

TECHNO FUNDA REPORT ON

COTTON

(August)

7th August, 2019

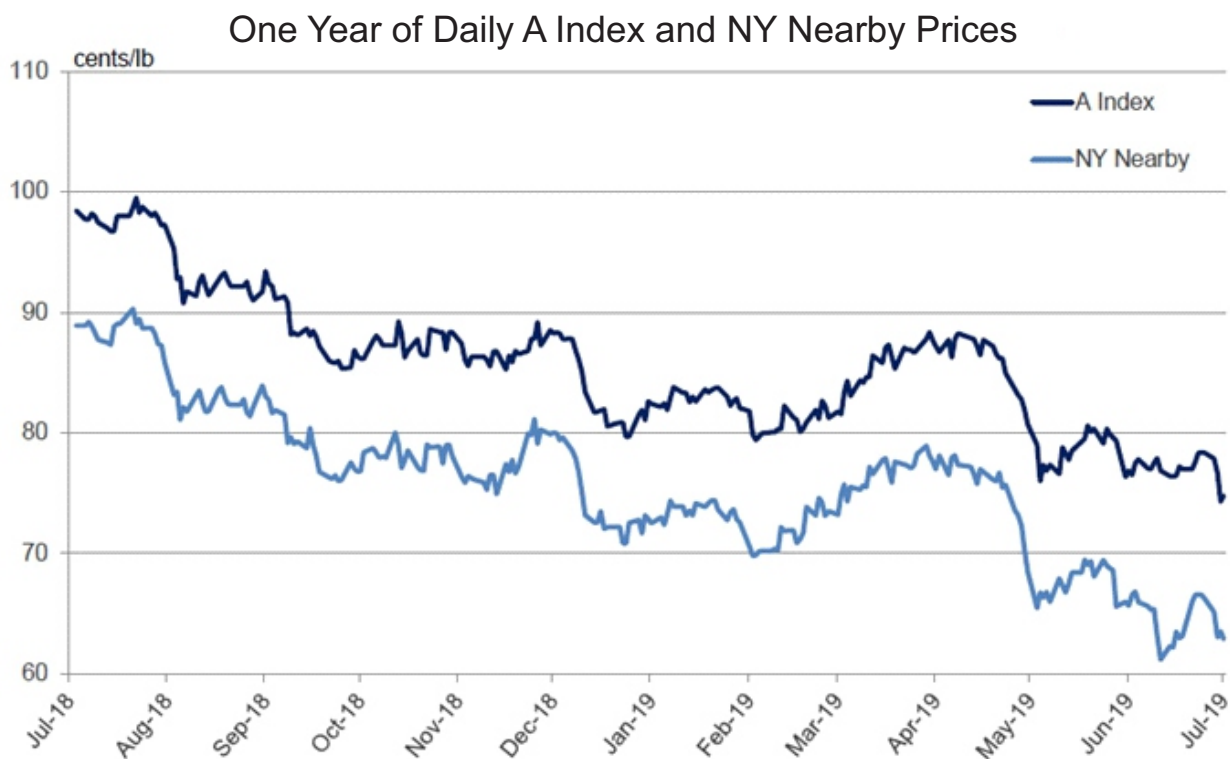


History

Last month, cotton benchmark prices decreased over the past month. However, Chinese spot prices were stable with values have held near 94 cents/lb. In domestic terms, values have held near 14,200 RMB/ton. After maintaining a range between 65 and 69 cents/lb since early May, the NY December contract broke lower in the second week of July and fell to levels near 63 cents/lb. The A Index also declined, dropping from its range between 76 and 78 cents/lb to levels near 74 cents/lb.

Global cotton prices have already corrected by close to 26% in the past one year from 99.5 cents a pound in August 2018 to 74 cents in July 2019.

