



Guar Seed Seasonal Report

December: Buy @2350-2400 TP 2780/3000 SL 2000

January: Buy @ 2370-2450 TP 2850/3100 SL 2060

February: Buy @2400-2480 TP 2940/ 3240 SL 2080

According to trade sources, the crop damage of 20-22% in India has revised the production figures around 90 lakh bags compared to the previous trade estimates of 1 crore bags. The flood in Pakistan caused during the south west monsoon in the year 2010 has left an opportunity for the Indian exporters to encash upon. The exports of guar and its by products are estimated to increase by around 20-25% and the exports in the current fiscal is expected to cross 2.3 lakh bags against 2.18 lakh bags in the last year.

Our previous reports:

[Guar Seed Short Term Update \(bullish\) - 25 August 2010](#)

[Guar Seed Update \(bullish\) - 5 October 2010](#)

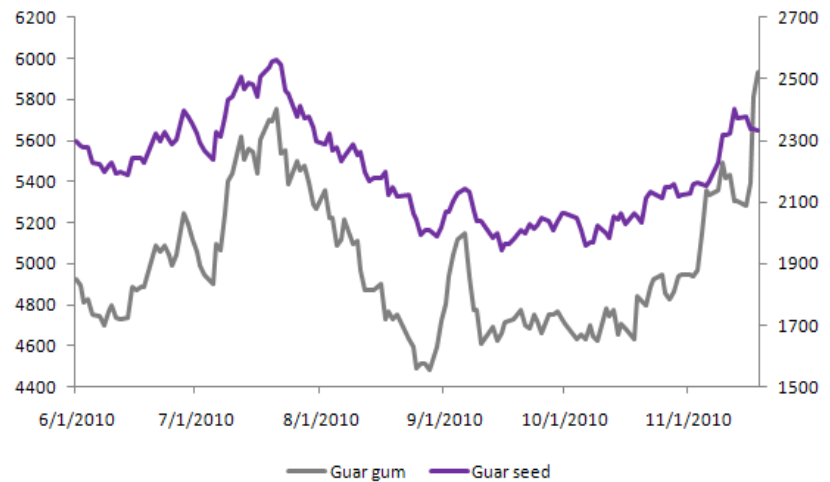
[Guar Seed Likely to Remain Bullish – 13 Oct 2010](#)

[" We are predominantly carrying a bullish view on Guar seed since July 2010. Above mentioned reports have been correct and achieved target. We are now coming up with a seasonal report expecting Guar seed to hit its life time high in this season. However, a minimal correction should not be ruled out."](#)

Price action:

The guar seed and guar gum futures prices traded on a firm note till mid July due to deferment in sowing activity caused by delay in monsoon progress in key producing areas. Lower stocks due to sharp fall in production in 2009 also rendered support to the market. However, with the entry and revival of monsoon, the sowing activities geared up from mid July onwards. Improvement in sowing activity and anticipation of more acreage in major producing regions resulted into heavy sell-off in the futures market in August month. According to IMD, the Northwest region of India—a key guar producing region—received 12% above normal rainfall in the monsoon season. Better-than-normal rainfall attracted farmers to increase area under guar seed cultivation. As a result, guar seed area in Rajasthan—largest producing state in India—rose 10% Y/Y to 2.84 lakh hectares. Same trend was also seen in other states, but, official data for the same is not available. Starting from September, prices started moving higher on emergence of fresh buying discounting the factor of bumper crop this year. Furthermore, late withdrawal of the monsoon caused crop damage in few places, which added further strength to the market. According to trade sources, around 20% of crop damage was reported because of incessant rains in late September and in early October. There were different production estimates ranging from 70-120 lakh bags, however, production could be around 90 lakh bags, more than double compared to last year. Due to late withdrawal of the monsoon, the harvesting of the produce was delayed, which resulted into delay in arrival of the crop to major markets. The active demand from exporters and guar gum manufacturers supported the gain in prices.

