

## **MARKET REPORT – 3 NOV 2008**

### **MARKET SUMMARY:**

The whole of last week witnessed lackluster trade. Domestic market in India was trading in bits and pieces as a result of scattered holidays due to Diwali. Importers did not make much of a progress to make new orders as a result of poor buying power. Factories still remain very reluctant to get head start on their purchases. USDINR didn't make much move although on it gained marginally. Edible oil market witnessed a small correction and oilseed market sentiment was bearish the entire week. Overall, only the needy importers placed orders however were extra careful in finalizing deals, USDINR didn't move much, local production didn't take off on account of festival. Good signs were that Inflation dropped considerably to 11% from a high of 13%. The trend is decreasing.

Overall, it was a quiet week with limited purchase and sales and currency volatility.

### **HEADLINES FOR PASTWEEK:**

#### ***News from Unites States of America:***

- Crop harvest moves ahead in lower Southeast Light rains slowed the Alabama crop harvest this past week as cotton picking lagged last year's pace by nearly 10 percent and was 4 percent behind the five-year average. Corn harvest was winding down, however. In Florida, peanut digging was pretty much on schedule with a 73 percent completion rate. That compared to 66 percent at the same time last year and 74 percent for the five-year average. In Georgia, harvest continued for cotton, corn and peanuts. Irrigated yields were a pleasant surprise for some growers. Soil moisture conditions were rated at 10 percent very short, 32 percent short, 57 percent adequate and 1 percent surplus. **(Source: APC)**
- Peanut stocks reported in commercial storage on September 30, 2008 totaled 1.04 billion pounds of equivalent farmer stock, compared with 1.07 billion pounds a year ago. This total includes 606 million pounds of actual farmer stock. Shelled peanuts on hand totaled 405 million pounds of farmer stock equivalent. Roasting stock totaled 31.7 million pounds. Shelled peanut stocks totaled 304 million pounds of which 274 million pounds were edible grades and 29.9 million pounds were oil stocks. Edible grade stocks by type included 58.0 million pounds of Virginias and Valencia, 188 million pounds of Runners, and 28.7 million pounds of Spanish. September millings totaled 161 million pounds. Millings by type were 17.7 million pounds of Virginias and Valencia, and 143 million pounds of Runners.
- Commercial processors utilized 149 million pounds of shelled edible grade peanuts during September. Utilization by type was 80.6 million pounds for all peanut butter products, 30.9 million pounds for peanut candy, and 35.9 million pounds for snack peanuts. Crushing for oil and cake and meal totaled 31.4 million pounds during the month. Deliveries under the Government Domestic Feeding and Child Nutrition Programs amounted to 2.57 million pounds of peanut butter during September. **(Source: Geogalos Peanut World - Argentina)**
- Peanut prices received by farmers for all farmer stock peanuts averaged 20.3 cents per pound for the week ending October 18. The price per pound increased 1.5 cents from the previous week. Marketing of all farmer stock peanuts for the week ending October 18 totaled 70.5 million pounds, up 7.74 million pounds from the previous week. The average price of Runner type peanuts was 20.6 cents per pound for the week ending October 18, up 1.9 cents from the previous week. Marketing of Runner type peanuts were 46.1 million pounds, down 1.56 million pounds from the previous week. **(Source: Tonsun - China)**

#### **News from Argentina:**

- During the period October 13th and October 19th, it begun the peanut planting in the Province of Cordoba and North of La Pampa. Although the planting intentions estimates of the 2008/9 campaign were superior to the previous ones , the prices' decrease that the world edible peanut market shows have contributed to cause an important change in "the cultivar economic equation." The production costs increased vastly due to the increase of the field's rent. What's more, there was also a remarkable increase in the main inputs that the cultivar requires. **(Source: Tonsun - China)**

#### **News from China:**

- Last week the peanut harvesting in the Northeast is nearly finished. The peanut market is still fluctuating and there's still no large quantity purchase plans from the oil crushing factories. The only difference is the farmers' attitude. Since the market prices are always decreasing, the prices have been out of farmers' though and their attitudes start to change, their desire of selling their peanuts are stronger than before. Influenced by farmers' attitudes, the available quantity in the market is larger than last week. Most people are still waiting for the market to be steady. **(Source: Tonsun - China)**
- Nowadays, most peanuts planters in China began to purchase peanuts, but as the prices are too low to reach the target price of farmers, therefore, most of the farmers would prefer to keep peanuts. Meanwhile, the oil crush factories trend to wait until the situation is clearer. Anyway, some oil crush factories take some actions to produce oil, so it seems that the price will keep steady in a short time. **(Source: Tonsun - China)**
- Some big-scale oil crush factories began to purchase peanuts, but the amount is limited. Although the oil crush factories began to purchase peanuts, the farmers didn't want to sell it, most of them are looking forward the situation turning to be better. In generally, the price is much higher than it is this year in the same time. So the farmers all feel disappointed that they aren't willing to accept the price now. In the short time, the market appears more steady, because the actions of purchasing peanuts, which uphold the situation. And the price of peanuts meal turned up a bit, which will lift up the albumen material market. In the whole, the general situation turned to be steady, so many oil crush factories still in a bad situation, it seems impossible to turn up the price a lot, meanwhile there is no more space to reduce the price. **(Source: Tonsun - China)**