Yearly price movement of Cotton (MCX) & Cotton (ICE)

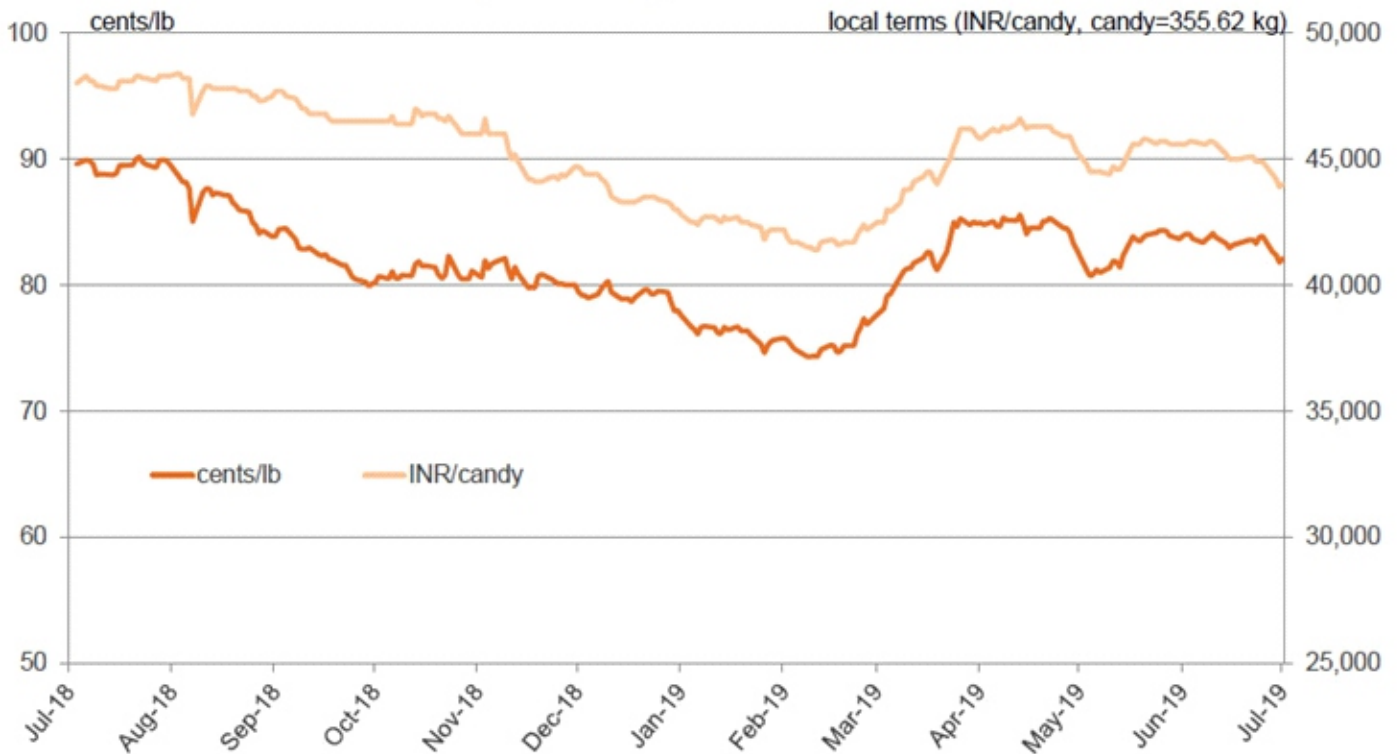


Source: Cotton Inc.

Indian cotton prices (Shankar-6 quality) moved slightly lower over the past month, falling from 84 to 82 cents/lb in international terms and from 45,600 to 43,900 INR/candy in domestic terms. Futures contracts of cotton hit their 18-month low on MCX, taking cues from the global market and due to an increase in acreage under the commodity in the country.

In Gujarat, the Shankar-6 variety was quoted at 41,000-42,000 rupees per candy (1 candy = 355.62 kg). In Maharashtra, the 29-30 mm variety was sold at 41,000-42,500 rupees.

One Year of Daily Indian Spot Prices (Shankar-6 Variety)



Source: Cotton Inc.