Fig 1: Futures price movement (June-November)



Source: KCTL Research

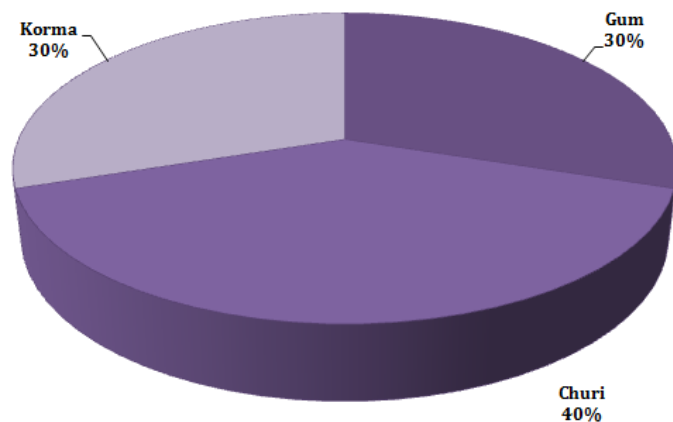
Crop details:

Guar or cluster bean is a drought-tolerant annual legume crop grown in arid zones of west and North West India and parts of Pakistan. The important feature of the guar as a commodity is that it is less perishable unlike other Agri commodities. The guar seed can be stocked for more than three years which makes it most preferred commodity for the stockists and traders. The yields are highly susceptible to the amount of rainfall it receives during the monsoon season.

Guar constituents

Approximately 90% of the guar seed is used for the production of guar gum and the rest is used for culinary purpose and cattle feed. Guar seed consists of three parts, germ (43-47%), endosperm (35-42%) and the husk (14-17%). Guar seed extracts include Guar Split/Gum (30%), Korma (30%) and Churi (40%). Guar split/gum is further refined to guar powder for easy storage purposes. The by-product of guar gum industry is guar meal which is a source of protein and used as cattle feed.

Fig 2: Components of guar seed

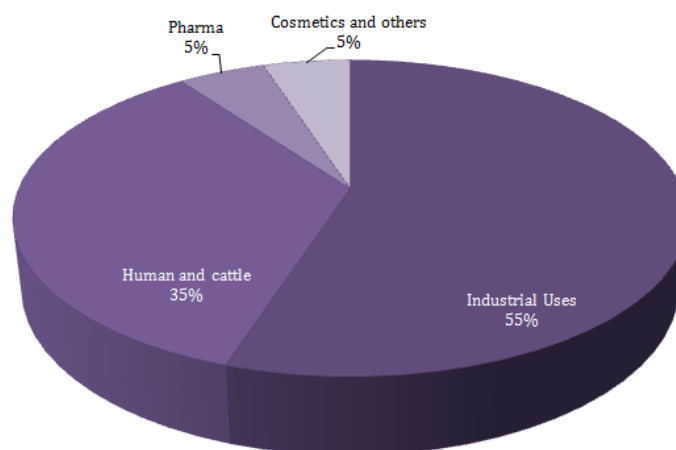


Source: KCTL Research

Uses

Guar split/gum is used majorly in industrial applications including cloth and paper manufacture, oil well drilling, explosives and as a natural stabilizer. It is also widely used as an emulsifier, thickener, and stabilizer in food and cosmetics. It is also used in textile, paper, pharmaceutical, oil and many other industries. After refined process, guar gum is used in various industries like food industry as a stabilizer, in ice creams instant puddings and whipped cream substitutes, as a meat binder and a stabilizer for cheese.