#### **News from India:**

- On Crude Edible Oil In Nov - India will consider whether to impose an import duty on crude edible oils and eliminate the export duty on basmati rice in November, Agriculture Minister Sharad Pawar said last Wednesday. Industry associations have been demanding the re-imposition of an import duty on edible oils to arrest the decline of domestic oilseed prices after the government scrapped the levy in March to curb rising domestic prices. With a good summer oilseed crop expected and falling global vegetable oil prices, import duties should be imposed soon to stop further declines and support farmers, an official with a leading vegetable oil industry body said last week. "The government should impose at least a 30% import duty on crude palm oil, 37.5% on RBD palm olein and 20% on crude soybean oil from the present level of nil duty on crude oils and a 7.5% duty on refined oils," Solvent Extractors' Association President Ashok Sethia said.
- Farm Minister says India may mull allowing edible oil exports in November

**TRADE WATCH:**

- **GROUNDNUTS:** There was weak demand for 5060 from Manila and 8090 Gujarat were favored against south crop due to price parity. The price of Gujarat and South 8090 has a difference of almost 50-75 USD PMT. Demand for 140160 have not started yet. The price of 140160 on account of this has considerably dropped and at present there is excess amount of 140160. If factories planning to purchase, these times may be one of the right moments to buy 140160. As prices were decreasing in the international segment, buyers were very cautious in booking cargo.
- There were also few cancellations and defaults on buyers side in the market on account of weakening currency. Domestic exporters' default and cargo rejections were prominent on account of falling prices. Additional pressures were there on account of China quotation. China was quoting more competitive rates than Indian exporters. As an example, 80-100 CPO were available at 830 while the Indian exporters quoted between 810 and 860. Further, most of the importing countries have language and geographic advantages with China over India.
- **SESAME SEEDS:** Demand was very dull. Current available quality was not whitish and pure. Price of local sesame seed went up amid poor demand. There were not much business reported. Demand from China has not started as China is expected to have a good crop this season.

**CROP STATUS (groundnuts):**

- Andhra: New crop started. Production is expected to be only 30-40%. It is Pure java and whitish cargo. However the CPO is around 90100 and not 8090. Cargo is dry.
- Karnataka: New crop in full swing. Prices have simmered and now within tradable means. Cargo quality is not very superior as it normally is. However super white color and very dry cargo.
- Orissa: No more export stock.
- Gujarat: New crop started. Bold and java are available along with TJ. There are complaints on quality now as suppliers are mixing lower grade peanut with java grades and bold grades as a result of increasing market prices. As a purchase suggestion, we recommend 8090 from South and all other grades from Gujarat. Cargo production will pick up this week onwards.

**OUTLOOK FOR NEXT WEEK:**

- There were some breather and bounce back in the international financial markets. USDINR cooled upwards to 49.30/USD from 50/USD. Sensex moved upwards along with Dow Jones and NASDAQ. However, many financial experts feel that there is still more to come. Few extracts from Morgan Stanley report is below:
- **IDR:** We believe that Indonesia's moderately supportive fundamentals are likely to help keep USD/IDR relatively stable over the shorter term. BI's ongoing policy tightening cycle and the government's favorable fiscal-consolidation policies are being played out against a neutral macro-dynamic (of above-trend growth but external deficit). We therefore believe that the balance of fundamentals is tilted gently in favor of the IDR. That said, risks are building for 2009. Indonesia's macro-dynamic is likely to turn negative as growth slows, which, in turn, could prompt the BI to end its tightening cycle. As a consequence, we see the IDR weakening in 2009, as the fundamentals tilt towards negative.)
- **TWD+SGD+MYR+THB:** These currencies, which are part of the 'Cyclical' group of AXJ currencies, are all undermined by the same two factors: the global slowdown and falling interest rate support. Each of these currencies' underlying economies is open (in terms of high exports-to-GDP ratios) and hence is naturally sensitive to global economic activity.

- Therefore, the oncoming slowdown in the world economy is likely to impact this Cyclical disproportionately. At the same time, most of these currencies are also losing interest rate support. Disinflationary pressures are starting to take hold, which is likely to lead to policy easing in these countries (see AXJ: The AXJ Cyclical Are Trending Down, August 20, 2008). Indeed, Taiwan has already begun its easing cycle
- INR: The USD/INR price action is starting to accelerate, in our view. Indeed, we believe the risk is that the INR could trace out a similar price path to that of USD/KRW: both currencies share similar negative fundamentals, namely negative macro-dynamic and rising banking concerns. On top of this, India also faces fiscal risks in the form of: 1) the lack of fiscal flexibility to cushion the economic downturn; and 2) a potential credit downgrade, leading to 3) portfolio-rebalancing outflows. Moreover, we are also concerned about the macro deterioration in the South Asia region (especially in Pakistan), which is also likely to add to the poor sentiment for the INR.
  - PHP: The BSP appears to have returned to a more dovish policy response in fighting inflation – the central bank left rates on hold at 6% in September when CPI was still running at 11.9%. As a consequence, we believe that the PHP is losing monetary policy support. At the same time, the Philippines' macro-dynamic is moderating. Decelerating GDP growth has shifted the macro setting for the PHP to neutral (i.e., sub-par growth but external surplus) from positive (i.e., above-trend growth and external surplus). The currency is therefore set to lose further ground in the months ahead, in our view.  
**(Source: Morgan Stanley)**
  - On the oilseeds market, We expect further fall in the oilseed and edible oil market. As importers shy away from their commitments and new orders creating a bearish sentiment will lead to further price fall. Festive demands are some what cooling down now. The key indicator is Inflation which is south bound. This is a key highlight that market is set for further downward pressure on account of:
    1. Depreciation rupee
    2. Simmering demand
    3. Poor quality java grades
    4. Competing country competitive quotes
    5. Global commodity trend such as crude oil

Overall, the market is headed toward bearish segments; however steadiness in the Chinese market prices, Indian government approval on increased customs duty on imported edible oil and export of groundnut oil may trigger a steady market. Without these supports, market is headed southward.

#### END OF REPORT

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Next Report will be sent on 10 November 2008

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