Domestic market supply side fundamentals

- USDA Foreign Agricultural Service estimates India's marketing year (MY) 2019/20 cotton production at 29 million 480 lb. bales (37.1 million 170-kilogram bales/6.3 MMT) with a planting area of 12.5 million hectares.
- The marginal reductions in the cotton areas of Central Maharashtra due to a growing shift towards soybeans, and the southern state of Karnataka where cotton is expected to be replaced by pulses (tur) and corn due to state government targets aimed at increasing the production of food crops.
- Recent southwest monsoon rains have encouraged an accelerated pace of sowings across Central India.
- The sowing has picked up pace and as of Jul 25, the acreage was at around 10.9 mln ha, up 6% from a year ago, according to data by the farm ministry.
- This season it is estimated slightly higher yields at 505 kilograms per hectare.
- Rainfall so far - The country so far received 462.8 mm rainfall, 7% below the long-period average of 498.3 mm for the period. Rains so far have been below normal in 12 of the country's 36 meteorological sub-divisions, normal in 21 and in excess in the remaining three. Cumulative rainfall so far this season has been poor in three homogeneous regions of the country. Higher rains for most days so far in August have also narrowed the overall deficit to 7%.
- The rainfall deficiency so far is:
 - 13% each in east and northeast,
 - 10% in northwest
 - 15% in the south peninsula, and
 - In central India, rainfall has been 2% above normal so far.
- The IMD has forecast Jun-Sep rainfall at 96% of the long-period average this year, with an error margin of 4%. The weather

bureau classifies rainfall between 96% and 104% of the long-period average as normal.

- During the season, rains are likely to be below normal at 94% of the long-period average in northwest India, 100% of normal in central India, 97% of normal in south Peninsula and 91% of normal in east, northeast India. The region-wise forecast has a model error of 8%.
- The weather bureau expects rainfall in Aug-Sep to be 100% of the long period average banking on the devolving El Nino and the emergence of a positive India Ocean Dipole.
- The cotton industry estimates imports to cross 30 lakh bales (each of 170 kg) for the season, double from 15.8 lakh bales reported last year.
- Out of the total contracted imports of 27 lakh bales for the season, about 14 lakh bales have already arrived at Indian ports till July-end, while additional 10-11 lakh bales are estimated to arrive by September. There is some delay in several shipments, due to which about 2-3 lakh bales are likely to arrive in October

Domestic market demand side fundamentals

- MY 2019/20 cotton consumption at 24.6 million 480 lb. bales (31.5 million 170-kilogram bales/5.4 MMT), 900,000 480 lb. bales.
- Higher cotton production in MY 2019/20 will ensure ample fiber supplies to cater to both the domestic and export markets, but weak global demand for fiber coupled with strong competition from foreign suppliers will make Indian products less competitive in the global market.
- The consistent fall in cotton yarn exports in the last three months due to sharp decline in demand in importing countries such as China, Bangladesh and South Korea. Overall, export of cotton yarn from India in the first quarter of the financial year ended June was down 33 per cent to 226 million kg (338 million kg).
- Indian ex-gin cotton prices are almost 8-10 cents higher than Cotlook A-Index, prompting mills to augment their requirements with imports. India cotton imports constitute nearly 4-5 percent of total fiber supply.
- If the differential between domestic and international prices does not decline, the mills will limit their purchases of local supplies and rely increasingly on imports.

