12th May, 2020

Monthly Report On

Oilseeds

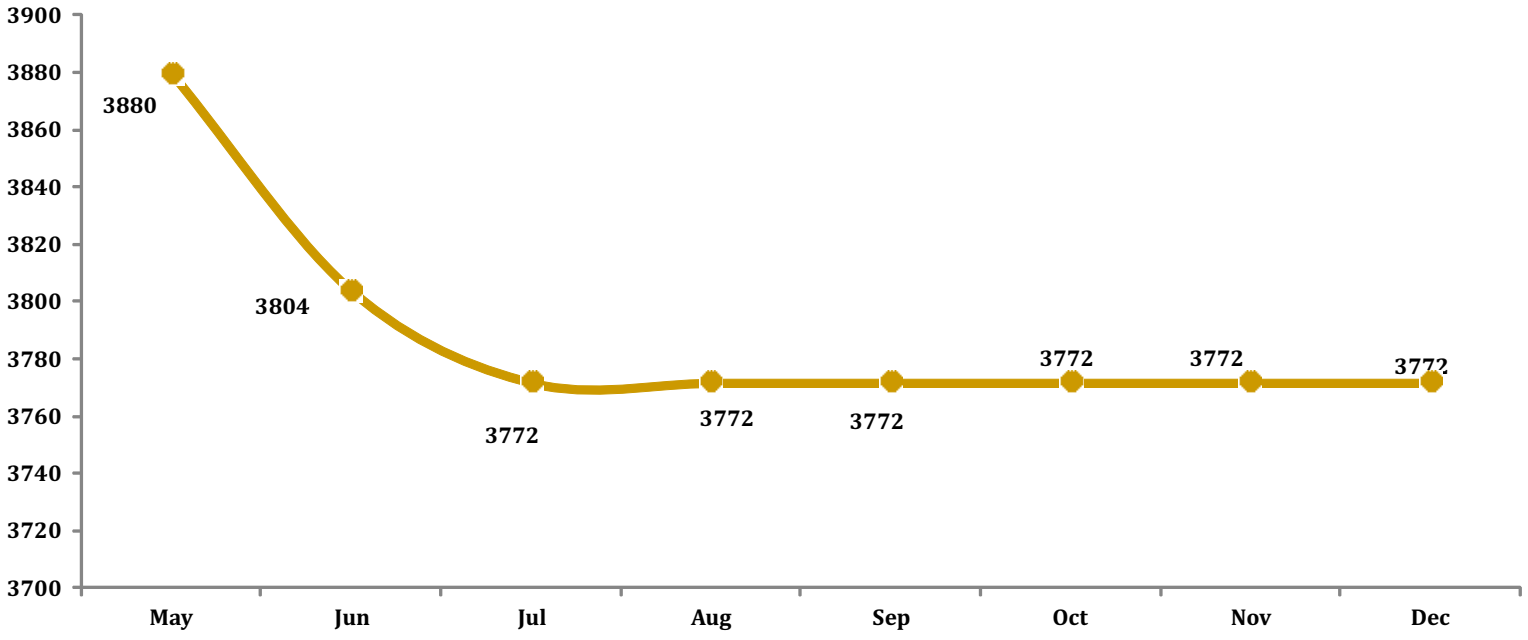
May 2020

smc

Moneywise. Be wise.

