



FOR PRIVATE CIRCULATION ONLY

10 September 2018

### Cotton Market Analysis

**Global Scenario:** Yet another week Cotton price continued to trade in the range of 81 to 84 cents. The gone by week for December settled at 81.99 cents per pound down by 23 points from prior week's close. Although it is moving in a very sideways range but daily volatility is quite high. The March 19 contract also traded in the same tone and ended the week at 82.40 cents.

Every time market is moving towards 81 cents it is quickly reversing back higher as part technical support, mills buying, mills unfixed fixation or some sort of weather issues pops up. We think 81 are considered as strong support level while 84 continues to be a resistance. Unless either side of the band is not cleared we would see continued sideways range for cotton in the short term. China's ZCE futures had a 3rd consecutive day of losses; but for the week it ended less than a half-percent lower. Like ICE, the ZCE has been traveling sideways for nearly 4 weeks. As far as trading participation is concerned, the average daily volume has been hovering around 20-25K contracts while the aggregate open interest continues to maintain near 255k contracts.

On the fundamental front, weather is playing a vital role, crops in southern Delta states and Ala. face "some very minor quality deterioration" following adverse weather from a tropical storm along the Gulf Coast. In the week ended Sept. 2, 41% of the U.S. crop rated good or excellent, down from 44% a week earlier and 65% y/y, USDA data showed on Sept. 4.

**Indian Scenario:** The Indian Rupee has been under pressure the past few weeks due in part to their dependence on imported crude oil. The rally in crude oil prices has dramatically increased their cost of crude oil imports, an increase of 76% in July. The US dollar rupee hit a new record low last week of 72.105 and is down nearly 13% for the year against the USD.

This weakness is lowering the US cents a lb. value of the MSP and also increasing the incentive to export. Local prices at the moment remain above the MSP on tight supplies. CFR Asia offering basis levels are quite different from shipper to shipper with the most aggressive offer of S-6 1 1/8 for prompt shipment ranging from 550 to 850 points on. New crop offers can be found in a similar range. These basis levels, while aggressive, do mark a major improvement from the weak basis levels in June. The 2018/19 domestic crop will likely be below last year thus export pressure should be reduced.

**Strategy: Oct- MCX: Buy at 22900 TP 23300 SL 22640**

**Strategy: December- ICE: Range: 81-84**

Spot Market Performance				
Spot	Current	Previous	Change	Unit
MCX Spot-Rajkot	23260	23280	-20	Rs/Bale
ICS 105 (CAI)	46,600	46700	-100	Rs/Candy
Total Arrival	2000	2000	0	Bales
Cotlook A Index Forward	98.7	98	0.70	Index
CRB INDEX	192	195	-2.89	Index

Import Parity				
W. Afr. at Mill in south	43302	43302	0	per Candy
ICS 105 at mill in south	49164	49266	-102	per Candy

\* W. African comes close to ICS 105 variety in Maharashtra 28 mm, 3.5-4.9 mic

Export Parity				
Spot - Rajkot	per candy	per bale	In Yuan	In USD
Currency Rate	(356Kg)	(170 KG)	6.749	65
MCX	48613	23260	23843	97.3

\* Price in Yuan is all costs incl delivered in a China mill; price in USD is FOB

Stocks In Bales				
Commodity	Current	In Process	Previous	change
MCX(21st January physical)	132,900	-	130,000	2,900

The spot price for S-6 variety Ex-gin is trading around Rs. 47000-47200 per candy while the MCX future has been quite volatile. It ended the October future last week at Rs. 22940 per bale up by Rs. 80 from previous week's close. This had made a weekly low of Rs. 22650. We think market is taking support near Rs. 22500-22600 range while Rs. 23200-23300 is considered as strong resistance level.

**Kharif Acreage Update:** The data released last week suggests cotton acreage is down by 2.40% from the same period last year. However, the numbers have improved in last one month suggesting the crop numbers could be better amid adequate rainfall in the country. Higher acreage is reported from the state of Telengana, Maharastra, MP, Rajasthan, Haryana, Odisha, AP and Gujarat. However, less area reported in Karnataka and Punjab.

