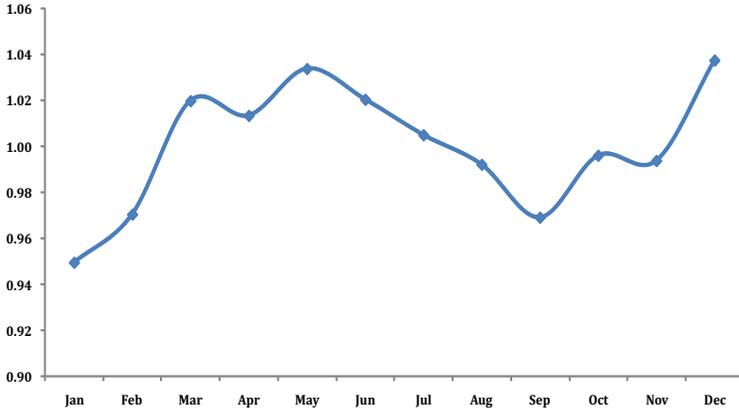


# Monthly Report On **Kapas, Guar & Chana** November 2017



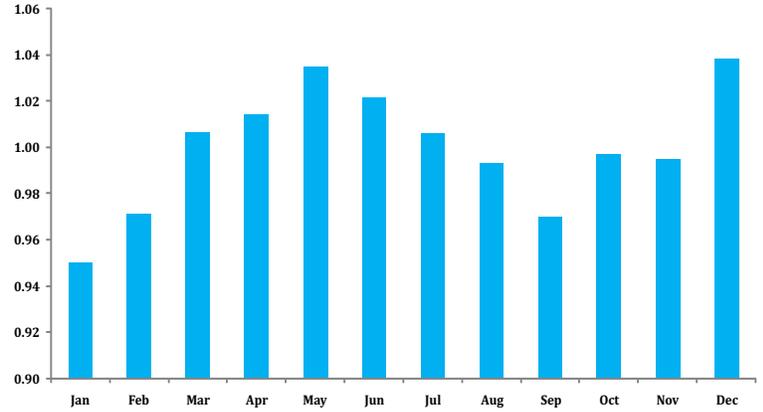
## Forward curve of Cotton 29MM futures



Source: NCDEX

Closing as on 2nd November, 2017

## Historic returns of Kapas futures during month of November



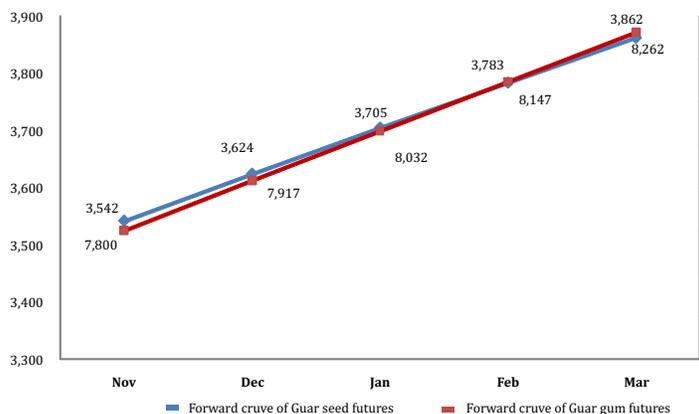
Source: Reuters & SMC Research

S3	S2	S1	Pivot	R1	R2	R3
819	839	853	873	888	908	922

## Fundamentals

- **Kapas futures (April) may continue to witness consolidation in the range of 855-895 levels for the fifth consecutive month. The upside is likely to remain capped as the sentiments are bearish due to absence of fresh demand against rising arrivals.**
- Farmer were interested in offloading their produce at raised MSP levels, which has come into effect from November 1 onwards, hence supply during the first week of November would be the accurate indicator to farmers sentiment.
- At present, supply seems unhindered but needs to be keenly tracked in the days ahead. If we look at the spot markets, the supply side looks heavier & the upside potential is likely to lose steam as arrivals will increase during in the upcoming months and also there will be sluggish demand from both exporters as well as spinners.
- Currently, the buyers have already turned silent tracking the downtrend across the market and were anticipating further weakness in cotton prices later during the day, hence have halted buying.
- Indian traders have not signed new cotton export contracts in the past one week as domestic prices may take a little longer to decline to get export parity.
