MAIZE SEASONAL REPORT (Kharif): July 2011

Recommendation:

*Buy 1 lot at 1170 and 2 lots at 1142 TP 1345 then 1420 SL below 1080*
**Price movement:** Inflation levels across the globe rose substantially during the last one year period as the major cereals production had declined. While scenario in India was much different with good monsoon showers that supported bumper production of major cereals like Maize and Wheat. Maize prices rallied during last six months as major importing countries imported from India largely. Physical traders witnessed a rise in prices from Rs.900/quintal during arrival season to Rs.1250/quintal levels in the near past. The rabi arrivals exerted pressure on prices during month of April. Good production prospects from Bihar regions and decline in demand from the poultry sector prompted the fall in prices. As the corn sowing prospects came into picture during May. The abrent weather conditions cushioned the prices to touch 1250 levels at spot markets along with seed consumption demand. Exports had increased 3 fold as compared to 2009-10 crop year which has left us with nil carry over. The arrival of monsoon on time exerted pressure on the prices during the month of June.

**Crop scenario of Maize in India:**

Maize is grown both in kharif and rabi season in India. The contribution of kharif maize is around 65% to the total production compared to rabi season crop. Major growing regions of maize as per their average production are Andhra Pradesh, Karnataka, Bihar, Rajasthan and Madhya Pradesh while the seasons are different. Congineal weather conditions are more supportive for the higher production of maize in southern India. Thus Nizamabad and Davangere are considered as major primary markets for maize. During the current year much competition was winessed from cotton and sugar cane. The steep increase in cotton prices during last year provoked this concern during Kharif sowing in 2011.
Apart from domestic consumption, export demand in the recent past attracted growers to increase acreage in the last two years. The rise in acreage was also driven by widened usage of maize in different sectors like starch, confectionaries, etc., for consumption apart from poultry feed. The harvested area has increased from 68.70 lakh ha in 2001-02 to 8.5 million ha in 2010-11. The development in meat and meat processing industry over the years has led to rise in demand for maize as poultry feed. The demand from starch, food and seed industries has been increased. The acreage might increase further to 8.6 million ha for this year.

**Figure 3: Maize Area, Production and Yield in India**

![Graph showing maize area, production, and yield over years](image)

*Source: USDA*

**Seasonality:**

Maize availability is round the year across the globe. Maize being a major cereal crop its availability throughout the year has restricted the steep gains. However, the scenario was different when the crop was damaged in U.S- World’s major maize producer. The countries like India where the arrival season was similar to U.S reaped benefits of shifted export demand in 2011.
Global scenario:

According to the seasonality pattern, Indian maize arrivals come along with the global major maize producers like U.S, China, Mexico and Europe. As the destination of exports are same for all these countries crop conditions across the globe influences price movement of maize in India. Weather conditions in these regions during the crop period might weigh on maize price movement in India. Average productivity and consumption is higher in U.S. The usage of mechanisation techniques has resulted in higher yield at 863 kg/ha in U.S, 555 kg/ha in European nations while its much lower in 109 kg/ha in India.

World balance sheet- Million tons

According to the recent world supply demand report released by United States Agriculture Department (USDA), corn production is projected to increase by 13 million tonnes to 858 million tonnes. Good sowing prospects in U.S where the acreage under corn has increased by 5% and better plantings in black sea regions let to these higher estimates.
**Balance sheet - World**

<table>
<thead>
<tr>
<th></th>
<th>2007-08</th>
<th>2008-09</th>
<th>2009-10</th>
<th>2010-2011</th>
<th>2011-12*</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Production</strong></td>
<td>796</td>
<td>799</td>
<td>821</td>
<td>825</td>
<td>843</td>
</tr>
<tr>
<td><strong>Trade</strong></td>
<td>101</td>
<td>84</td>
<td>86</td>
<td>94</td>
<td>93</td>
</tr>
<tr>
<td><strong>Consumption</strong></td>
<td>779</td>
<td>784</td>
<td>822</td>
<td>849</td>
<td>850</td>
</tr>
<tr>
<td><strong>Carry over stocks</strong></td>
<td>132</td>
<td>147</td>
<td>146</td>
<td>122</td>
<td>114</td>
</tr>
</tbody>
</table>

