

MONTHLY REPORT ON

03 June, 2020

COTTON

(June)



Moneywise. Be wise.

History

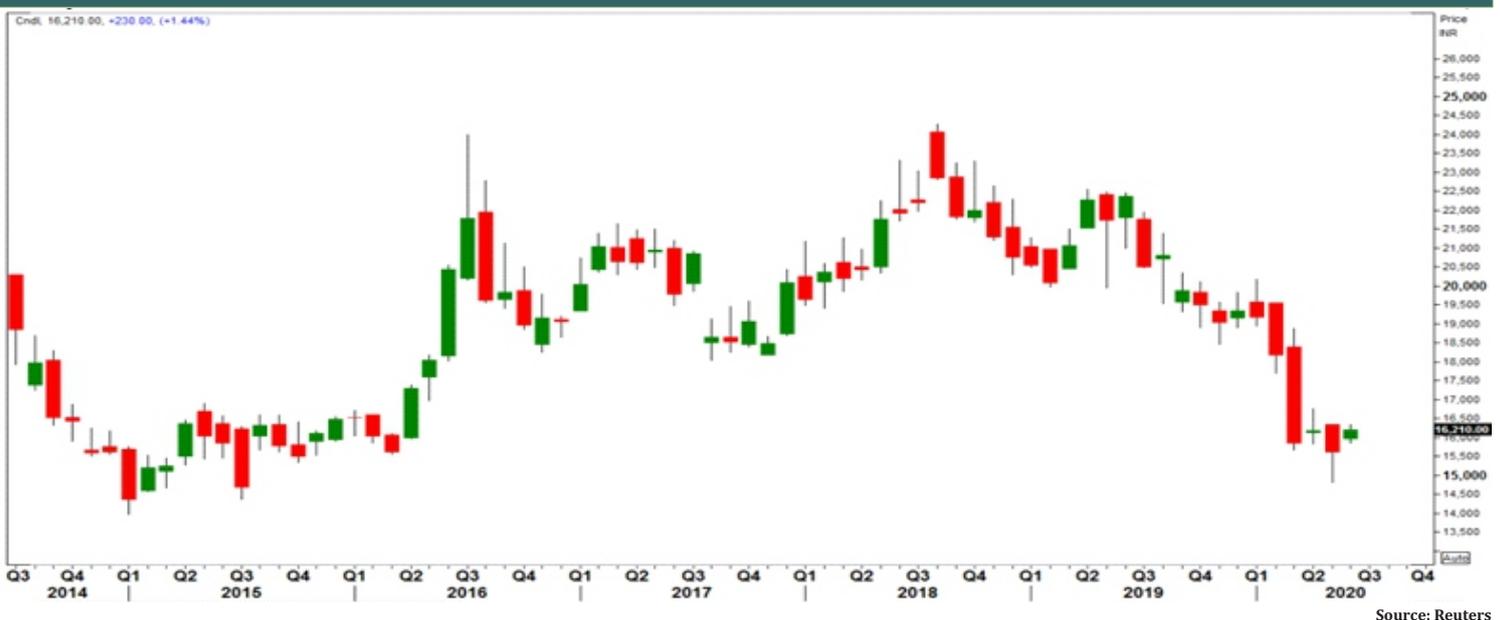
In the international market, U.S cotton traded near three month high, with support coming from improved demand for US Cotton. However, there is concern that China will stop fulfilling its obligations in the Phase One trade deal due to ramped up US rhetoric on the Chinese response to the Coronavirus epidemic and now the unrest in Hong Kong. The world is starting to slowly recover from the Coronavirus scare and some stores are starting to open again after being closed for weeks. The retail demand has been slow to develop as many consumers got hurt economically due to stay at home orders during the height of the pandemic and have little disposable funds to spend on clothes. Demand will slowly improve but the industry should have plenty of supplies to work with in the short term.

Back at home, cotton recovered from its multi-month lows owing to rising demand amid ease of lockdown. The textile industry is motivated to contribute to the fight against coronavirus. As a result, the focus has shifted from aesthetic clothing to functional clothing that impart protective function to apparel. In the last two months, the production of personal protective equipment (PPE) kits, gloves and masks has shot up and is expected to rise further. Right now, due to increased domestic demand, India has not started exporting protective gears. Once the production rate rises and the domestic demand is met, India will soon export such items.

