Price movement from March-June 2018 & outlook for March 2019

July 23, 2018 I Industry Research

This report highlights price movement from March to June 2018 and outlook for March 2019, of following products:-

1. Agro-based products:
   - Sugar
   - Edible oil

2. Energy
   - Crude oil and ATF
   - Natural gas
   - Coal

3. Commodities
   - Cement
   - Steel
   - Non-ferrous metals- aluminium, copper

4. Precious metals
   - Gold
   - Silver

5. Textiles
   - Cotton
   - Man-made fibres

The outlook for March 2019 is projected by CARE Ratings industry research team

Contact:
Madan Sabnavis
Chief Economist
madan.sabnavis@careratings.com
91-22-67543489

Ashish Nainan
Bhagyashree Bhati
Darshini Kansara
Saurabh Bhalerao
Urvisha Jagasheth
Vahishta Unwalla

Mradul Mishra (Media Contact)
mradul.mishra@careratings.com
+91-22-6754 3515

Agro- based products

Sugar

The sugar prices which were at Rs.31 per kg in March 2018 declined on m-o-m basis in the next two months and reached at Rs.27 per kg in May 2018 on account of sugar supply glut in the country. The prices however increased by 16.1% on a sequential basis to Rs.31 per kg in June 2018 on account of the minimum selling price of white/refined sugar at the mill gate being fixed at Rs.29 per kg on 6th June 2018. Besides, introduction of controlled release mechanism for sugar are also believed to have supported the prices.

Table 1: Trend in M grade sugar prices (in Rs. per kg)

	Mar-18	Apr-18	May-18	Jun-18	Mar -19 (P)
Sugar M grade price	31	29	27	31	~31

Source: NCDEX

Though the prices may grow in the coming months, they are expected to remain under pressure when the new sugar season starts as sugar production in 2018-19 is likely to remain on higher side. As per preliminary estimates released by Indian Sugar Mills Association (ISMA), India's sugar output is estimated to increase to 35-35.5 million tonnes in 2018-19 from 32.3 million tonnes in 2017-18. This is a rise of 8.5%-10.1% on a y-o-y basis.

Thus, we expect sugar prices to be around Rs.31 per kg at the end of FY19 considering that the minimum selling price for sugar will continue to be at Rs.29 per kg. As per the market data available, the sugar M grade futures traded at Rs.32 per kg on 18th July 2018 for the contract expiring in March 2019.

Edible oils

Soyabean oil refined: On a sequential basis, the prices of refined soyabean oil in Mumbai remained at the same level in April 2018 and declined to Rs.76 per kg and Rs.75 per kg in May 2018 and June 2018, respectively.

Crude palm oil: The domestic palm oil prices in Kandla stood at Rs.64 per kg in June 2018 which was a decline after sequentially rising in the past two months. The crude palm oil prices in Malaysia declined for the fourth straight month ended June 2018.

Table 2: Trend in edible oil prices (in Rs. per kg)

	Mar-18	Apr-18	May-18	Jun-18	Mar -19 (P)
Soyabean oil refined Mumbai	77	77	76	75	76-77
Domestic palm oil (crude) Kandla	62	63	65	64	60-61

Source: CMIE

Soyabean oil refined: As per the USDA, global consumption is likely to increase by 3.6% y-o-y to 55.4 million tonnes in the oil year 2017-18. Though global soybean production is estimated to increase by 3.8% y-o-y to 55.8 million tonnes, it will be almost at par with global consumption which is expected to support the prices. In addition to this, the import duty on refined soyabean oil was increased by 10% to 45% in June 2018 which will also aid the growth in domestic prices.

Resultantly, prices are expected to be in the range of Rs.76-77 per kg in March 2019. The futures contract of ref soya oil expiring in February 2019 traded at Rs.74 per kg on 18th July 2018.

Crude palm oil: *The prices for domestic crude oil are likely to average at Rs.60-61 per kg in March 2019 as the international palm oil prices are expected to remain under pressure on account of higher global supplies.* As per the USDA, palm oil output from Indonesia and Malaysia are estimated to increase by 6.9% to 38.5 million tonnes and by 8.7% to 20.5 million tonnes, respectively, on a y-o-y basis during October 2017-September 2018. These two countries are the major palm oil producers in the world.

As per the market data available, the crude palm oil futures traded at Rs.63 per kg on 18th July 2018 for the contract expiring in November 2018.

(Note: The exchange rate considered for calculating domestic prices of edible oils is the average of INR against USD and Malaysian Ringgit for the month of March 2018.)

Energy

Crude Oil & ATF

Crude oil prices have been on a rise due to the production cuts imposed by OPEC and Non OPEC countries which have caused supply disruptions, coupled with the increase in demand of oil due to the recovery of European economies, unrest in the Middle Eastern countries, crises in Venezuela and imposition of sanctions on Iran by the United States.

Prices of Air Turbine Fuel (ATF) have risen on account of rise in crude oil prices. Prices of ATF move in tandem with crude oil.

