



FOR PRIVATE CIRCULATION ONLY

13 November 2017

Cotton Market Analysis

Despite a better than expected supply number released last week by the USDA the cotton price witnessed no crack down instead market saw a rebound. The December settled higher at 69+ cents per pound two consecutive positive weeks.

Approximately 21.50 million bales of production with better carryover stocks in the US and large global crop will have its impact on cotton prices eventually in the near term. However the reaction is yet to come.

There are multiple factors keeping the cotton price sideways and moving for more than 8 weeks in the narrow range of 66 to 70.50 cents per pound. We are close to the upper hand of the given range. Currently cotton is trading around 69.10 and no positive cues are lying in the market except good cash sales of cotton may push the price a few more points higher. We continue to see 70 cent area as strong resistance zone. On the other hand price also has been taking strong support near 66 areas as many hedge funds show interest, on call fixation takes place near the same range. Broadly we expect cotton to trade in the confined range in the near term. As far as today's move is concerned there may be slight uptick in price while we recommend taking short on higher level.

More on the markets the spread trading between December and March continues to rule. More than 30+% of total volume is with the spread. December is approaching its 1st notice day on 25th of this month and already larger portion of open interest have already shifted to March. Currently March is holding higher OI of more than 1 million contracts. The spread between the two contracts are around 15 to 20 points.

On the domestic front, price of Shankar-6 traded steady entire last week around Rs. 37500 per candy ex-gin (73.55 cents per pound) while for new crop Punjab J-34 are very slightly easy at Rs. 3,830 per maund (about 71.60 cents per pound). The arrivals as of last week was around 157+K bales including 42,000 in Maharashtra, 35,000 in Andhra Pradesh and 31,000 in Gujarat. However, the future contracts have been trading steady. In the last week November future traded in the narrow range of Rs. 18420 to Rs. 18180 while closed at Rs. 18230 per bale. We expect market to remain sideways with selling on rise is recommended. Trading range for the week would be Rs. 18500 to Rs. 18000 per bale.

Strategy: November- MCX: Sell at 18460-18480 TP 18K SL above 18600

Strategy: Dec- ICE: Sell at 70 TP 67.50 SL above 71

Outlook for the week:

We believe USDA's upward revision of production and stocks data will soon have an impact on the price on the lower side. Currently market is trading above 69+ cents while expect market to again top our around 70+ cents. The broad trading range intact and believe selling on rise.

Domestic cotton price in India is hovering around Rs. 37500 per candy and with the heavy supply coming in more than 150K bales a day market may remain under stress. We believe market to remain steady while may come down below Rs. 37000 in the near term. The effect could be also seen on the futures contract. The November contracts trades near Rs. 18300 and we expect it to trade in the range of Rs. 18500 to Rs. 18K per bale and recommend selling on rise.

Spot Market Performance

Spot	Current	Previous	Change	Unit
MCX Spot-Rajkot	18080	18170	-90	Rs/Bale
ICS 105 (CAI)	36,800	37100	-300	Rs/Candy
Total Arrival	145000	142000	3000	Bales
Cotlook A Index Forward	79.6	79.6	0.05	Index
CRB INDEX	192	188	4.09	Index

Import Parity

W. Afr. at Mill in south	43335	43257	78	per Candy
ICS 105 at mill in south	39168	39474	-306	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	65.05
MCX	37787	18080	18832	76.0

* 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)	38,700	-	38,300	400



Cotton Market Performance

International Cotton Futures						
	Open	High	Low	Close	Change	%
ICE Cotton USA						31-Jan-18
Jul-17	71.54	71.65	70.80	71.35	-0.04	0.00
Oct-17	70.00	70.50	68.20	69.04	-1.32	-0.02
Dec-17	69.29	69.29	68.51	68.97	-0.07	0.00
ZCE Cotton China						31-Jan-18
Sep-17	15510	15780	15450	15625	290	1.89%
Jan-18	15510	15780	15450	15625	290	1.89%

Source: Reuters, Compiled By Kotak Commodities Research

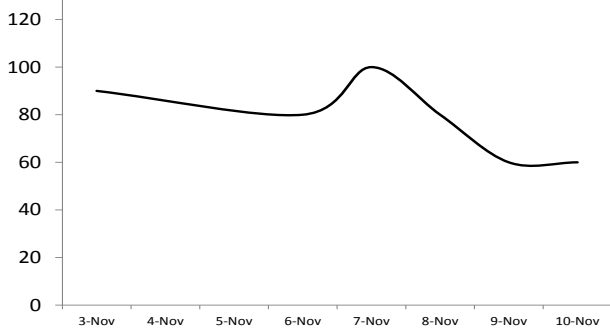
Domestic Futures									
Contract	Open	High	Low	Close	Price Change	in %	Lots	OI in lots	
MCX: Cotton	Price Quote per bales (170 kg)							29-Dec-17	
31-Oct-17	18920	19100	18920	19090	160	0.8%	434	341	
30-Nov-17	18300	18420	18220	18270	-60	-0.3%	670	3538	
29-Dec-17	18240	18360	18170	18210	-60	-0.3%	458	3973	
NCDEX : Kapas	Price Quote per Maund (20 kg)								
30-Apr-18	873	873	863	869	-1.0	-0.1%	2346	7632	

India Update: By Jernigan Report: By the end of the week new crop arrivals in India had begun to average 130 - 140,000 bales a day with about 65,000 of that volume coming from Gujarat and Maharashtra. In the south the fight over the moisture content in the seed cotton remained an issue as rains continued in the eastern areas of the south. The debate lost a civil tone as growers accused some traders of paying as low as 1500 - 2000 Rupees per quintal of seed cotton against a 4,320 MSP. Traders denied the charges. There is little doubt that grower's experience with cotton will reduce the excitement to plant the crop again in 2018, in addition, issues with seed quality and pesticides have surfaced. Politicians from all the cotton regions have made a variety of calls in hopes of drawing farmer support. The Indian Cotton Federation called for the CCI to buy 10 million bales of cotton to support the price. Another group called for an export subsidy for cotton and soybeans. The cash price for an M 1 1/8 type in Gujarat and Maharashtra remained near 75 cents or higher ex gin and above the MSP. A few export offers from Indian shippers remained in circulation at prices that were not in line with gin yard prices which suggests these are short basis offers.

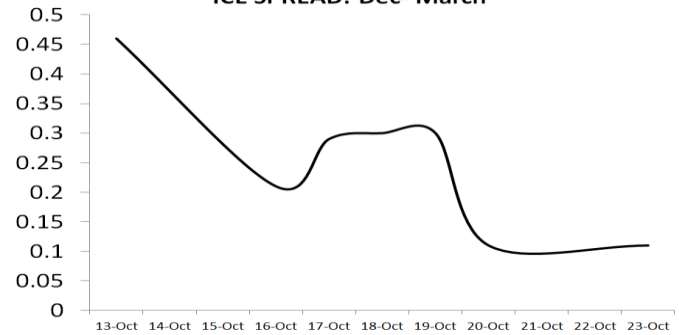


Spread Analysis:

MCX SPREAD: -October-November



ICE SPREAD: Dec- March



Technical Analysis: Cotton –March-ICE





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