Domestic Fundamentals: Soybean

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



Source: NCDEX

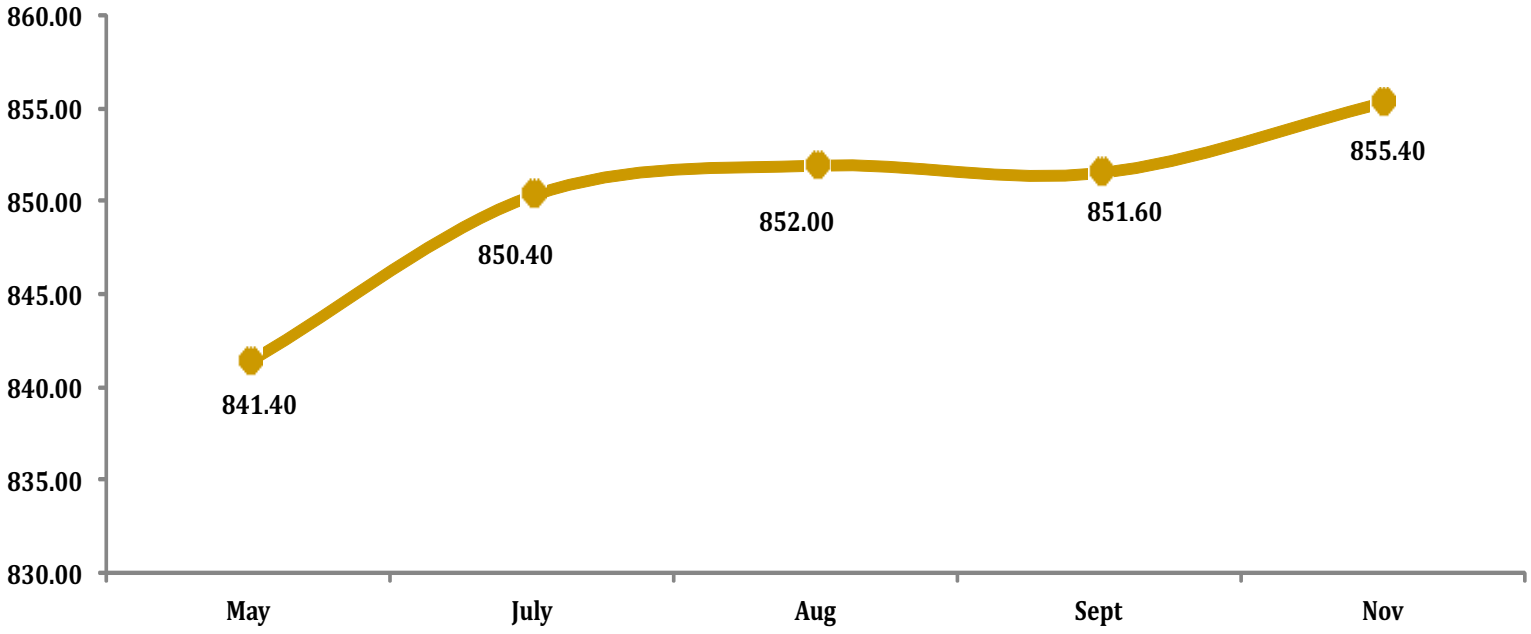
Closing as on 8th May, 2020

Fundamentals

- **Soybean futures is expected to trade sideways as the upside may remain capped owing to lower estimates of oilmeal exports, whereas on the contrary the downside is expected to get limited supported by the fact the U.S soybean is trading near 1 month high, boosted by higher Chinese buying. Saying this, we expect that day's ahead, the June contract may consolidate in the range 3600-3950 levels.**
- In news, to make up for losses due to the 2% farmers' welfare fee on agricultural produce recently introduced by the Rajasthan government, oil millers in the state are considering raising the upfront cash discount on soybean from other states to 3% from 1%.
- On the demand side, India's soymeal exports may fall to around 500,000 tn in 2019-20 (Oct-Sep), less than a fourth of the year-ago figure of 2.1 mln tn due to subdued demand from traditional overseas buyers amid ongoing lockdowns.
- Lockdown has not only hit the world markets, but is also weighing on the soymeal exports from India. Demand from traditional buyers has been slowing down due to the coronavirus pandemic. Japan, Iran, Korea and Nepal are major buyers of the Indian soymeal.
- Soymeal is primarily used for poultry and livestock feed. Shutdowns in several parts of the world have hit supply chains, with transport restrictions preventing soymeal from getting delivered to poultry farms and even demand for the livestock also fell on the scare of coronavirus.
- The poultry sector consumes 60% of the soymeal in India and there are no takers for it leading around half of the processing units being shut

