

MONTHLY REPORT ON

06 May 2020

COTTON

(May)



Moneywise. Be wise.

History

Global coronavirus-led restrictions and lockdowns have sapped demand for the natural fiber and apparel, with cotton prices declining 25% in the domestic market & 38% in the international market so far this year. With the rapid spread of COVID-19, the latest USDA report featured a record downward adjustment to demand. Global mill-use was lowered 7.6 million bales relative to last month (to 110.6 million). If realized, this would be the lowest level since 2013/14 (due to the price spike, mill-use was below 110 million bales between 2011/12 and 2013/14). Uncertainty is high. Given the possibility for the disease to re-emerge after an initial containment and the severe economic effects resulting from shutdowns around the world, further downward revisions appear likely.

Given the severity, a factor that could compound traditional price effects is that there could be fewer textile manufacturers in business to take orders. It remains to be seen what support measures may be offered to emerging markets and how many manufacturers in those countries may be forced to close. If closures are widespread, global manufacturing capacity may require several years to rebuild.

On the Multi Commodity Exchange of India, cotton futures had hit a yearly low of 15,170 rupees per bale, the lowest since March 2016. The cotton spinning industry, which had already been facing multiple challenges like low demand, unfavourable duty structure and volatile cotton fibre prices is confronting another trouble in the form of the Covid-19 pandemic. The cotton yarn exports have taken a hit, mainly on account of subdued demand from China. It is reported that China's major cotton yarn demand is now being catered to by Vietnam, which enjoys duty-free access to China.

MONTHLY CHART OF ICE COTTON FUTURES



Source: Reuters

MONTHLY CHART OF MCX COTTON FUTURES



Source: Reuters

Domestic market fundamentals

- Currently, mills in Gujarat and Maharashtra are not running full capacity because of labour shortage.
- The nation-wide lockdown has washed out demand for made-ups, apparel and garments during wedding season and Id, and is likely to remain dull for a longer period. The government has extended the nationwide lockdown by another two weeks till May 17.
- Consumption by mills in India is projected to fall considerably to 26.5 mln bales in the current season from 32.4 mln bales in the year-ago period as mills are holding sufficient inventory and with the slowdown because of COVID-19, mills may not need cotton at least till Jul-Aug.
- Exports are also unlikely to gain momentum in the near future. However, Bangladesh is the only market which may push India's exports.
- Indian traders have not signed any new deals for exports after lockdown.
- On the supply side, the initial projections show that this season the acreage is likely to be higher. Farmers in Haryana, Punjab and Rajasthan have taken to cotton cultivation primarily on two grounds – higher income over relatively less remunerative crops such as paddy and guar seed, and the labour shortage for paddy transplantation.
- This year, cotton acreage may slightly increase in northern zone, but would barely offset the decline expected in other parts of the country. Cotton acreage in central and southern India is likely to fall this year as farmers could opt other competitive crops like soybean, urad, groundnut, turmeric and chilli, which offered better returns last season.
- Cotton had been planted across 12.6 mln ha in the country in 2019-20, according to Cotton Advisory Board estimates.
- This season, the overall acreage is likely to remain largely at the same level or 5% lower compared with the previous year.

Domestic market inventories

Cotton India as of April 2020							
Attribute	19/20 Apr'20	Change	19/20 Mar'20	18/19	17/18	16/17	15/16
Area Harvested (1000 HA)	13,000	-	13,000	12,600	12,600	10,850	12,300
Beginning Stocks (1000 480 lb. Bales)	9,314	-	9,314	9,225	7,880	7,044	10,586
Production (1000 480 lb. Bales)	29,500	-	29,500	25,800	29,000	27,000	25,900
Imports (1000 480 lb. Bales)	2,000	-300(-13.04%)	2,300	1,800	1,677	2,736	1,072
Total Supply (1000 480 lb. Bales)	40,814	-300(-.73%)	41,114	36,825	38,557	36,780	37,558
Exports (1000 480 lb. Bales)	3,300	-300(-8.33%)	3,600	3,511	5,182	4,550	5,764
Use (1000 480 lb. Bales)	22,000	-2500(-10.2%)	24,500	24,000	24,150	24,350	24,750
Loss (1000 480 lb. Bales)	0	-	0	0	0	0	0
Total Dom. Cons. (1000 480 lb. Bales)	22,000	-2500(-10.2%)	24,500	24,000	24,150	24,350	24,750
Ending Stocks (1000 480 lb. Bales)	15,514	+2500(+19.21%)	13,014	9,314	9,225	7,880	7,044
Total Distribution (1000 480 lb. Bales)	40,814	-300(-.73%)	41,114	36,825	38,557	36,780	37,558
Stock to Use % (PERCENT)	61.32	+15(+32.41%)	46.31	33.86	31.45	27.27	23.08
Yield (KG/HA)	494	-	494	446	501	542	458

