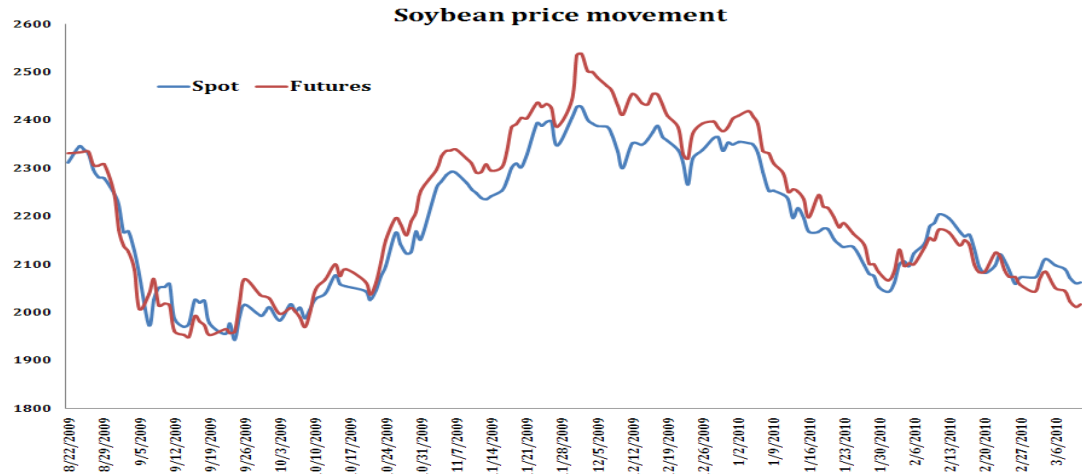


**27 March 2010**

The soybean prices in the spot and futures were on a bearish trend since beginning of December 2009 due to selling pressure from the traders and investors following flow of fresh produce to the spot market in larger quantities. Initially, traders were very optimistic about the crop condition and they were expecting more or less same production for 2009-10 as that of previous year despite lower acreage.



Source: Bloomberg, KCTL Research

The Central Organization for Oil Industry and Trade (COOIT) has estimated India's soybean production for Kharif 2009-10 at 8.5 million tonnes against 8.9 million tonnes produced last year. The arrival pressure during November and December has had a bearish impact on the soybean market. Furthermore, the weak demand for soy meal especially from exporters also resulted into bearish trend.

### State wise production

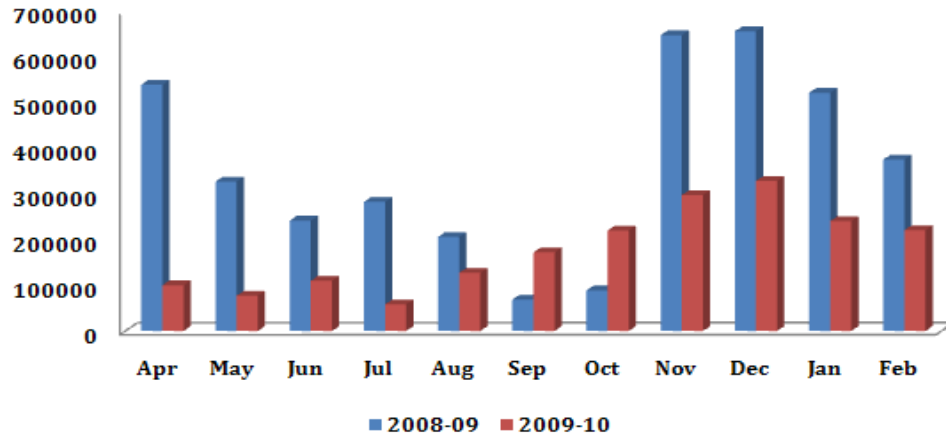
State	2008-09	2009-10
Madhya Pradesh	55.0	55.0
Maharashtra	23.0	20.0
Andhra Pradesh	1.5	1.5.0
Rajasthan	6.0	5.0
Karnataka	1.5	1.5
Chhattisgarh	1.0	1.2
Others	1.0	0.8
Total	85.0	89.0

Source: COOIT

However, the market showed some recovery in the month of February because of short covering and emergence of fresh buying at lower levels on speculation that demand might revive at the lower levels. But, market failed to sustain at higher levels and again tumbled due to poor buying interest in the spot and futures market. Continuation of weak export demand for soy meal also had a bearish impact on the market. Most of the South East Asian countries—who normally buy soy meal from India—started looking at South American countries (Brazil and Argentin) as the production in these countries has been projected higher compared to last year.

