

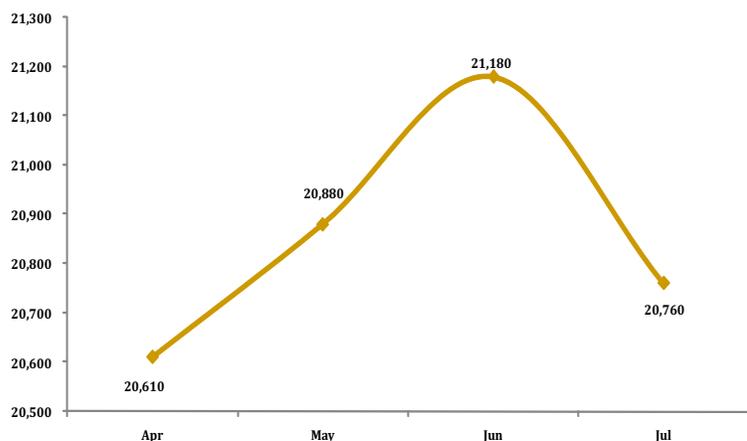
3rd July, 2018

Monthly Report On Cotton, Chana, Guar Seed & Guar Gum July 2018



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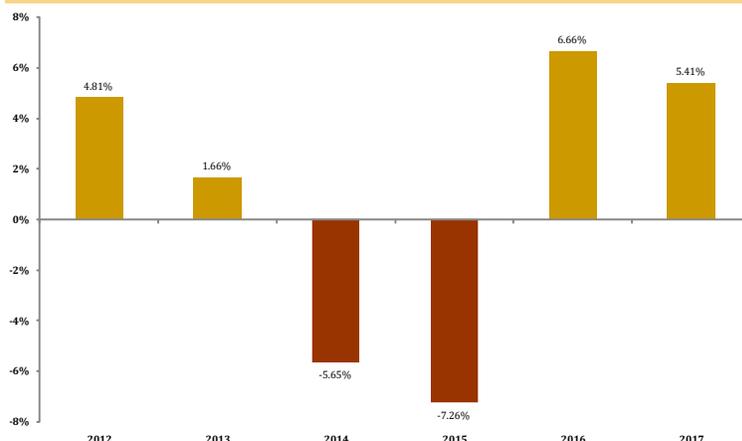
Forward curve of Cotton futures (MCX)



