Mentha Oil Seasonal Report
04 July 2011

SCHEMATIC REPRESENTATION OF MENTHA OIL PRICE CYCLE

Sowing (Dec. - Feb.) in 2010

Frost (damaged the 2010 crop)

Low Production in 2010

Fall in prices till May, 2011

Higher sowing prospects in 2011 (February)

Price rally (Nov’10- Jan’11) Robust export demand

Less carry over

Arrivals June’2011

Higher production ≈ Nil Carry over stocks

Bullish Trend
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Market Recap
The menthe oil prices 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 20% each. 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](chart.png)

Till beginning of June month mentha oil prices remain down side biased anticipation of higher production. However, June onwards when fresh crop come to the market demand which was deficit due to negligible carry over stocks hit the market. Exporters bought immediately as fresh crop arrived to the market to make their export commitments. Emergence of fresh demand from confectionary and pharmaceutical companies pushed the prices.

Uses
Mentha oil and its constituents are commercially used in food, pharmaceutical and cosmetics industries. Menthol is used as raw material in Toothpaste, Toothpowder, chewing tobacco, confectionary, mouth fresheners, Analgesic balms, Cough drops, as perfumes, Chewing gums & Candies, tobacco Industry. Tobacco industry constitutes about 40% of the total Mentha oil consumption followed by pharmacy and confectionary industry.

Global Scenario
On global front, India remains in top position in terms of Mentha oil production and exports are concerned. 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 73%, China 18% and others 7%. About 39-41% 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.

**Figure 1: Share in Mentha oil Consumption**

![Mentha oil consumption chart]

*Source: Spices Board Of India*

**Indian Scenario**

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 45000-50000 tons.

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**Figure 2: Mentha oil production trend in India**

![Mentha oil production trend chart]

*Source: Spices Board Of India*
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 estimated around 35,000-40,000 tons up by 25-30% from last year's production as farmers have increased acreage due to the higher returns they earned last year.

**Seasonality**

Generally, Mentha cuttings are sown in the month of December and harvested during March-April. The end product Mentha oil is abstracted from the mint leaves by processing and steam distillation. Mentha oil arrives in market in the month of June –July. Once Mentha is planted; it can be cut twice to thrice in one season crop.

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**Exports of mint products from India**

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. China and US are the largest producer of Indian mentha oil and its products. 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.

*Source: Spices Board Of India*
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.

Figure 4: Mentha oil export from India

Source: Spices Board Of India

Prices Seasonality

Mentha oil prices seasonal index indicates, January onwards turmeric prices start moving lower due to declining demand at both domestic and export front. During May prices touch to their lowest levels of the year as fresh crop arrivals starts coming to the market. However, June-July onwards market turns bullish amid fresh demand from importers. During July – August demand from confectionery companies ahead of festive season supports the prices to move up. After that till November- December uptrend continues owing to the higher export demand following the winter season in most of the importer countries.

Figure 5: Mentha oil price seasonality

Source: Spices Board Of India

Fundamental Outlook

Factors to watch for

- Prices at spot market of Chandausi are quoting at ₹1045-1055 per kg
- Major spot markets across UP have been witnessing limited supply of the produce
- 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 5473 tons
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- As per trade sources, in coming year mentha product exports to China is likely to increase on robust demand for mint related products

Mentha oil futures prices are expected to witness positive trend in near term taking cues from emerging demand at spot market. According to trade sources, carry over stocks from last year were negligible as production in 2010 was very less. Therefore, whatever arrivals from fresh crop are coming to the spot market are getting sold amid good demand from pharmaceutical industry. Growers are also bringing limited produce to the market in anticipation of further rise in prices. Though mentha oil production is estimated around 40,000 tons higher by 25-30% from 2010. However, according to traders Chinese mentha crop has been damaged by 40-50% which might also add to the prices. Thus, active export demand from China is also supportive for the prices.

**Technical Outlook**
The recent move looks phenomenal as far as the price direction is concerned. In just one month Mentha oil prices have risen by around Rs. 200 and now hovering around 980-1000 range. Applying technical principle on the recent move we believe market is moving above 80 degree angle or say near 90 degree which is certainly an unsustainable trend. Hence, price correction is must which can be sufficed by higher moving average area which is treating as resistance zone. Undoubtedly, the rising trend has just begun and market has long way to travel. However, we should not overrule the moving averages. Therefore, a correction is inevitable having support until 940-900 (50 percent retracement). If market sustains above the support zone we may see prices trading higher. While moving higher we might find resistance at around 1020/1030 range. Only on break of the same may see prices advancing towards 1100 then 1140 levels. In fact market could go far behind the resistance zone and may test 1200. The only concern of expected correction we believe this correction may be seen till 940 to 900. If market sustains near the support zone certainly prices should move higher. The weekly RSI-14 has just started to reverse higher.

Going by the above analysis we believe Mentha oil may trade higher in next two to three months.

**Recommendation 1:** Buy in the range of 900-940 target: 1020/1030 then 1140 with stop loss below 800

**Recommendation 2:** Buy above 1030 target: 1140 then 1200 with stop loss below 950
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