

## GUAR SEED REPORT: Gamble with Rains...



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### **Strategy:**

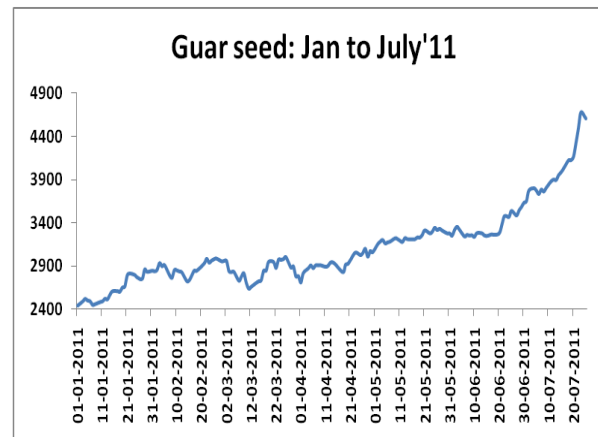
*Guar Seed: Sell 50 per cent of investment at Rs. 4750-4780, 25 per cent at 4950-5000 and remaining 25 per cent at 5070-5140 targeting 4100/4050 then 3800 with stop loss above 5300*

*Guar Gum: Sell 50 per cent of investment at Rs. 15300-15400, 25 per cent at 15750-15900 and remaining 25 per cent at 16250-16400 targeting 13000/12500 with stop loss above 16800*

*Above strategy can be implemented on August contract of NCDEX. The same can be used for subsequent month contract (September, 2011) by adding a premium of Rs. 60 in guar seed and Rs.230/250 in guar gum on respective levels.*

### Price Movement: (Jan-July 2011)

Guar seed and gum futures have witnessed a bull-run from January. The prices have risen by around 92 per cent since January. The prices have touched new lifetime high as at seed and gum August futures traded at 4809 and 15196 levels on 25<sup>th</sup> July. Market had responded to the changing fundamentals across the physical markets which supported the prices to move northwards. Weak progress of monsoon, supply crunch situation across the physical markets, lower acreage projections, and many more reasons were responsible for the substantial gains during the first two quarters of 2011.



### Guar seed-gum ratio:

Guar seed-gum ratio has shown an increasing trend since January. The ratio has increased to 3.24 which have been highest since 2005. The price movement in seed and gum determines the change in ratio. Rise in demand for both gum and seed along with weak monsoon progress has led to substantial rise in both prices. The supply crunch across market also supported the rise in ratio. Currently the ratio is greater than average of 2.93 at 3.16 as on 25<sup>th</sup> July, 2011. The change in export demand and sowing aspects of guar with reflect on the gum-seed ratio in coming days. Prices are likely to fall if the monsoon favours sowing in the major rainfed regions. The export demand for gum will also determine the change in ratio in the near term.

YEAR	MAX	MIN	AVERAGE
2005	3.15	2.12	2.63
2006	2.87	2.32	2.56
2007	2.74	2.34	2.51
2008	2.72	2.23	2.45
2009	2.35	1.98	2.13
2010	2.6	1.82	2.16
2011*	3.24	2.60	2.93

\*Jan-July'11

### Monsoon setback:

Changing scenario of monsoon had a considerable impact over market sentiments. Earlier projections about normal and in time arrival of monsoon during this year built the confidence among traders about the sowing prospects. The La Nina effect as expected to stay in India till May end which is just before the arrival of monsoon which could support the rains this year. Monsoon was expected to cover the major guar growing belt (Bikaner, Sriganganagar, Hanumangarh, Churu, Jaisalmer and Barmer) by the mid-July. Monsoon had begun well but later showed insignificant progress over the north-western region of India which happens to be the major guar growing belt. Monsoon had entered outer regions of Rajasthan but its progress over Bikaner (major rainfed guar growing region) was insignificant. IMD forecasts regarding the delay and below normal monsoon (at 95 per cent of long term average) this year raised the concern among the guar growers as they were expecting monsoon to favour sowing in the guar growing belt of India.