MONTHLY CHART OF ICE COTTON FUTURES



MONTHLY CHART OF MCX COTTON FUTURES



Domestic market fundamentals

- Government has increased the MSP of Kharif crops for marketing season 2020-21, to ensure remunerative prices to the growers for their produce. The highest increase in MSP was for cotton long staple by Rs 275 to Rs.5,825 per quintal and for medium staple by Rs.260 to Rs. 5,515 per quintal.
- The differential remuneration is aimed at encouraging crop diversification. Government's strategy is one of promoting sustainable agriculture with diversified cropping pattern matching with the country's agro-climatic conditions, towards higher productivity without jeopardizing nation's bio-diversity. Support is in the form of MSP as well as procurement. Besides, with the intention of giving enough policy thrust to income security of the farmers.
- This season, India's cotton acreage in 2020-21 (Jul-Jun) is seen at 12.4 mln ha, down a modest 2% on year.
- Adequate stock in the market may also discourage farmers from sowing cotton as the lockdown imposed to curb the spread of COVID-19 has severely hit the textile industry.
- According to projections of USDA, Cotton stocks in India have risen in recent years and are forecast to reach 19.7 million bales by the end of 2020/21—about 20 percent of the global total—its highest share in a decade.
- This season, we may see a slight shift from cotton, especially in Maharashtra and Gujarat, because of the lower prices. Farmers in Maharashtra may shift to shorter duration crops like soybean and pulses, while in Gujarat, they may divert some cotton area to groundnut, which offers better returns. However, the shift may not be very significant.

China and India's share of global cotton ending stocks



Note: 1 bale = 480 pounds.

Source: USDA, World Agricultural Supply and Demand Estimates reports.

Source: USDA

- Forecast of normal monsoon, good support price may encourage farmers to sow more area under the fibre.
- Sowing has already started in some north Indian states and farmers are seen shifting from paddy to other competing crops, mainly cotton, due to shortage of labour and also because of higher returns.
- Typically, sowing starts in late April in irrigated areas of north India and in June, in the country's rain-fed regions. Around 70% of India's cotton acreage is dependent on monsoon rains.
- According to Indian Meteorological Department, rainfall over the country as a whole for the 2020 southwest monsoon season (June to September) is most likely to be NORMAL (96% to 104% of long period average (LPA)).
- Region wise, the season rainfall is likely to be 107% of LPA over North-West India, 103% of LPA over Central India, 102% of LPA over South Peninsula and 96% of LPA over North-East India, all with a model error of $\pm 8\%$. The monthly rainfall over the country as whole is likely to be 103% of its LPA during July and 97% of LPA during August, both with a model error of $\pm 9\%$.
- Currently, ENSO Neutral conditions are prevailing over the equatorial Pacific and Neutral IOD conditions are prevailing over the Indian Ocean.
- Global models are indicating cool ENSO conditions are likely to prevail during the monsoon season with some possibility of development of weak La Niña conditions in the later part of the monsoon season.