- In the international market, the US cotton market is trading in a tight range of 66-70 cents since September 12 with trade short covering, attributed to mill on call fixation, at lower levels supporting prices while bearish domestic balance sheet limiting prices to breach 70 cents.
- The CFTC report showed that in the past four months since June, the money managed fund holders liquidated 32 percent to 47,061 lots as of Oct 24 compared to 68,915 lots as of June 13 and , which is still a large position considering the dominating bearish factors. On the other hand, trade shorts were recorded at 128,952 lots which was significantly lower compared to 161,402 lots same period last year which is surprising.
- The bias is favoring the bears more now amidst large crop prospects domestically and globally. Hence, there is still a wide room for merchant/producers to be net sellers in the days ahead while hedge funds will eventually liquidate their remaining net long position.
- There is a high potential for prices to fall below the key support levels of 66-65 cents/lb. The December index fund roll is scheduled to commence from Oct 30 onwards will continue (at varying levels) through mid-month. Expect prices to trend more on the bearish side.

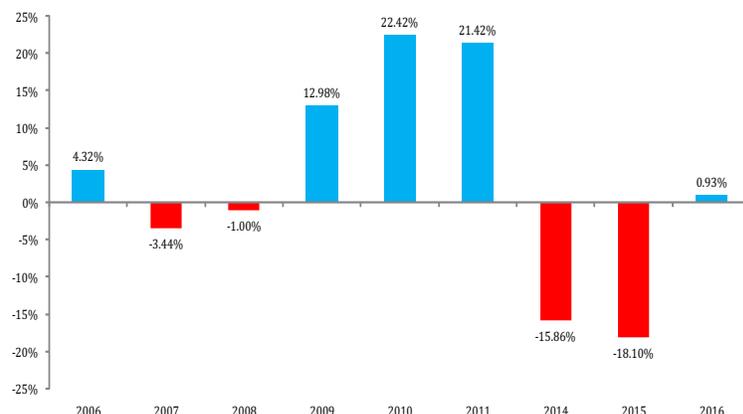
## Forward curve of Guar futures



Source: NCDEX

Closing as on 2nd November, 2017

## Historic returns of Guar futures during month of November



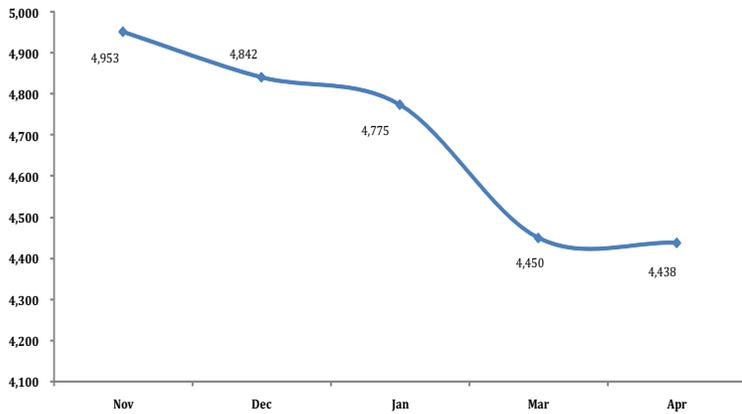
Source: Reuters & SMC Research

S3	S2	S1	Pivot	R1	R2	R3
3113	3351	3495	3733	3877	4115	4259
6763	7256	7571	8064	8379	8872	9187

