh tons of pulses, the government is trying to dispose of the dals and asked entities, including cooperative NCCF, to do the needful.
- For the first time, the government had last year decided to create a buffer stock of pulses to ensure better prices to farmers and at the same time use the stock to augment local supply in times of price rise. About 20 lakh tonnes of buffer were created through local procurement and imports.
- Secondly, domestic Chana prices are expected to witness a fall amid dull physical buying support & news of upcoming break bulk vessels from Australia in October end-November month carrying around 2 lakh tons.
- The fundamentals of chana in the international market highlight that Australia's chana production is seen declining 36% on year to 1.19 mln tn in 2017-18 due to a fall in average yield, as cited by Australian Bureau of Agricultural and Resource Economics and Sciences. Although area under chana cultivation is estimated to increase by 4.5% to 1.1 mln ha in 2017-18, production is expected to fall as rainfall was below average in the most cropping regions in June and was highly variable in July and August.
- Australia's chana exports to India are likely to fall to 0.8-1.0 mln tn in 2017-18 (Jul-Jun), as Australia's chana crop is expected to be much smaller on year.

SMC Global Securities Ltd. (hereinafter referred to as “SMC”) is regulated by the Securities and Exchange Board of India (“SEBI”) and is licensed to carry on the business of broking, depository services and related activities. SMC is a registered member of National Stock Exchange of India Limited, Bombay Stock Exchange Limited, MSEI (Metropolitan Stock Exchange of India Ltd.) and M/s SMC Comtrade Ltd is a registered member of National Commodity and Derivative Exchange Limited and Multi Commodity Exchanges of India and other commodity exchanges in India. SMC is also registered as a Depository Participant with CDSL and NSDL. SMC’s other associates are registered as Merchant Bankers, Portfolio Managers, NBFC with SEBI and Reserve Bank of India. It also has registration with AMFI as a Mutual Fund Distributor.

SMC is a SEBI registered Research Analyst having registration number INH100001849. SMC or its associates has not been debarred/ suspended by SEBI or any other regulatory authority for accessing /dealing in securities/commodities market.

The views expressed by the Research Analyst in this Report are based solely on information available publicly available/internal data/ other reliable sources believed to be true. SMC does not represent/ provide any warranty expressly or impliedly to the accuracy, contents or views expressed herein and investors are advised to independently evaluate the market conditions/risks involved before making any investment decision. The research analysts who have prepared this Report hereby certify that the views /opinions expressed in this Report are their personal independent views/opinions in respect of the subject commodity.

DISCLAMIER: This Research Report is for the personal information of the authorized recipient and doesn't construe to be any investment, legal or taxation advice to the investor. It is only for private circulation and use. The Research Report is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon as such. No action is solicited on the basis of the contents of this Research Report. The Research Report should not be reproduced or redistributed to any other person(s)in any form without prior written permission of the SMC. The contents of this material are general and are neither comprehensive nor inclusive. Neither SMC nor any of its affiliates, associates, representatives, directors or employees shall be responsible for any loss or damage that may arise to any person due to any action taken on the basis of this Research Report. It does not constitute personal recommendations or take into account the particular investment objectives, financial situations or needs of an individual client or a corporate/s or any entity/s. All investments involve risk and past performance doesn't guarantee future results. The value of, and income from investments may vary because of the changes in the macro and micro factors given at a certain period of time. The person should use his/her own judgment while taking investment decisions.

Please note that SMC its affiliates, Research Analyst, officers, directors, and employees, including persons involved in the preparation or issuance if this Research Report: (a) from time to time, may have long or short positions in, and buy or sell the commodity thereof, mentioned here in or (b) be engaged in any other transaction involving such commodities and earn brokerage or other compensation or act as a market maker in the commodities discussed herein(c) may have any other potential conflict of interest with respect to any recommendation and related information and opinions. All disputes shall be subject to the exclusive jurisdiction of Delhi High court. All disputes shall be subject to the exclusive jurisdiction of Delhi High court.