Domestic market inventories

Cotton India as of July 2019							
Attribute	19/20 Jul'19	Change	19/20 Jun'19	18/19	17/18	16/17	15/16
Area Harvested (1000 HA)	12,600	+250(+2.02%)	12,350	12,600	12,600	10,850	12,300
Beginning Stocks (1000 480 lb. Bales)	8,425	+650(+8.36%)	7,775	9,225	7,880	7,044	10,586
Production (1000 480 lb. Bales)	29,000	+500(+1.75%)	28,500	26,500	29,000	27,000	25,900
Imports (1000 480 lb. Bales)	1,400	-	1,400	1,500	1,677	2,736	1,072
Total Supply (1000 480 lb. Bales)	38,825	+1150(+3.05%)	37,675	37,225	38,557	36,780	37,558
Exports (1000 480 lb. Bales)	4,400	-400(-8.33%)	4,800	3,800	5,182	4,550	5,764
Use (1000 480 lb. Bales)	25,500	+200(+.79%)	25,300	25,000	24,150	24,350	24,750
Loss (1000 480 lb. Bales)	0	-	0	0	0	0	0
Total Dom. Cons. (1000 480 lb. Bales)	25,500	+200(+.79%)	25,300	25,000	24,150	24,350	24,750
Ending Stocks (1000 480 lb. Bales)	8,925	+1350(+17.82%)	7,575	8,425	9,225	7,880	7,044
Total Distribution (1000 480 lb. Bales)	38,825	+1150(+3.05%)	37,675	37,225	38,557	36,780	37,558
Stock to Use % (PERCENT)	29.85	+5(+18.59%)	25.17	29.25	31.45	27.27	23.08
Yield (KG/HA)	501	-1(-.2%)	502	458	501	542	458

Source: USDA

International market fundamentals

- In its August report, the International Cotton Advisory Committee (ICAC) has projected dim prospects for global cotton demand while production for 2019-20 is likely to increase.
- “Global cotton consumption is projected to increase by 1.7 per cent in the coming season, but if production grows by the expected 6 per cent, it will exceed consumption by about 300,000 tonnes. As a result, global stocks should swell to 18 million tonnes. Those factors, combined with tepid expectations for global economic expansion, have dimmed the hopes for next season’s cotton demand,” ICAC said in a statement.
- ICAC also noted that the optimism for a surge in global cotton demand for the season 2019-20 appeared to be waning. Cotton prices have been suffering from negative news since the market hit its seasonal high of 99.5 cents per pound in August 2018.
- Based on USDA’s July supply and demand estimates, 2019/20 U.S. cotton ending stocks are projected at 6.7 million bales, 1.7 million bales (34 percent) above the beginning level and the highest since 2007/08 when ending stocks were nearly 10.1 million bales.
- In addition, the 2019/20 stocks-to-use ratio (33 percent) is forecast to rise for the third consecutive season to its highest level since 2008/09. As a result, increased stocks and a rising stocks-to-use ratio are expected to pressure prices.
- U.S. cotton crop development as of Aug 4, indicated that 95% of the 2019 crop was squaring, slight below last season’s 91% and almost same of the 2014-18 average of 93%.
- In addition, cotton area setting bolls reached 59%, compared with last season’s 58% and the 5-year average of 61%.

Weekly crop progress of U.S Cotton

Cotton Squaring – Selected States

[These 15 States planted 99% of the 2018 cotton acreage]

State	Week ending			2014-2018 Average
	August 4, 2018	July 28, 2019	August 4, 2019	
	(percent)	(percent)	(percent)	(percent)
Alabama	91	92	95	93
Arizona	98	99	100	99
Arkansas	100	97	99	100
California	84	85	90	93
Georgia	96	95	98	96
Kansas	95	67	78	75
Louisiana	100	98	100	100
Mississippi	98	85	92	97
Missouri	100	81	88	98
North Carolina	97	93	98	96
Oklahoma	88	78	94	90
South Carolina	89	91	98	94
Tennessee	100	88	97	97
Texas	89	83	94	91
Virginia	97	92	95	96
15 States	91	86	95	93

Cotton Setting Bolls – Selected States

[These 15 States planted 99% of the 2018 cotton acreage]

State	Week ending			2014-2018 Average
	August 4, 2018	July 28, 2019	August 4, 2019	
	(percent)	(percent)	(percent)	(percent)
Alabama	76	69	78	78
Arizona	86	74	82	81
Arkansas	100	87	91	97
California	53	45	70	74
Georgia	74	72	79	79
Kansas	32	15	26	26
Louisiana	99	72	91	93
Mississippi	91	55	68	83
Missouri	100	26	48	63
North Carolina	68	70	83	76
Oklahoma	44	25	40	46
South Carolina	57	59	63	73
Tennessee	83	47	65	74
Texas	45	34	50	50
Virginia	58	44	62	62
15 States	58	45	59	61

Source: USDA

A Look at China's Cotton

The latest reports suggest that China is suspending new purchases of US agri products and that private firms granted tariff waivers are at risk of re-imposition if they put the cotton on the water.

