Mentha Oil Report

The menthe oil futures on MCX have witnessed consolidated to downside biased movement since beginning of the year 2011. Reports of good sowing progress for current year pressurized the prices both at futures and spot market. Decline in domestic demand from pharmaceutical companies also weighed on sentiments. However, pressure on futures prices was more as compared to spot prices. As shown in the below given chart, it is clear that market is moving in backwardation as spot prices are higher than futures prices. Prices at spot and futures both are trading at there lowest level since the beginning of the year 2011. Year-to-date spot and futures prices have witnessed a fall of 12.5% and 13% respectively. However, during mid of March market came in to contango for the first time in last 2 years but overall bearish sentiments due to good production this year pulled down the prices.

Mentha Oil Spot and Futures (MCX) Prices Movement

Out of total Mentha oil produced, 75% is contributed from Mentha arvensis (mainly to produce menthol), 18% from peppermint and 7% from spearmint. Out of total M. arvensis oil produced: India contributes 80%, China 9% and others 7%. About 39% of total Mentha production is consumed by India, followed by China, Europe and USA. Consumption of natural menthol has increased significantly in India over a period of time. However, in other major consumers like Europe and USA consumption has almost been stagnant. Strong industrial growth in India over two decades and increasing consumption of tobacco products has pushed up the domestic consumption of menthol.

Supply

India is the largest producer of mentha oil in the world having a share of 80-85%. Other major producing countries are China, Brazil, US and Japan. World production hovers in the range of 35000-45000 tons. India is also largest exporter in the world market and exports are around 20,000-21,000 tons annually. The major exports are to countries like China, U.S.A., Singapore, Germany, Japan, Netherlands, U.K., Paraguay, Hongkong, Brazil, France etc.

Consumption of natural menthol has increased significantly in India over a period of time. However, in other major consumers like Europe and USA consumption has almost been stagnant. Strong industrial
growth in India over two decades and increasing consumption of tobacco products has pushed up the domestic consumption of menthol. Menthol consumption in India has been estimated as 10,000-15,000 tons, China 3500 tons, Europe 1900 tons, USA 1800 tons, thus making a global consumption figure of 18,200 tons.

India is the world’s largest producer, consumer & exporter of mentha oil. It exports nearly 60-62% of its stock to various countries. Uttar Pradesh is the largest producing state in the country contributing 80-90% to total production, followed by Punjab, Haryana, Bihar and Himachal Pradesh. Major Mentha oil markets in Uttar Pradesh are Chandausi, Sambhal and Barabanki. Distilled mentha oil is brought into the specific markets by farmers/producers and sold to commission agents. Mentha processors, crystal manufacturers and exporters purchase the crop from the market as per requirements.

Mentha oil production in India showed a rising trend since 2004 till 2009. Production rose to 35,000 tons from a mere 10,000 tons. This was due to rise in acreage and favourable weather condition across the key growing regions. Relatively higher price for mentha crop and establishment of mentha processing centres attracted farmers to grow more mentha crop. In 2010, India’s mentha production declined substantially on lower acreage as prices were hovering around ₹600 per kg. Excess heat condition in summer months across Uttar Pradesh resulted into yield loss. As a result of this, India’s production was 25,000 tons in 2010 against 35,000 tons in 2009. Thus, on lower production prices witnessed a huge rally in 2010 and quoted just double at spot market during July- August. In year 2011 production is expected to be around 31,250 tons up by 20-25% from last year’s production as farmers have increased acreage due to the higher returns they earned last year.

Exports of mint products from India
Mint products export has been rising steadily for 4-5 year till 2007-08. In this year, India export a record quantity of mint products, which stood at 21,100 tons valued at ₹1,28,050 lakhs, which was higher by 30% in quantity terms and 16% in value terms. However, after that exports from India started declining and in 2009-10, India has exported a total of 19,000 tons of mint products valued ₹1,18,972 lakh, which is 7% lower in quantity terms and 12% lower in value terms. In year 2010-11, Spices Board of India has kept a target of 20,000 tons of mint product exports up by 1,000 tons from 2009-10. During Apr- Feb 2010-11, India exported 16,250 tons of mentha against 17,725 tons in the same period last year.
Factors to watch for

