

**TECHNO FUNDA REPORT ON**

# **COTTON**

**[ JULY ]**

2nd July, 2019

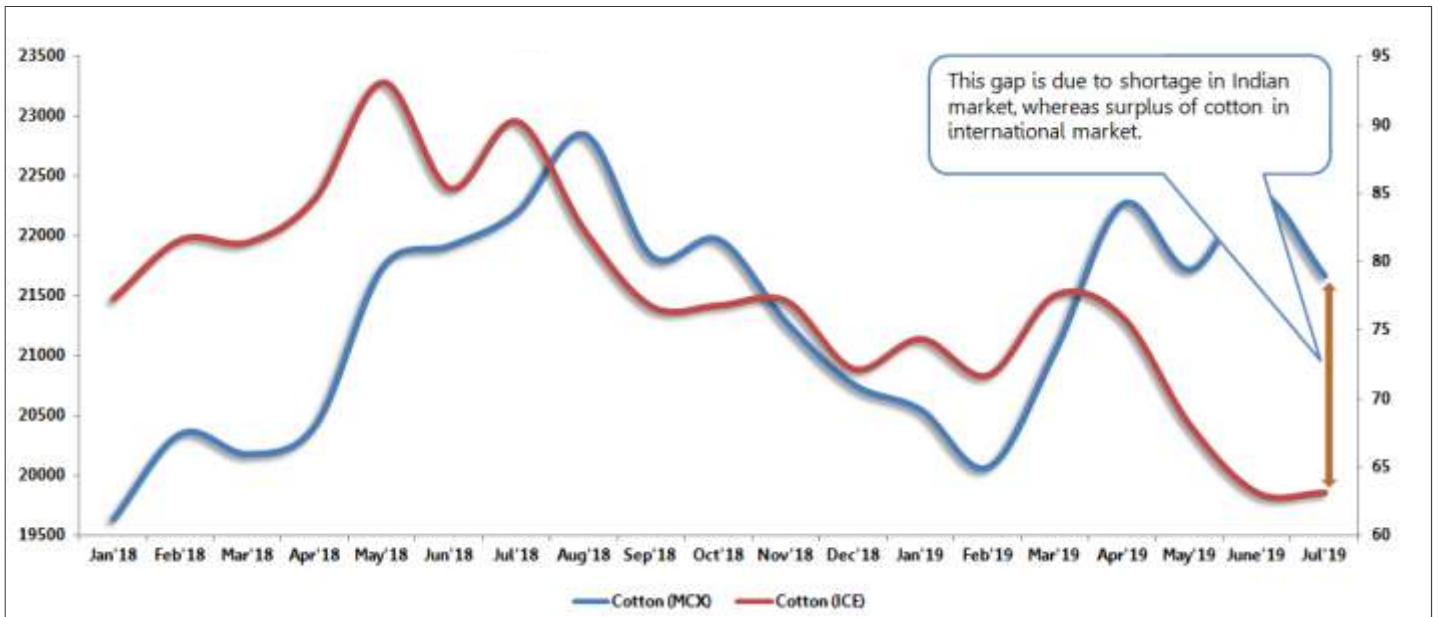


Presented by: Subhranil Dey

## History

Last month most benchmark cotton prices decreased over the past month. Open interest has shifted from July and into the December contract. After moving lower in early May, values for the July contract were volatile but range-bound between 65 and 70 cents/lb for most of the past month.

