

TECHNO FUNDA REPORT ON COTTON (JUNE) MCX

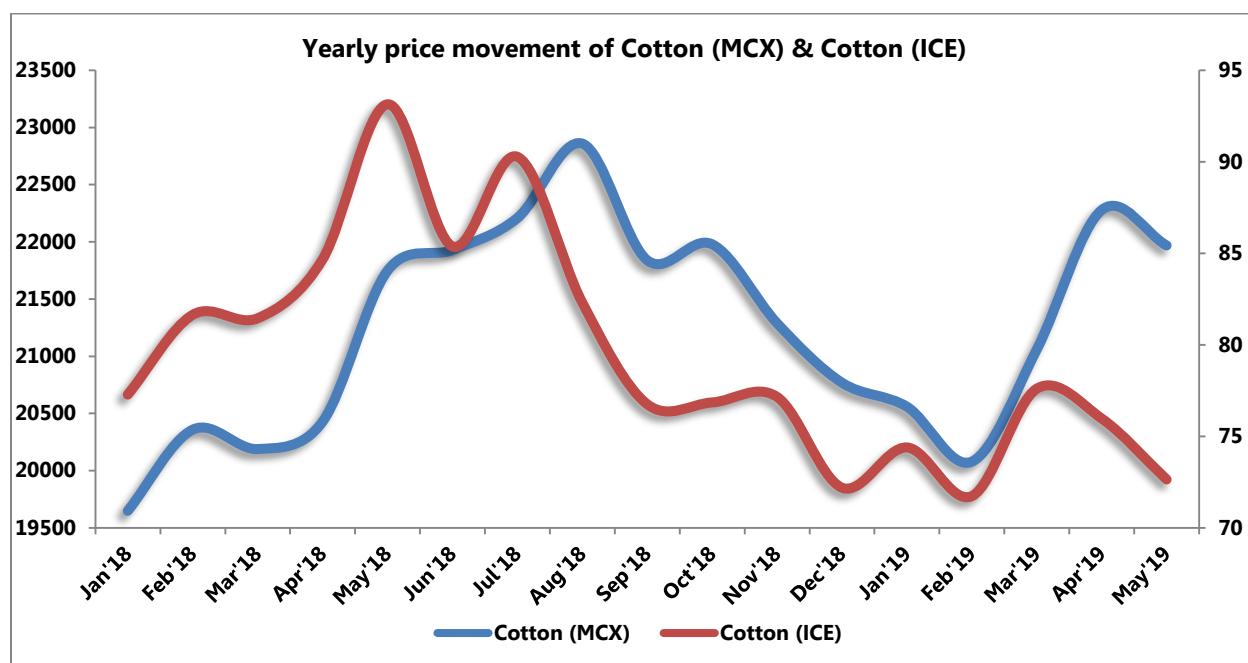


History

Since past ten months, the day trade war began cotton prices have been battered in the international market, amid fears of reduced demand from China. Recently, the worries of extended trade war has resumed after United States President Donald Trump talked of raising tariffs sharply on Chinese goods. Going ahead, if imposed, goods worth \$200 billion imported from China to the US would suffer a fresh hike in import duty, raising fears of repercussion on global demand and supply of cotton. In retaliation, China may curb imports of cotton from the US and buy these items from alternate sources.

For India, it has been a different story due to subsequent cuts in production estimates. Recently, Cotton Association of India had cut its estimate for production in 2018-19 to 32.1 mln bales (1 bale = 170 kg) from 32.8 mln bales a month ago and around 35 mln bales at the start of the season in October. This is the reason, the cotton prices in the domestic market traded bit differently on a positive note despite getting hammered by the negative factors in the international market.

