

06th June, 2022

# Monthly Report On Monthly report on Others – Cotton, Castor and Guar seed June 2022



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## Factors to watch

- Sowing progress on North India
- US Cotton sowing progress and weather forecasts
- Monthly Production adjustments by CCI
- Export demand for yarn from India
- Government policy regarding import- export of cotton

## Daily Chart - MCX Cotton Futures



Source: Reuters & SMC Research

## Price Performance and Fundamentals

- MCX Cotton climbed to fresh all-time high of 50330 to close more than 8% in the Month of May due to profit booking at higher levels coupled with drastic reduction in cotton demand as textile mills have stopped cotton purchase. Similarly, ICE cotton also slipped more than 10% after it surged to 155.95 cents per pound to close at 138.98 cents on prospects of higher supplies amid favorable weather in top growing regions. At the same time, demand for cotton seen weakening among the stockists and traders amid high inflationary pressures.
- In view of the current market situation it has been decided to reduce position limits of Cotton contracts for client to 20,000 bales for the near month contracts (from 95,000 bales) while for members it reduced to 2,00,000 bales (from 9,50,500 bales), temporarily, until the expiry of August 2022 contract.
- The textile industry is facing an uncertainty in demand from Europe amid the Russia-Ukraine war has added to the woes of apparel makers in Asia - home to the world's top garment exporters, China and Bangladesh. In a recent development in India, South India Spinners Association has taken big decision to close 100% mills and stop buying of cotton, which bring down the prices by 5.35% in last one week.
- This season, cotton sowing has started early in North India to escape the attack of pink boll worm and new season arrivals may come in market during Sep-Oct 2022. Currently, Cotton prices are 91% higher y/y due to non-availability of quality cotton for mill consumption.
- Moreover, cotton production estimates by USDA in their monthly reports were unchanged in April but CAI cut the production by more than 8 lakh bales to 335.13 lakh bales in the year 2021/22 while the consumption estimates were retained at 340 lakh bales. Exports and imports forecast were also unchanged at 45 lakh bales and 15 lakh bales respectively. Indian cotton arrivals during the months of October 2021 to March 2022 are estimated at 262.68 lakh bales of 170 kgs compared to 283 lakh bales last year for the same period.

## Outlook

Currently, MCX Cotton Jun is correcting close to 10% from the May highs and expected to trade lower in the month of June too. The textile industry has closed their units 100% due to record cotton prices and will be waiting for prices to cool down before making any further purchases. Meanwhile govt is also trying to cool down prices by cutting import duty and may impose restriction of exports. In 2022, cotton prices are not trade as per the seasonality pattern as cotton prices is seen in uptrend in second half while flat to lower in the first half. Technically, cotton prices have good support at 42180 levels and resistance is at 47300 levels. Breaking below 44000 may take prices lower towards 42000/40000 levels.

## Cotton Technical Levels

Contract	CMP	S1	S2	PIVOT	R1	R2
Jun	46,130	42,350	44,240	47,280	49,170	52,220
Jul	45,600	42,180	43,890	47,060	48,770	51,950

## MCX Cotton - Monthly Closing (INR per bales)



## Seasonality Heat Map- MCX Cotton



## Factors to watch

- Export demand for Castor Oil from China
- Sowing progress in coming season
- Arrival of castor seed in the physical market
- Export prices of castor oil and castor meal
- Carry-over stocks with the farmer and oil millers

## Daily Chart - NCDEX Castor Seed Futures



Source: Reuters & SMC Research

## Price performance and Fundamentals

- Castor seed futures continue to trade positively in May too but facing constant resistance at higher levels. Though it has closed in positive for fifth consecutive month, the indecision witnessed at higher prices. In May, castor prices have touched all-time highs of 7724 due to consistent export demand for its derivatives products— oil and meal despite higher prices this season. Average castor seed prices are higher by more than 45% this season at around Rs. 7000-75000 per quintal compared to last year prices of 4500 -4700 per quintal.
- Castor arrivals are sufficient in the country as the prices have been good this season but farmers and traders still holding their produce as they hope for price increase when China demand increases. As per balance sheet the consumption estimates is around 20 lakh tonnes in 2021/22 while the supplies and carry-over inventories are about 21 lakh tonnes making the balance sheet tight in the current season.
- India's castor oil exports are down by 18% to 195461 tonnes in the four months of 2022 compared to last year exports of 238459 tonnes. This drop in exports is due to limited exports to China amid covid situation and logistical issues. India exported castor oil to about 112 countries during the FY 2021/22 and the top three-export destinations for the castor oil were China, Netherlands and USA.
- In 2022 (Jan-Apr), India's castor meal exports down by about 34.42% Y/Y at 1,25,718 tonnes due to higher export prices while the exports during FY 2021/22 was down by 9% at 3.82 lakh tonnes. The exports have been good this FY considering the average price of castor meal jumped is more than 85% at \$124/ton compared to \$ 67 /ton last year.