The South East Asian countries limited their oil meal purchases during this year because of higher price of India. The economic slowdown started in the year 2008 extended its wings in 2009 also, which resulted into slowdown in the consumption demand for soy meal during the year. As a result of this, oil meal exports from India were lower in FY09-10 except October 2009. The following graph shows the trend in export of soy meal from India.

### Monthly soy meal exports from India

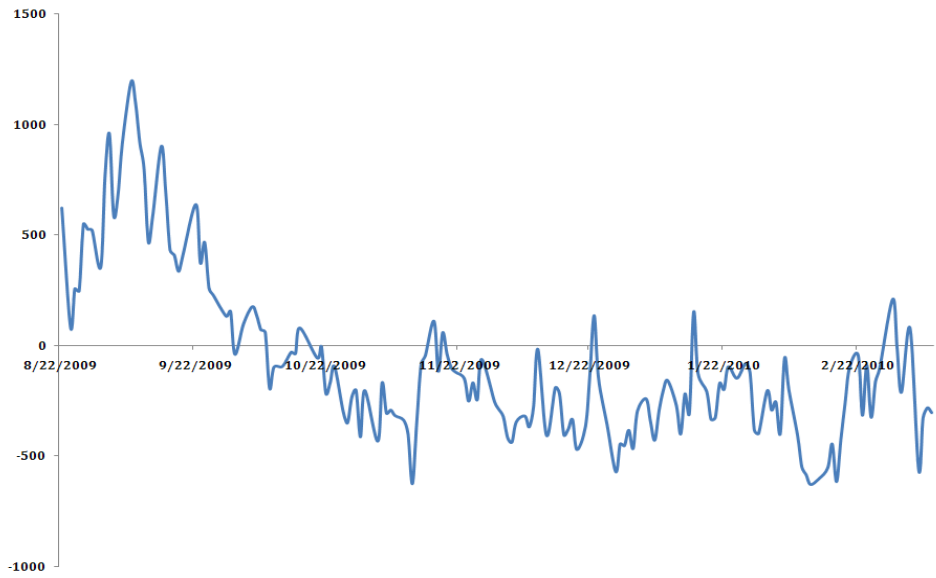


Source: SEA

According to the Solvent Extractors' Association of India, the soy meal exports during Apr'09-Feb'10 almost halved to 1,950,725 tonnes against 3,952,675 tonnes shipped in the same period previous year.

Most of the crushers were reluctant to buy soybeans from the spot market during peak arrival period because of disparity between soybean and its derivatives. The crush margin (price realization to the crushers from selling soy oil and soy meal after deducting soybean price) remained negative since beginning of the new harvesting season and it is still in the red. This resulted into bleak demand for the soybeans.