International Fundamentals: Soybean CBOT

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



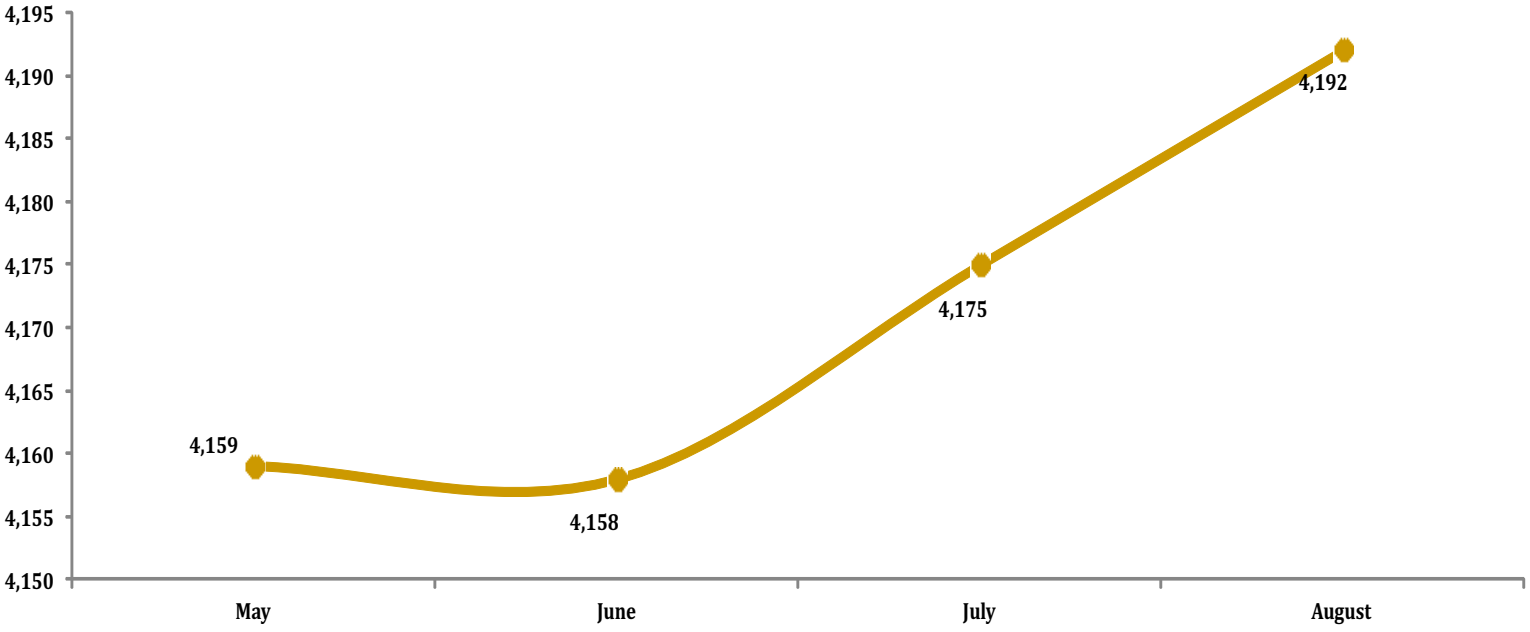
Source: Barchart

Closing as on 8th May, 2020

Fundamentals

- **On CBOT, U.S. soybean futures (May) will possibly consolidate in the range of $8.2-8.9 a bushel. The market participants are cautious and closely watching the export sales data extract the summary the quantity of Chinese buying, also the sowing progress.**
- Also, there is negative news coming from the international market that Chinese buyers are now mostly focused on booking July and August shipments of cheaper Brazilian beans due to competitive prices compared to US origin.
- A falling Brazilian real, which has lost almost a third of its value since January, has added to Brazilian soy's price competitiveness. Market participants said Brazilian soybeans were currently selling at a discount of 15-20 cents/bushel to US beans at Chinese ports.
- The coronavirus pandemic will cause China's purchase of U.S. goods this year to fall way short of what's agreed in the "phase one" trade deal, according to a forecast by Center for Strategic and International Studies. The deal requires China to increase purchases of U.S. goods and services by $200 billion above 2017 levels over the next two years. That includes $76.7 billion more in U.S. exports this year and $123.3 billion more in 2021.
- However, Commerce Department trade data latest release cited that China's purchases of U.S. goods running below 2017 levels by more than $7 billion in the first three months of this year.
- However, in case of soybean imports have risen in the first three months this year. China's soybean imports from the U.S. more than doubled from the same period last year to 7.8 million tons, customs data showed.
- Relations between the U.S. and China have worsened in recent weeks, with Washington and Beijing disputing over a variety of issues, including the origin of the coronavirus.
- Renewed tensions between the two economic powerhouses raised questions about the status of the phase one trade agreement, which investors and analysts considered a sort of truce in a U.S.-China trade war that started two years ago.
- It is reported that Top Chinese and US trade negotiators will speak as soon as next week on progress in implementing the phase one trade deal after US President Donald Trump threatened to "terminate" the agreement if China wasn't adhering to the terms.
- On the supply side, expecting larger orders from China, American farmers are planting more soybeans as the soybean planting season begins.
- USDA rated the nation's soybean planting completion rate at 38% vs. a 23% five-year average. Both Illinois and Indiana have 43% and 37% planted, respectively. Each of those states is well ahead of its average pace. In Iowa, farmers have 71% of their soybeans planted vs. a 24% five-year average. Meanwhile, 7% of the U.S. soybean crop has emerged vs. a 4% five-year average.

