

# GUAR SEED – Will it extend Bull Run?

A Short term outlook report from JRG Commodities Research

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## Market Review

The year 2009 proved to be a memorable one with guar seed prices seen doubling and made all time highs of Rs2900 per quintal. Since the beginning of new crop season that is in September, prices have gained 45 percent as arrivals were less than half of last year. Drop in Guar seed output in 2009 season following drought like conditions in Rajasthan, the largest producer and shift in area to other crops in Haryana supported bullish trend in prices.

As per our study, guar seed output in 2009 has fallen by nearly 60 percent, to decade low of 35 lakh bags (100 kgs) against 85 lakh bags in last year. Northwest region, major growing region has received rainfall of only 64 percent of LPA, leading severe drought like situation and affected most of the kharif crops in this region. Rajasthan, Haryana, Punjab and Gujarat are guar seed producing states.

## Guar seed Balance sheet for 2009-10

	Lakh bags		Lakh bags
Guar seed production (2009)	35	Export demand	75
Carry forward	55	Stocks left for 2010	15
Total	90	Total	90

*Note: Figures are based on market sources. Export demand estimates arrived on assumption of 2.5 lakh tonnes of guar gum (guar seed and guar gum has 3:1 ratio) is exported in 2009-10 crop year.*

Given the production in 2009 and export demand estimates, country may left out with 15 lakh bags as carry forward for 2010-11 crop (starting from September 2010) against normal annual carry forward stocks of 25 lakh bags.

Arrivals started in first week of September and peaked in the month of November. However, average daily arrivals during peak season stood at 25000 bags against 80000 bags in previous year. Farmers were not willing to sell produce on anticipation of higher prices in coming months.

As per reports, India has exported 2.8 lakh tonnes of guar gum during 2008-09 against 2.11 lakh tonnes in previous year. Despite global economic slowdown, exports continued to rise due to strong demand from China, which has emerged as largest importer of guar gum from India. Recent price rise in guar seed complex also attributed to bullish trend in edible meals. Guar seed products like Churi and korma are used as substitutes for edible meals, which have seen sharp rise in recent months. Churi and korma traded all time high at Rs1500 per quintal in domestic spot markets against Rs700 in last year.

Guar gum, a major bi-product of seed is mostly exported and used for industrial purpose. Prices of guar gum almost touched three years high of Rs6200 while, guar seed prices made all time highs. Ratio between guar gum and guar seed fell from 2.35 in the first week of January 2009 to current levels of 2.10. The ideal ratio must be 2.9-3.0 given the percentage of extraction of guar gum (30%) from guar seed.

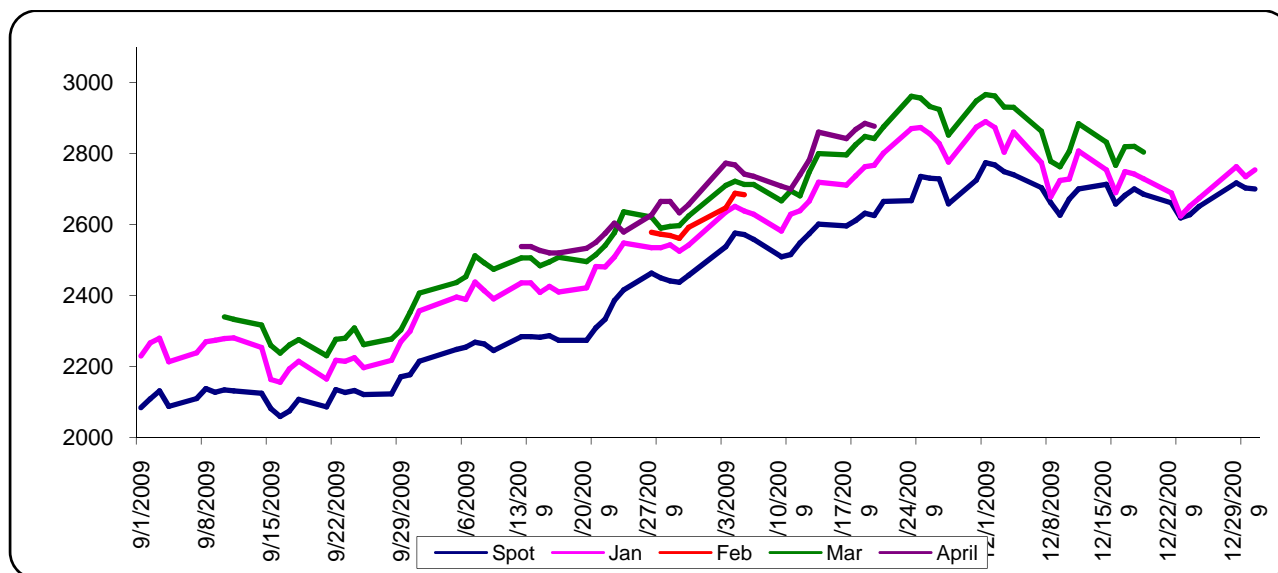
	As on Jan 1 2006	As on Jan 1 2009	2009 year high	Current price (24 Dec 09)	% change since Jan 1 2009
Guar seed	1723	1474	2872	2675	81.5
Guar gum	4605	3428	6000	5625	64.1
Ratio	2.67	2.33	2.09	2.10	

*Note: Figures taken from NCDEX futures*

Guar seed futures at NCDEX rose by 82 percent since 1<sup>st</sup> January 2009 compared to 64 percent in case of guar gum. Seed prices got support from sharp rise in demand for churi and korma rather than guar gum. During early years, demand for guar gum was determining factor for guar seed price, but recently other products have gained more importance in the industry.

### Guar seed spread movement

Basis difference (spot -January NCDEX) remained in the range of 150-200 during its bull run. The difference maintained high till prices reached peak level of Rs2900 (January NCDEX) levels. However, difference narrowed down sharply, that ended the bull-run. Basis difference fell to almost zero levels, when prices touched lowest in this recent correction. Fall in basis difference indicates bearish trend in prices.



### Short term Price Outlook

Bullish trend in guar seed complex is likely extend in first 3-4 months of 2010 due to fall in output. From May-June, prices tend to track the forecast of monsoon and progress of rains. The upside potential for guar seed can be seen at Rs3200-3400 per quintal by May-June 2010, while in case of guar gum prices may touch Rs6500-6800 per quintal. Meanwhile, long positions can be built only on dips towards Rs2500-2600 range as present corrective trend may extend for another few weeks.

## Guar seed price forecast for 2010

Period	Guar seed (Rs/Qtl)	Guar gum (Rs/Qtl)
April – June 2010	3100-3200	6500

### Technical Analysis: Guar seed is trading below the stiff resistance level of 2900-2920.



The Guar market retraced from the high of 2920 towards 2650 after finding stiff resistance at the 2900-2920 range—the 123% Fibonacci level of **1685-2392 moves** (the 2nd phase of the bull run). The correction in the market was justified by the overbought momentum indicators which reached as high as 0.87 when prices were around 2900 level.

The market is currently trading below 2800 level, but above the short term exponential moving averages. Despite sustained trading above the averages, the market is not expected to see an upward rally as of now as it has already breached the trend line support of the **uptrend started from 2037** (the 3rd phase of the bull run).

Now the market looks sideways and breach of the support of 2650 will confirm a correction towards the trend line support of 2500. The market is not expected to breach the resistance of 2920 easily and if somehow it happens then a steep rally can be seen to 3080 level.

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