## Fundamentals

- Guar seed futures (December) is expected to trade sideways to down in the range of 3400-3800 levels. Guar gum futures (December) may trade sideways in the range of 7700-8100 levels. In days to come, not much an upside is seen in the guar complex, as the sentiments of market participants are bearish owing to higher carryover stocks with the traders and mills.
- Guarseed and Guargum have slipped to the bearish zone due to decent supply of new crop & recent negative U.S oil rigs count data.
- The data of increased exports have failed to lift the market sentiments. Guar gum exports from India in April-September period surged 54% on year to 2.53 lakh tonnes compared to 1.64 lakh tonnes last year as per the data released by the Agricultural and Processed Food Products Export Development Authority.
- Though stockiest and crushers demand is said to be good, but they are slightly hesitant to procure in bulk quantity due to recent bearish U.S rigs count.
- The U.S. rig count fell for a third month in a row. The decline in drilling that started after crude prices fell below \$50 a barrel this year in summer.
- In the month of October, the rig count fell by 13, the biggest decline since May 2016. It was also the first time since May 2016 that the number of rigs dropped for a third month in a row.
- Stockists are buying Guarseed, but they have also some limitation as they have already good quantity of old stocks procured earlier at higher rates. Stockists are holding 2-3 years old crop with anticipation of better prices and thus they are unlikely to procure Guarseed this season in bulk quantity.
- The better supply of new Guarseed crop in the domestic market are pressurizing prices, however supplies in the coming weeks is expected to decline gradually due to lower production estimates followed by lower rates may prompt farmers to hold their stocks.
- According to trade sources, Guarseed production could not be more than 75 lakh bags and estimated carryover stocks is around 85 lakh bags, which took the total tally at 160 lakh bags, whereas demand (crush) is expected to between 130-150 lakh bags leaving, ending stocks for 2017-18 (Oct-Sept) at around 10-30 lakh bags.
- The long term Guar outlook is heavily depends on Guargum exports, which is expected to do better as it did in the past months and if that happens then there is higher probability for Guarseed/Guargum to rebound.

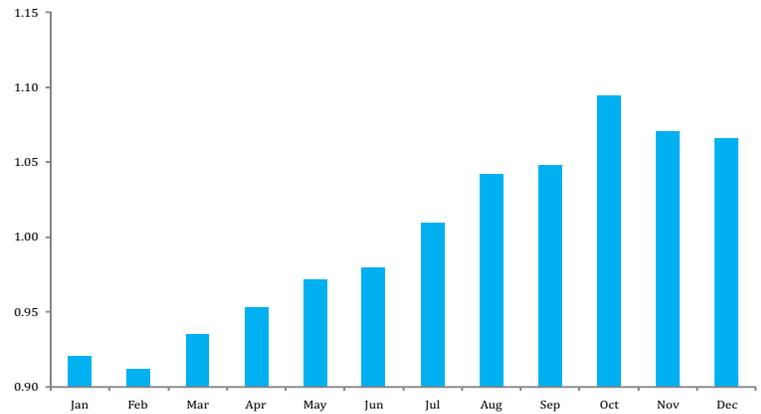
## Chana futures Seasonal Index



Source: NCDEX

Closing as on 2nd November, 2017

## Historic returns of Chana futures during month of November



Source: Reuters & SMC Research

S3	S2	S1	Pivot	R1	R2	R3
3466	4026	4415	4975	5364	5924	6313

## Fundamentals

- **Chana futures (December) is expected to trade sideways to down in the range of 4600-5100 levels.**
- Chana is continuing to witness a downward slide on the spot markets amid slack physical demand from retailers and stockists. Given adequate availability of both domestic chana and imported peas and the expected arrival of imported chana from Australia this month, rally in chana appears unlikely in the coming days.
- Weakness is continued to be seen in most of the raw pulses due to subdued domestic demand and against decent supply. Chana prices has fallen the most followed by Urad, Tur, Masoor and Matar.
- The bearishness is likely to continue in days to come & the counter is likely to witness selling pressure on every little rise, owing to expectations of higher Rabi sowing.
- Chana acreage this Rabi season 2017-18 is expected to rise 15-20%, which has also weighed on domestic market sentiments. Farmers are likely to increase Chana sowing as its prices are better comparatively other crops. The government has raised minimum support price of Rabi chana by Rs 400 to Rs 4,400, which is also positive for Chana sowing.
- Secondly, demand from millers for Chana has been poor due to falling prices and lackluster demand for processed chana (chana dal) and besan. The consumption of Chana didn't pick up during this festival season (September-October) and thus prices remain suppressed. Usually Chana consumption increases during September-October period due to many festivals lying in between, but it didn't happen this year.
- Also, the higher supply of Matar (peas) from overseas continued to hurt Chana prices. Matar is used as close substitute for Chana due to cheaper rates.
- India matar imports during the recent years has rose sharply due to rising domestic consumption and shift in demand from other pulses being cheapest in pulses complex.
- There is more than 3-months of time for new Chana crop to hit the domestic market and until then local demand will be very much rely on imports and domestic supply.
- Overall, the current fundamentals suggest that a temporary rise in prices can't be ruled out, however one should keep a close eye on sowing, which is expected to rise this season followed by new chana crop imports from Australia followed by domestic demand.

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