Domestic market inventories

| Cotton India as of May 2020 | | | | | | |
|---|--------------|----------------|--------------|--------|--------|--------|
| Attribute | 20/21 May'20 | Change | 19/20 May'20 | 18/19 | 17/18 | 16/17 |
| Area Harvested (1000 HA) | 12,500 | -800(-6.02%) | 13,300 | 12,600 | 12,600 | 10,850 |
| Beginning Stocks (1000 480 lb. Bales) | 18,114 | +8800(+94.48%) | 9,314 | 9,225 | 7,880 | 7,044 |
| Production (1000 480 lb. Bales) | 28,500 | -2000(-6.56%) | 30,500 | 25,800 | 29,000 | 27,000 |
| Imports (1000 480 lb. Bales) | 1,100 | -900(-45%) | 2,000 | 1,800 | 1,677 | 2,736 |
| Total Supply (1000 480 lb. Bales) | 47,714 | +5900(+14.11%) | 41,814 | 36,825 | 38,557 | 36,780 |
| Exports (1000 480 lb. Bales) | 4,500 | +1300(+40.63%) | 3,200 | 3,511 | 5,182 | 4,550 |
| Use (1000 480 lb. Bales) | 23,500 | +3000(+14.63%) | 20,500 | 24,000 | 24,150 | 24,350 |
| Loss (1000 480 lb. Bales) | 0 | - | 0 | 0 | 0 | 0 |
| Total Dom. Cons. (1000 480 lb. Bales) | 23,500 | +3000(+14.63%) | 20,500 | 24,000 | 24,150 | 24,350 |
| Ending Stocks (1000 480 lb. Bales) | 19,714 | +1600(+8.83%) | 18,114 | 9,314 | 9,225 | 7,880 |
| Total Distribution (1000 480 lb. Bales) | 47,714 | +5900(+14.11%) | 41,814 | 36,825 | 38,557 | 36,780 |
| Stock to Use % (PERCENT) | 70.41 | -6(-7.88%) | 76.43 | 33.86 | 31.45 | 27.27 |
| Yield (KG/HA) | 496 | -3(-.6%) | 499 | 446 | 501 | 542 |

Source: USDA

State wise Wholesale Prices Monthly Analysis for Cotton May, 2020

Spot market update-Arrivals

Prices in Rs/Quintal

| State | Prices May, 2020 | Prices April, 2020 | Prices May, 2019 | % Change (Over Previous Month) | % Change (Over Previous Year) |
|----------------|------------------|--------------------|------------------|--------------------------------|-------------------------------|
| Gujarat | 4549 | 4668 | 5771 | -3 | -21 |
| Karnataka | 3942 | 3826 | 6158 | 3 | -36 |
| Madhya Pradesh | 4924 | 4236 | 5843 | 16 | -16 |
| Maharashtra | 4572 | 4757 | 6246 | -4 | -27 |
| Odisha | 5335 | 5296 | | 1 | |
| Rajasthan | 5245 | 5091 | 6472 | 3 | -19 |
| Tamil Nadu | 3981 | 4481 | 5898 | -11 | -33 |
| Average | 4650 | 4622 | 6065 | | |

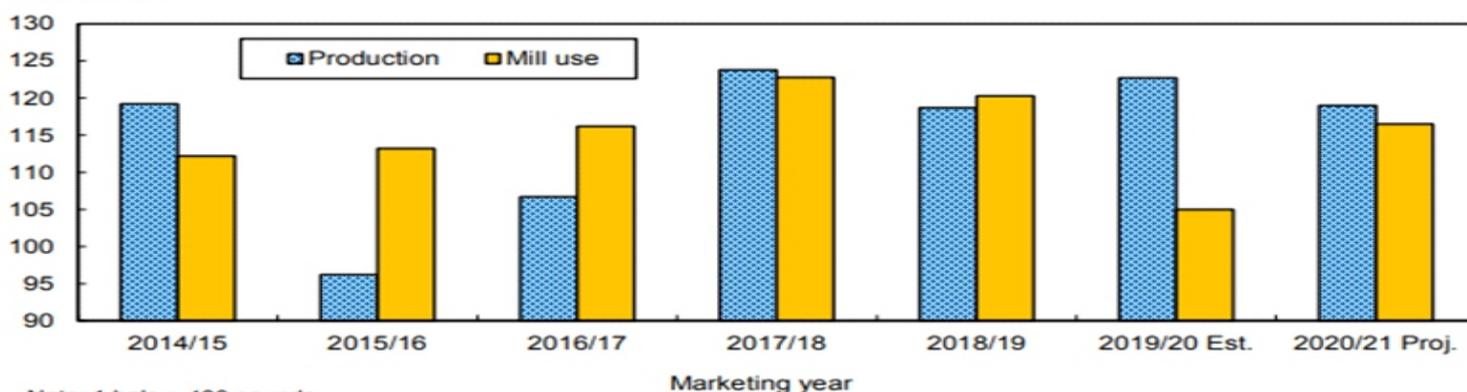
Source: AGMARK

International market fundamentals

- USDA's first forecast for the 2020/21 marketing year shows record global supply driving use higher as countries begin to recover from the COVID-19 pandemic.
- Global consumption is expected to rebound 11 percent to more than 116 million bales from the largest recorded drop in USDA's PS&D database; however, use is projected only slightly above the 5-year average.