Source: MCX

Closing as on 2nd July, 2018

Historic returns of Cotton MCX futures during month of July



Source: Reuters & SMC Research

S2	S1	Pivot	R1	R2
20950	21650	22630	23330	24310

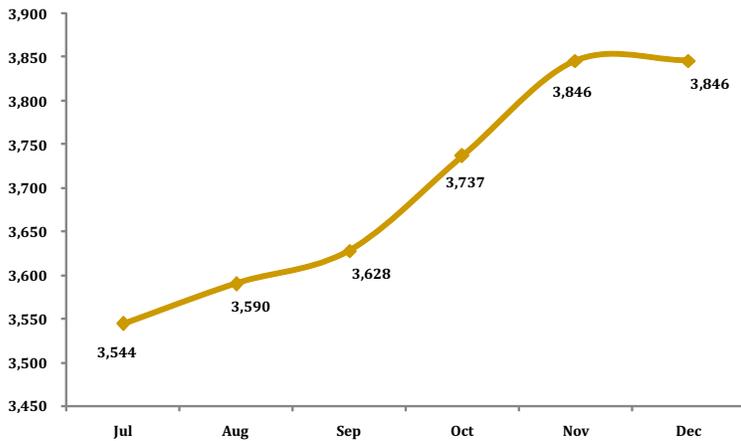
Fundamentals

- In the present scenario, the price trend of cotton in the international market and that of the domestic market is very different from each other. Last month, cotton futures on ICE had plunged by more than 8% as the investors remained guarded amid an ongoing trade conflict between world's biggest cotton exporter US and top consumer China. On the contrary, cotton on MCX closed on a positive note, little higher by 0.22% helped by strong export demand for cotton mainly from Bangladesh, followed by China, Vietnam.
- Needy mills are active and buying cotton to meet their requirements, whereas exporters are continuously looking for quality cotton in good quantity as they are receiving decent demand from overseas.
- Usually export demand during the fag end season remains on the lower side, but this was not the case this season, according to traders.
- Going ahead, cotton futures (July) on MCX is expected to trade positive in the range of 21500-22800 levels helped by tight supply, steady domestic and overseas demand. However, as the counter is in the overbought zone on the monthly charts, we recommended not buying at current levels & rather waiting for a correction, so as enter in lower levels. The market participants are cautious & closely watching the progress of monsoon & its impact on sowing area. Delayed rains have shrunk the sowing window for cotton, but a recovery in the pace of monsoon may boost the pace of cultivation.**
- At present, all the eyes are on the declaration of Minimum Support Price (MSP) by the Cabinet during this week. The Govt. plans to announce a sharp rise in the minimum support price (MSP) of:
 - Medium Staple by Rs.160 per quintal to Rs.4180 in 2018-19 from Rs.4120 in 2017-18.
 - Long Staple by Rs.160 per quintal to Rs.4480 in 2018-19 from Rs.4320 in 2017-18
- Pan India, the total area under cotton crop was 32.20 lha as against 46.10 lha cultivated in the same period last Kharif season.
- Sowing in Haryana has increased a bit, while that in Punjab and Rajasthan has fallen. Maharashtra, however, is likely to witness some rise in the cotton acreage as farmers prefer cotton.
- In Gujarat, Kharif sowing for cotton normally commences in the first week of June and goes on till July-end. However, this year, due to the delayed monsoon, the pace of cotton sowing has been sluggish at 241,578 hectares as of June 25, down 64 per cent from last year's 675,600 hectares from same

time.

- According to the demand-supply balance sheet projected by the Cotton Association of India (CAI):
 - Estimate of the cotton crop production for the 2017-18 season (October-September) is at 365 lakh bales, same as May.
 - Domestic consumption for the season is estimated at 324 lakh bales, while the exports are estimated to be at 70 lakh bales.
 - The carry-over stock at the end of the season is estimated at 22 lakh bales, it added.
 - The total supply is estimated at 394.45 lakh bales, which includes arrivals of 348.45 lakh bales up to June 30, imports the committee has estimated at 10 lakh bales and the opening stock at the beginning of the season, which has been revised from 30 lakh bales to 36 lakh bales.
 - The estimated cotton consumption for the nine months (October 2017 to June 2018) at 243 lakh bales, which is 27 lakh bales per month, while the shipment of cotton till June 30, has been estimated at 64 lakh bales.
 - The stock at the end of June is estimated at 87.45 lakh bales, including 51.85 lakh bales with textile mills, while the remaining 35.60 lakh bales are estimated to be held by the Cotton Corporation of India (CCI) and others including traders, ginners, etc.
 - The estimated total cotton supply up to September 30, 2018, is at 416 lakh bales, which includes opening stock of 36 lakh bales at the beginning of the season.
- **On the international market, the trend of cotton futures on ICE is bearish as the speculators are not buying anything until they know what the U.S.-China trade dispute is going to result in. Investors have been anxious ahead of the July 6 deadline when the United States is set to impose tariffs on \$34 billion worth of goods from China, with Beijing expected to respond with tariffs of its own on U.S. goods. The U.S. Department of Agriculture will factor in China and Mexico's tariffs against American farm products in its global supply and demand crop report in July, if these tariffs do take effect. Going ahead, if the counter breaks the support near 81.50 cents, then it will plunge further towards 78.30 cents per pound.**
- The fundamentals of cotton in the international market shows:
 - In 2017/18, world cotton production is estimated at 26.6 million tonnes while world mill use is projected at 25.5 million tonnes, which represents the third consecutive season of growth in demand for cotton. China stocks are projected down to 9 million tonnes.
 - Along with weather issues in the Xinjiang region which represents 75% of China's cotton area and potential drought conditions in West Texas affecting 25% of the US crop, there may be concern of quality supply gaps which may affect next seasons supply.
 - World cotton consumption is projected to increase to 26.7 million tonnes in 2018/19, while world cotton production is estimated at 25.7 million tonnes.
 - US production is projected to decrease to 4.2 million tonnes with exports projected to increase 3% to 3.3 million tonnes in 2018/19. Reduced yields in 2017/18 in India are contributing to lowered planted area for 2018/19 with exports projected at 840,000 tonnes representing a 24% decrease from the previous season.
 - As per the Annual Acreage report by the National Agricultural Statistics Service (NASS), Agricultural Statistics Board, United States Department of Agriculture (USDA) all U.S cotton planted area for 2018 is estimated at 13.5 million acres, 7 percent above last year. Upland area is estimated at 13.3 million acres, up 7 percent from 2017.
 - Based on USDA's supply and demand estimates, U.S. cotton ending stocks for 2018/19 are projected at 4.7 million bales, 500,000 bales below last month but still 500,000 bales above 2017/18. If realized, U.S. stocks in 2018/19 would be the highest in a decade; however, with demand for U.S. cotton strong, the stocks-to-use ratio—which has ranged between 14 percent and 38 percent over the past decade—is only slightly higher in 2018/19 at 25 percent.