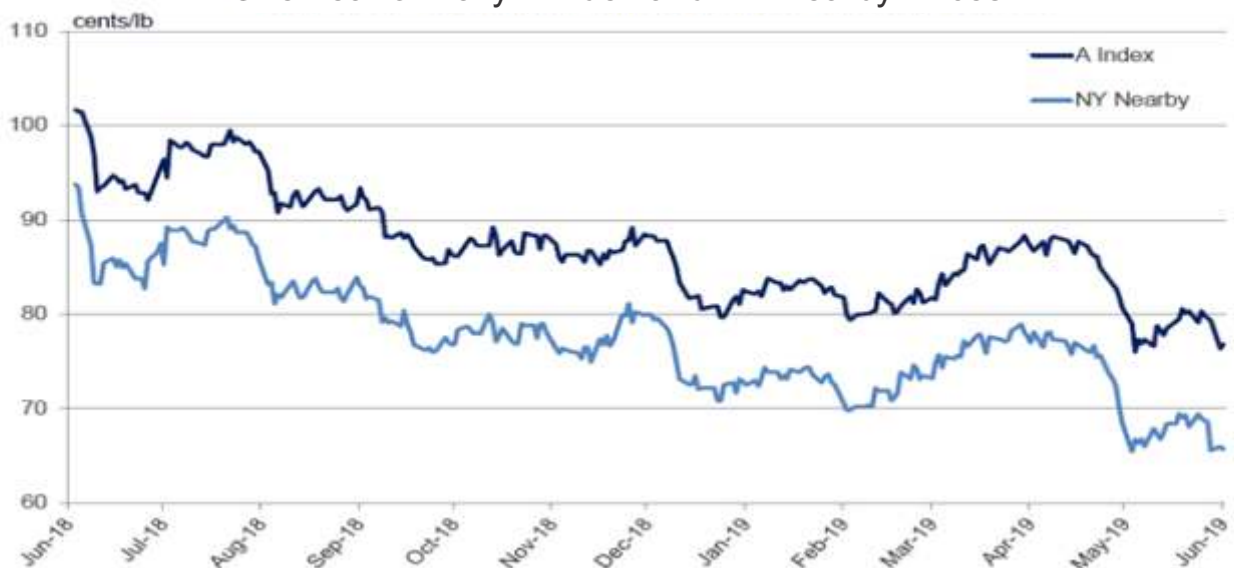
### Yearly price movement of Cotton (MCX) & Cotton (ICE)



Source: SMC Research

Values for the December contract also moved lower in early May. While they had been range-bound, December prices have been testing the lower end of their recent range, briefly dropping below 65 cents/lb in the latest trading.

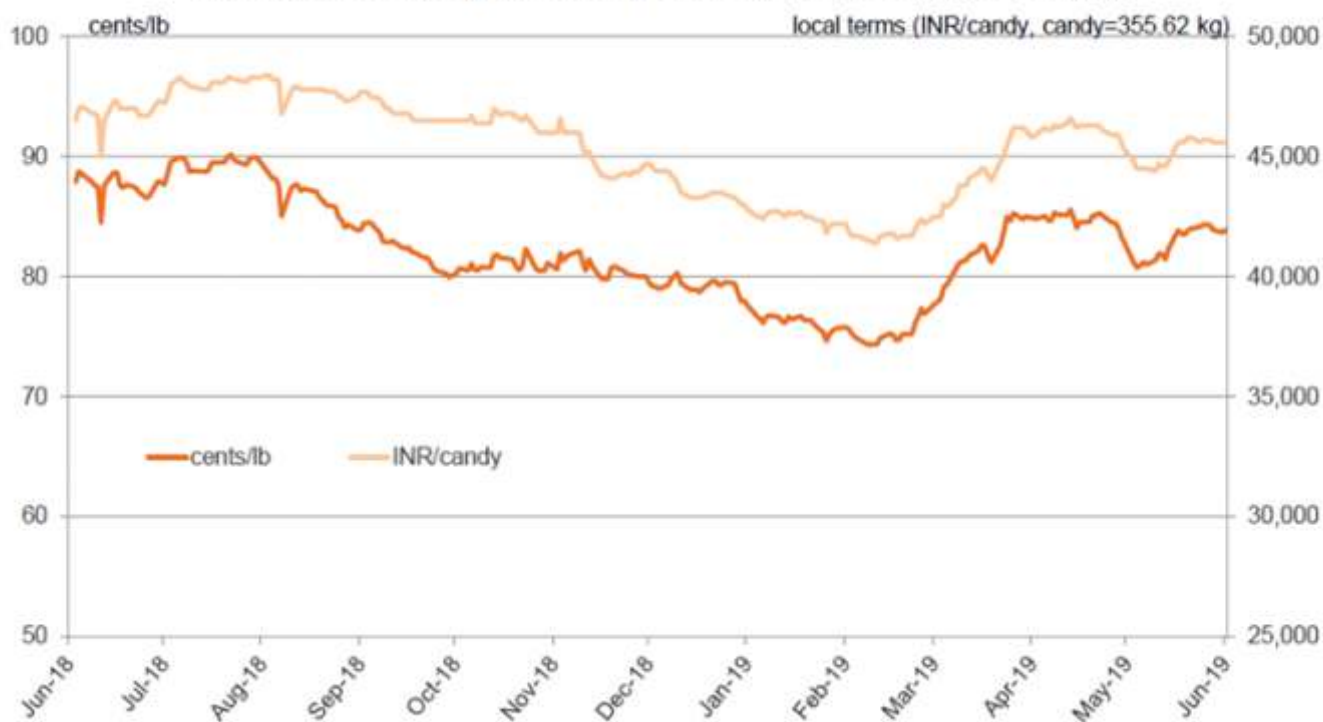
### One Year of Daily A Index and NY Nearby Prices