**Acreage concerns:**

Concerns were rising among the guar growers in the rainfed guar growing belt. This gave rise to the projections about the shift in acreage from guar to cotton and castor seed. Indian Meteorological Department forecasts of monsoon to be below normal this year fuelled up the projections about the acreage shift from guar to castor seed and cotton. Therefore, these projections raised the concerns among the traders about the production prospects of guar for this crop year. Therefore it prompted the traders to go for more buying across the physical markets which supported the prices to gain further. According to Rajasthan Agriculture Department, acreage under guar as on 22<sup>nd</sup> July, 2011 in Rajasthan had increased to 13.16 lakh ha against 10.12 lakh ha during last year same period. However, this was only 49 per cent of the projected area sown so far while growers in remaining 51 per cent area most of which is rainfed region were awaiting monsoon to begin sowing. This has led to lower acreage projections as the total acreage under guar is projected to decline to 27 lakh ha against 30 lakh ha during previous year.

**Supply crunch situation:**

Another factor that gave stimulus to the uptrend came when the market witnessed the supply crunch situation across the physical markets. Significant rise in exports during April'10-February'11 to 35.29 lakh bags against 19.21 lakh bags during last year same period led to low carry forward stocks during this crop year. Therefore it created a supply crunch situation across the physical markets which came as another concern supporting the gains. The traders were ready to buy at higher prices as they were anticipating prices to gain further owing to the concerns of lower acreage and weak monsoon projections in Rajasthan.

**Factors to watch out for:****Monsoon scenario:**

According to IMD weather updates, rainfall is witnessed in Bikaner region of Rajasthan which might be a sign of relief to the guar growers in those regions. World Meteorological Organization forecasts rainfall is expected over Bikaner regions in coming days. According to Rajasthan Agriculture Department, acreage under guar as on 26<sup>th</sup> July, 2011 in Rajasthan has declined to 14.07 lakh ha against 14.95 lakh ha during last year same period. Only 52 per cent of the projected area has been sown so far as the sown area happens to be the irrigated guar growing belt of Rajasthan. Growers in remaining 48 per cent area most of which is rainfed region are awaiting monsoon to begin sowing. The recent monsoon progress is likely to boost guar sowing prospects in the rainfed zone. Therefore, the monsoon scenario in coming days will play a crucial role in determining the sowing prospects of guar in Rajasthan region.

**Production prospects in Haryana:**

Haryana, which is the second largest producer of guar, contributes to around 20 per cent of India's total guar production. Growers in Haryana are expecting the acreage under guar to increase by 35 per cent to 3.5 lakh ha against 2.56 lakh ha during last season. Acreage under guar in Haryana had declined to 2.52 lakh ha in 2009-10 against 3.70 lakh ha in 2008-09 as the farmers had shifted to cotton for better returns. The prices of guar seed and gum have gained substantially during this year. Therefore, the growers are likely to re-shift from cotton to guar during this crop year. Progress of monsoon has been good in Haryana which is further supportive for sowing of guar. The production is also expected to rise by 20 per cent to 4 lakh tons this crop year. Therefore, the production prospects in Haryana are also likely to reflect over the market sentiments.