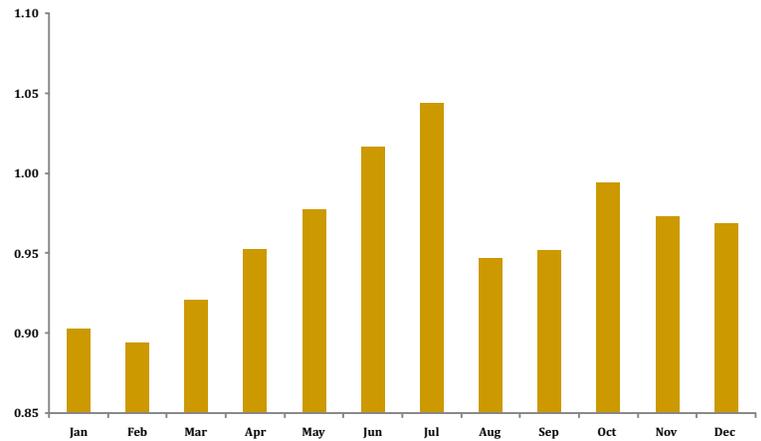
Forward curve of Chana futures



Source: MCX

Closing as on 2nd July, 2018

Chana futures Seasonal Index



Source: Reuters & SMC Research

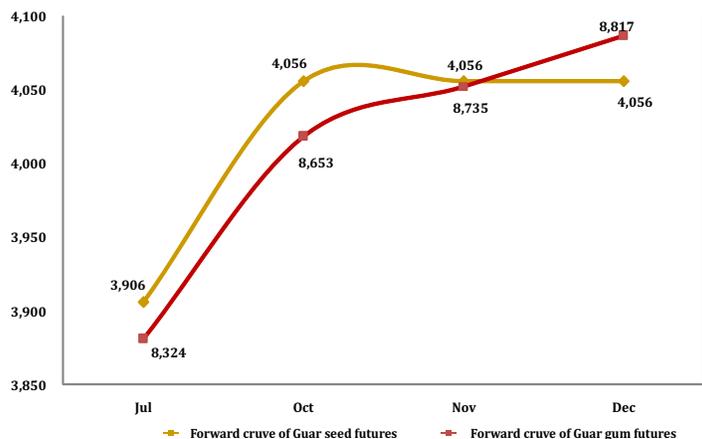
S2	S1	Pivot	R1	R2
3198	3356	3498	3656	3798

