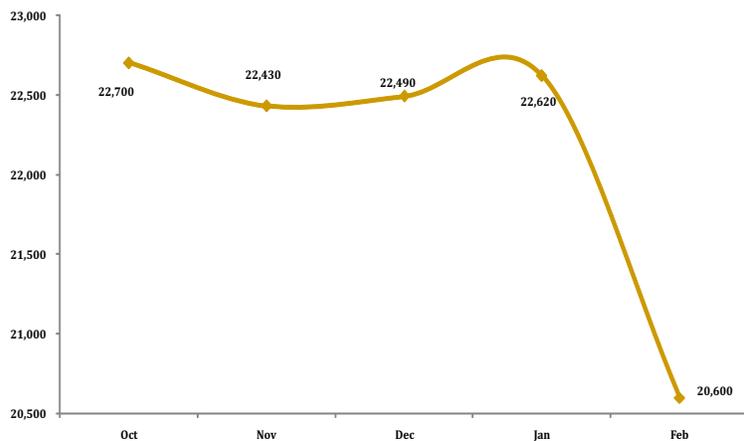


5th September, 2018

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



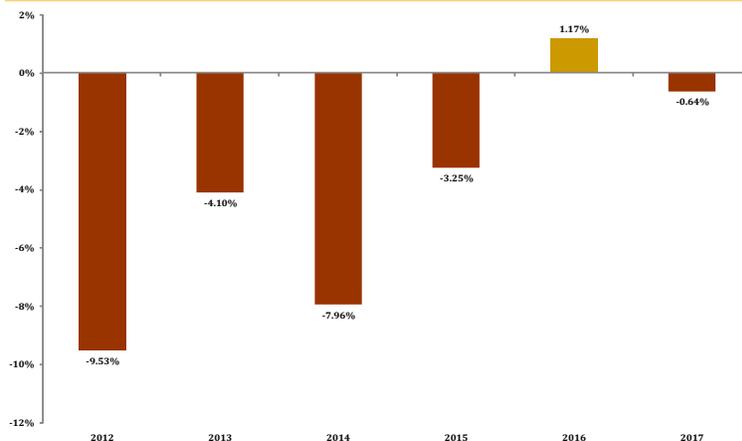
Forward curve of Cotton futures (MCX)