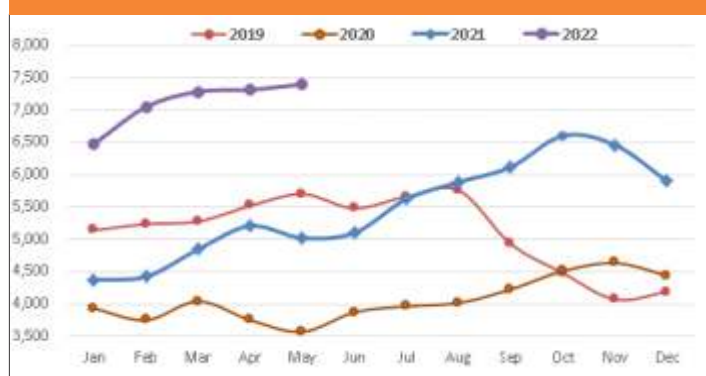
## Outlook

Castor seed prices are hanging at the higher levels from last three months. It is observe that the future prices have higher levels in all the previous four months as export demand for its derivatives is constant, and there are reports of supply crunch in the country due to lower carry-over stocks. Currently, the prices have already factored the lower stocks and now price may follow the monsoon trend as well as export demands. Currently, strong resistance is seen at 7700 levels and breaking above it may take the prices to 7900/8000 levels. The Castor seed (Jul) expected to trade sideways in the range of 7150 – 7800 and breaking any of the levels will decide the trend for the castor seed.

## Castor Seed Technical Levels

Contract	CMP	S1	S2	PIVOT	R1	R2
Jun	7,368.00	6,641	7,005	7,363	7,727	8,085
Jul	7,448.00	6,817	7,133	7,465	7,781	8,113

## NCDEX Castor seed: Monthly Closing (Rs per Qtl)



## Seasonality Heat Map – Castor seed Futures





## Factors to watch

- Forecast of rains in guar sowing areas
- Export demand for guar gum and Oil rigs operating in the US
- Stocks with the farmers and traders
- Arrivals of guar seed in the physical market
- Demand for guar derivatives for feed and food industry

## Daily Chart - NCDEX Guarseed Futures



Source: Reuters & SMC Research

## Price performance and fundamentals

- We have witnessed a sharp correction in guar seed prices on reports of normal monsoon prediction by IMD. In May 2022, Guar seed prices slipped about 8% to close around 5800 levels while guar gum fell 10% to close near 11260. Despite the sharp fall, the guar complex prices are still higher compared to last year prices due to lower production and improved export demand. The guar complex prices facing resistance at higher levels despite improving guar gum exports and good demand from the food industries.
- Currently the prices have corrected on reports of normal monsoon, but it is difficult to estimate the area of guar because rainfall the distribution will be crucial and on that, the basis crop can be estimated.
- As per market sources, guar gum market is very good as the old stock of Guar seed is largely exhausted with the farmers and then the demand increases for the guar gum the prices may increase. At present, the demand for drilling of guar gum is very good due to the high prices of crude oil and natural gas. In the month of May, the export of gum is estimated to be 24 to 25 thousand tonnes and in June also the export of gum is expected to be good.
- According to APEDA, Guargum exports have increased about 31% during Oct-Mar at 1.63 lakh tonnes compared to 1.25 lakh tonnes last year for same period. The exports of guar gum during the month of Jan- Mar 2022 up by 22% y/y at 79,650 tonnes compare to 65,270 tonnes last year.

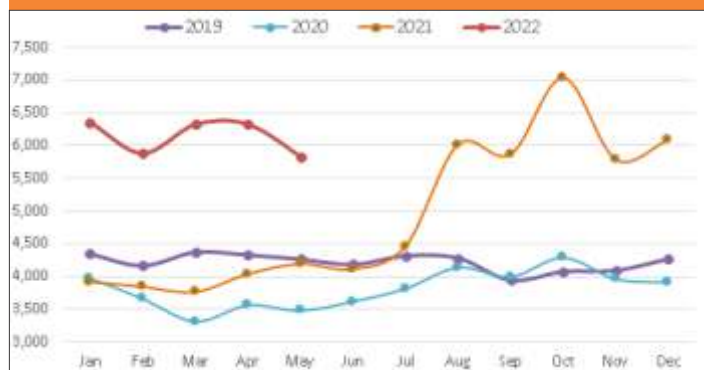
## Outlook

Guar seed futures witnessing correction since the first week of April and it is now trading at important support level of 5500. Overall guar price will remain sideways until Jun-Jul, after that the progress of –monsoon and area under guar seed will determine the prices while decreasing guar stock and continuous export demand of gum may support prices if monsoon remains erratic in Rajasthan. There are chances of higher guar area this year due to widespread reports of lower stocks with the farmers and the current prices are good enough for farmer to sow guar in next kharif season. We expect the prices to correct more towards the support levels of 5500 levels on expectation of higher sowing in Haryana, Gujarat and Rajasthan.

## Guar Seed Technical Levels

Contract	CMP	S1	S2	PIVOT	R1	R2
Jun	5,963	5,500	5,750	6,050	6,260	6,555
Jul	6,032	5,600	5,800	7,000	6,315	6,600

## NCDEX Guar seed : Month-End Close prices (Rs/100 kg)



## Seasonality Heat Map – Guar Seed Futures



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