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



Source: NCDEX

Closing as on 8th May, 2020

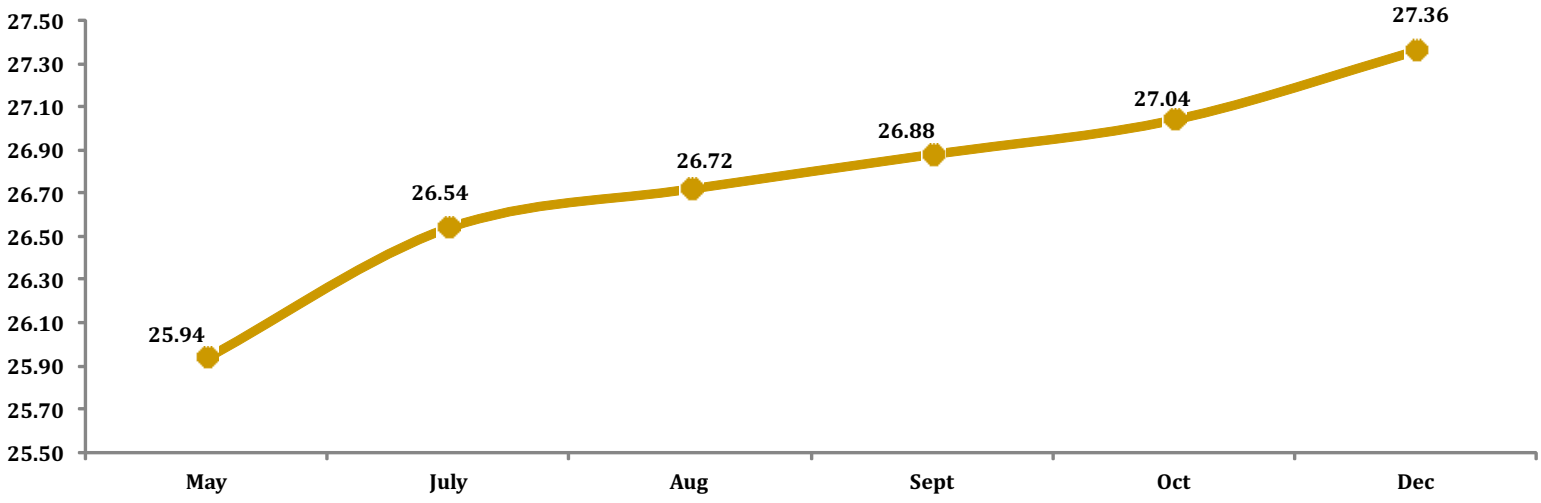
Fundamentals

- **Mustard futures (June) is looking bullish owing to robust demand from the millers. Hence, any correction towards 4110-4070 may be considered as buying opportunity, eyeing a target of 4300-4400 levels.**
- To make up for losses due to the 2% farmers' welfare fee on agricultural produce recently introduced by the Rajasthan government, oil millers in the state are considering raising the upfront cash discount on mustard shipments from other states to 3% from 1%.
- Rajasthan allowed government agencies to procure mustard from up to 120 farmers in a day, double of the earlier cap.
- The procurement of mustard in the ongoing season is gradually gathering pace despite the nationwide lockdown.
- NAFED has procured 3.40 lakh tonnes of mustard from five states, namely Rajasthan, Madhya Pradesh, Uttar Pradesh, Gujarat and Haryana.
- This is the mustard seed crushing season in Rajasthan, Haryana, Madhya Pradesh, Gujarat, Maharashtra and Uttar Pradesh. It is reported that plants in Rajasthan's Alwar are operating at full capacity.
- Mustard oil manufacturing plants are mostly located in green zones and therefore a large chunk of them are operational in all the mustard producing states. The country produces 2.3 million tonnes of mustard oil per annum.
- Each of the manufacturing units have got clearance from the state authorities before starting operations. They are maintaining SOP (standard operating procedure) laid out by the government at factories.
- Mandis are operating and arthiyas (commission agents) are supplying mustard seeds according to mills standard. Raw material problem has eased a lot.
- Trucks loaded with edible oils are now reaching interior areas to reach out to the dealers and distributors.

Fundamentals

- **CPO futures (June) will probably trade range bound within 565-610 levels.**
- **Soy oil futures (June) is finding support near 730, while the resistance is seen near 770 levels.**
- The outlook is bearish for vegetable oil prices and palm prices due to potential cutback in biofuel demand owing to the drop in Brent crude prices. The markets will remain subdued as lockdowns globally are leading to surplus availability of edible oils. Also putting pressure is the fact that Indonesia has not fully implemented its B30 biofuel programme, in which the South-East Asian country was planning to blend 30 per cent palm oil in biodiesel.
- Despite of the lower imports, the prices have not shot up as the monthly demand for edible oils in the country has fallen by 30 per cent, even though at home consumption of cooking oil shot up by 20-25 per cent. This is mainly because of a 30-35 per cent drop in outside home consumption, particularly by food service and institutional segments.
- The imports in April 2020 reported at 790,377 tons compared to 941,219 in March 20 and 1,198,763 tons in April 2019, down by 34%, on YoY basis. The drop in April is mainly due to logistics issues at destinations as well as at discharge ports. The overall Import of Edible Oils during Nov-2019 to April-2020 is reported at 6,182,184 tons, compared to 7,203,830 tons during the same period of previous year, i.e. down by 14 %.