Chinese cotton prices closed limit down at their lowest in more than 10 years on 5th August, pressured by weak U.S. prices for the fibre and escalating trade tensions. The most active cotton contract on the Zhengzhou Commodity Exchange, for September delivery, fell the maximum 4% to end on 12,225 yuan (\$1,738.95) a tonne, its lowest since March 20, 2009.

The contract, which has been festering at decade-lows in recent weeks, has lost 18.5% so far this year and is down almost 40% from over 20,000 yuan a tonne in May 2018. Traders cited high cotton stocks in China and plunging U.S. prices for the decline, as well as signs the trade war between the world's top two economies is unlikely to end any time soon.

Due to the above factors, U.S. exports to China have weakened, while Brazil, Australia, and other countries have expanded both exports and market share.

Yuan hits lowest level since 2008

1 US dollar now buys more than 7 Yuan



China's Yuan

The yuan fell below its crucial support of 7.00 a dollar as trade war between the US and China deteriorated last week.

The last time the yuan traded at the 7-level against the dollar was during the global financial crisis. Back in 2015, China's central bank pushed its currency to its lowest rate against the US dollar in three years, in part to deal with easing growth.

A weaker yuan also might disrupt Chinese efforts to shore up weakening economic growth by encouraging an outflow of capital from the world's second-largest economy. That would raise borrowing costs.

Impact - A weaker yuan makes Chinese exports more competitive, or cheaper to buy with foreign currencies. From the US perspective, it is seen as an attempt to offset the impact of higher tariffs on Chinese imports coming into America. While it appears a win for consumers around the world - who can now buy Chinese products more cheaply - it carries other risks.

A weaker yuan will also make imports into China more expensive, potentially driving up inflation and creating strains in its already slowing economy, as well as pushing currency holders to invest in other assets.

Foresight

On the international market, there are several questions looming over the cotton market ahead of the 2019/20 crop year. At the top of the list remains the trade environment, especially after US President Donald Trump said his country would impose additional tariffs on imports from China. The ongoing trade war between the US and China has had a deleterious effect on cotton prices. Trump said the US would impose 10% tariff on \$300 bln of Chinese imports. These are over and above the 25% tariff already imposed on \$250 bln of Chinese products. The US president justified the move saying China had not met its commitments made earlier. ICE Futures US, the benchmark December contract was at 57.44 cents a pound, down over 3.3% and the lowest level re no breakthrough even as the talks remain stalled with tariffs in place.

Back at home, Cotton prices have slightly declined due to sluggish cotton demand. Decline in yarn exports has reduced demand for cotton. On one hand, cotton consumption declined dramatically, while at the same time, cotton imports are expected to touch 2.7 million bales (170 kg each), and the contracts for imports are still being signed.

As far as the condition of the Indian cotton crop, it is normal. However, the harvest may get delayed in some states. "The crop is in good condition in North India and Madhya Pradesh. Rainfall has revived in states like Gujarat, Telangana, Karnataka and Maharashtra.

In days to come, we might see some recovery from lower levels for the time being, as correction from here might take a halt & take support near 19680 levels.

However, a word of caution should be kept in long positions as in the international market, the US-China trade war & an increase in acreage in the country might be a spoiler for the Indian cotton market. Increased open interest in the December contract shows that new short positions are entering the market. Speculators cut their net short position on cotton futures and options from record levels in the week to July 30, data from the US Commodity Futures Trading Commission showed.

