

MONTHLY REPORT ON

06 October, 2020

COTTON

[October]



Moneywise. Be wise.

History

During the past month, cotton on MCX gained by about 4.83% from its low of 17400, making a high of 18240. The reason attributed was traders anticipation for bright export prospects this season, in the wake of subdued prices in India compared to the global market.

In the international market, ICE cotton futures, rallied about 6% from its low of 63.04, made a high of 66.93 due to crop damage worries from Hurricane Sally and storm Beta. Speculators raised their net long position in cotton by 524 contracts to 42,266 in week to Sept. 22, data from the U.S. Commodity Futures Trading Commission (CFTC) showed.

DAILY CHART OF ICE COTTON FUTURES



Source: Reuters

DAILY CHART OF MCX COTTON FUTURES



Source: Reuters

Domestic market fundamentals

- USDA estimates India's cotton production at 29.4 million 480-lb bales in marketing year (MY) 2020/21 on an area of 13 million hectares. Well distributed monsoon rains have provided adequate moisture, accelerated the pace of sowing, and improved yield prospects, which are expected to increase by two percent compared to last year.
- The new crop arrivals of long staple variety cotton have begun in the Northern states of Punjab, Haryana and Rajasthan. While the quantities are very small, the farmgate prices remain well below the market prices from last year.
- This season the average national yields are around 492 kilograms per hectare, two percent higher than last year.
- In Andhra Pradesh, Telangana, and Odisha heavy rains and prevailing weather conditions are favorable for incidence of sucking pest in cotton, and flower droppings as the crop is at the flowering/boll formation stage.
- Certain districts have received excess rains and farmers have been advised to drain excess water from the fields. Due to excess moisture in the field, plants may fail to absorb the soil nutrients, which may lead to square and boll dropping. Excess moisture in the soil cotton crop may result in wilt, and square rotting.
- On the demand side, USDA estimates MY 2020/21 cotton consumption at 22.5 million 480-lb bales (28.8 million 170-kilogram bales/4.9 MMT).
- Mill buying has gradually improved over the past month largely driven by growing yarn exports mostly to Bangladesh, China, and Vietnam. Trade sources indicate that mills are currently operating at 75-80 percent capacity, which is likely to improve a little over the next two months with the arrival of the Indian holiday season.
- Trade sources indicate that mills in Northern India are carrying stocks for 40-45 days. Larger mills are carrying stocks between 60-70 days, while smaller mills between 20-40 days. Similarly, mills in Southern India are holding around 45 days' worth of inventory. The expectation of new crop arrivals, combined with weak domestic demand will likely keep mill buying to a minimum.
- On exports front, MY 2020/21 exports at 4.3 million 480-lb bales (5.5 million 170-kilogram bales/936,000 MT). The competition from other foreign origin cotton namely from Brazil and West Africa will continue to limit exports.
- The Cotton Corporation of India has begun exporting directly to Bangladesh as part of a recent agreement with between the India and Bangladesh, that will help offload India's large inventories. Cotton yarn exports continue to rise gradually as demand recovers in Bangladesh, China and Vietnam. There is also increased demand from Turkey and Portugal.

New Minimum Support Price Announced for 2020/21 and Procurement

On September 1, the Ministry of Textiles published an order with the minimum support prices (MSP) for various cotton classes/varieties for Indian marketing year (Oct/Sep) 2020/21 season. The MSP will be effective from October 1, 2020 onwards. The MSP for long staple Shankar-6 variety has increased by five percent to INR 5,775 per 100 kilograms from last year.

The arrival of KMS 2020-21 has already commenced and the Government continues to procure Kharif 2020-21 crops at MSP from farmers as per its existing MSP Schemes as done in previous seasons. The Procurement of Cotton Seeds (Kapas) during Kharif Marketing Season 2020-21 has also Started from 1st October 2020 and upto 4th October 2020, Cotton Corporation of India has procured 147 bales under MSP for MSP value of Rs 40.80 lakhs benefiting 29 farmers of Haryana.