Source: Cotton Inc

Also, Chinese prices moved sharply lower. The China Cotton Index (CC Index 3128B) posted its sharpest declines in nearly five years. In international terms, values decreased from 104 to 92 cents/lb (-12%). In domestic terms, values fell from 15,600 to 14,000 RMB/ton (-10%).

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



Source: Cotton Inc

Whereas, on the contrary Indian cotton prices (Shankar-6 quality) were stable, generally holding to values near 83 cents/lb in international terms and near 45,000 INR/candy in domestic terms. On MCX, cotton traded in the broad range of 21120-21850 with a downside bias taking negative cues from the international market & also due to lack of demand from the exporters. The reason for this phenomenon was a central source of the trade tension between the U.S. and China. In the ten months of trade data that have become available since then, there has been a definite shift away from the U.S. Chinese imports from all locations rose 80% (weight basis) year-over-year July-April. Chinese imports from both Brazil and Australia were up 1.5 million bales year-over-year July-April (up 396% and 153% respectively).

#### Domestic market supply side fundamentals

- 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) with a planted area of 12.5 million hectares.
- The onset of southwest monsoon was delayed by a week to June 8, 2019. However, the rapid pace of advance of the monsoon towards the rest of the country is expected to lead to favorable rains.
- The market participants are currently watching the sowing progress which is underway in central and southern parts of India and is expected to accelerate on the progress of the southwest monsoon.
- The nationwide average yields for MY 2019/20 around 510 kilograms per hectare, above average historical yield levels.

- Sowing is underway in Central and Southern India and will likely accelerate as the southwest monsoon advances towards states in these regions.
- The pace of arrivals is expected to remain slow as farmers prepare for cotton planting for the new season, delaying arrivals in the market.
- Historically, CCI market arrivals from June to September average around 2 million 480 lb. bales (2.6 million 170-kilogram bales) based on a ten-year average, and around 2.4 million 480 lb. bales (3.1 million 170-kilogram bales) based on the five-year average.
- Indian ex-gin prices are much higher than Cotlook A-Index, prompting mills to augment their requirements with imports.
- MY 2019/20 imports at 1.4 million 480 lb. bales (1.8 million 170-kilogram bales / 305,000 MT), the same as USDA's official estimate.

### Domestic market demand side fundamentals

- MY 2019/20 cotton consumption at 25.3 million 480 lb. bales (32.4 million 170- kilogram bales/5.5 MMT), the same as USDA's official estimate.
- With high and volatile raw cotton prices, mills are reluctant to make larger purchases of domestic cotton for inventory purposes for extended periods.
- MY 2019/20 exports at 5.0 million 480-lb bales (6.4 million 170-kilogram bales/1.1 MMT). The prospects of a larger crop would allow India to export this large surplus, thus meeting the demand of neighboring countries.
- Cotton fabric exports are witnessing strong positive growth supporting the cotton sector. Bangladesh, Sri Lanka, South Korea and Senegal are the top export markets for cotton fabrics.

### Domestic market inventories

- The beginning stock for MY 2019/20 is estimated at 8.2 million 480 lb. bales (10.6 million 170 kg bales/1.8 MMT).
- This stock level adjusted for the Indian marketing year (Oct/Sep) is roughly equivalent to 4.6 million 480 lb. bales (6 million 170 kg bales/1 MMT).