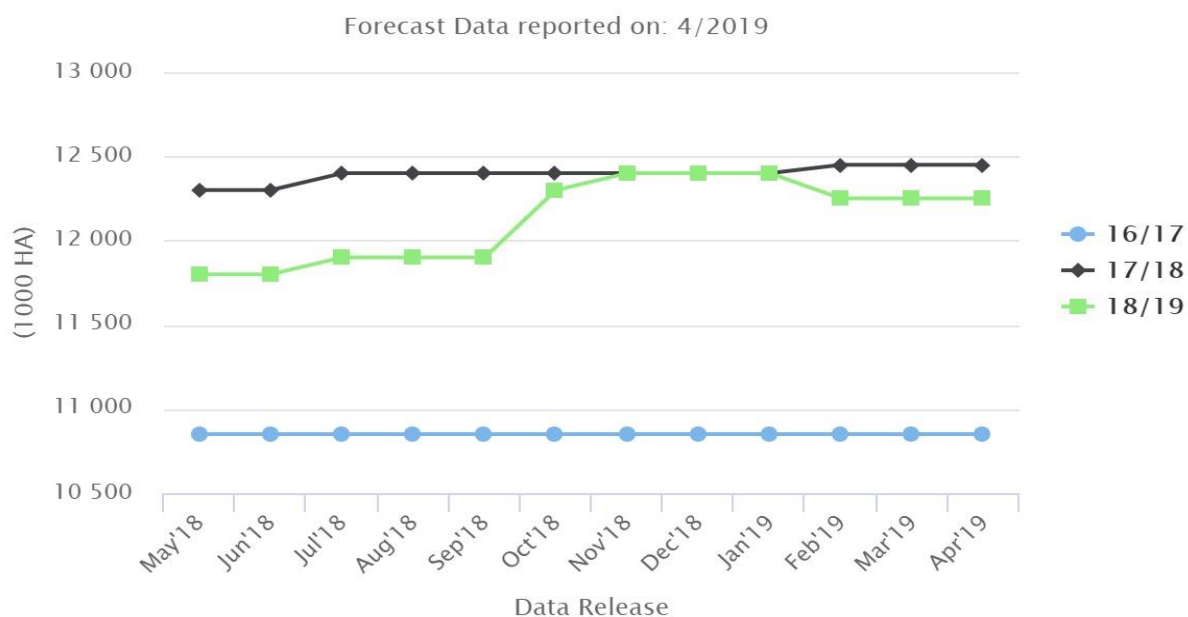
But, we are expecting this trend to reverse & cotton futures on the national bourse to witness correction due to the negative fundamental factors getting attached to it.



Domestic market supply side fundamentals

- In its latest estimate, CAI has reduced the cotton crop production estimate for 2018-19 at 321 lakh bales of 170 kg each which is lower by 7 lakh bales than its previous estimate of 328 lakh bales made during last month.
- The USDA Foreign Agricultural Services estimates India's marketing year (MY) 2019/20 cotton production at 29.3 million 480 lb. bales (37.5 million 170-kilogram bales/6.4 MMT) from 12.45 million hectares of planted area.
- Assuming a normal monsoon, the nationwide average yield estimate for MY 2019/20 is 512 kilograms per hectare.
- In northern India, field preparations are underway for sowing of cotton. The optimum time for sowing cotton in the irrigated regions of the northern states of Punjab, Rajasthan and Haryana is April 15 to May 15. Punjab and Haryana have more than 95 percent area under irrigation. In the rain-fed areas in the state of Rajasthan, planting of indigenous varieties of cotton, also known as desi, is underway. Reservoir storage levels improved over last year, which will support early planting in the irrigated regions.
- In the southern states of Karnataka and Tamil Nadu will add to the production albeit market arrivals might be delayed due to late planting.

Cotton.India.Area Harvested Monthly Change for last 3 Years.