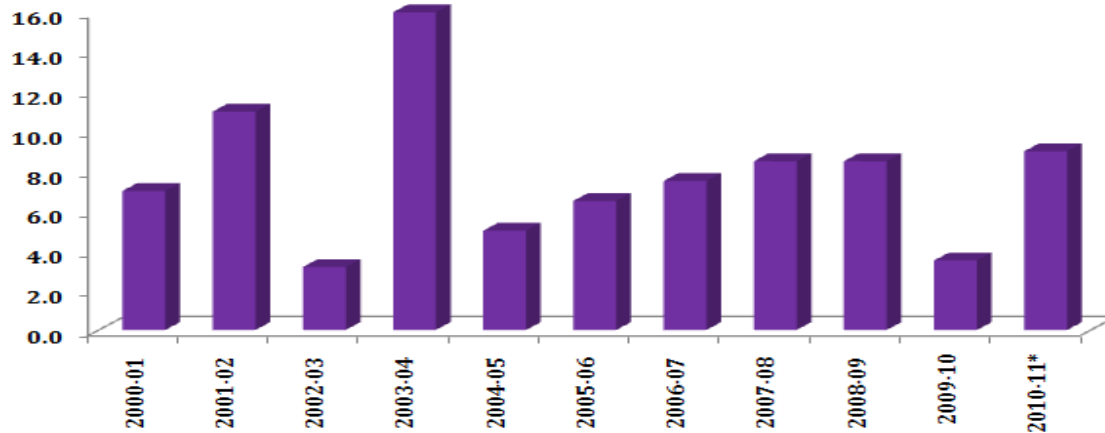
Fig 3: Sector wise use of guar seed



Indian scenario

India contributes about 80% to the world guar production and Pakistan is the second largest producer. Guar is a rain-fed kharif crop which is sown in June-July and harvested in October- November. The major growing areas in India are Rajasthan, Haryana and Gujarat. Rajasthan is the largest guar producing state in the India with a dominant share of nearly 80% in the production. Haryana and Gujarat contribute 12% and 11% respectively to the guar production in India.

Fig 4: Guar Seed - Production Trend



Source: Ministry of Agriculture, Govt. of India.

The rainfall during the south west monsoon last year was much lower than the normal which was a serious draw back to the guar crop prospects. The yield levels were declined sharply as the rainfall was insufficient at critical growth stages. This resulted in sharp decline in the yield levels in the year 2009. As a result of unfavorable weather condition, India’s guar production fell 60% to 3.5 lakh tons. In 2010, good south west monsoon rains supported the increase in acreage and doubled the production estimates compared to 2009.

Area and production of guar in Rajasthan

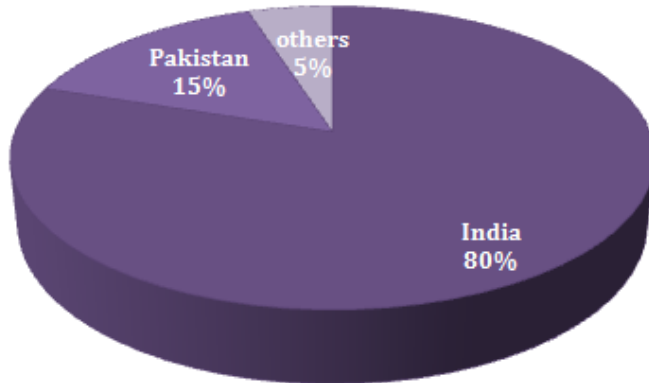
During the kharif season in 2010 the monsoon remained favourable to the guar crop in Rajasthan despite some delay in the onset initially. The rainfall has remained 12% above normal in the North West India. However, according to the trade sources, rains in September end (monsoon retrieval period) has resulted in the crop damage of 20% which is also weighing on the quality of the crop. After discounting the crop losses the production of the current year is likely to be around 90 lakh bags.

Arrivals

November and December are the two peak arrival period for the guar seed. Fresh arrivals from Haryana and some areas of Rajasthan like Ganganagar started in mid October as the crop is grown in irrigated conditions. The arrivals of the guar seed are regarded to be through out the year while the peak arrival season is during November–December. Unlike the other commodities guar is less perishable which provides more opportunity for the stockists and the traders to deal with the commodity. The arrival season will witness good demand as the traders, stockists, exporters and processors actively buy in the spot markets when lower prices prevail. The seed can be stored or processed into gum/spilt and the shelf life of the guar and its products is 5-6 years. In the current season the arrivals have not gained momentum as the crop harvesting was delayed due to rains during the late retrieval of the monsoon in September end.

Global scenario:

Fig 5: Major guar producing countries in the world

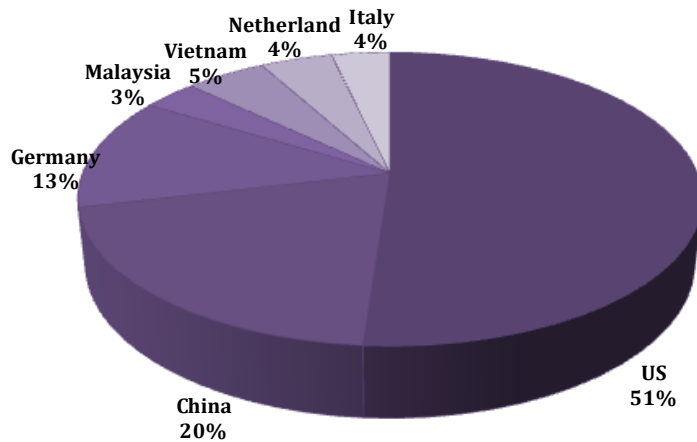


India is the largest producer of the guar in India which constitutes about 80% of the world's production. Pakistan, USA, South Africa and Sudan are the other producers which contribute very less to the overall production. India is the leading net exporter of guar seed and guar gum. The country exports over 117000 tons of guar and its derivatives, which is comprised by 33000 tons of refined split guar gum, and 84000 tons of treated and pulverized guar gum. The net worth of the Indian exports is estimated over

Source: DGCIS Annual Export Report

Rs 500 crores. The major importing countries of Indian guar products are United States of America (12000 tons), Germany (5200 tons), United Kingdom (1200 tons), Vietnam, Netherlands, Italy.

Fig 6: Major countries importing guar gum

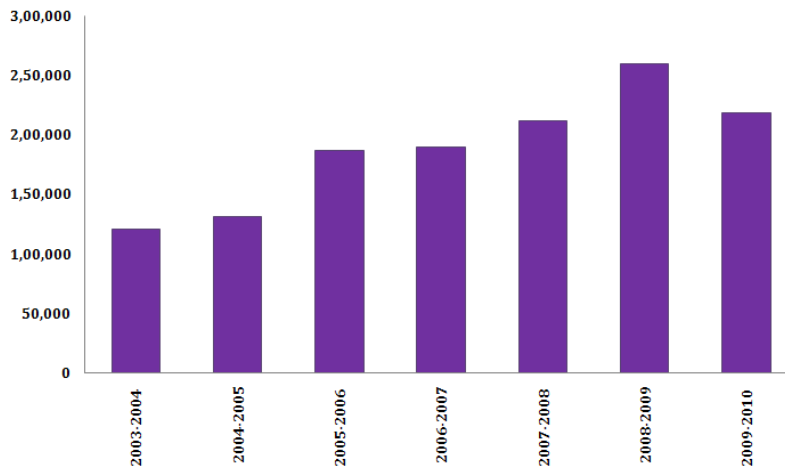


The export enquiries trickle in during the arrival season as a result of which the demand for guar seed also increases as it needs to be processed into different forms for exports. Guar gum exports during the 2009-10 were around 2.2 lakh tones. The exports are likely to touch 2.5 lakh tons in 2010-11 as the Pakistan- major competitor for India in guar exports, has reported a poor crop. The floods during the south west monsoon in the current year have resulted in the lower crop. According to the trade sources the exports are likely to increase by 15-20% on

Source: DGCIS Annual Export Report

shift in export demand from Pakistan to India and improved economic concerns in the world.

Fig 7: Trend of the guar exports from India



SOURCE: DGCIS Annual Export Report, KCTL Research

The guar gum exports have declined in the last year on cues of the global economic crisis. Slow down in Economic activity and less demand for crude amid higher crude products availability put guar gum exports lower. Lower production in 2009-10 restricted exports. The meal exports have constantly increased as churi (40%) and korma (50%) have more or less equivalent protein

content as soya meal (50%). In the current year the exports are likely to increase by 20% to 2.5 lakh bags compared to 2.2 lakh bags in 2009 on revival in the global demand.

Supply demand scenario in guar: (lakh bag=100kg)

Table 2: Guar- supply demand

	Guar Seed		Guar Split	
	2009-10	2010-11	2009-10	2010-11
Carry Forward	30.0	13.8	9.0	4.14
Production	25.0	90.0	7.5	27.0
Total Supply	55.0	103.8	16.5	31.14

The local demand for guar and it's by-products are predicted around 20 lakh bags while the exports are expected to increase to 2.5 lakh bags for 2010 in comparison with the exports of 2.18 lakh bags in 2009.