- In view of placing RBD Palmolein under the Restricted List w.e.f. 8th January, 2020, its imports have since drastically reduced. The imports of CPO and CPKO also registered a 14% decline during Nov-2019 to April -2020 period, as compared to same period previous year, due to destruction of demand during Covid 19 lockdown period.
- This decline in the imports of palm products have directly benefitted the imports of soft oils, viz. Soybean and Sunflower, which is evident by their increase in imports by 13% and 12% respectively, thanks to house hold demand in consumer packs.
- **BMD CPO futures (June) has bounced from its yearly low of 1939, but the short covering may remain limited, as it is likely to face resistance near 2100-2150.**
- With economies in a cautious mode amid market volatility due to COVID-19, the price outlook for crude palm oil (CPO) is not going to be favourable, gravitating towards the cost of production of between RM1,500 and RM1,800 per tone.
- Recently, Malaysian palm oil futures fell to its lowest in nearly 10 months, as forecasts of rising production and higher April inventory amid weak exports due to the coronavirus outbreak capped gains.
- The Malaysian Palm Oil Association estimated April crude palm oil production to increase by 19.9% from the month before.
- Global sentiments were pressured by a spat between the Washington and Beijing over the new coronavirus' origin.
- China's imports of palm oil are expected to shrink too, as its soybean crush is expected to return to a normal level of between 10 million-12 million tonnes.
- Moreover, the pandemic happening across the world has resulted in severe contraction of the economy, hence, destroying demand for biodiesel, which the Indonesian government initially planned for this year, followed by Malaysia.
- Going ahead, we may see some downward revision of demand in palm oil as Indonesia is likely to delay plans to raise bio-content in palm oil-based biodiesel to 40%, and keep going with an already ambitious 30% content, amid speculation that low crude prices could force a government re-think.
- The Malaysian government also deferred the implementation of the national B20 Biodiesel Programme due to lower crude palm oil (CPO) demand and to focus resources in response to the Covid-19 outbreak.
- Indonesia's policies are aimed at keeping B30 going until 2021, while the plan to increase the bio-content to 40% (B40) will likely to be delayed till 2022 due to disruption to world fuel demand caused by the coronavirus pandemic.
- The supply side is also likely to witness an increase since the El Nino, there has been dramatic improvement, particularly in the last six months when there are rainfall in Southeast Asia and we have a plentiful rain and now with the current price and very good fertiliser application. This year we shall witness an excellent recovery in palm oil production in Malaysia & Indonesia.