Table 3: Prices of crude oil and ATF

	Unit	Mar-18	Apr-18	May-18	Jun-18	Mar-19 (P)
Brent Oil	$/bbl	66.7	71.8	77.0	75.9	70-75
Indian Basket of Crude	$/bbl	63.8	69.3	75.3	73.9	68-73
ATF	$/kilolitre	679	673	708	738	690-710

Source: Reuters, PPAC, IOC

As per the verdict of the meeting held on 22nd June, 2018, OPEC and its allies have decided to increase production which could range between 600,000- 1 million barrels a day. The additional supply can lead to a decline in the prices of crude oil. Indian Basket of crude to be priced $2-2.5 less than Brent Oil.

Prices of ATF to decrease as well, since AFT prices moves in tandem with crude oil.

Natural Gas

The domestic natural gas price is determined by the formula which has been decided according to the New Domestic Gas price formula, which considers the prices of natural gas in USA (Henry Hub), UK (New Balancing Point), Canada (Alberta Gas) and Russia (Russian Natural Gas). Prices of gas in these hubs are market linked. Increase in the demand of natural gas due to the rise in consumption in power plants and additional heating needed due to a colder and prolonged winter has led the prices of natural gas to be elevated.

Table 4: Prices of domestic natural gas ($/mmBtu)

	Mar-18	Apr-18	May-18	Jun-18	Mar-19 (P)
Domestic Natural Gas Price	2.89	3.06	3.06	3.06	-
Henry Hub	2.69	2.8	2.8	2.97	2.7-3.0

Source: EIA, PPAC

As per EIA natural gas consumption is to further increase as demand increases from residential and industrial users, but this will not lead to an incremental increase in price as higher natural gas production during the injection season will offset the rise in demand.

India plans to launch a gas trading hub by October2018, which will be market linked and help in price discovery. Natural gas will be traded, and supplied through a market-based mechanism instead of multiple formula driven price.

Coal

Table 5: Prices of coal (USD/ ton)

	Mar-18	Apr-18	May-18	Jun-18	Mar-19 (P)
Indonesian Thermal Coal Prices	101.9	94.8	99.5	96.6	85-95

Source: CMIE

Coal prices have been under pressure since the beginning of the financial year. The prices are dependent on demand from major markets especially China and extent of coal mining activity in the country. We expect the international Coal prices (Indonesian Thermal coal) to remain range bound with a downward pricing bias during the year.

Commodities

Cement

Table 6: Prices of Cement

Cement Prices	Mar-18	Apr-18	May-18	Jun-18	Mar-19 (P)
All India Wholesale	300	302.3	308.4	309.7	300-310
All India Retail	317.9	314.6	316.1	322.1	320-330

Source: CMIE & CARE Ratings estimates (Prices for 50kg bag)

The cement prices are expected to remain range bound during the year. Consolidation in the sector will lead to large players keeping the prices range bound in order to capture larger market share.

- Prices may see uptick in the central and western region, given improved capacity utilization.
- Election bound states in the western and central region (Rajasthan, Madhya Pradesh etc.) would lead to improved demand from infrastructure segment and thereby improved capacity utilization in the region, providing support to cement prices.
- Other regions namely Southern and Eastern may witness steady cement prices.

- Volatility in crude oil prices may lead to increase in transportation fuel costs (diesel and petrol) and supply-demand dynamics lead increase in petcoke prices, are likely factors which may lead to increase in cement prices. These would eventually be passed on to the consumers by the cement producers.

Steel

The world export prices of hot-rolled band (HRB) declined sequentially in each of the months during April-June 2018 and stood at USD 600 per tonne in June 2018.

Table 7: Trend in world export price of HRB (in USD per metric tonne)

	Mar-18	Apr-18	May-18	Jun-18	Mar-19 (P)
HRB	634	617	607	600	~585

Source: SteelBenchmarker

The world export prices of steel are primarily influenced by the price movements in China as the country produces around half of the world steel output. The prices are expected to see some moderation in the coming months as the steel demand in China is expected to remain flat in 2018 as per the World Steel Association's short range outlook. Although the outlook for demand remains static for China, the movement in steel prices here can take a cue from the production cuts that the country undertakes in 2018.

While steel consumption remains weak in winter season, traders start restocking before the start of new year which would provide support to the steel prices in the initial months of 2019. Thus the prices may find some support on account of this cyclical nature of the industry. *The prices are expected to be at around USD 585 per tonne in March 2019.*

Non-Ferrous Metals:

Aluminium and Copper

Prices of aluminium have been on a rise from the start of FY19 as the US government announced sanctions on United Co. Rusal which caused a rally in the prices on the fear the global market could face a potential shortage. United Co. Rusal is the 2nd largest aluminium producer in the world and accounts for 6%-7% of the world's aluminium. The US government then extended the deadline for Rusal to clear its stockpile of inventory till October which eased the prices of the metal.