Cotton India as of June 2019							
Attribute	19/20 Jun'19	Change	19/20 May'19	18/19	17/18	16/17	15/16
Area Harvested (1000 HA)	12,350	-	12,350	12,250	12,450	10,850	12,300
Beginning Stocks (1000 480 lb. Bales)	7,775	+650(+9.12%)	7,125	9,225	7,880	7,044	10,586
Production (1000 480 lb. Bales)	28,500	-	28,500	26,000	29,000	27,000	25,900
Imports (1000 480 lb. Bales)	1,400	-	1,400	1,550	1,677	2,736	1,072
Total Supply (1000 480 lb. Bales)	37,675	+650(+1.76%)	37,025	36,775	38,557	36,780	37,558
Exports (1000 480 lb. Bales)	4,800	+300(+6.67%)	4,500	4,200	5,182	4,550	5,764
Use (1000 480 lb. Bales)	25,300	-	25,300	24,800	24,150	24,350	24,750
Loss (1000 480 lb. Bales)	0	-	0	0	0	0	0
Total Dom. Cons. (1000 480 lb. Bales)	25,300	-	25,300	24,800	24,150	24,350	24,750
Ending Stocks (1000 480 lb. Bales)	7,575	+350(+4.84%)	7,225	7,775	9,225	7,880	7,044
Total Distribution (1000 480 lb. Bales)	37,675	+650(+1.76%)	37,025	36,775	38,557	36,780	37,558
Stock to Use % (PERCENT)	25.17	+1(+3.84%)	24.24	26.81	31.45	27.27	23.08
Yield (KG/HA)	502	-	502	462	507	542	458

### International market fundamentals

USDA’s National Agricultural Statistics Service (NASS) has released their 2019 planted acreage reports, which highlighted that cotton acreage across the U.S is expected to be lower. The planted area for 2019 is estimated at 13.7 million acres, 3 percent below last year. Upland area is estimated at 13.4 million acres, down 3 percent from 2018. American Pima area is estimated at 275,000 acres, up 10 percent from 2018.

Compared with last year, 10 States increased planted area, with the largest increase in Arkansas. Upland cotton planted area in Kansas represents a record high for the State. Compared with the previous year, five States planted fewer Upland cotton acres in 2019, including California. Upland cotton planted area is a record low in California.

#### Cotton Condition – Selected States: Week Ending June 30, 2019

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

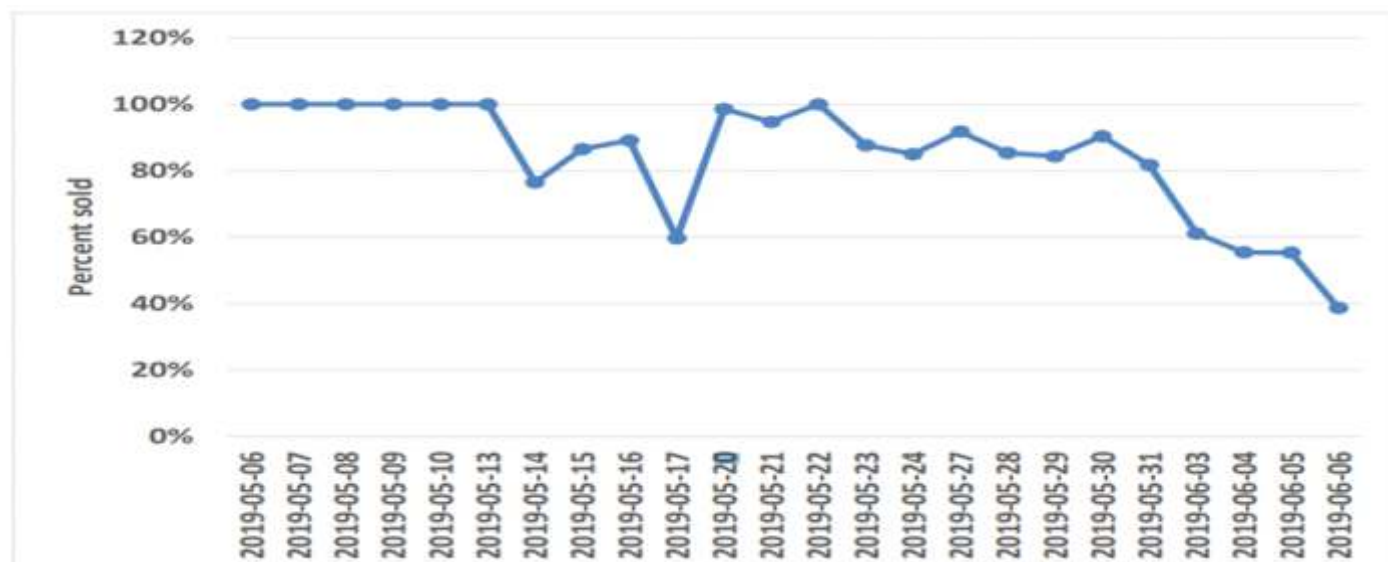
State	Very poor (percent)	Poor (percent)	Fair (percent)	Good (percent)	Excellent (percent)
Alabama	-	7	35	54	4
Arizona	-	1	8	88	3
Arkansas	-	2	12	50	36
California	-	-	100	-	-
Georgia	3	10	29	52	6
Kansas	5	12	43	36	4
Louisiana	-	2	38	58	2
Mississippi	1	8	39	44	8
Missouri	7	9	52	32	-
North Carolina	1	5	32	59	3
Oklahoma	-	-	15	85	-
South Carolina	-	5	31	59	5
Tennessee	5	9	26	45	15
Texas	7	18	31	38	6
Virginia	-	5	14	81	-
15 States	5	13	30	45	7
Previous week	4	13	33	45	5
Previous year	6	18	33	36	7