Fundamentals

- **Chana futures (August) will possibly continue to witness see-saw kind of price movement, with an upside bias taking support near 3435 levels. In the near term, the counter is expected to test the resistance near 3715 levels. The reason which is acting as a catalyst is the lagging pace of pulses sowing this Kharif season.**
- At present, all the eyes are on the declaration of Minimum Support Price (MSP) by the Cabinet during this week. The Govt. plans to announce a sharp rise in the minimum support price (MSP) of:
 - o Moong by Rs.1400 per quintal to Rs.6,975 in 2018-19 from Rs.5575 in 2017-18.
 - o Urad by Rs.200 per quintal to Rs.5400 in 2018-19 from Rs.5600 in 2017-18.
 - o Tur by Rs.225 per quintal to Rs.5675 in 2018-19 from Rs.5450 in 2017-18.
- As per the latest data, pulses have reported a substantial 41 per cent dip in acreage so far. As against 18.18 lha planted during the same period last year, sowing has taken place only on 10.72 lha till last week, according to the data released by the Ministry.
 - o Kharif moong acreage so far 306,000 ha vs 658,000 ha yr ago.
 - o Kharif urad acreage so far 125,000 ha vs 200,000 ha year ago.
 - o Kharif tur acreage so far 474,000 ha vs 582,000 ha year ago.
- Also, another motivational factor is that the government extended quantitative restriction on import of matar (peas) for another 3 months to September. Restriction on import of peas (including yellow peas, green peas, dun peas and kaspas peas,) is extended for a further period of three months, i.e., till 30.09.2018, "the directorate general of foreign trade (DGFT) said in a notification.
- Millers are buying chana with anticipation that demand will increase for processed chana and besan after Indian government has extended quantitative restriction on matar import for another 3 months till September 30.
- Australian chana dal is trading higher near Rs.4,150/100 Kg amid thin trade activity. Domestic chana dal of Pistol brand also moved up to Rs.4,400, Samrat brand at Rs.4,700 and Angel brand at Rs.4,700. On other hand, Chana besan remained steady at Rs.2,631/50Kg. While, Vatanabesan traded higher at Rs.2,201/50 Kg. Vatana dal at Rs.3,850.
- Firm tone is being observed in Kabuli chana of all counts by Rs.100-200/100Kg at the Indore due to fresh buying interest from traders and millers. Kabuli chana arrivals at Indore market is being around 8,000 bags (100kg each).
- Export demand in Kabuli chana in recent weeks was said to be little better due to depreciation in Indian rupee.

GUAR SEED & GUAR GUM (OCTOBER)

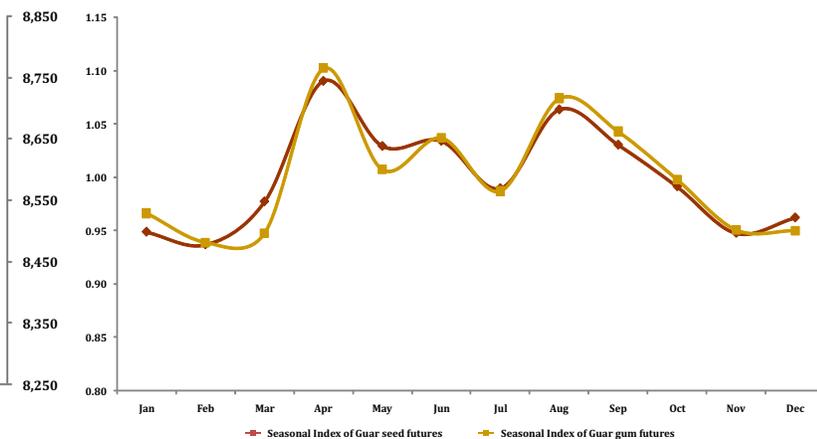
Forward curve of Guar seed & Guar gum futures