Global cotton production and mill use

Million bales



Note: 1 bale = 480 pounds.

Source: USDA, World Agricultural Supply and Demand Estimates reports.

- All top ten consuming countries are expected to witness growth as uncertainties regarding the pandemic diminish. China and India are forecast to expand consumption by 7 million bales combined, accounting for more than two-thirds of growth in global use. Lingering disruptions are expected to cap global use to below levels witnessed 2 and 3 years prior when global consumption registered at more than 120 million bales.
- Global ending stocks are forecast slightly higher with the 2021's third-largest-ever carryin expected to boost global reserves to nearly 100 million bales, almost 20 million bales above 2 years earlier.
- China's imports are expected to expand by nearly 20 percent, owing to a continuing shift in its State Reserve policy. Instead of reducing stocks, the Reserve's objective is to rotate its stocks and thereby indirectly drive greater import demand as it reduces net sales from the Reserve.
- According to USDA's initial projection for the 2020 crop, U.S. cotton production is forecast at 19.5 million bales, 2 percent (400,000 bales) below the final 2019 estimate.
- U.S. cotton harvested area for 2020 is projected at 11.35 million acres, 2 percent (260,000 acres) below the final 2019 estimate.
- U.S. export prospects related to the U.S.-China trade deal are supportive as is the largest U.S. cotton supply since 2007/08. The initial U.S. export projection for 2020/21 is 16.0 million bales, 1 million bales above the previous year.
- However, U.S. Cotton stocks are forecast 8 percent higher at 7.7 million bales on July 31, 2021, the fourth consecutive increase and the largest stock level since 2007/08. The stocks-to-use ratio (41 percent) is also the highest in 13 years, but is only slightly above 2019/20 as demand rebounds.

Foresight

Cotton futures (June) on MCX has posted consolidation in range of 15400 to 16300 after hitting low of 14800. Presently it has taken formation of higher high and higher low. Higher low 15450 provide short term support where on upside 16750 is hurdle for counter. Cotton prices break and sustain well above the 50 days simple moving average. Based on daily swing chart momentum looks positive and if prices break and sustain above 16750 then we may see extended rally towards 17500. On downside 14800 may provide strong support to the counter. Overall buying on dips suggests any dip near support considered as buying opportunity.