Spot market update - Arrivals

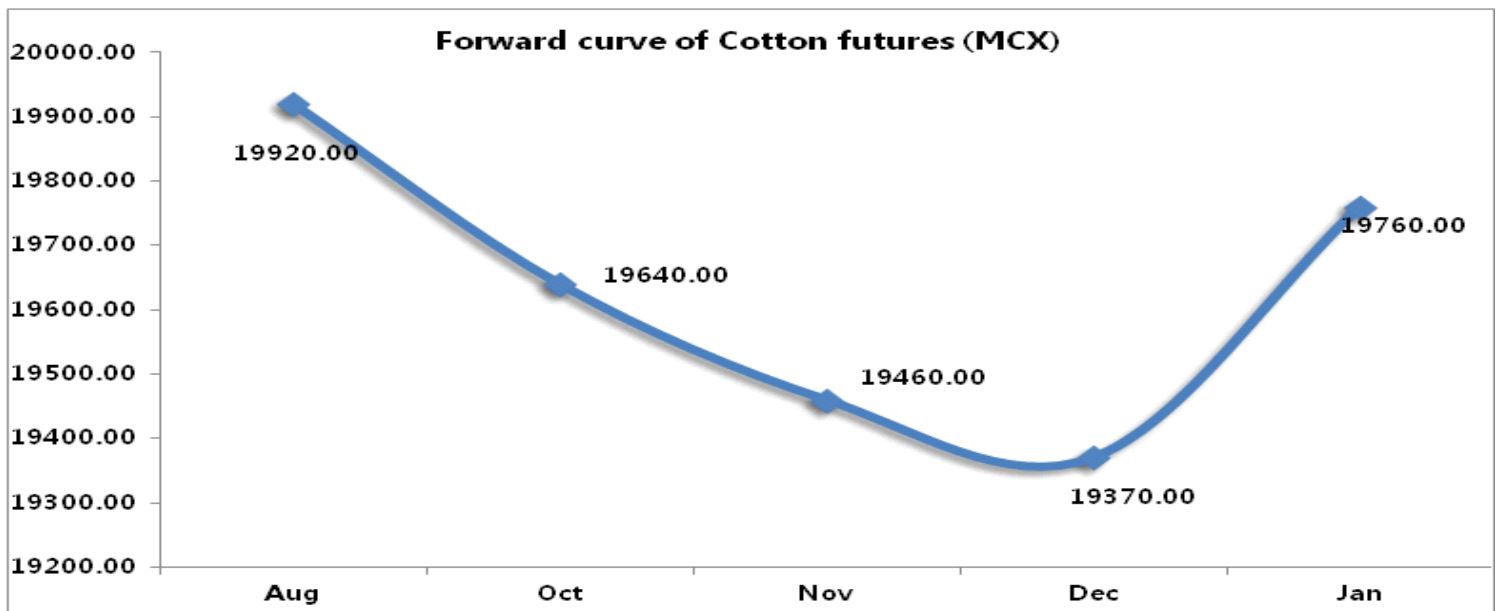
State wise Wholesale Prices Monthly Analysis for Cotton July, 2019					
State	Prices July, 2019	Prices June, 2019	Prices July, 2018	% Change(Over Previous Month)	% Change(Over Previous Year)
Andhra Pradesh	6010.16	6047.16	5841	-0.61	2.9
Gujarat	5895.9	5725.64	5564.05	2.97	5.96
Haryana	6092.59	6210.05	5698.52	-1.89	6.92
Karnataka	5860.59	6089.83	5390.56	-3.76	8.72
Madhya Pradesh	5577.69	5714.3	4857.81	-2.39	14.82
Maharashtra	5850	6242.92	5096.62	-6.29	14.78
Pondicherry	4793.21	4580.39	-	4.65	-
Punjab	5026.4	-	5406.43	-	-7.03
Rajasthan	6368.4	6583.15	5871.01	-3.26	8.47
Tamil Nadu	5818.59	5686.31	4725.11	2.33	23.14
Telangana	6051.23	6038.35	5323.42	0.21	13.67
Average	5758.61	5891.81	5377.45		