A strong global demand coupled with a weak supply has led to the rally of copper prices. Shutdown of Vedanta's Tuticorin plant in Tamil Nadu has also contributed to the global supply storage.

Table 8: Global prices of copper and aluminium ($/tonne)

	Mar-18	Apr-18	May-18	Jun-18	Mar-19 (P)
Aluminium	2,077	2,246	2,290	2,240	2,000-2,100
Copper	6,796	6,879	6,821	6,955	6,000-6,200

Source: LME

Strengthening of the dollar index and trade war tensions between China and US are indicating a decline in the base metal prices.

Precious Metals

Gold and Silver

Table 9: Prices of gold and silver

Commodity	Unit	Price				
		Mar- 18	Apr- 18	May- 18	Jun- 18	Mar -19 (P)
Gold	Rs./10 gm	30,449	30,929	31,094	30,699	30,600
	$/troy ounce	1,325	1,335	1,303	1,282	1,300
Silver	Rs./kg	38,276	38,846	39,635	39,817	39,000
	$/troy ounce	16.5	16.6	16.5	16.5	16-17

Source: CMIE

Gold prices have remained volatile in FY18 and have moved in a narrow band (up 2.5% and down 1.5%), with a high of $1,358.46 and a low of $1,212.46. Average monthly domestic silver prices have increased marginally despite international prices remaining stable. US developments would continue to remain the key influence on prices.

In the medium term, geo-political tensions in the Middle East, trade disputes with China, increasing US government debt and rising inflation pressures, volatility and lower equity markets could support precious metal prices. Precious metal prices are expected to be negatively impacted, with the US dollar expected to strengthen further, on the back of better performance of the US economy and expected US interest rate hikes. Gold prices are expected to remain volatile in the near term. Indian gold imports have also reduced significantly. A weaker rupee, costlier imports, lower demand, GST issues and a preference for alternative investment avenues such as the equity markets have continued to hamper domestic gold prices.

Silver prices have remained volatile owing to reduced offtake by industrial units and investment demand makers. Sentiment has remained restrained due to subdued global cues as the US dollar has strengthened amid a rising trade dispute between the United States and China. Further due to the industrial aspect of silver demand, base metal prices could also restrict silver price increases.

For FY19**,** gold is likely to remain range-bound in the Rs 30,600 / $1,300/oz range with a negative bias. International silver is likely to remain range bound at around $16-17 /oz range, while domestic silver prices are expected to be around Rs 39,000 per kg.

Textiles

Cotton

Table 10: Prices of cotton (Rs./kg)

	Mar-18	Apr-18	May-18	Jun-18	Mar-19 (P)
J- 34 (Sg)	112.1	113.3	117.8	127.2	135-140
Shankar -6/ Shankar-4	114.9	116	118.5	129.4	137-142

Source: CMIE

Prices witnessed a temporary increase led by supply constraints in the market, due to pink bollworm attack in major cotton growing states - Maharashtra and Punjab. Also, higher MSPs announced for cotton (Rs 5,150 per quintal – 50% return over cost), further supported the price rise. Cotton prices are expected to remain higher by 10-12% y-o-y led by higher demand from domestic as well as international markets, mainly China and Bangladesh. Also the US ban on Chinese products will provide some aid to Indian cotton demand.

Man Made Fibres (MMFs)

Table 11: Prices of MMFs (Rs./kg)

	Mar-18	Apr-18	May-18	Jun-18	Mar-19 (P)
Polyester Staple Fiber (PSF) (1.2d)	112.6	116.5	115.4	118.2	118-123
Polyester Filament Yarn (PFY) 126D	109.5	111.9	113	118.4	118-123
Viscose Staple Fibre (VSF) (Grasim- Nagda)	193	193	193	195.4	190-195
Viscose Filament Yarn (VFY) (150 D Bt. Indian Rayon)	341	341	341	341	339-344

Source: CMIE

Polyester prices continued to increase between Mar-June 2018 mainly on account of increase in prices of key inputs like PTA and MEG, whose prices are dependent on crude oil. High substitute cotton prices added to the price rise to some extent. Future prices will be dependent on the crude oil fluctuations. However, going forward, the crude oil prices are expected to remain range bound ($70-75/barrel), therefore MMF price increase would be limited on account of crude oil. Higher substitute cotton prices can however, push the MMF prices marginally upwards.

We are grateful to the following sector specialists, for their guidance in preparation of this report:-

Name *(alphabetically)*	**Industry**
Hitesh Avachat	Base metals and Steel
Karthik Raj	Sugar
Manek Narang	Oil and gas
Radhika Ramabhadran	Cement
Richa Jain	Edible oils

CARE Ratings Limited (Formerly known as Credit Analysis & Research Ltd)
Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022. CIN: L67190MH1993PLC071691
Tel: +91-22-6754 3456 I Fax: +91-22-6754 3457
E-mail: care@careratings.com I Website: www.careratings.com

Follow us on /company/CARE Ratings
/company/CARE Ratings