Source: USDA

State wise Wholesale Prices Monthly Analysis for Cotton March, 2020

Spot market update-Arrivals

Prices in Rs/Quintal

State	Prices April, 2020	Prices March, 2020	Prices April, 2019	% Change (Over Previous Month)	% Change (Over Previous Year)
Gujarat	4668.03	4639.44	5900.55	0.62	-20.89
Karnataka	3826.04	4827.37	5759.11	-20.74	-33.57
Madhya Pradesh	4236.29	5104.49	5814.03	-17.01	-27.14
Maharashtra	4827.84	5101.27	6080.07	-5.36	-20.6
Punjab	5405	5178.42	5903.12	4.38	-8.44
Rajasthan	5091.25	5039.85	6196.01	1.02	-17.83
Tamil Nadu	4481.2	4911.78	5759.56	-8.77	-22.2
Average	4648	4972	5916		

*Report Generation: As per the data reported by APMCS

Source: AGMARK

International market fundamentals

- Global cotton consumption in 2019/20 is set to suffer a 12% decline as demand plummets due to the Covid-19 pandemic, with year-end prices seen falling to their lowest levels in more than a decade.
- Since the beginning of 2020, cotton futures prices have declined 30%, as retail stores around the globe have shuttered and orders from textile mills have dropped. The latest projections from the International Cotton Advisory Council (ICAC) show a 11.8% decline in consumption for 2019/20, a 4% decrease in planted land in 2020/21 and a 4% decrease in production in 2020/21.
- With the global economy paralysed and supply chains shattered, current projections show an 11.8% decline in cotton consumption, reducing global trade to 8.26m tonnes in 2019/20.
- While there is hope for a vaccine or cure, or that warmer weather in the northern hemisphere will minimise Covid's impact, there can be no real economic recovery unless there is a health recovery first.
- In 2020/21, global area is projected to decrease by 4% to 33m hectares, with India remaining the world leader despite plantings dropping to 12m hectares. Production will decline by a comparable amount to 25m tonnes.
- USDA Weekly Crop Progress Report showed cotton planting at 18% complete (13% last week, 16% last year, 17% average).

Foresight

Looking at the monthly charts of cotton futures (May) on MCX, it is very much visible that there is more room on the downside for the counter to mark a new yearly low of 14000. After a steep fall in March, cotton prices are expected to fall further in days to come as the nationwide lockdown to curb the spread of the novel coronavirus has hit demand in the domestic and overseas markets. Demand from the spinning and textile industry has declined substantially and that may lead to a glut in the market. With the average monthly domestic use of 2.5-2.7 mln bales, India has lost almost 2 month consumption since the start of lockdown on Mar 23. With no fear of supply shortage, outlook for cotton in the near term is bearish. Weak demand and trade disruption across the globe are likely to keep cotton prices under pressure in the coming months.

The demand for textiles will face headwinds in both the markets, domestic and international. The closure of retail stores and malls on account of lockdown situation across the nation will affect the industry's sales. Even after the lockdown is lifted, demand for textiles will take time to pick up. This is because footfalls will be low in malls and retail stores as people will avoid visiting crowded markets.

India's export scenario remains depressed for the top export destinations – European markets, including the UK and the US (together they account for about 60% of the total apparel exports) – given the spread of COVID-19 in these markets and the lockdown situation there.

With little hope of price recovery, market participants will closely watch the acreage data of 2020-21. The acreage numbers may not help turn the trend bullish, but may just stabilise the prices if area declines. Cotton cultivation is taking the centrestage in North India. On the back of last year's higher prices and purchases by the Cotton Corporation of India (CCI), farmers in Punjab, Haryana and Rajasthan are seen moving away from paddy and guar seed to the fibre crop this year.