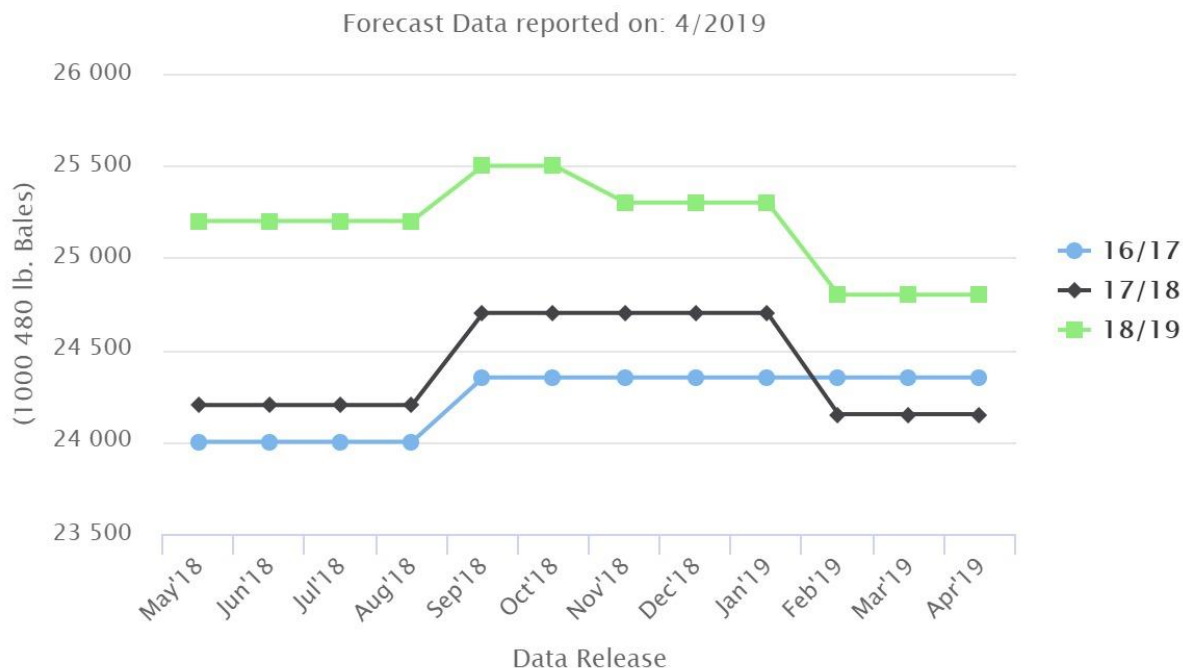


Source: FAS USDA

Domestic market demand side fundamentals

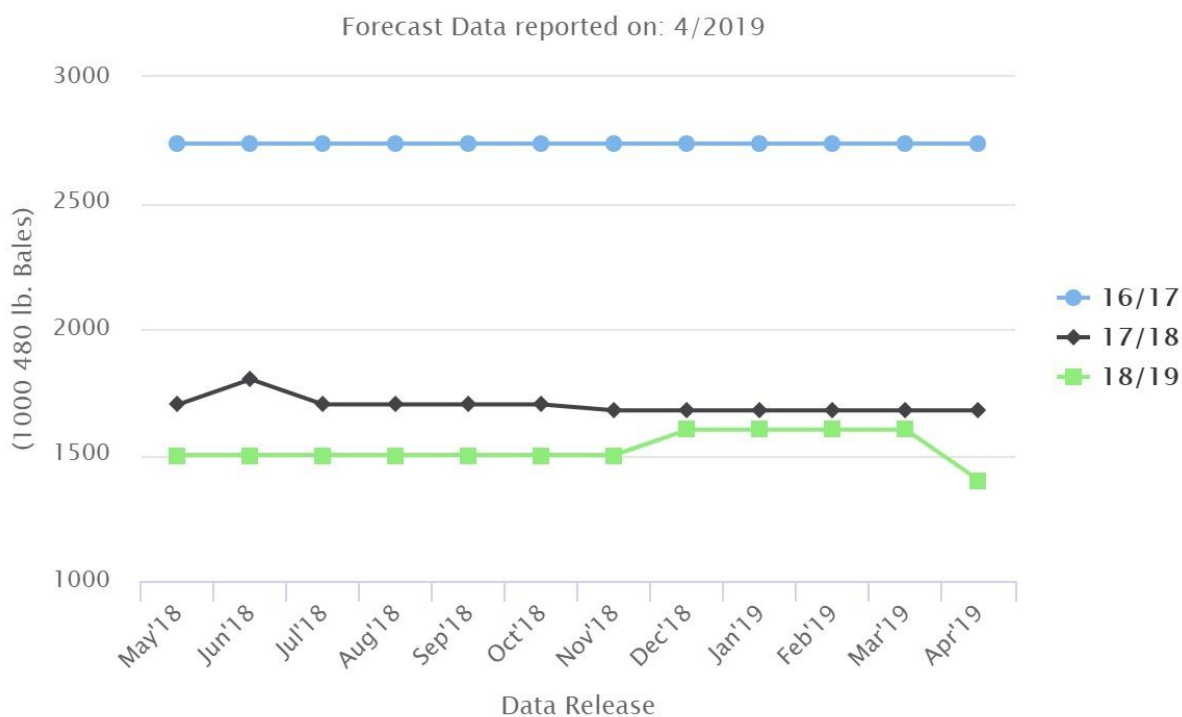
- Cotton exports remain sluggish as Indian cotton remains expensive in the global market.
- The Indian rupee has appreciated against the dollar, which makes cotton exports more expensive in the global market.
- This season imports will remain strong as mills import for processing and re-export to cover yarn export commitments.
- Cotton Association of India (CAI), forecasts raw cotton import at 2.7 million bales (one bale equals 170 kg) for the season, compared to 1.5 million the previous year.
- Another industry body, Confederation of Indian Textile Industry (CITI), has estimated total import at 2.4 million bales. India imports from America and African countries, among others.