Source: MCX

Closing as on 4th September, 2018

Historic returns of Cotton MCX futures during month of September



Source: Reuters & SMC Research

S2	S1	Pivot	R1	R2
21833	22347	23313	23827	24793

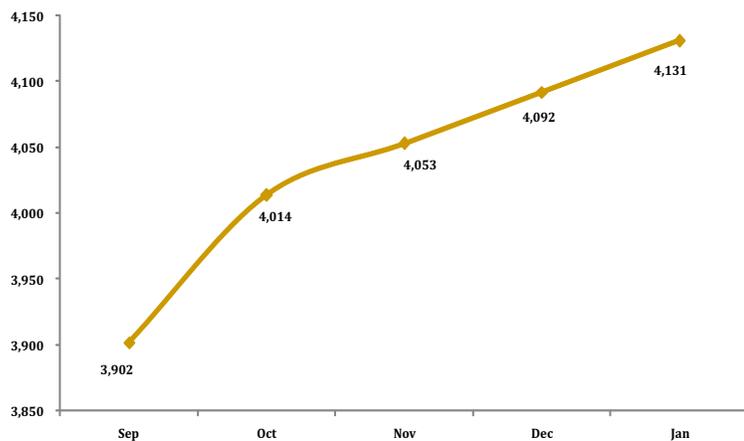
Fundamentals

- In short term, Cotton futures (October) on MCX may witness some weakness due to less business activity on the spot markets. The market participants are waiting for the new crop to hit the markets. As overall the fundamentals are favourable, in medium term, during this month cotton is expected to take support near 22500 levels & gain towards 23500-23700 levels.
- New cotton in ready delivery priced at Rs.4,620/maund (37.3kg each), while full September was priced at Rs.4,650.
- Activity is improving in the spot market with rising supplies, but buyers are sidelined as they anticipate prices to recede ahead.
- The large mills are gearing up for new season and they may enter in next couple of weeks, when quantity and quality will be better.
- According to latest update from USDA, India's MY 2018/19 cotton production at 28.5 million 480 lb. bales on 11.8 million hectares. Planting is near completion and the recovery of monsoon rains has improved yield prospects. Mill consumption is forecast at 25 million 480 lb. bales, the highest in the past three years.
- Exports of cotton yarn and fabric remain strong supported by the weakening of the Indian currency by more than 10 percent since the beginning of the marketing year. The MY 2018/19 export forecast remains at 4.2 million 480 lb. bales (5.4 million 170 kg bales/ 914,000 mt).
- In Madhya Pradesh, initial reports indicate the cotton crop is at vegetative state and farmers are undertaking weeding operations. The crop development is progressing well with isolated incidences of sucking pest observed in the field.
- In the Marathwada region (Central Maharashtra), the cotton crop has reached square formation/flowering stage, while the crop in the western part of the state (Vidarbha) has reached the vegetative/square formation stage.
- Similarly, most of Gujarat state's cotton crop is in the vegetative growth/square formation stage. Farmers are being advised to carry out inter culturing (weeding and fertilizer application) for soil moisture conservation.
- Cotton growing districts in Telangana state have received normal rains and the relative higher humidity will provide congenial conditions for emergence of sucking pest. The excess moisture can also lead to incidence of wilt in cotton.

Cotton MCX (October)

- **On the international market, cotton futures on ICE (Dec) is now looking for fresh trigger to move in either direction. However bearish news has high weightage than bullish and thus prices next week may continue to trade in tight range of 80-85. A break on either side will provide a fresh direction to market till then market players are likely keeping their fingers crossed. However, one should also keep a close eye on dollar index.**
- The fundamentals of cotton in the international market shows:
 - o Global production projected to decrease 3% to 26 million tonnes
 - o Consumption is projected to increase 3% to 27.8 million tonnes
 - o Global stocks are expected to decrease 10% to 16.9 million tonnes
 - o Stocks in China are poised for a 23% decline to 6.6 million tonnes
- The 2018/19 season is projected to see a 3% decrease in production, a 3% increase in consumption, and a 10% drop in global stocks, which would bring the world's cotton reserves down to a level not seen since the 2011/12 season. The global stocks-to-use ratio is expected to drop to about seven months of mill use (0.61).
- The decrease in global stocks will largely come from a draw down in China's warehouses. From March through August 2018, the Chinese State Reserve sold more than 2 million tonnes of fibre, reducing stocks to about 8.6 million tonnes. If production and consumption remain at current projected levels, the 2018/19 season is expected to further reduce stocks in China to 6.6 million tonnes, reflecting a 23% decline.
- CFTC COT REPORT: The latest CFTC COT (Commitment of Traders) report for the week ended August 28 revealed that trade have reduced net short positions for the fourth straight week by nearly 1% at 15.21 million bales, significantly higher from 1.25 million bales a year ago on Sept 1. The net long positions of index funds have contracted by 3.84% at 7.08 million bales, nearly three times higher from a year ago of 0.37 million bales. Interestingly, speculators had increased their bullish bets for the second week in a row by nearly 4% at 1.9 million bales. It seems that they are optimistic that market will come out of dark cloud. They might be holding bullish positions tracking huge unfixed on call sales number as cues are not very clear with President Trump is more aggressive on tariff row with China.