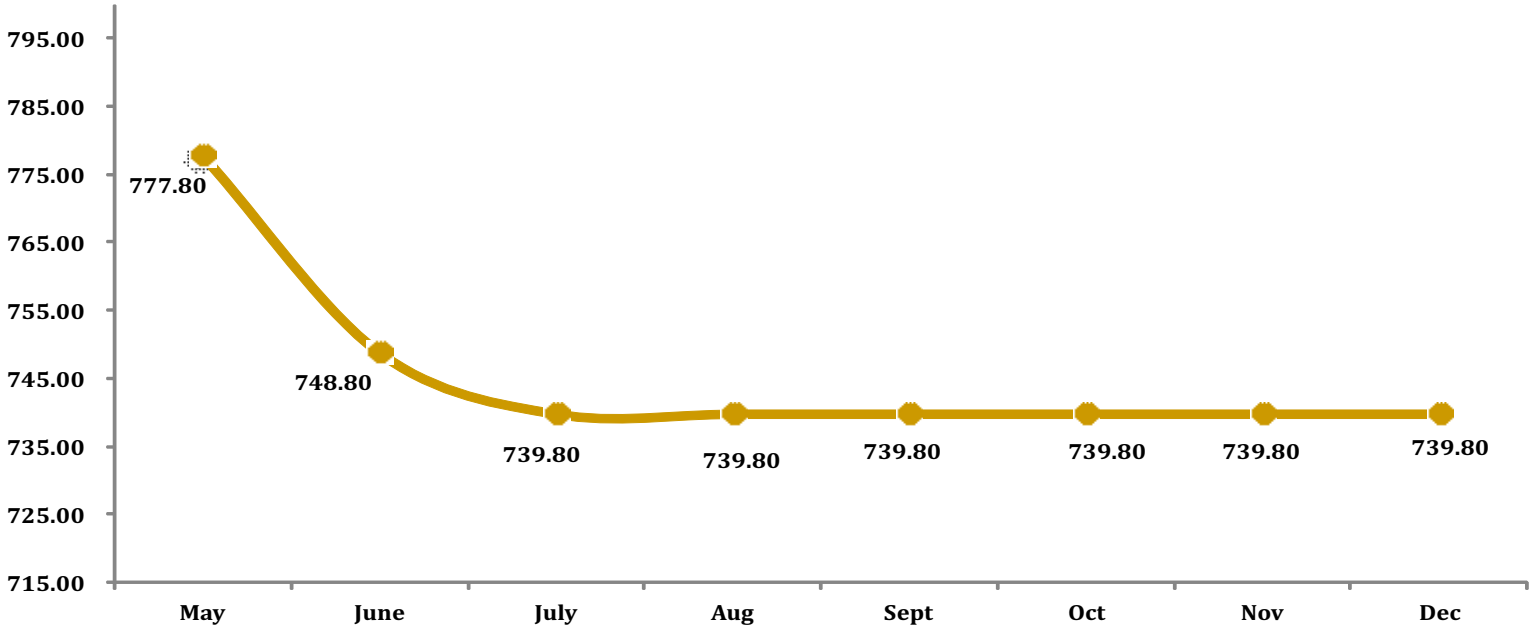
Forward curve of U.S Soybean Oil Futures (Cents per pound)