State wise Wholesale Prices Monthly Analysis for Cotton September, 2020

Spot market update-Arrivals

Prices in Rs/Quintal

State	Prices September, 2020	Prices August, 2020	Prices September, 2019	% Change (Over Previous Month)	% Change (Over Previous Year)
Gujarat	4434	4267	5400	3.92	-17.88
Karnataka	4999	4728	5303	5.74	-5.72
Pondicherry	4309	4306	4118	0.07	4.63
Tamil Nadu	4538	4727	5665	-4.00	-19.89
Average	4570.1975	4507.025	5121.43		

Source: AGMARK

International market fundamentals

- The latest U.S. Department of Agriculture (USDA) estimates indicate that global cotton ending stocks in 2020/21 are projected at 103.8 million bales, nearly 4.5 percent above 2019/20. Stocks are forecast at their second highest on record behind only 2014/15, as world cotton production exceeds mill use for the second consecutive year in 2020/21.
- Global cotton mill use is projected to rise 10 percent from a 16-year low to 112.7 million bales, as the world economy is expected to rebound in 2020/21.
- Meanwhile, global cotton trade is projected to increase slightly this season and help support the mill use growth. World exports are forecast at 41.7 million bales in 2020/21, the highest since 2012/13 and the third highest on record.
- According to USDA's September Crop Production report, 2020 U.S. cotton production is forecast at nearly 17.1 million bales, 1 million below the August estimate and 2.8 million bales below the 2019 crop.
- The smaller September forecast is attributable to a lower area estimate and a reduced national yield projection. If realized, the 2020 U.S. cotton crop would be the smallest since 2015, when only 12.9 million bales were produced.
- The estimate for U.S. cotton demand for 2020/21 was reduced 3 percent (600,000 bales) in September to 17.1 million bales—the lowest in 5 years—with both mill use and exports lowered this month. U.S. mill use for 2020/21 is forecast at 2.5 million bales, 16 percent above 2019/20, which was significantly affected by COVID-19. U.S. cotton exports, meanwhile, are projected at 14.6 million bales in 2020/21, 900,000 bales below last season and the lowest since 2015/16.
- The stocks-to-use ratio is expected to rise slightly, however, to 42 percent by the end of 2020/21, also the largest since 2007/08.

Foresight

The trend of Cotton futures (October) is bullish and hence buying on dips is suggested near 17700-17800 would be suggested, eyeing a target of 18700-19200 levels.

The opening stock for 2020-21 is about 100 lakh bales. But most of this or about 80-85 lakh bales will be with government agencies, and only the rest with mills. So, as the new crop arrives, prices may go up on demand from makers of masks and medical cotton products both locally and in international markets.

However, the traders are anticipating good exports after Diwali, but all depends on quality of fresh cotton arrival as well as demand from the global textile industry. This growth is expected in the backdrop of strong global demand for mask and surgical gown production along with lower domestic prices, which have made foreign sales economically viable.

Indian cotton exports is likely to rise significantly in the 2020-21 season (October-September). From about 50 lakh bales (each of 170 kg) in 2019-20, exports may rise by 30 per cent to about 60-65 lakh bales, say trade sources. Ex-gin cotton prices are improving as mill purchases and exports of cotton yarn and fabric show signs of growth.

In the international market, ICE cotton futures (Dec) is likely to remain stable in the range of 63-68 cents per pound.