Cotton.India.Total Dom. Cons. Monthly Change for last 3 Years.



Source: FAS USDA

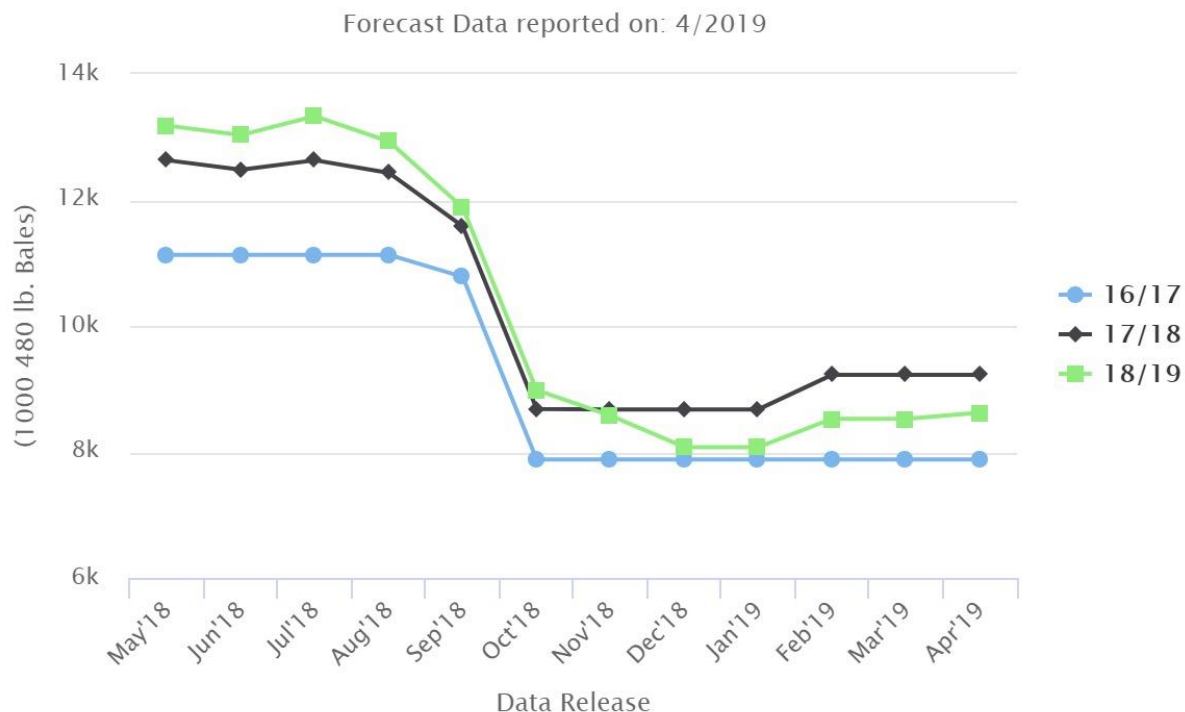
Cotton.India.Imports Monthly Change for last 3 Years.