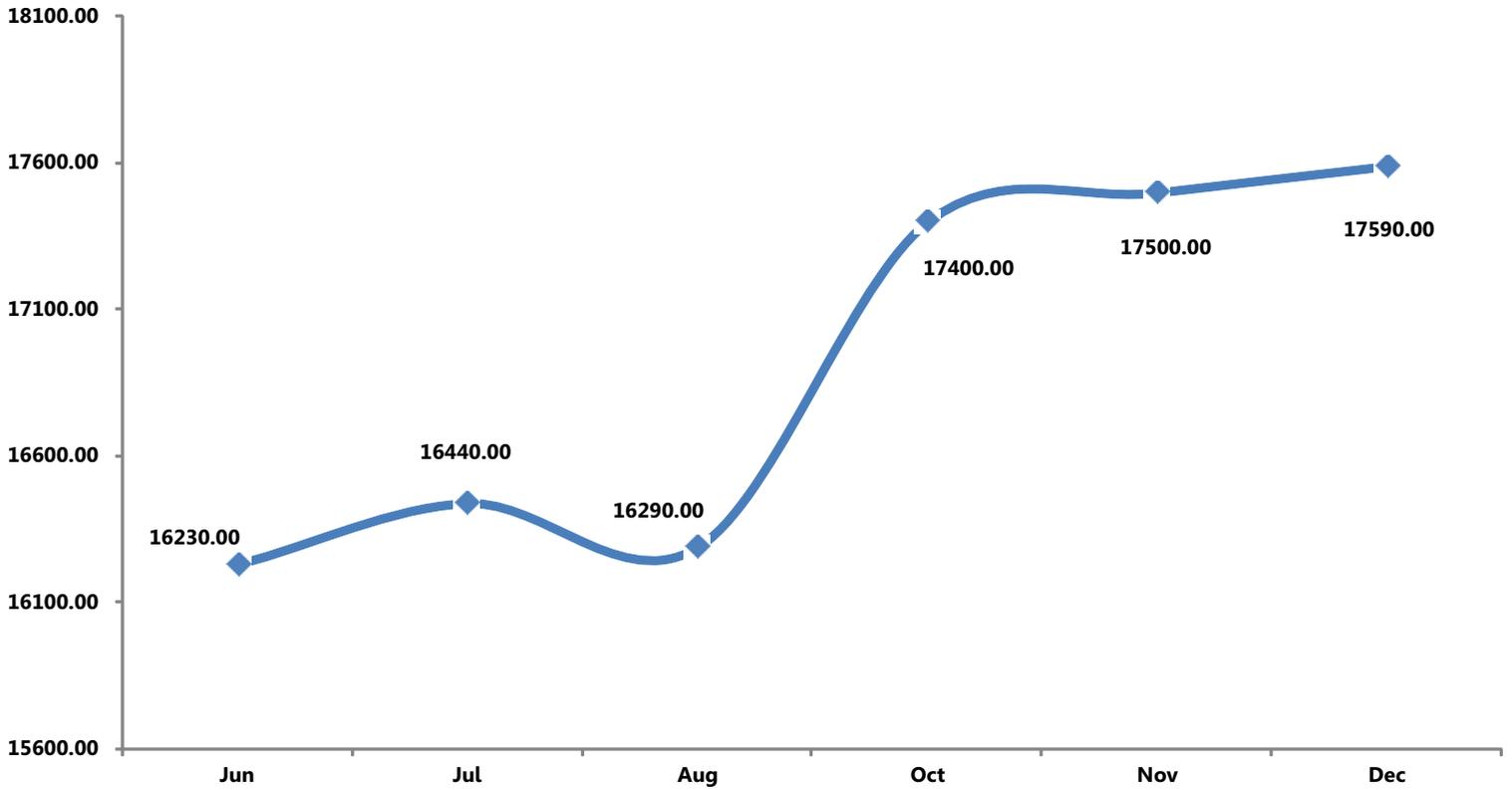
With lockdown phase witnessing ease in many states across India and the textile units started their operations, demand for cotton is likely to rise in days to come. It is reported that textile markets outside containment zones have resumed operations without any restrictions. Several textile and apparel companies are taking innovative approaches to surviving the crisis while also helping to address the global shortage of personal protective equipment (PPE) by repurposing their manufacturing facilities. The new mantra of 'Atmanirbharta' and 'Be vocal about local' given by the Govt. of India will hopefully boost the morale of the textile units. This will surely lead the textile units to recover from the losses incurred by them during the lockdown.

On the supply side, soon the sowing operations would catch phase & the crop development stage would also commence. The impact would be closely watched the counter would accordingly take cues from these factors.

Despite, of an anticipated higher side of supplies, demand may outweigh as the Indian cotton in attractive buy in the international market. The Cabinet decision to exclude the revenue from exports, for availing concessions given to Small, Micro and Medium Enterprises, will benefit many struggling textile companies and help boost exports. The Cotton Textiles Export Promotion Council said the Government's move will be a major relief as a large number of exporters in the textiles sector can now be classified as MSMEs under the new criteria and can get all the benefits extended to the MSMEs including 5 per cent interest equalisation scheme. It will lead to an increase in exports as it will make textile companies more cost competitive and generate more employment opportunities.

In the international market, ICE cotton futures (July) is likely to take support near 57, while the upside may get extended towards 64 cents per pound. The market participants are closely watching the sowing progress of cotton. Recently, dry weather in top cotton producing state Texas drove concerns of crop damage, which added to the bullish sentiments. The major cotton growing regions in the U.S., especially Texas, is going through a dry spell which may hurt production. The Delta will get mostly dry conditions and Southeast will get mostly dry conditions. Temperatures should be mostly above normal.