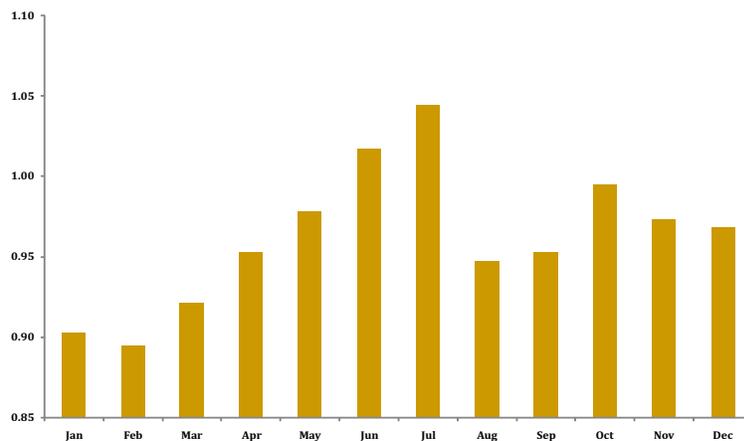
Forward curve of Chana futures



Source: MCX

Closing as on 4th September, 2018

Chana futures Seasonal Index



Source: Reuters & SMC Research

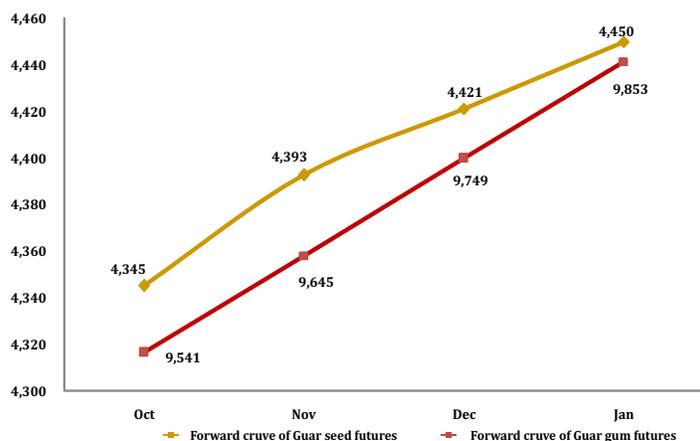
S2	S1	Pivot	R1	R2
3507	3738	4090	4321	4673

Fundamentals

- **Chana futures (October) is expected to witness a consolidation in the range of 3850-4450 levels. The fundamentals on the bearish side are heftier than the bullish. The market participants would take an attempt to sell on every rise as the sentiments are pessimistic.**
- Desi chana on the spot markets are trading on a weaker note due to lacklustre demand amid uncertain outlook.
- Rajasthan and Madhya Pradesh origin chana quoted at Rs.4,175-4,200/100kg and Rs.4,050-4,075, respectively.
- Offtake in chana is slow from millers mainly due to poor enquiries in chana dal and besan from consumption centres. Chana flour is an important ingredient to prepare sweets and namkeen during the festive season.
- Australia origin Chana in ready business at Mumbai offered lower at Rs.3,850-3,900/100kg due to negligible trade. While, the commodity stayed steady at Rs.3,975-4,000/100kg at Mundra port. Quality of the commodity in Mumbai was reported average.
- Kabuli chana of all counts declined by Rs 50/100kg at the key Indore market on subdued buying support
- Further huge stock lying with Nafed and there are expectations that it may liquidate the procured stock below MSP also weighed on sentiments.
- It is reported that NAFED has 27 lakh tonne of chana in godowns out of the 45 lakh tonne of pulses procured. They are watching the situation on prices and will soon take a call on when and how much to sell.
- Ahead of the festival season, the government is exploring whether to release some stock of chana in the market to ease its availability and keep a check on prices.
- It is also considering introducing pulses under the public distribution system for nutritional need of the masses. A decision on this may soon be taken.
- Regarding update on sowing of pulses this Kharif season, farmers in the country have sown urad across 3.76 mln ha this kharif season as of 29th Aug, down 12.8% on year, according to data released by the agriculture ministry. In Madhya Pradesh, the largest grower of urad, acreage was down 16.7% on year at 1.49 mln ha as farmers shifted to paddy and soybean in search for lucrative returns.
- Area under moong crop across the country was at 3.37 mln ha as of as of 29th Aug, up 6.5% on year, largely due to a rise in acreage in Rajasthan and Karnataka, according to data released by the farm ministry. In Rajasthan, the largest grower, area under the crop jumped 22.0% on year to 1.91 mln ha.
- In Karnataka, the area under moong cultivation rose 16.2% on year to 423,000 ha as of as of 29th Aug.