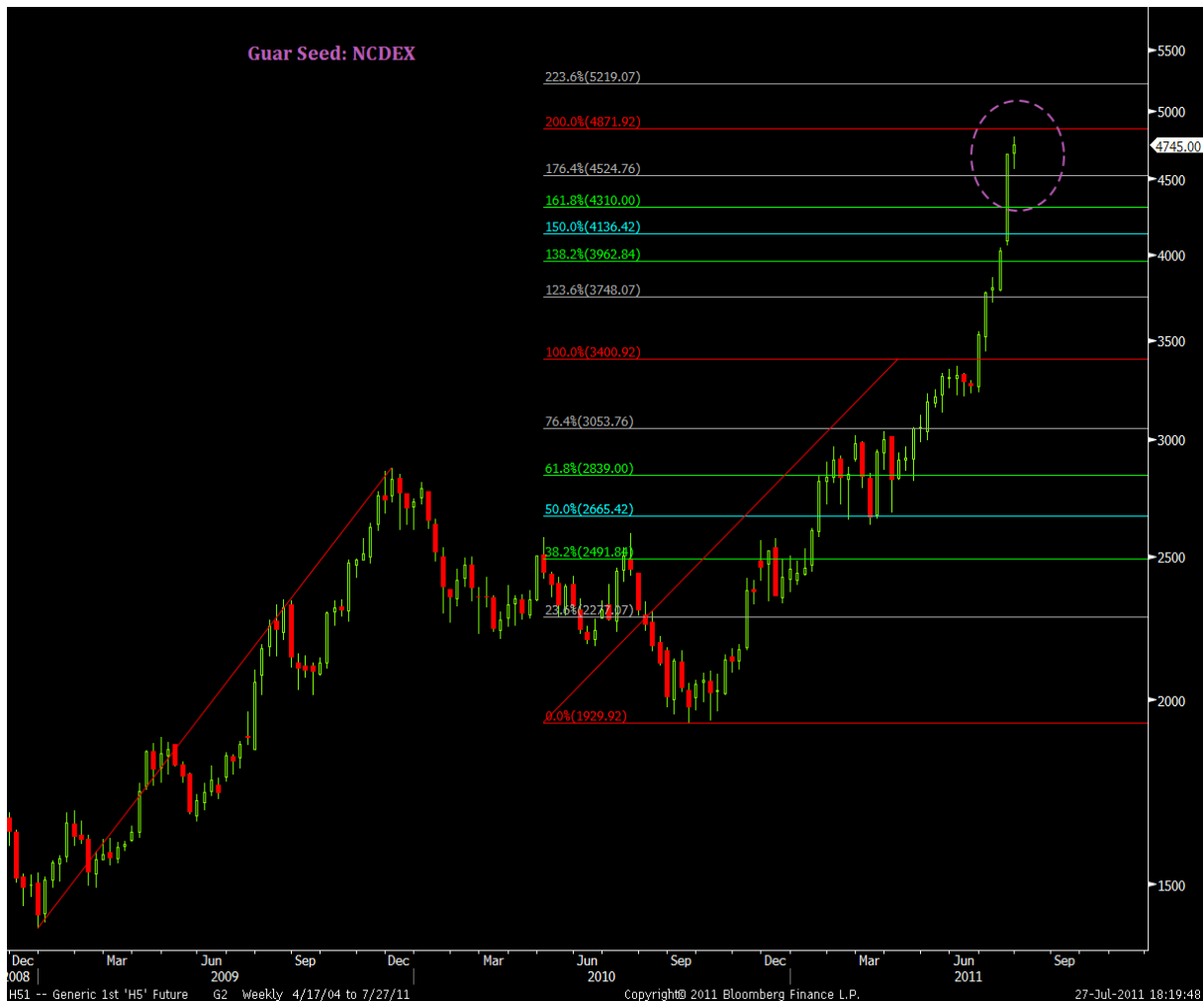
Market is likely to respond to the monsoon prospects over Rajasthan region coupled with sowing scenario in Haryana which might be the major drivers that will determine the price movement in near term.

## Technical Analysis:



The growth has been phenomenal; still no signs of reversal. The rate, at which market is moving, looks like guar prices are trading above 80 degree GANN angle, an indication that market is awaiting for a stop. This does not mean a reversal point but a correction is inevitable soon. Going by the general phenomena of pivotal analysis we see resistance zone to be at around Rs. 5,000 as a psychological point and thereafter Rs. 5100-5150 (R1) point. Certainly correction can be expected from those levels. The price performance has been so erratic that market is trading far from the short term averages indicating mean reversion until 8-week EMA is certain and the levels of correction can be expected until Rs. 4100/4050. Along with, weekly RSI-14 is seen at 0.83 where as the daily RSI-14 is at 0.90, undoubtedly correction can be expected. However, since the weekly RSI is at 0.83 we might see short term gains to prolong until our defined resistance points. The principles of Ichimoku though not rendering any clue of reversal but looks like the uptrend to end soon. Another important tool i.e. Fibonacci projection is also suggesting that correction to witness. 200% of projections have been already seen in the market.

Going by the above analysis we believe market looks overbought and a correction is certain in the short term. Selling at higher should be recommended.



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