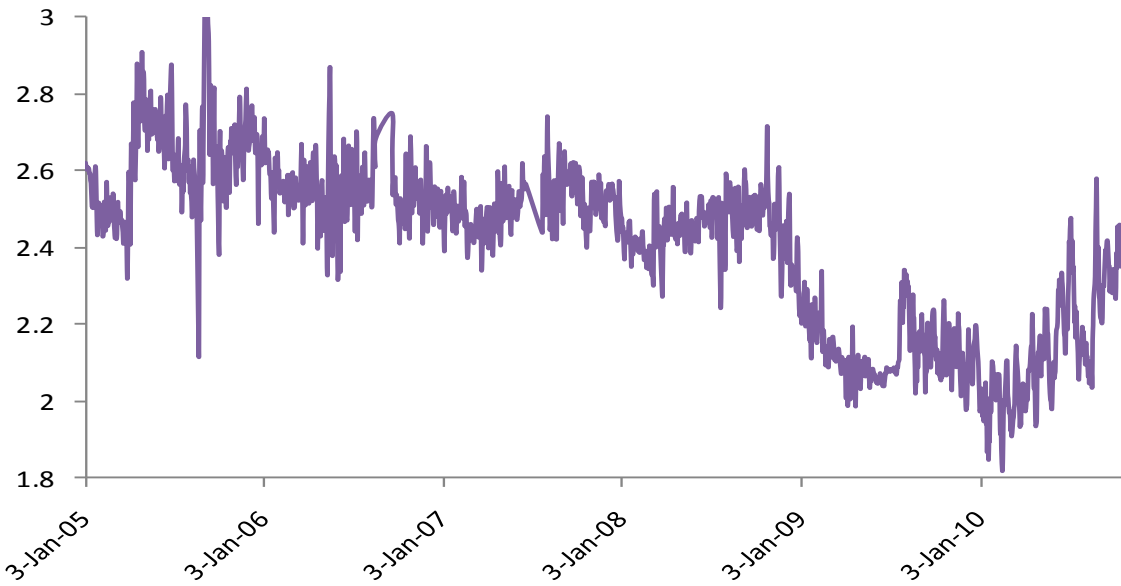
Guar seed and guar gum ratio

The yearly average of the ratio between the guar seed and the guar gum in 2010 is around 2.16. The ratio which is now at 2.16 means, guar gum value is 2.16 times of guar seed. This implies that the price difference between these two will be driven as per the ratio. The lower production during 2009 resulted in higher guar seed prices than the guar gum as a result of which the ratio between the two has decreased.

Table 3: Ratio of guar seed and guar gum

Year	Average	Max	Min
2005	2.63	3.15	2.12
2006	2.56	2.87	2.32
2007	2.51	2.74	2.34
2008	2.45	2.72	2.23
2009	2.13	2.35	1.98
2010	2.16	2.6	1.82

Fig 8: Ratio of guar seed and guar gum over years



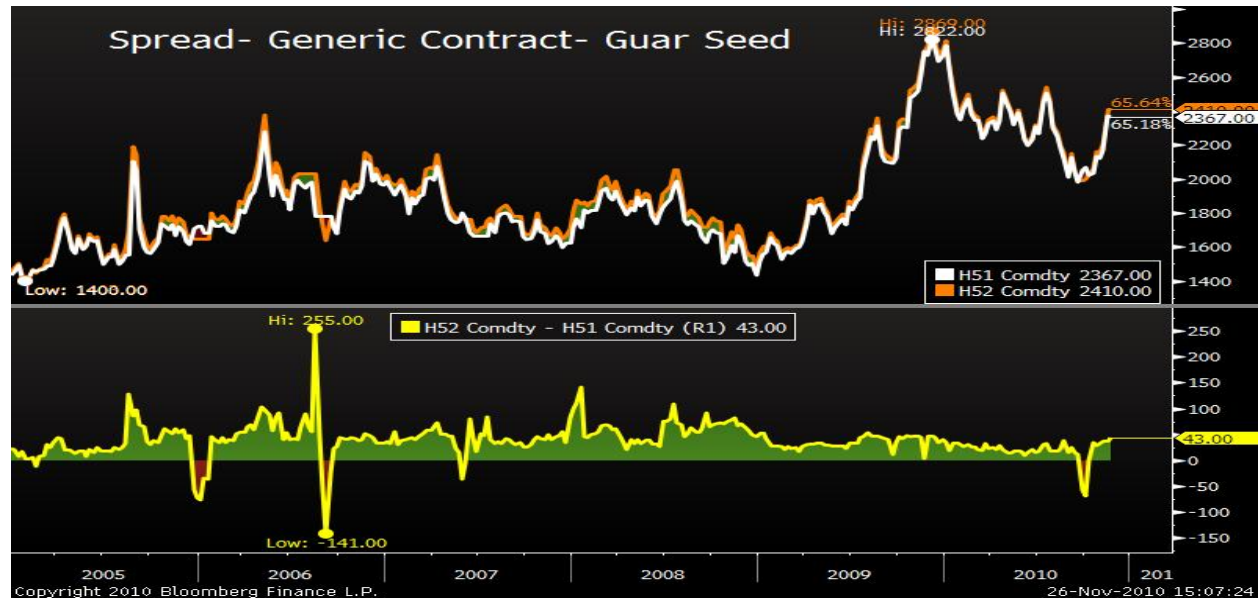
SOURCE: DGCIS Annual Export Report, KCTL Research