- Represents zero.

Source: USDA

### Good Start to China State Reserve Sales

China’s 2019 State Reserve sales were strong during May although the quantity weakened during the first week of June. Sales started on May 6 with a target of selling 1.0 million tons (4.6 million bales) by September. As of June 6, about 220,000 tons had been sold representing about 85 percent of the total offered. It is expected that nearly all of the available cotton will be sold by the end of the sales period.



Source: USDA

## Foresight

Futures contracts of cotton on ICE Futures US hit a two-month high of 68.26 cents a pound on hope that the US and China would reach a trade deal. The two countries agreed to resume their stalled trade negotiations. The announcement, made over the weekend at a meeting on the sidelines of the Group of 20 nations' summit in Japan, improved appetite for riskier emerging market assets.

**On the international market, ICE futures is expected to witness some recovery towards 69-71 cents per pound, taking support near 64 cents per pound. At the G20 Summit, President Donald Trump and Chinese President Xi Jinping reached a truce. "We are right back on track," Trump said after the bilateral meeting. Trump backtracked on his threat to impose additional tariffs on Chinese goods. For its part, China has agreed to start buying U.S. farm products and other products that it had stopped purchasing because of the tariffs.**

Back at home, according to data from the farm ministry, the area under cotton across the country this kharif season was 2.71 mln ha as of last week, down 16% on year. The cotton sowing during the ongoing kharif season in three states of north India--Haryana, Rajasthan and Punjab--has already topped the year-ago level, while the acreage in west and south India has been lagging, data provided by respective states showed. The total area in Punjab, Haryana and Rajasthan has reached 1.62 mln ha, up from 1.60 mln ha a year ago and also up from five-year average normal area of 1.47 mln ha, the data showed.