- Prices at spot market of Chandausi are quoting at ₹1100-1150 per kg
- Major spot markets across UP have been witnessing limited supply of the produce
- Lower carry over stocks at spot market might support the prices in short term
- In 2010, China has emerged as the largest importer of mentha product from India. Earlier to this US was the largest mentha product importer. In 2010 Chinese mentha imports were around 6520 tons up by 25% Y/Y.
- As per trade sources, in coming year mentha product exports to China is likely to increase on robust demand for mint related products
- According to trade sources, Mentha oil production in 2011 is likely to up by 20-25% as compared to last year which was at 25,000 tons and fresh crop will start coming to the market June onwards
- Therefore June onwards we can see prices might correct on fresh arrivals however export demand for this year is expected to be good which might limit the loses

Fundamental Outlook

Short – Medium Term (April- May)
Mentha oil futures prices are expected to witness range bound to positive trend in near term taking cues from sluggish spot market activity. However, overall trend is likely to be positive amid limited supply in market. According to trade sources, carry over stocks in market is negligible as last year production was very less. Therefore, there will be no arrivals till fresh arrivals starts coming to the market which might support the prices in medium term. However, the gains could be limited due to anticipation of higher production this year by around 20-25 per cent.

Medium- Long Term (June onwards)
Mentha oil prices are expected to trade slightly bearish on fresh crop arrivals. From May end fresh crop will start coming to the market which might pressurize the prices. Higher production expectations might also weigh on prices. However, bearishness may end soon on fresh buying. Stocks from last year are negligible which might provoke traders to buy as soon as new crop will hit the market. Export demand is also expected to remain firm this year which might support the prices whole year.
Technical Outlook

Mentha oil May contract on MCX platform rebounded from its low of 931.50 and is currently trading at 990 (as on 7th April, 2011). In the weekly chart, a long white candlestick is witnessed suggesting bullish mode for coming few weeks. The market is also sustaining above short term EMA (8) and medium term EMA (21) suggesting bullishness in the trend. At lower levels increase in volume is witnessed indicating entry of bulls. From the last four weeks market is moving in the broad range of 931-987 and currently prices have breached their upper range to sustain on the upside. Therefore we can expect upside mode for short term.

In the daily chart market is trading above 984.75 which is 50% retracement of the range 1038-931.50 as per Fibonacci principle, thereby giving indication of bullishness till the next (61.8% and 76.4% retracement) resistance levels of 997 and 1012. Moving average principle reveals that, the market may remain upside as Short Term (EMA-8) and medium term (EMA -21) cross over is witnessed in the daily chart. On the lower side crucial support is at 970-968 level that is a moving averages cross over point. The technical indicator RSI (14) is treading at 0.54 signalling upside potentials for prices. Overall we expect Mentha oil prices to remain upside and suggest buying for short term.

Recommendation
Menthaoil May MCX : Buy at 970-980 TP 1012-1040 SL below 948
Menthaoil June MCX : Buy at 850-860 TP 950/1000 SL Below 800
To unsubscribe please mail us at commodity@karvy.com

Disclaimer

The report contains the opinions of the author that are not to be construed as investment advice. The author, directors and other employees of Karvy, and its affiliates, cannot be held responsible for the accuracy of the information presented herein or for the results of the positions taken based on the opinions expressed above. The above-mentioned opinions are based on the information which is believed to be accurate and no assurance can be given for the accuracy of this information. There is risk of loss in trading in derivatives. The author, directors and other employees of Karvy and its affiliates cannot be held responsible for any losses in trading.

Commodity derivatives trading involve substantial risk. The valuation of the underlying may fluctuate, and as a result, clients may lose their entire original investment. In no event should the content of this research report be construed as an express or an implied promise, guarantee or implication by, or from, Karvy Comtrade that you will profit or that losses can, or will be, limited in any manner whatsoever. Past results are no indication of future performance. The information provided in this report is intended solely for informative purposes and is obtained from sources believed to be reliable. Information is in no way guaranteed. No guarantee of any kind is implied or possible where projections of future conditions are attempted. We do not offer any sort of portfolio advisory, portfolio management, or investment advisory services. The reports are only for information purposes and not to be construed as investment advice.

For a detailed disclaimer please go to following URLs:
http://www.karvycomtrade.com/disclaimer.asp
http://www.karvycomtrade.com/riskDisclaimer.asp