Source: FAS USDA

- MY 2019/20 cotton consumption at 25.3 million 480 lb. bales (32.4 million 170- kilogram bales/5.5 MMT). FAS Post estimates mill consumption in MY 2019/20 to be one percent higher than last year.
- Normally, India's total consumption is 32 million bales. A deficit can be bridged with carryover stock, which CITI estimates at 3.6 million bales from the previous year, and import.
- India's cotton imports from the US rose over three-fold to 256,100 bales (1 US bale = 218 kg) in April, from 79,900 bales in March due to high domestic prices and short supply, according to weekly data released by the US Department of Agriculture.
- Cotton Corporation of India (CCI) has also started selling its stock, which will further increase liquidity in the market.

Cotton.India.Ending Stocks Monthly Change for last 3 Years.



Source: FAS USDA

Foresight

The market participants are expecting a fall in exports & rise in imports, disturbing the dis-equilibrium of the fundamentals. Mills in south and north India are finding imports to be much cheaper than buying locally and spending huge amounts on transportation from Gujarat or Maharashtra. Imports are taking place at 47,500-48,000 rupees per candy landed cost at port which is suitable for mills in south, as they don't have a logistic expense. Fall in output because of drought in almost 40% of the country has led to short supply in the domestic market. As a result, imports are expected to rise 70% in the current year from 1.5 mln bales last year. So far, India has signed import deals for around 1.8 mln bales (1 bale = 170 kg) in the current year. Of this, 800,000-900,000 mln bales have already been shipped, and the remaining quantum is likely to be shipped between May and July.

On the other hand, a sudden change in global market dynamics is likely to weigh on India's cotton exports this year. Currently, exports have come to a standstill as the disparity between domestic and global prices have made overseas sales economically unviable. The depreciation in Brazilian real has helped the country to sell more cotton, eating into the share of India in these countries. Cotton from Brazil is preferred in the international market and by the Bangladesh textile industry not only because it is cheaper, but also free from contamination and better in quality.

If the current trend is any indication, the world's top cotton producer may miss even the recently lowered target of 4.7 mln bales for the year ending September. Overall, India's cotton exports in 2018-19 (Oct-Sep) may fall to a 10-year low of about 4.5 mln bales, down 35% from the previous year. For the time being, we might witness halt in exports until the supply of new crop begins in Oct-Nov.

The only hope of exports reviving is sufficient rainfall in the Jun-Sep monsoon season and increased imports by China. Day's ahead a lot depends on the forecasts in the later part of May when the onset and forecasts of regional distribution of rainfall are published. The prediction of near to normal monsoon has raised the prospects of good crop in the upcoming season.

In addition to it, the weakness in the international cotton counter may add to the bearishness of domestic market. ICE cotton futures fell to a seven-week low, as investors await the outcome of trade talks between the United States and China, while a firm dollar further weighed on the prices. On the demand side, the US Department of Agriculture reported net sales of 144,800 running bales (RB) for 2018-19, down 39 percent from the previous week, for the week ended April 25. The Crop Progress report indicated that 18% of the US cotton crop was planted by May 5, a move of 7% from the week prior. That is even with a year ago but lagging the average by 1%.

Technical analysis & recommendation



MCX Cotton has been in long term uptrend with formation of higher highs and higher lows. The higher low at 19970 remains the key support for bulls in short term and prices should not break below it. As of now prices are sliding downside after retracing 61.8% of the previous fall from 24280 to 19970. Based on monthly charts price may test 21310 in coming few sessions break below 21310 may take counter towards 20500, whereas immediate resistance hold at 23060. MACD histograms print in red which further confirm the fall in counter.

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