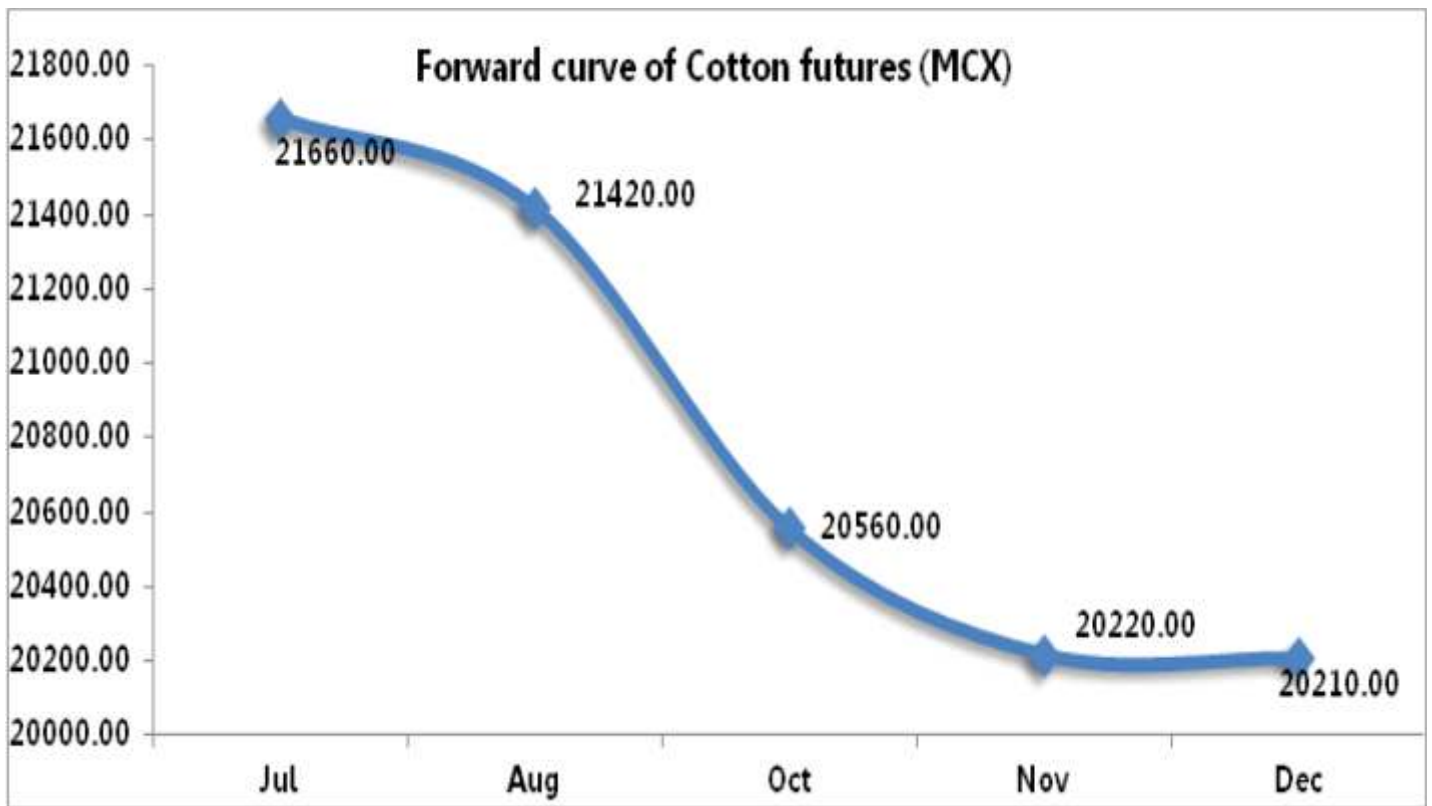
It was a tardy start to the monsoon season with June rainfall at just 67% of the long period average--the fifth worst in the last 100 years. Such poor rainfalls have had an obvious impact on crop sowing. The country has received 119.3 mm rainfall so far this monsoon season, 32% below the normal weighted average of 175.0 mm for the period. Rains so far have been below normal in 28 of the country's 36 meteorological sub-divisions, normal in seven, and above normal in one. Rains so far have been 38% below normal in east, northeast India, 34% below normal in northwest India, 26% below normal in central India and 29% below normal over south Peninsula.

Area under cotton in Gujarat, India's largest producer, is seen falling 10-15% on year in the ongoing kharif season as farmers are likely to shift to more remunerative crops, groundnut in particular, amid delayed monsoon. Thanks to higher realisations, lower cost of production, and additional income from the use of residual plant as fodder