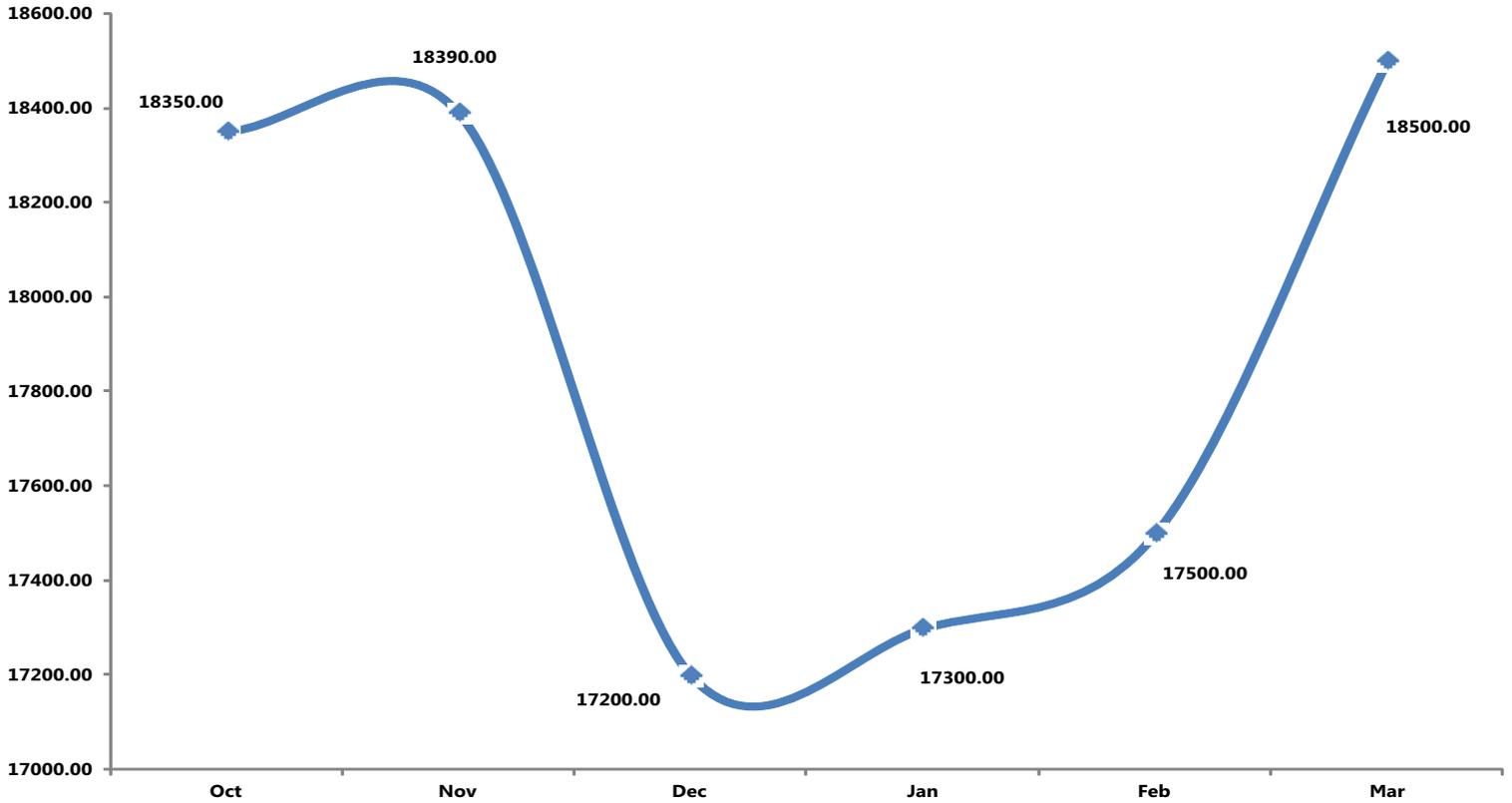
Total U.S. cotton textile and apparel trade declined considerably during the first half of 2020, compared with the corresponding 2019 period, but is expected to improve during the second half of the year.

Although the economic recovery is expected to vary by industry, recent cotton product imports—a proxy for the textile and apparel industry—show a substantial improvement and are supportive of the ongoing recovery.

World cotton trade is forecast at 41.7 million bales in 2020/21, 1.0 million bales above last season and the highest since 2012/13's record of 46.4 million bales. This season's increase is largely attributable to Brazil and India.

A relatively strong global economic growth outlook for calendar year 2021 supports the expected mill use growth this season, with most countries' cotton mill use forecast to increase in 2020/21.