Price outlook:

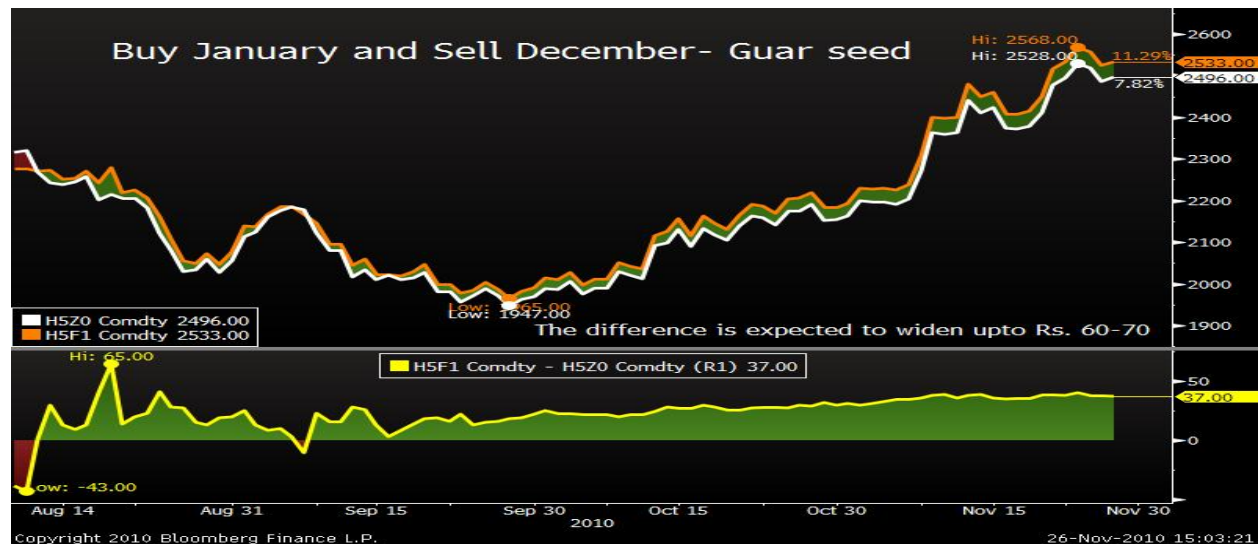
The fundamentals of guar have remained strong to support the up trend in prices in the long term. The crop damage of 20-22% in India has revised the production figures around 90 lakh bags compared to the previous trade estimates of 1 crore bags. The flood in Pakistan caused during the south west monsoon in the year 2010 has left an opportunity for the Indian exporters to encash upon. Thus the exports of guar and it's by-products are estimated to increase by around 20-25% and the exports in the current fiscal is expected to cross 2.3 lakh bags against 2.18 lakh bags in the last year. The demand from the guar processors and the exporters has remained good amidst the increasing arrivals. The stockists are also active across the spot markets in accumulating as the crop in the current year is above the normal production. The untimely rains in the recent past has delayed the harvesting in major growing areas of Rajasthan and created some concerns about the crop quality. However, the increase in arrivals will pressurize the prices in the next month and create a buy point. Special margin of 10% introduced on guar seed and guar gum by NCDEX on the long positions can also exert some pressure. We recommend to buy guar seed and guar gum for a long term on correction.

Spread Analysis:

The difference between the two continuous contracts for last five years has always been positive which supports our view of the bullish trend. The same trend is likely to continue in all the current trading contracts, as all of them are in contango as of now.