*World Agriculture Supply Demand Estimates May v/s June

**Balance sheet - India**

<table>
<thead>
<tr>
<th></th>
<th>2007-08</th>
<th>2008-09</th>
<th>2009-10</th>
<th>2010-11</th>
<th>2011-12*</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Beginning Stocks</strong></td>
<td>0.26</td>
<td>0.551</td>
<td>0.686</td>
<td>0.391</td>
<td>0.511</td>
</tr>
<tr>
<td><strong>Production</strong></td>
<td>18.96</td>
<td>19.73</td>
<td>16.72</td>
<td>20.5</td>
<td>21</td>
</tr>
<tr>
<td><strong>Imports</strong></td>
<td>0.004</td>
<td>0.011</td>
<td>0.022</td>
<td>0.02</td>
<td>0.01</td>
</tr>
<tr>
<td><strong>Exports</strong></td>
<td>5.077</td>
<td>2.551</td>
<td>1.917</td>
<td>2.4</td>
<td>2.2</td>
</tr>
<tr>
<td><strong>FSI Consumption</strong></td>
<td>7.5</td>
<td>9.5</td>
<td>7.8</td>
<td>9.5</td>
<td>9.5</td>
</tr>
<tr>
<td><strong>Ending Stocks</strong></td>
<td>0.551</td>
<td>0.686</td>
<td>0.391</td>
<td>0.511</td>
<td>0.621</td>
</tr>
</tbody>
</table>

*USDA Estimates

During the current year, the maize production was higher compared to last year while exports have crossed 2.2 million tonnes as per USDA estimates. As the meat consumption across globe has increased the poultry industries outside, are more keen on maize imports. KCTL'S expectation of the maize exports is above 3 million tonnes for crop year 2010-11. The ending stocks are also expected to be much below than USDA estimates as domestic consumption and exports have surged during year 2010-11.

**Consumption pattern:** India has a huge livestock market therefore the major demand for maize arises from poultry and livestock feed industry. Starch obtained after maize processing is used in various industrial segments like pharmaceuticals, textiles, hotels, etc. In the recent times the consumption pattern is fast shifting to easy to eat foods like corn soup, flakes which is also adding to the demand of maize. Feed industry consumes 45% of the maize, 25% is used as poultry feed while 12% is consumed by starch and other industries. Food consumption of maize is restricted to one percent while seed purpose usage is 13% of the produce.
Exports: The major destinations of maize in the globe are Japan, South Korea, Mexico, Egypt. Indian exports to these regions is increasing drastically as the global maize availability is much lower. Global stocks are projected to fall to a five-year low which might create concerns of demand supply mismatch. Thus in the current financial year 2011-12 maize exports might further increase as the carry forward stocks in domestic markets are also insufficient.

Outlook:

Maize prices are expected to trade a bearish path for the short term (1 month). Distribution of rainfall during July month is supporting revival of sowing activities across Andhra Pradesh and Karnataka. The sowing activities were on stall as distribution of rainfall was untimely and not congenial for sowing in the near past. Thus it eased the concerns of the shift in acreage of maize to other crops. As soil moisture levels are sufficient currently, maize is covering major areas around Telangana, Nizamabad and Davangere regions. The acreage is expected to slightly increase by 5% during kharif season as the Minimum Support Prices has been raised by ₹100/quintal to ₹980/quintal and returns were higher during last crop year. Congieal weather conditions might support higher production expectations which results in negative impact on prices. In the last six months Indian maize price has correlation of 0.68% with international maize prices. Though correlation is not very significant international price movements might affect Indian prices as exposure to exports during current year are higher. The crop progress in U.S is reported to increase during next month due to favourable weather conditions. Higher global production by 33 million is also weighing on market sentiments which might keep prices under pressure.

In the long run (3-4 months) the prices are expected to reverse the trend bullish path. The demand from poultry sector is expected to increase during August-September months ahead of the winter...
season demand for poultry products. Lean season for arrivals across India might help the prices to rebound from lower levels. The availability is expected to be lower during that period due to low carry forwards stocks across globe and crop arrival starts from October. The weather conditions during the cob formation period is also very crucial for final yields which needs to be closely watched.

Technical Analysis:

Profit booking in past few weeks has slightly tweaked the rally of maize futures prices. It is currently trading at 1182 as on 06th July 2011. As per Andrew Pitchfork principle, resistance level is seen at 1310 (median line resistance) which states that the prices may revert back if it gets deviated from the median line. **4 consecutive bearish candle sticks** are witnessed in the weekly chart suggesting that prices may correct for one more week. Crucial support level is seen at 1174 (which is EMA – 34 and also previous swings support) and then 1142 which is 50% retracement of the given range. The momentum indicator RSI (14) is treading at 0.50 has potential for downside till 0.30.

In the quarterly chart a **long legged Doji candle stick** is spotted after a long white candle stick indicating the state of indecision in the trend. However, the overall trend is looking bullish as market is sustaining above **short and medium term EMA-8, EMA-21 and EMA-34 and a cross over** is witnessed between them, signaling a positive mode.

Form the above analysis we expect maize prices to remain bullish after a slight correction. We recommend buying on lower levels from short to medium term perspective.
This report is released on 7th July.

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