### Crush margin - India



Source: KCTL Research

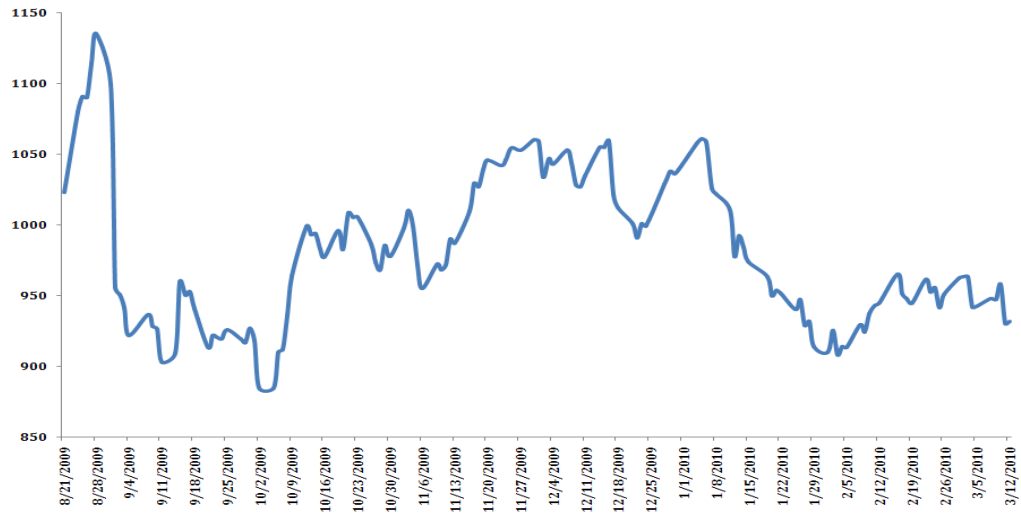
#### Outlook

The soybean futures are expected to remain in a bearish zone in the month ahead due to bearish fundamental factors. The export demand for soy meal may not pick up in the near term because of higher price compared to other countries. Commencement of harvesting of the soybean crop in South American countries is attracting the South East Asian countries for their soy meal demand. This is a negative factor for India. Due to lower crush margin, domestic oil extractors are not buying soybeans aggressively from the spot market amidst lower arrivals. Availability of imported oil at lower rate is also one of the pressurizing factor for the soybean market. The international weather organization has projected normal monsoon for India for 2010, which would also be a bearish factor for the market in near-term. The Indian Meteorological Department will release monsoon forecast report in the month of April. In order to increase the production of oilseeds, the central government proposed to organize 10,000 **Pulses and Oilseeds Vilages** in rain-fed areas in FY10-11. The Solvent Extractors' Association of India has projected India's edible oil for the current oil year over 9 million tonnes against 8.18 million tonnes imported last year. The soybean futures are expected to trade in a broad range of Rs.1850-2150 per quintal in the near-term.

#### CBOT Soybean

The soybean futures on the Chicago Board of Trade were on a falling trend since beginning of 2010 due to emergence of fresh selling supported by weak demand in the market. Anticipation of record output in Brazil and Argentina had a strong bearish impact on the CBOT soybean market. Furthermore, waning demand for soybeans from China also resulted into fall in the prices. According to USDA's monthly World Agriculture Supply and Demand Estimates report, US soybean production for 2009-10 is estimated at 91.42 million tonnes against 80.75 million tonnes produced last year while output for Brazil and Argentina estimated at 67 million tonnes and 53 million tonnes against 57 million tonnes and 32 million tonnes last year.

**CBOT soybean price movement**



Source: Bloomberg, KCTL Research

Higher acreage and favourable weather condition in key growing areas of US, Brazil and Argentina resulted into sharp rise in output this year compared to last year. Farmers were also attracted by higher price realization for soybean in the last season.

According to Celeres, Brazilian Agri Consultant, farmers harvested 56% of their soybean crop as on 19<sup>th</sup> March while harvesting in Argentina just kicked-off and till date 8.5% of the crop has been harvested.

**Balance Sheet (in MMT)**

	<b>Beginning stocks</b>	<b>Production</b>	<b>Imports</b>	<b>Consumption</b>	<b>Exports</b>	<b>Ending stocks</b>
US	3.76	91.42	0.22	51.64	38.10	5.71
Brazil	10.55	6.00	0.15	34.95	25.60	17.15
Argentina	16.61	53.00	0.00	37.63	7.00	24.98

