



Global supply glut to continue to pressurise soya bean prices

Key points

- Indian soya bean production to fall to around 8.5 million MT due to drought situation
- Peak arrival period in the Indian market
- Weak export demand for Indian soy meal
- Global production at a record of 321 million MT
- Global prices at 6 ½ year low
- US set for another year of all-time high production
- Sowing operations underway in South America
- Good demand from China for US soya bean

Call: Sell NCDEX soya bean Jan at Rs3,970 with a stop loss of Rs4,280 for a target of Rs3,500-3,400 With a time frame of one to two months.

On November 24, 2015 we had generated a sell call in soya bean. We had recommended to sell soya bean January 2016 futures at Rs3,970 per quintal, maintaining a stop loss above Rs4,280 with an initial target of Rs3,500 and a final target of Rs3,400. The expected time frame for the recommendation is one to two months.

In the above call, the stop loss in terms of rupee is Rs31,000 with a target of Rs47,000 and Rs57,000.

Price performance



Soya bean prices have remained under the grip of bears over the last few weeks taking cues from weak demand in the domestic market as well as bearish trend in the global markets. Prices in the January futures on NCDEX declined from Rs4,233 per quintal in October 2015 to Rs3,878. Prices had gained a whopping 35.7% from Rs3,120 in August 2015 over crop concerns due to poor rains.

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Domestic Scenario

The soya bean output in India is expected to fall in the 2015-16 season. Due to timely onset and good rains in the initial part of the southwest monsoon, sowing picked up. However, the southwest monsoon failed to pick up momentum leading to fears of crop damage/failure. Poor rains in Maharashtra and Rajasthan led to failure of the crop in the two states while floods in Madhya Pradesh damaged the crop in the state. Poor rains in Madhya Pradesh in the second half of the monsoon season also led to a decline in the yield.

As per the Ministry of Agriculture, the total area sown under soya bean stands at 11.63 million hectares, 5.8 percent higher. According to the 1st Advance Estimates released by the Ministry of Agriculture, soya bean output is estimated at 11.83 million tonne as compared with 10.53 million tonne a year ago. However, various associations, such as the Solvent Extractor's Association of India (SEA) and Soybean Processors Association of India (SOPA) have projected a much lower output due to poor monsoon across the country and a draught situation in Maharashtra. While SOPA has projected a total output of soya bean at 8.64 million tonne, SEA of India has projected the output at 8.5 million tonne.

Soybean Acreage (in lakh ha)		
States	2015-16	2014-15
M.P	59.06	55.46
Maharashtra	37.74	38.01
Rajasthan	11.05	8.21
Others	8.44	8.26
Total	116.29	109.94

Source: Ministry of Agriculture

Soy Meal Exports

The Indian soy meal exports have taken a hit over the last year due to higher domestic prices vis-à-vis the other exports nations, such as the USA, Brazil and Argentina. Higher Indian soya bean prices have led to higher meal prices, making it uncompetitive. During the current marketing year (April-March) soy meal exports have witnessed a sharp decline. Exports between April-October 2015 have declined about 66.5% to 0.47 lakh tonne as compared with 1.4 lakh tonne during the corresponding period last year. The major importers of the Indian soy meal were Myanmar, Cambodia, Thailand and Japan amongst others.

India Soymeal Exports (in tonnes)		
Month	2015	2014
April	18,017	89,883
May	14,046	8,226
June	2,098	2,637
July	928	6,635
August	768	2,778
September	6,886	868
October	4,237	29,071
Total	46,980	140,098

Source: SEA of India

Global Scenario

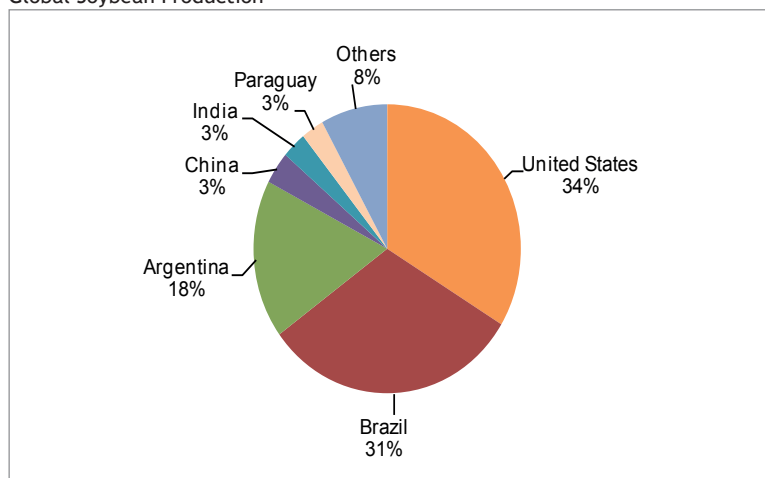
The soya bean prices in the global markets are near their lowest levels in more than six and half years on the back of record global production leading to abundant supplies. Prices on the CBOT are trading around \$8.9 or 890 cents per bushel. Prices have been declining taking cues from record global production.



Source: Bloomberg

According to the US Department of Agriculture (USDA), the global soya bean production is expected to be at 321.02 million tonne as compared with 318.68 million tonne last year. The soya bean production in the USA, the largest producer is pegged at 108.35 million tonne as compared with 106.88 million tonne last year. It has been revised up from 105.81 million tonne last month. Production in Brazil and Argentina has been forecast at 100 million tonne and 57 million tonne respectively as against 96.2 million tonne and 60.80 million tonne respectively last year.

Global Soybean Production



Source: USDA

Outlook

We expect soya bean prices to largely remain subdued in the coming months. Weak export demand for the Indian soy meal coupled with higher global supplies is likely to continue to mount downside pressure on the prices. The soya bean crop from the USA is estimated at a record high and has entered the global markets, which has led to an increase in the global supplies. Sowing operations are also underway in South America (Brazil and Argentina). In the coming days, prices in the global markets will take cues from the climatic conditions as well as crop conditions in the two nations. However, there is good demand reported from China for the US soy crop, which has led to some upside in the US soy prices over the last couple of weeks. Export demand for the Indian soy meal may emerge at lower levels in prices become competitive. On the downside, support may be seen around Rs3,500 while resistance may be seen around Rs4,250.

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