

04th May, 2022

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



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## Factors to watch

- Cotton import volume after import duty exemption
- Demand for yarn and Apparel exports from the country
- Government policy on export of cotton
- US Cotton sowing progress and weather forecasts
- Arrivals of cotton bales in the physical market
- Monthly Production adjustments by CCI

## Daily Chart - MCX Cotton Futures



## Fundamentals

- MCX Cotton prices jumped more than 7.7% in April climbed to fresh all-time high of 46380 due to lower stocks and lesser supplies of cotton crop this season but the demand is constantly increasing. ICE cotton also surged by over 22% in last two months boosted by robust demand from the importing countries and deteriorating drought conditions in major growing regions like Texas fueled fears of a supply deficit.
- Domestic prices at record high levels as the supplies continues to be tight in the market. Moreover, rising domestic mill consumption and a declining in production estimates have led to a drop in ending stock estimates for the next cotton season. However, to cool prices, the central government exempted cotton import duty for the textile value chain including yarn, fabric, garments manufactures till September 30. Moreover, government may consider temporary ban on cotton exports from the country if cotton prices continue to increase to improve availability of cotton in the country.
- 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 May is trading near all-time high prices of 46350 levels. As the crop size of cotton in the current season is low and cotton stocks with the spinning mills is not more than 3-4 months, while for new crop, mills have to wait for at least 6 months. Furthermore, govt is trying to cool down prices by implementing export duty cut but higher domestic cotton consumption and lower availability is keeping the prices higher. Technically, cotton prices have good support at 36120 levels and resistance is at all-time high level. Breaking above all-time high may take prices higher towards 47000 levels.

## Cotton Technical Levels

Contract	CMP	S1	S2	PIVOT	R1	R2
May	45,800.00	40,700	43,250	44,800	47,350	48,900
Jun	45,800.00	40,520	43,160	44,740	47,380	48,960

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



## Seasonality Heat Map- MCX Cotton



## Factors to watch

- Arrival of castor seed in the physical market
- Export demand for Castor Oil from China
- 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

## Fundamentals

- Castor seed futures continue to trade positively in April and closed higher for the fourth consecutive month. The prices mainly traded in the range due to balanced supply and demand situation. Prices slipped about 3.5% in April but then it recovers about 4.5% on report of lower production and there is consistent export demand for its derivatives products—oil and meal.
- Currently, castor prices are higher by 40% y/y despite castor seed production is estimated at 17.95 lakh tonnes (lt) during the current 2021-22 season, against 17.89 lt in 2020-21 as per the survey by SEA. The production is not a concern but the total supplies in the current years will be lower due to less carry-over stocks. 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 17.4% to 1,40,184 tonnes in the three months of 2022 while in FY 2021/22, the exports are lower only by 4.5% at 6.55 lakh tonnes compared to the last year exports at 6.86 lakh tonnes despite 32% higher export prices. India exported castor oil to about 112 countries during the FY 2021/22 and the top three export destination for the castor oil were China, Netherlands and USA.
- In 2022 (Jan-Mar), India's castor meal exports down by about 3.4% Y/Y at 99,96 tonnes due to higher export prices while the exports during FY 2021/22 is 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

NCDEX Castor seed is in uptrend in the weekly charts on expectation of improving export demand for its derivatives. Technically, on charts 7500 levels seems to be strong resistance and breaking above it may take the prices to 7700- 7900 levels. This season prices have been higher compared to last season by at least 50% due to expectation of tight balance sheet situation. The new season crop started arriving in the physical market but good demand from the oil millers is supporting prices. Higher export demand for castor oil during May to support prices during peak arrival season. The Castor seed (Jun) expected to trade sideways to higher towards 7900 with support is seen at 7200 levels. There is immediate resistance at 7600 levels.

## Castor Seed Technical Levels

Contract	CMP	S1	S2	PIVOT	R1	R2
May	7,248.00	6,580	6,910	7,250	7,580	7,900
Jun	7,410.00	6,775	7,090	7,370	7,685	7,950

## 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 mills
- 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

## Fundamentals

- In April 2022, guar seed prices touch the high for the new year of over 6700 levels but corrected closed to 6% to close near 6300 levels. Similarly, Guargum prices also topped to 13400 levels to 5-months high and then corrected about 6.6% mainly of profit booking at higher levels. The guar complex prices did not sustain at higher levels but it is still in an uptrend as guar seed and guar gum prices are up by 7.5% and 16% up in last 2 months on lower production and diminishing stocks with the farmers and stockists.
- Currently the prices are higher by about 56% compared to last year prices due to persistent demand for guar gum exports and diminishing stock levels with the farmers as they have sold the produce during the start of the season due to higher prices.
- The processors and exporters have slow down their purchases during the last one-month period due to high prices. Guar seed prices were quoted at Rs 6200-6300 per quintal in auction in the Jodhpur and Bikaner markets compared to Rs. 6600 per quintal during the first week of April. Guar gum prices were quoted at Rs 11,400 per quintal.
- The guar seed arrivals across the country is lower to about 3500 quintals per day in April compared to about 5500 quintals per day in March due to lower stocks with the farmers.
- Russia is second largest guar importer after USA and economic sanctions by USA, EU and UK on Russia coupled with supply chain disruptions is limiting the guar export. However, upon record high crude oil prices, oil rig counts are expected to increase in coming months in China and USA and other countries certainly increase the export demand for the Guargum which will support guar seed prices.
- According to APEDA, Guargum exports have increased about 36% during Oct-Feb at 1.37 lakh tonnes compared to 1 lakh tonnes last year for same period. The exports of guar gum during the month of Jan- Feb 2022 up by 30% y/y at 53,268 tonnes compare to 41,161 tonnes last year

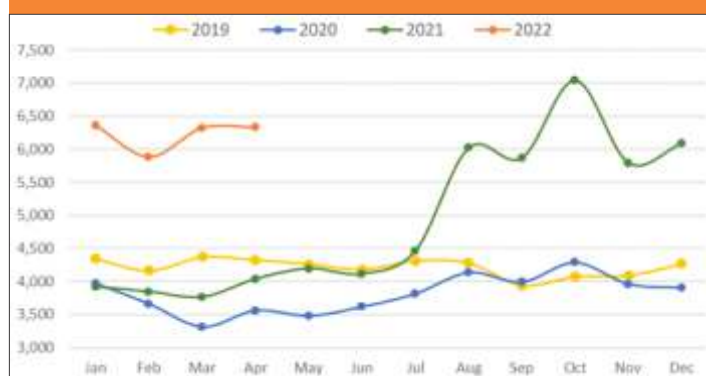
## Outlook

Guar seed futures witnessed some correction after it climb to 7500 levels in the first week of April and closed the month at 7300 levels thus corrected due to lower off-take at higher prices. However, improving guar-gum exports is supporting the prices as prices are still more than 50% higher compared to last year prices but forecast of good monsoon may keep prices in the range. The farmers have received good returns this season and may not have holding with them. We expect the prices to correct more towards the 5800/5500 levels which is a good support for the guar seed while resistance is at 6700 levels.

## Guar Seed Technical Levels

Contract	CMP	S1	S2	PIVOT	R1	R2
May	6,329.00	5,846	6,088	6,406	6,648	6,966
Jun	6,417.00	5,924	6,171	6,495	6,742	7,066

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



## Seasonality Heat Map – Guar Seed Futures



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