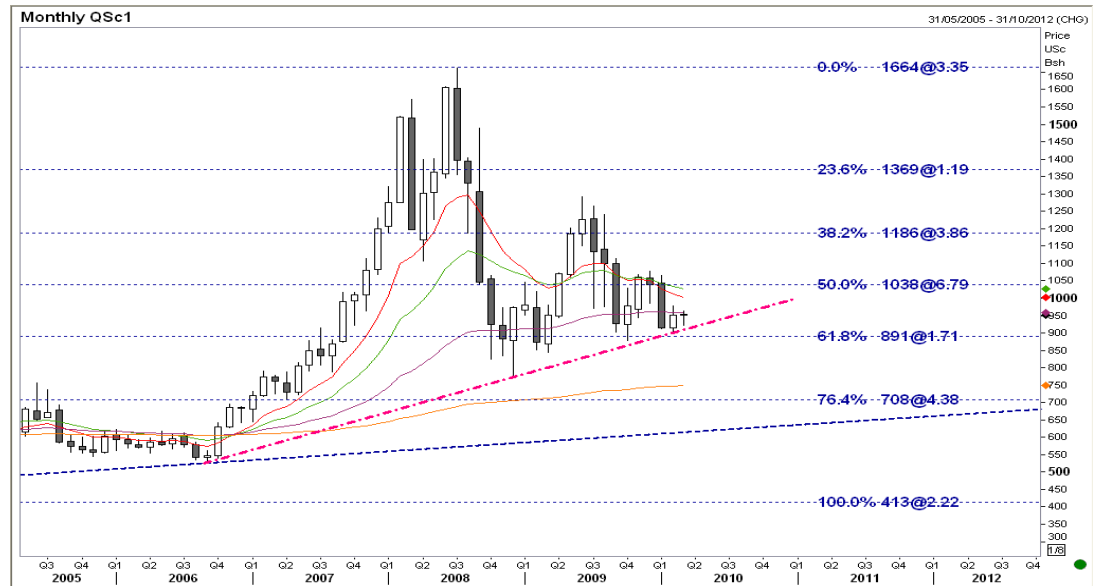
Source: USDA

**Outlook**

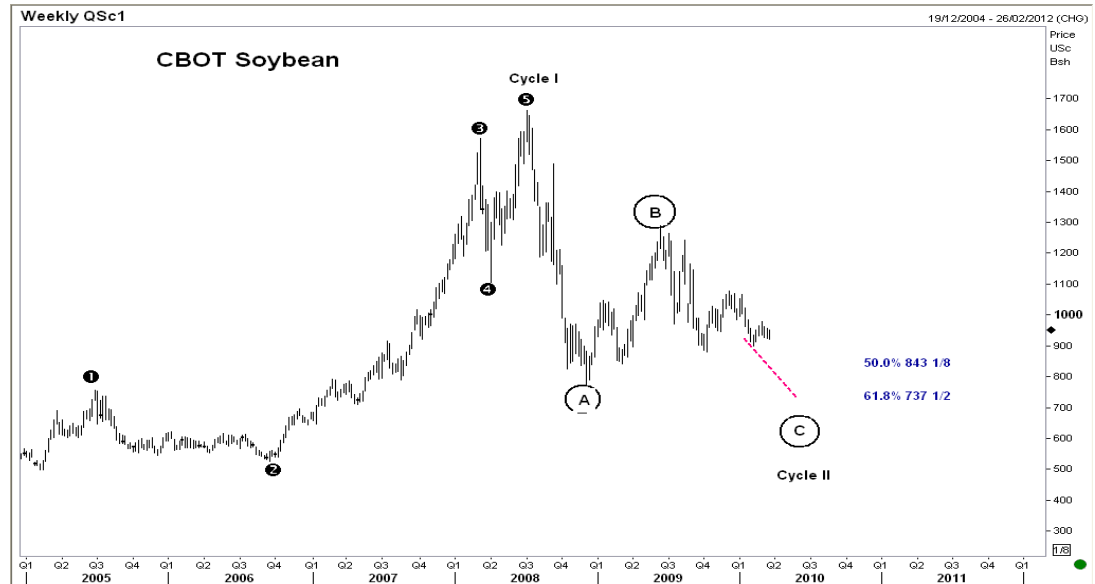
The CBOT soybean futures are expected to trade on a negative note in the near-term based on weak fundamental factors. Improved weather condition in Brazil and Argentina is boosting the crop condition and harvesting is in full-swing. The higher carry-forward stock for Brazil and Argentina is also a pressurizing factor, Moreover, fear of decline in demand from China due to credit tightening stocks is likely to weigh on the market. The recent weekly export sales data is showing decline in export of soybeans from the US. All the above mentioned factors will keep the soybean prices under pressure. The CBOT soybean futures are expected to trade in a broad range of \$8.80-9.82 per bushel.

### Technical analysis

The CBOT soybean future prices fell sharply since the beginning of 2010 by reversing 2009 gains (closed at 1039) and currently trading down at 948 levels. In a monthly chart, market is trading below medium term (50) EMA suggesting downside pressure. Nevertheless, trend is still on higher side for short term until the crucial support 881 holds. A convincing break below 881(61.8% retracement of the range 1663-398 levels) may lead the prices to drop further and expected to test 770 levels in medium to long term period. The momentum indicator RSI (14) monthly is trading at 0.46 levels suggesting a neutral view.



### Elliot wave Analysis



According to Elliot wave analysis market is in correction mode. At present prices are moving in one of the intermediate waves of primary corrective wave C, which is expected to terminate around 840 levels (or) it, can extend up to 740 levels. Once, if market bottom out either at 770 or 840 levels (completion of Cycle II) thereafter motive waves are expected to rise from the point of ending Cycle II. As of now market is in bearish mode and we suggest not going for long positions in the near term.

**Outlook:** Market is witnessing a crucial support at 881 levels sustain above the same expected to trade sideways. However, if market breaches and closes below 881 a lower correction cannot be ruled out.

Soybean NCDEX: Supports: 1900, 1850 Resistances: 2150, 2200

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