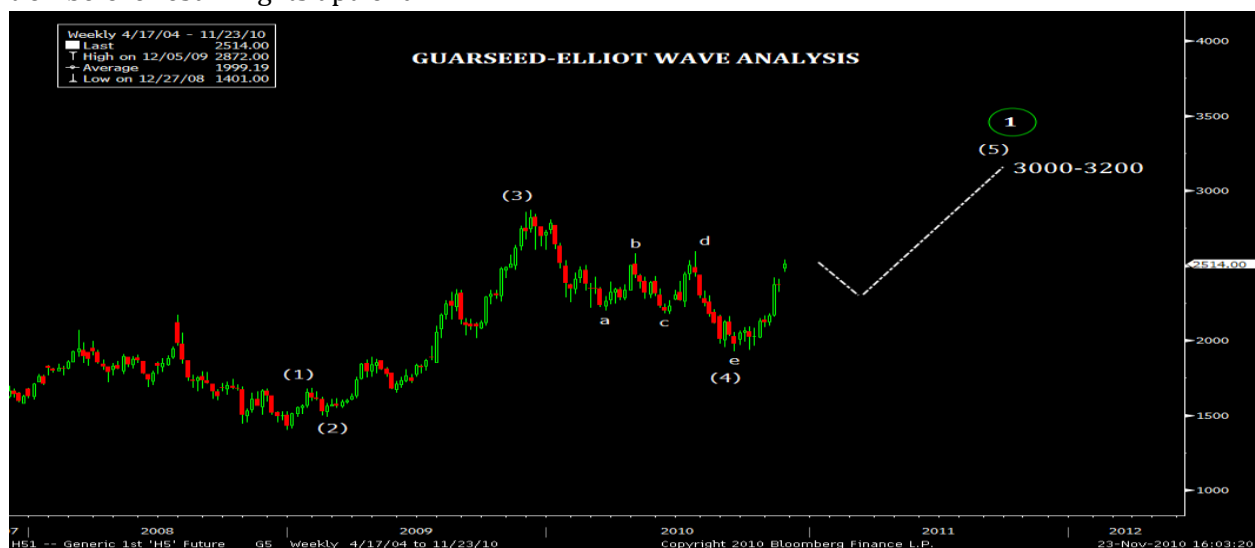
Spread- Opportunity: December & January- Contract - NCDEX



Note: We expect the spread opportunity can be developed between December & January and January & February. (Contango effect to widen further)

Technical Analysis

Guar seed NCDEX future prices started falling since the beginning of 2010 year. It started falling from a yearly high of 2808 (1/2/2010) till 1928 yearly low (9/18/2010) thereafter it took bounce back and currently trading higher at 2512 levels. On the higher side immediate resistance is at 2593 (previous swing high) on breach of the same is possible to test 2710 levels for short term. Indicator analysis suggests market is trading near resistance of 61.8% retracement at 2511 levels (range 2872-1928). A weekly closing above the same is expected to push the prices on upside till 2649(76.4%) then 2872 (100%). Recently market has breached the trend line resistance around 2450 levels and currently taking the same support, which would help the prices to remain higher. The RSI (14) weekly is at 0.64 levels and still has the potential to move higher. We expect a correction before resuming its uptrend.



Elliot wave analysis

As per the Elliot wave analysis, market has witnessed a complex correction i.e. **Reverse symmetrical triangle (duration was almost 10 months)**. Recently market ended minor wave “e” of five wave sequence corrective intermediate wave (4) at 1928 levels. As of now market is in fresh trend i.e. intermediate wave (5), which is expected to bring rally in prices for short to medium term till 3000 -3200 levels. Normally 5th wave takes place with five wave sequences among these 1, 4 are corrective and rest others 1, 3, 5 are motive in nature. As per the trend line study market has the potential to see a correction till 2410 levels thereafter we may see an upside rally.

Outlook: We expect prices to see a correction with support levels at 2410 and 2350 levels. Sustain above the same may help the prices to resume its uptrend. We recommend buying near support levels.

Recommendations:

December-NCDEX: Buy at 2350-2400 TP 2780 then 3000 SL 2000. CMP 2506

January-NCDEX: Buy at 2370-2450 TP 2850 then 3100 SL 2060. CMP 2529

February-NCDEX: Buy at 2400-2480 TP 2940 then 3240 SL 2080. CMP 2560

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