Source: AGMARK

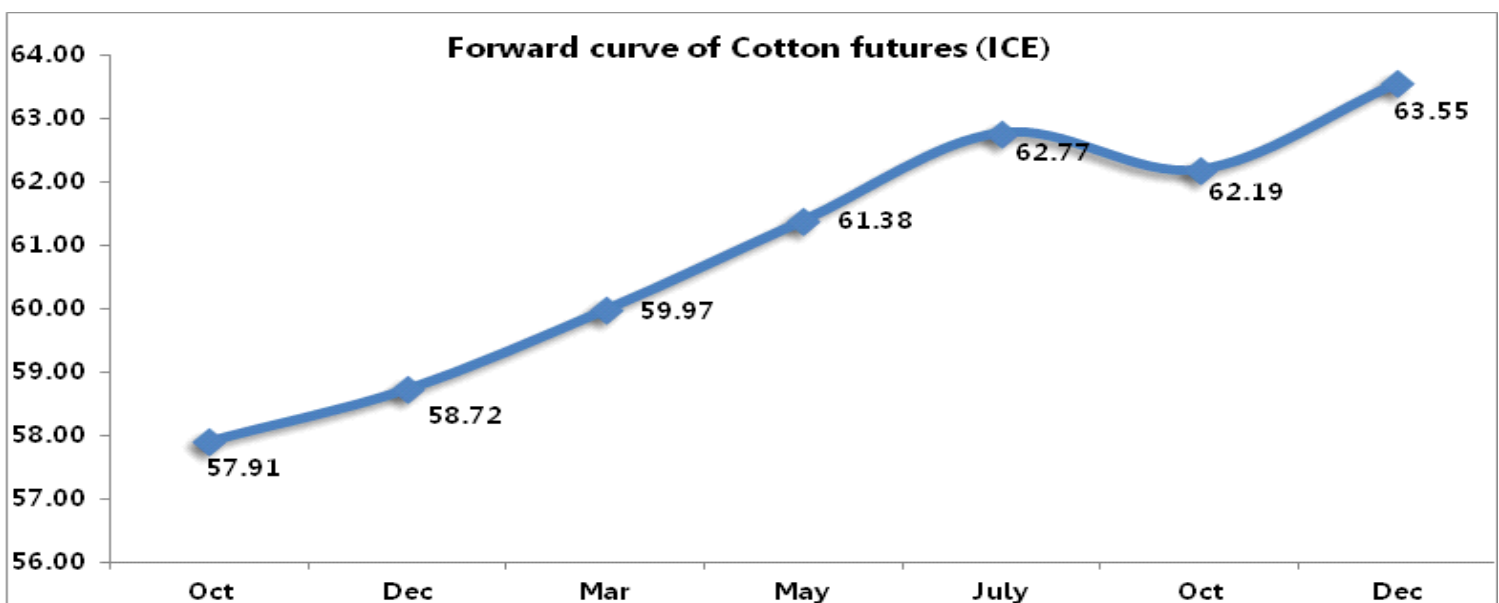
Spot Cotton Prices (31st July, 2019)

Indian Cotton Standards	
GUJ ICS-105 (29mm)	43400 per Candy (355.62 Kgs)
P/H/R ICS-202 (26mm)	43600 per Candy (355.62 Kgs)
M/M/A ICS-105 (28mm)	42900 per Candy (355.62 Kgs)
International Market	
ICE Prices (December'19)	59.42 cents per pound
Cotlook 'A' Index	73.40 cents per pound

Source: CAI



Source: MCX



Source: Bar Chart

Technical analysis & recommendation

Monthly MCOTc1



Source: SMC Research

MCX Cotton has been in short term downtrend with the formation of lower highs and lower lows. The lower low at 19520 remains the key support for bulls, whereas lower high 22540 act as resistance in the short term and prices may break below lower low. As of now, prices are rebounding after retracing 78.6% of the previous fall from 22540 to 19520, but if price slips below the 19520 level then might have chances bear take charge and test 18600-18200. Another scenario indicates that if prices break and sustain above 19980 can take counter towards 21260-21970. Selling on rise advised in MCX Cotton near 22470 with the target of 21260-21970.

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