Source: NCDEX

Closing as on 2nd July, 2018

Seasonal Index of Guar seed & Guar gum futures



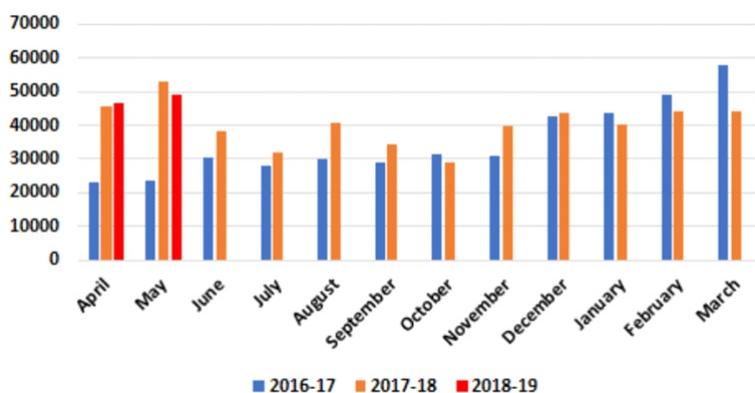
Source: Reuters & SMC Research

S2	S1	Pivot	R1	R2
3546	3772	3926	4152	4306
7226	7853	8238	8865	9250

Fundamentals

- During the last month, guar complex have shown a decent rally on the back of bullish crude oil prices. In June, Oil prices climbed & hit a three-and-a-half year high, bolstered by supply concerns due to US sanctions that could cause a large drop in crude exports from Iran.
- Looking at this, there was good buying observed in Guarseed from crushers and stockiest due to expectations of more rise in prices ahead amid increasing demand for Guargum. Also the rupee had tumbled below 69-mark for the first time and hit a life-time low of 69.10 making the exports attractive.
- The fall in the value of the rupee against the Dollar came in the midst of weak global trends and concerns on the macroeconomic front.
- In addition to it, poor arrivals pushed up spot Guarseed & Guargum prices higher at key markets of Rajasthan.
- Export demand in Guargum was better in recent times and likely to increase further due to improving crude oil prices followed by depreciation in Indian rupee.
- Currently, the positive factors for Guar are:
 - o Rising Crude Oil Price
 - o Rising U.S. Rig Count (Baker Hughes, reported that US crude oil rigs have risen by 102 or ~13.5% from a year ago.)
 - o Poor Guar Arrival
 - o Depreciating INR
 - o Rising Export Demand
- According to latest APEDA data, Guargum export during the month of May stood at 49,121 tons, up 6% from 46,531 tons a month ago, but down 7% from 52,982 tons same period a year ago. Guargum shipment during the first two month (Apr-May) of current FY 2018-19 totaled at 95,652 tons versus 94,782 tons previous year.

India Guargum Export (In MT)



GUAR SEED & GUAR GUM (JULY)

- During this month, an uptrend will persist in the guar complex as Export of Guar gum this season is expected to remain better than last year as prices are attractive due to weak rupee. Further rising price of crude oil will encourage consumers to increase Guargum imports. The stock of Guarseed is ample, but if Guargum export continuously exhibits positive numbers for next 2-3 months then there is a higher possibility of better return in the counter. In the international market, the demand for guar gum may increase as higher oil prices could see rigs rise in the upcoming months. The guar gum and guar seed ratio has improved since last month from 2.07 to 2.13 in July, which shows that the underlying demand of guar gum is improving. However, we would advise to keep a word of caution as the monsoon is likely to gather pace in days to come & already the sowing of guar seed has started in irrigated regions of Rajasthan, Haryana and the pace in other regions is likely to increase with good rainfall activity. This phenomenon may turn the market participants cautious and profit booking may emerge from higher levels. Overall, guar seed futures (October) is expected to trade with an upside bias in the range of 3700-4200 levels, guar gum futures (October) will possibly maintain its steadiness & trade in the range of 7800-9000 levels.
- As regards monsoon, it has covered the entire country, 17 days ahead of its normal onset date, the India Meteorological Department (IMD) said. The monsoon reached SriGanganagar, its last outpost in the country located in west Rajasthan. Its normal date to reach SriGanganagar was July 15.

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