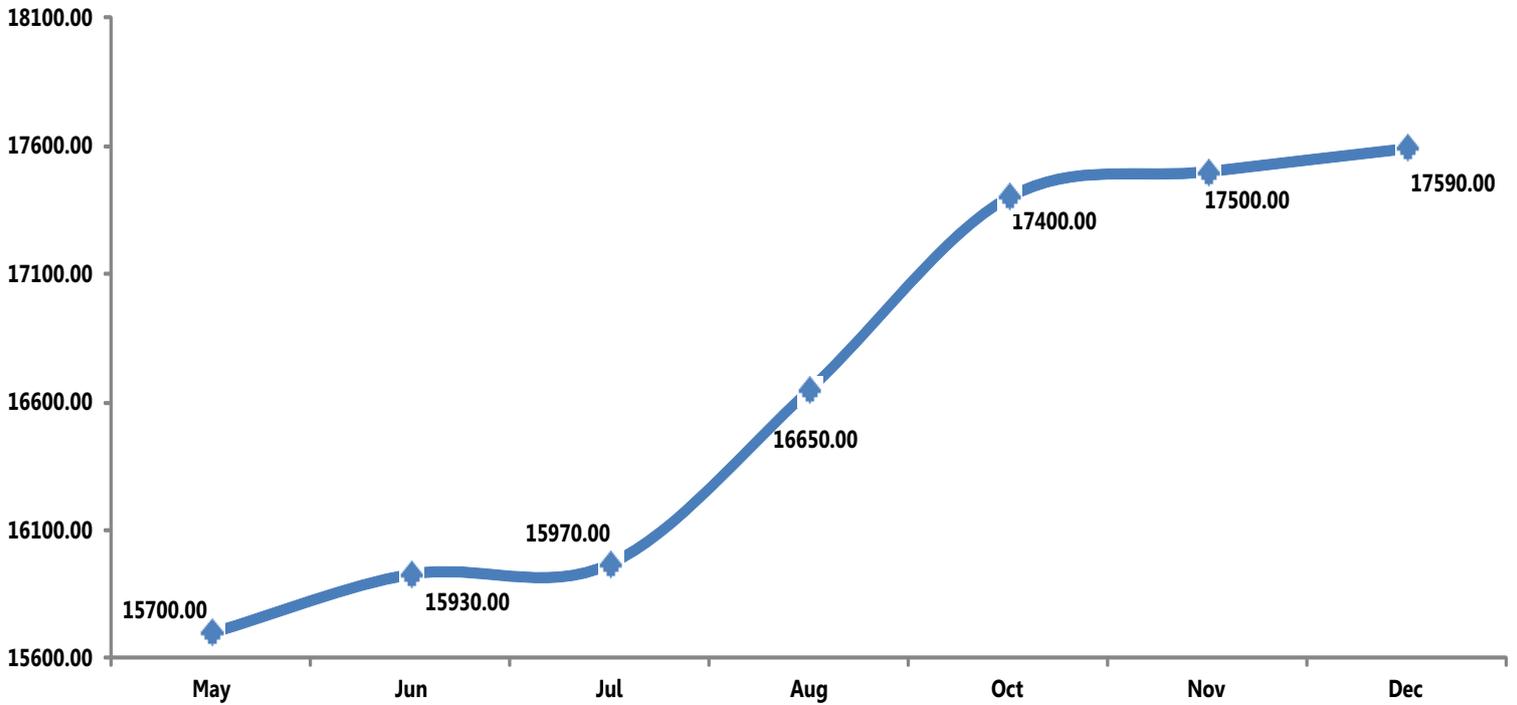
In the international market, recently ICE cotton futures fell to their lowest in nearly two weeks on worries that an escalation in U.S.-China trade tensions could hamper Chinese demand for the natural fiber. The market is not going to be able to rally on Chinese sales because the Chinese-U.S. relations are deteriorating so rapidly that the odds of some big sale getting shipped in the distant future are very low. If China does buy over 4 million bales of U.S cotton for its strategic reserve, such could be seen as a game changer with respect to ICE futures. **Saying this, it is expected that the counter would face resistance near 60 cents per pound & witnessing selling pressure, it may descend towards 52-48 cents per pound.**

The ICAC's current price projection for the year-end 2019/20 average of the A Index has been revised to 71.4 cents per pound. The price projection for the year-end 2020/21 average of the A Index is 56.9 cents per pound. This would be the lowest level since the global financial crisis of 2007-8, when prices fell to 49 cents per pound.