Guar Seed & Guar Gum (October)

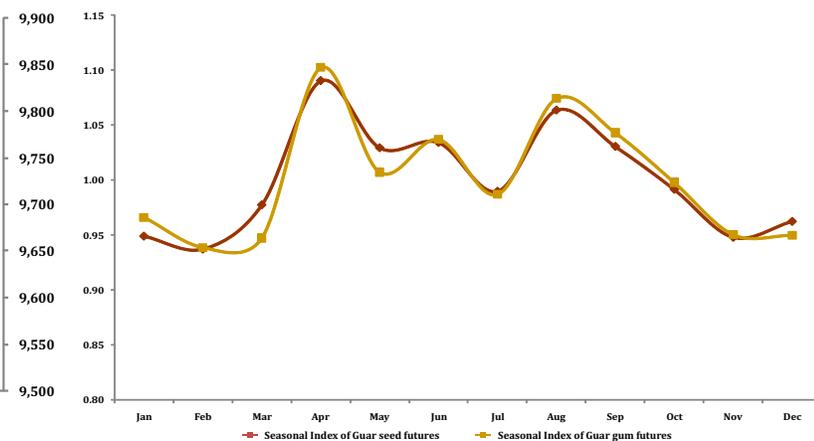
Forward curve of Guar seed & Guar gum futures



Source: NCDEX

Closing as on 4th September, 2018

Seasonal Index of Guar seed & Guar gum futures



Source: Reuters & SMC Research

S2	S1	Pivot	R1	R2
3802	4105	4378	4681	4954
8220	8878	9437	10095	10654

Fundamentals

- Guar seed futures (October) may trade with an upside bias in the range of 4200-4600 levels.
- Guarseed prices in the next couple of months are likely to be very volatile as harvest of new crop will start from October, but overall bias will be positive as crop is expected to be somewhere around last year's level.
- The initial ground report suggests that next crop 2018-19 is likely to be around 60-70 lakh tonnes. The key positive factor for Guarseed is lower carry over stock.
- The total availability of Guarseed for next season forecast at 12.5-13.5 lakh tonnes and in case the forecast turn out to be true then the balance sheet will remain tight next season as export next season likely between 3.5-4 lakh tonnes under current circumstances.
- Stockists having Guarseed are not very keen to easily liquidate as they are eyeing good rates next season 2018-19 starting from October.
- Guarseed crop condition is overall mixed in Rajasthan, with yield is good at some places, whereas crop was adversely affected in few belts amid deficient rain or late rain. Crop in irrigated belts are in good condition, according to traders.
- More precise report on guar crop can be said by month end or tracking arrival pace next month.
- Guar gum futures (October) is likely to trade sideways in a broader range of 9000-10000 levels, with upside getting capped.
- Rising crude price is not helping the country's guar gum industry to increase its exports as North America's oil rig companies aren't ready to buy good volumes of guar gum for hydraulic fracturing, a technique used to extract oil and natural gas trapped in shale rock.
- North American oil drilling industry is now using cheaper fracturing material such as slick water instead of guar gum.
- Gel based fracs, or guar gum based fracs, use chemicals that make the frac fluid more viscous in order to carry sand (proppant) better downhole. These chemicals and additives can be expensive, especially since the price of guar gum has sky-rocketed with the advent of mainstream fracking.
- The e&p operators have switched to slick water fracs that are much cheaper than gel based fracs. Since a slick water strategy requires less chemicals, it is obviously cheaper. But, there are tradeoffs with slick water fracs. For example, slick water fracs don't carry the proppant as well downhole as gel fracs,

Guar Seed & Guar Gum (October)

potentially reducing flow of the well. Also, more amounts of water, fine mesh sand, and horsepower are blasted downhole, putting a strain on resources, supply chains, and equipment. All things considered, though, slick water has proven to be the strategy of choice for drillers.

- However, demand for guar gum from food, pharmaceutical and textile sectors from countries like China, Germany and Russia is rising.
- Brent crude has fluctuated between \$70 and \$80 since April 10. After hitting \$70.30 on Aug. 15, the oil prices have climbed steadily to two months high & touch \$79.72.
- The recent data shows that in the week ending August 31, 2018, the number of land rigs drilling for oil in the US totalled 862, a gain of two from the previous week, and up by 103 compared with a total of 759 a year ago.
- Crude oil futures will continue to tick higher in European trading due to continued uncertainty surrounding the impact of trade tensions involving the US, China and Iran, despite fundamentals which showed higher production from Iraq, OPEC's fourth largest producer.

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