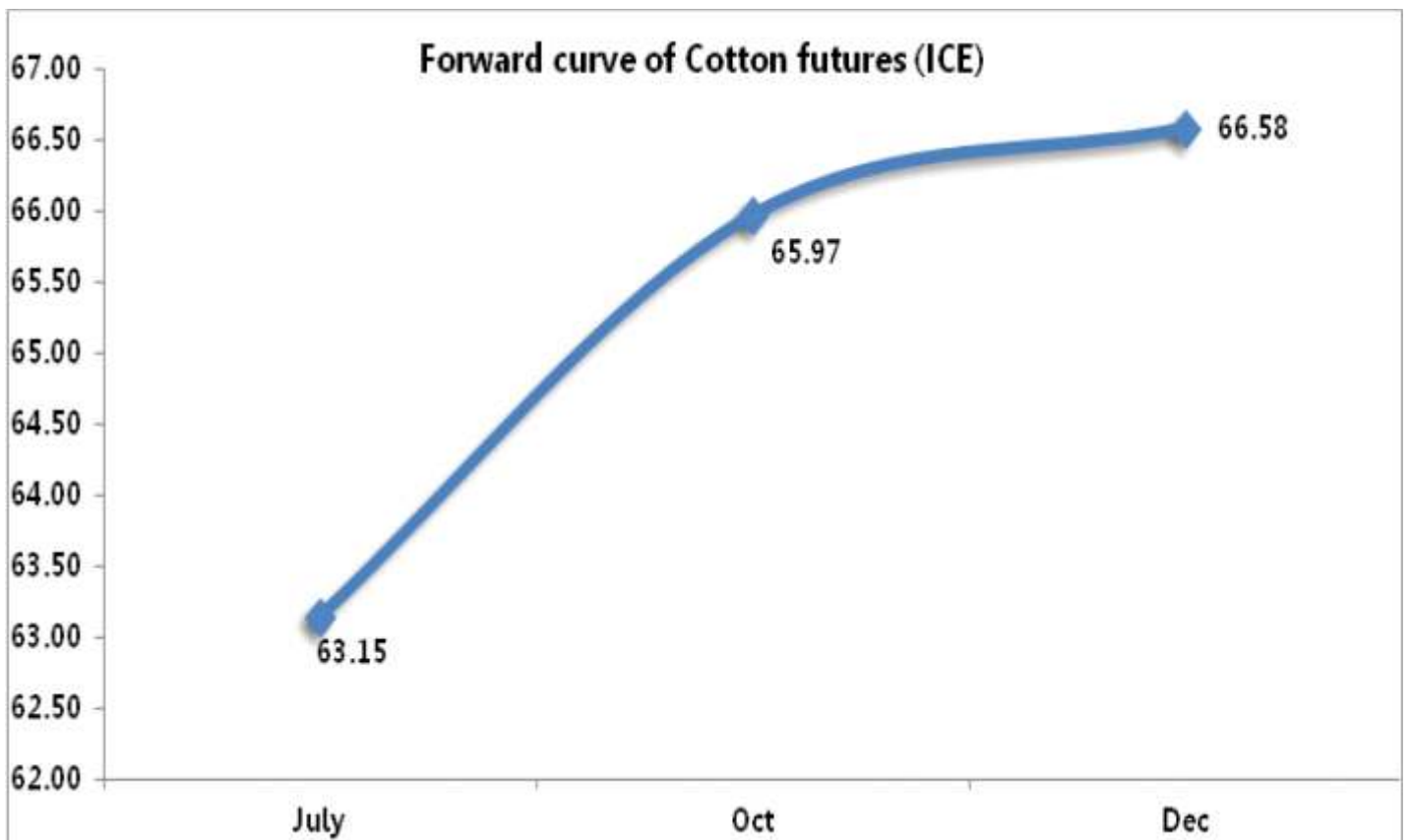
Based on the yields for the current year, estimated by the Cotton Advisory Board, cotton output in these three states is likely to rise to 6.1 mln bales, up from 5.9 mln bales in the current year. Progress of the cotton sowing remains a big worry as monsoon rains are yet to catch pace.

## Spot market update

In Gujarat, the Shankar-6 variety was quoted at 44,700-45,700 rupees per candy (1 candy = 355.62 kg), while in Maharashtra, the 29-30 mm variety was sold at 45,300-46,300 rupees.



Source: MCX



Source: Bar Chart

## Technical analysis & recommendation



Source: SMC Research

MCX Cotton has been in long term uptrend with the formation of higher highs and higher lows. The higher low at 19950 remains the key support for bulls in the short term and prices should not break below it. As of now, prices are rebounding after retracing 61.8% of the previous fall from 24280 to 19950. Break above 22470 can take counter towards 24500-24800. Larger shadow is identified on the monthly chart which also confirms that bull overpowers bear and prices will continue to move upward. As per the pattern, a small pullback is expected in the counter, confirmation of pattern only after prices breach the level of 21930. **Buying advised in MCX Cotton above 21930 with the target of 22500-23000.**



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