U.S Secretary of State Mike Pompeo said there was "a significant amount of evidence" that the new coronavirus emerged from a Chinese laboratory, but did not dispute U.S. intelligence agencies' conclusion that it was not man-made. This statement cites that large purchases by China seem likely to hinge on mitigation of tensions between the U.S. and China regarding blame for the Wuhan pandemic.

For the time being it is difficult to predict the bottom as because when the retail stores reopen, they've got record inventories of spring apparel to get rid of and they're not placing fall orders. The market participants are holding a bearish view on this commodity and that's the reason speculators are still holding net short position in cotton futures of 11,485 contracts in the week to April 28.

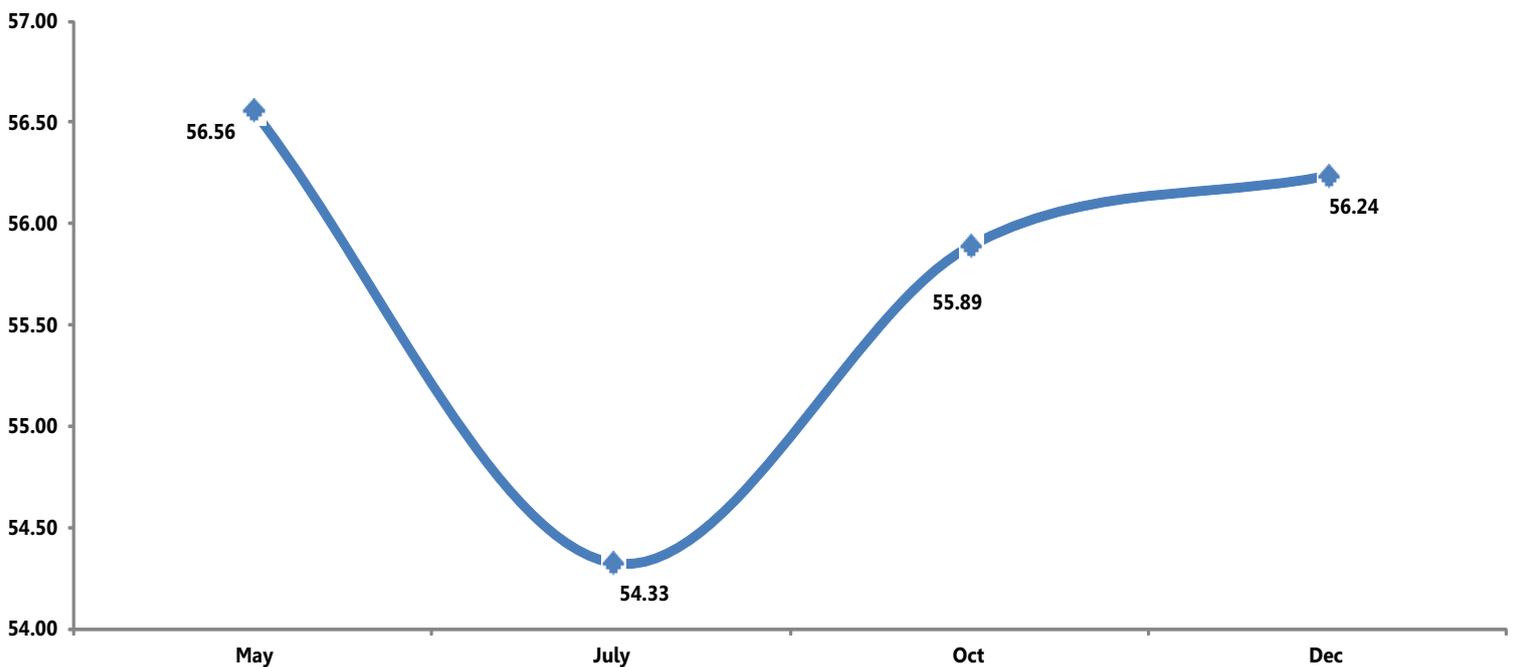
Forward curve of Cotton futures (MCX)



Closing as on 4th May, 2020

Source: MCX

Forward curve of Cotton futures (ICE)



Closing as on 4th May, 2020

Source: Barchart

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