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Raw Jute Short Term Report

Raw Jute, known as the golden fibre, prices touched an all-time high of Rs 3020 a quintal in July 2009 owing to lower production. However, later prices tumbled following commencement of fresh arrivals and likely dilution under Jute Packaging Materials Act (JPMA) of 1987. As per this Act, the government agencies have to use only jute bags for packaging of sugar and foodgrains. Government agencies are the largest consumer of jute in the country.

In the month of August 2009, the price fell by 40% to Rs.1800 per quintal amid concerns of government's likely move to cut reservation of jute bags in packaging of foodgrains and sugar by about 25%, as per the JPMA Act. The government was mulling over this idea as per the recommendation of standing advisory committee due to the likely shortfall of nearly 7.6 lakh bales of Jute in the country. In 2007-08, India had produced 102.21 lakh bales of raw jute. In the current year, the production is at 96.34 lakh bales. As per government reports jute bags demand by government agencies has gone up from 10.47 lakh bales in an earlier projection to 14.20 lakh bales this year. The Jute consumption expectations are around 102 lakh bales as a whole.

In the month of September, Government announced the continuity of 100% reservation for use of jute bags by government agencies under the Jute Packaging Materials Act (1987), which rejuvenated the falling jute prices. MSP has been increased by 10% to Rs 1375 per quintal for 2009-10. It was Rs 1250 per quintal during 2008-09. Besides, this delayed monsoon rains have led to more vegetative growth and thus bridging the gap between demand and supply as expected earlier.

Recent happening after the JPMA Act:

Earlier this month, Jute Mills Association, the apex body of the jute industry in the country, had sought the intervention of the Union textiles ministry for a ban on futures trading and urged the government to take measures to curb the rising prices of Jute in the market after the announcement of non-dilution under the JPMA Act. A study conducted by Technopak

advisors has related the rise in Jute prices to futures trading. According to its report, the trading has abnormally scaled up prices, which has adversely affected jute trade without benefiting the cultivators. The report said the price rise had benefited only the intermediaries in jute trade like farias (small traders), stockists, mill agents and brokers, leaving the farmers high and dry.

The Forward Markets Commission (FMC), the apex body monitoring the commodity futures trade in the country has said that they do not have any plans to ban in trading in Raw Jute on the exchange for now.

Aftermath of soaring prices:

The soaring prices of Raw Jute have also hampered the demand for jute and jute products at national as well international levels.

At MCX the contracts of Raw Jute are not available October onwards. The exchange does not have the requisite permission from Forward Market Commission (FMC) for launch of Raw Jute futures beyond October.

Outlook

At present there are only two contracts available for Raw Jute of September and October expiry. Supported by the fundamental factors of strengthening demand upon the continuity of reservation under JPMA Act, jute futures are on an uptrend. Moreover, the supply has also been remaining low in the major markets, mainly at Kolkata due to improved monsoon rains lately from the month of August. *The drying process for raw Jute has not been completed till date and the Jute sold to Jute Mills is dried one.* Followed by the reports of receding monsoon, the drying process is getting momentum as it is done in open sun. So, significant arrivals are expected to arrive in the physical market from the month of October which is expected to result in some downward correction in prices.



Technical Outlook

We expect Jute prices to trade sideways to lower in the near term. Supports on the lower side are seen at 2230 & 2130. Likewise Resistances are seen at 2330 & 2400.

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