Rantec has returned from the 2 week trip to visit India. First the disclaimer, the "new" guar market driven by demand from North American natural gas and oil industry is too immature to draw accurate conclusions and make a definitive prediction for 2012. As you may recall, US guar imports for 2011 are projected to be up ~3.5 times the annual 2005-2009 levels.

At this time, there looks to be a delicate balance between raw material supply and demand. The North American natural gas and oil markets continue to be at the center of the guar universe. Most IndoPak guar manufacturers are extremely bullish on the continued desperation from the North American natural gas and oil (frac service). Demand for new crop seed is reported strong and prices are up over the past two weeks even with heavy crop arrivals in India.

Nearly all powder manufacturers claim to be adding significant capacity and the current manufacturing bottleneck should ease over the next few months assuming flat demand. Frac demand for the lower viscosity grades (4000-6000cP) should fall off as new capacity for the fast hydrating guar becomes available. Most of the guar manufacturers servicing the oil/gas demand are comfortably booked into 1Q2012. On the heels of a very profitable 2011, splits and powder manufacturers are aggressively accumulating a raw material position to run for the next few months and maybe longer.

There is the great unknown of what percentage of the 3.5X guar imports were physically consumed (down hole) in 2011 vs. set aside in storage for a rainy day. It is generally believed in the market that the major frac companies (Halliburton, Schlumberger, Baker, etc..) are accumulating safety stocks but exactly what quantity is unknown to the guar market. A 1-2 months inventory surplus will not give the frac companies much room for a push back. On the other hand, 4+ months inventory at all the majors would be a powerful weapon to use against the guar manufacturers and generate a meaningful market correction.

The IndoPak guar markets surged upwards over the past two weeks. We believe there are three elements at play related to this event. First, naturally strong demand for new season crop. As mentioned, manufacturers are comfortably booked and need to cover raw material. Second, the high viscosity seed desired by the expanding FHG capacity is limited. Third, it is reported that a syndicate of non-guar based speculators/stockists sold short in the guar futures market and dumped their physical stocks on the ready market. This was a calculated move to drive down prices whereby they would cover long at a lower price. Initially, the raw material markets showed weakness but have since rebounded with renewed vigor. We guess the syndicate is trying to cover their losses and the market is taking advantage of the situation. There is talk at the tea stand regarding a rumored 20 percent export duty on guar. However, we believe this is the work of the syndicate to influence raw material prices. We are hopeful that the situation will cool down in the coming weeks.

2012 will be another challenging year in the guar market. However, we are confident that Rantec’s 30 years of guar experience will give our customer's an edge. We have firm supply commitments from our manufacturers that have been in the guar business since the 1950's.