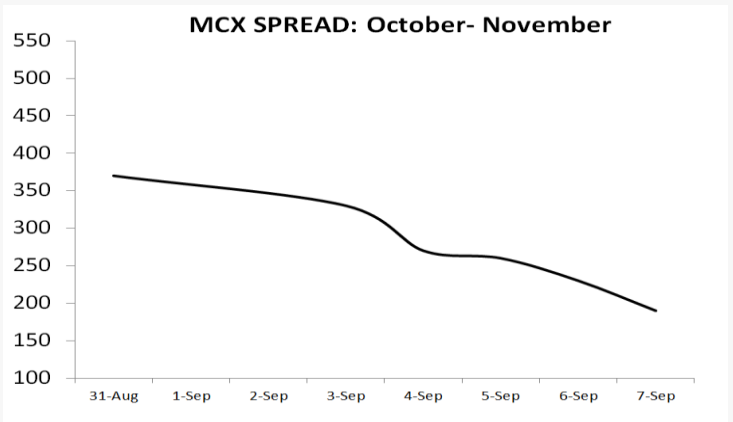
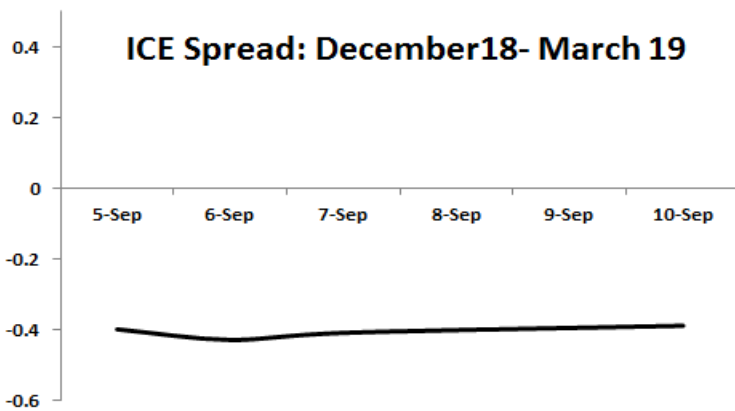
Kharif Crop Acreage as on September 7th, 2018 (Area in Lakh Hectares)				
Crop	Normal Area	2018-19	2017-18	% chg. Y-o-Y
Cotton	119.75	118.1	120.98	-2.40%

Source: Directorate of Economics & Statistics



**Outlook:** For the week we expect ICE cotton to trade in the same range of 81 to 84 which has been seen for the past four consecutive weeks. More than the supply demand is becoming a concern so market is trading steady. The US-China trade war, Turkish imports are all making a severe concern to the US cotton exports. Three months ago the scenario was very cheerful expected US style exports on a weekly basis was more than 500K bales however, the demand seems to be deteriorating. Nonetheless, from the supply side the concern of weather in the US may not have significant impact on the market. On the domestic front we expect Indian cotton new crop arrivals will start coming in from end of September or mid-October. The old remaining crop 2017-18 cotton for S-6 is traded around Rs. 47300-47500 per candy. The future call is mentioned above in the table.

## Spread Analysis:



Cotton Price Movement					
Contract	Open	High	Low	Close	% Change
<b>ICE: Cotton</b> Price Quote USD cents/lbs					
Dec-18	81.25	83.40	81.20	81.99	0.85%
Mar-19	81.70	83.79	81.65	82.40	0.85%
<b>ZCE: Cotton</b> Price Quote per CNY/MT					
Sep-18	15730	15765	15600	15670	-0.44%
Jan-19	16615	16690	16480	16585	-0.44%
<b>MCX: Cotton</b> Price Quote per bales (170 kg)					
Oct-18	22750	22990	22660	22940	0.66%
Nov-18	22510	22780	22390	22750	-0.65%