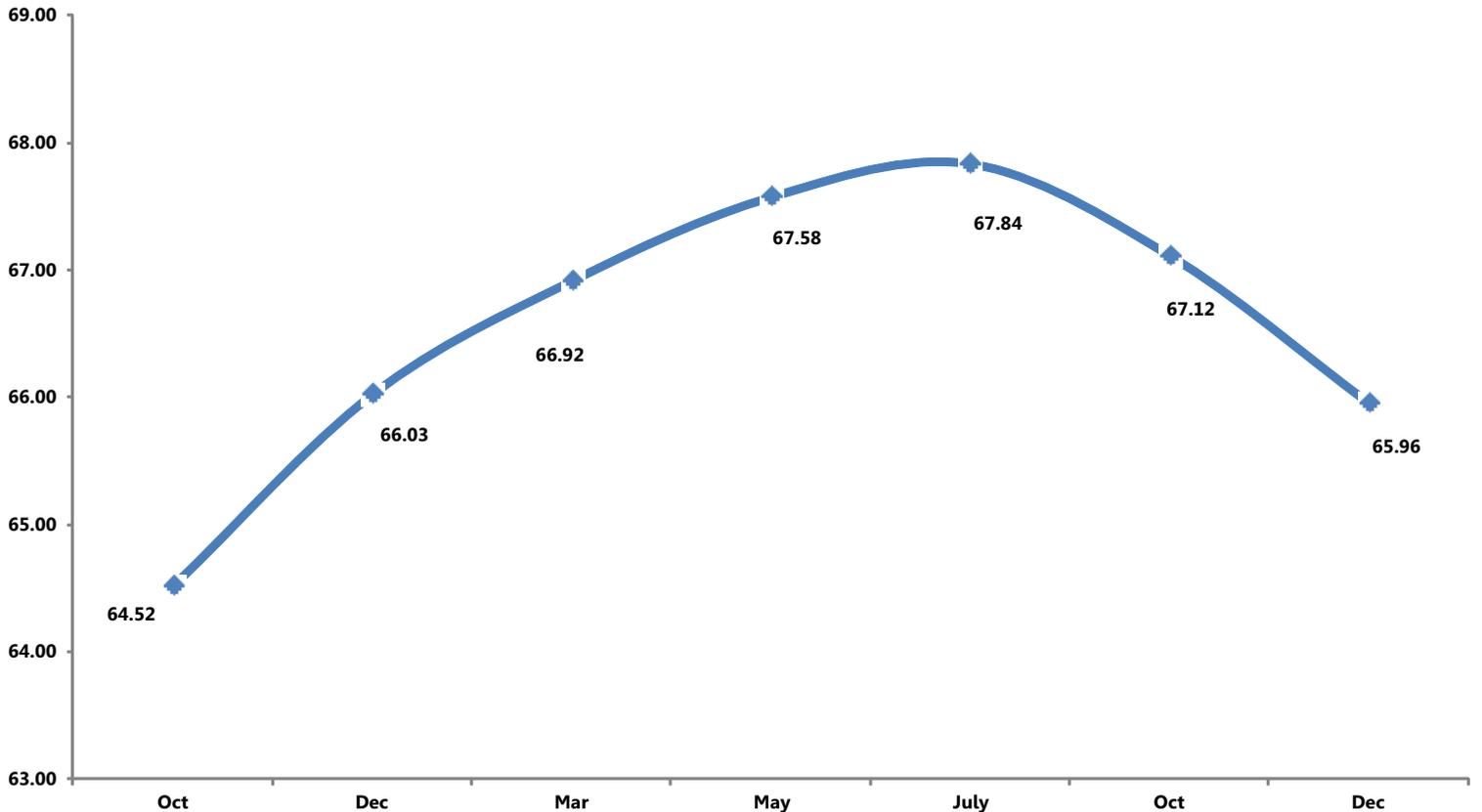
Forward curve of Cotton futures (MCX)



Closing as on 5th October, 2020

Source: MCX

Forward curve of Cotton futures (ICE)



Closing as on 5th October, 2020

Source: Barchart

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