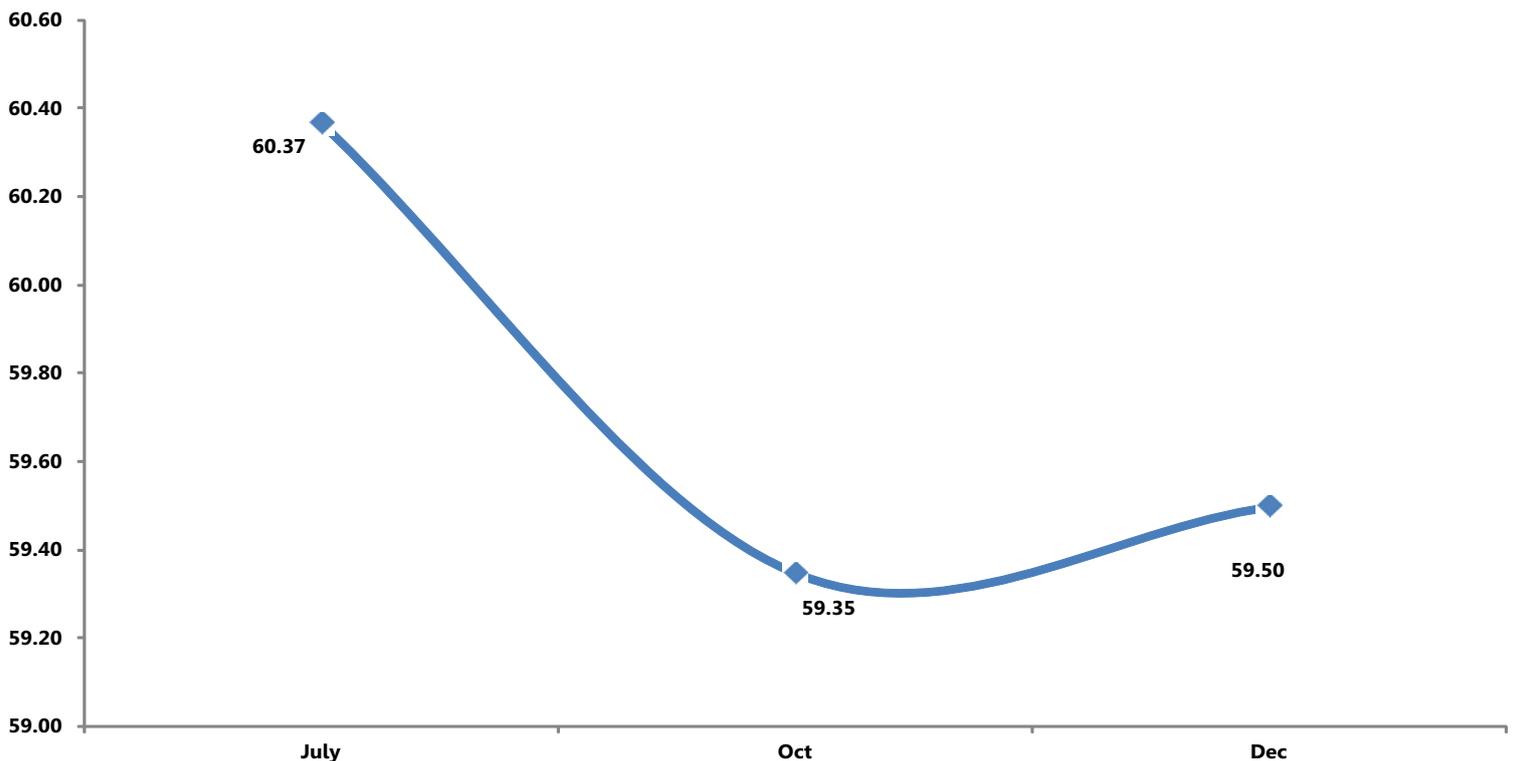
Forward curve of Cotton futures (MCX)



Closing as on 2nd June, 2020

Source: MCX

Forward curve of Cotton futures (ICE)



Closing as on 2nd June, 2020

Source: Barchart

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