Source: Barchart

Closing as on 8th May, 2020

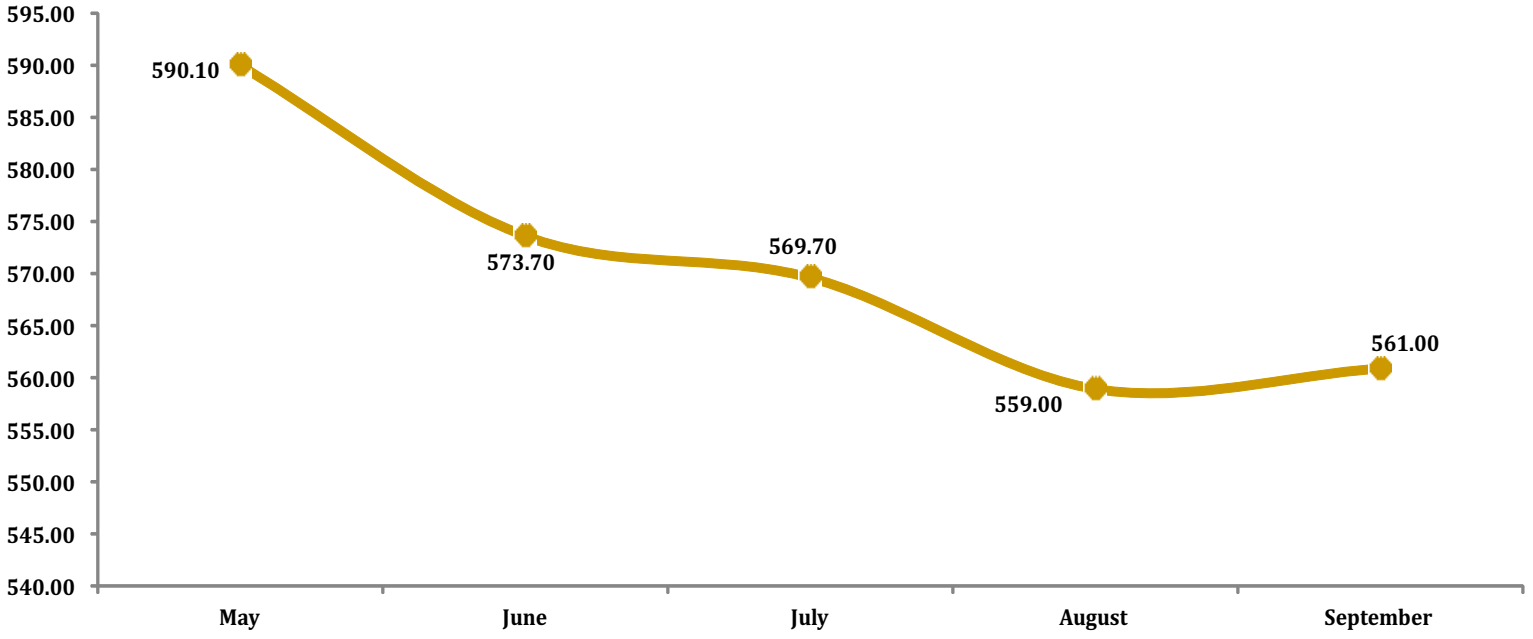
Forward Curve of Refined Soy oil futures (NCDEX) (Rs. 10/Kgs)



Source: NCDEX

Closing as on 8th May, 2020

Forward curve of CPO futures (MCX)



Source: MCX

Closing as on 8th May, 2020