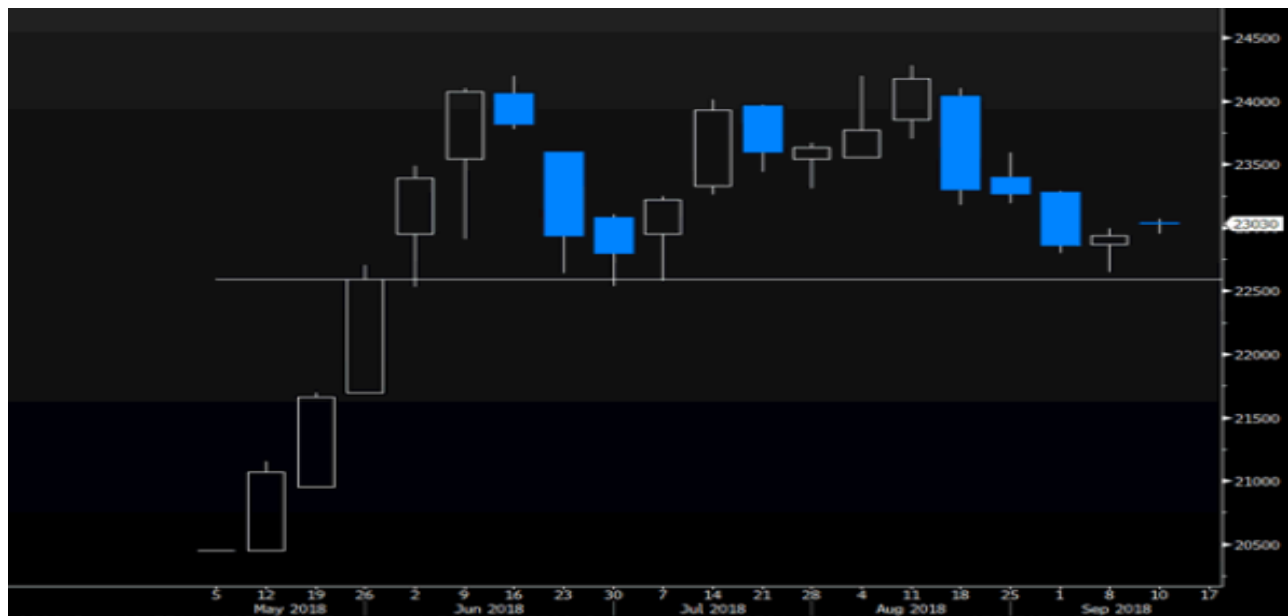
Cotton Trading Pattern						
Contract	Volume	% Change	Agg Vol	Open Int	% Change	Agg OI
<b>ICE: Cotton</b>						
Dec-18	1430	-0.88	24038	145543	0.32%	254675
Mar-19	197	-0.88	24038	145543	0.32%	254675
<b>ZCE: Cotton</b>						
Sep-18	858	0.71	119230	45754	-2.80%	745398
Jan-19	152176	0.71	119230	432102	5.43%	745398
<b>MCX: Cotton</b>						
Oct-18	1220	1.44	2508	3760	-3.14%	9403
Nov-18	439	1.44	2508	2374	0.89%	9403



## Technical Analysis: Cotton: ICE-December:



## MCX October:





<b>Aurobinda Gayan- Vice President Research</b>		<b><a href="mailto:aurobinda.gayan@kotakcommodities.com">aurobinda.gayan@kotakcommodities.com</a></b>
<b>Fundamental Team</b>		
Faiyaz Hudani- DVP	Oilseeds Complex	<a href="mailto:faiyaz.hudani@kotakcommodities.com">faiyaz.hudani@kotakcommodities.com</a>
Madhavi Mehta- AVP	Bullion; Energy	<a href="mailto:madhavi.mehta@kotakcommodities.com">madhavi.mehta@kotakcommodities.com</a>
Priyanka Jhaveri- AVP	Base Metals	<a href="mailto:priyanka.jhaveri@kotakcommodities.com">priyanka.jhaveri@kotakcommodities.com</a>
<b>Technical Team</b>		
Ashok Kamrani- Senior Manager		<a href="mailto:ashok.kamrani@kotakcommodities.com">ashok.kamrani@kotakcommodities.com</a>
Anup Sahu- Manager		<a href="mailto:anup.sahu@kotakcommodities.com">anup.sahu@kotakcommodities.com</a>

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# Cotton

Weekly

