

MONTHLY REPORT ON

06 July, 2020

COTTON

(July)



Moneywise. Be wise.

History

During the past month, ICE cotton futures rocketed to four month high of 62.95 cents per pound buoyed by robust demand from China & crop facing weather concerns. Elsewhere, several benchmark prices drifted higher over the past month.

The reason why prices have been able to gain ground despite projections for near-record global stocks by the end of 2020/21 is due to vast increase in liquidity resulting from central banks around the world expanding the money supply. This could explain some of the recent correlation between cotton prices and equities (e.g., the correlation between the daily close for the NY Nearby and the S&P 500 was 89-83% between April and early June this year, it was 38% over the preceding 12 months). On the contrary, Indian cotton prices ending at 15450, fell sharply almost close to its yearly low of 14960 owing to sharp rise in acreage, boosted by arrival of timely monsoon over major growing areas.

In international terms, the China Cotton Index (CC Index 3128B) increased from 73 to 78 cents/lb. In domestic terms, prices rose from 11,500 to 12,100 RMB/ton.

MONTHLY CHART OF ICE COTTON FUTURES



Source: Reuters

MONTHLY CHART OF MCX COTTON FUTURES



Source: Reuters

Domestic market fundamentals

- The latest statistics show that there is a 100 per cent jump in cotton planting to 91.7 lh with Maharashtra and Telangana planting cotton over 33 lh (4.6 lh) and 15 lh (7.9 lh), respectively.
- Cotton planting has also accelerated in the state of Rajasthan, but it is not likely to surpass the record area of 760,000 hectares of last year. The state government has kept a target of 620,000 hectares. So far, the area planted has reached 580,000 hectares. In addition, there has been an increase in the planting progress of alternate crops such as bajra (millet), groundnut, guar and moong (green gram).
- The pace of planting in the major cotton growing state of Gujarat is 95 percent higher than last year, however, the major increase in Post's area estimates as compared to USDA official estimate is attributed to the expected increase in cotton area in the southern state of Telangana.
- Good climatic conditions coupled with government initiatives have led to a significant rise in cotton area from last year. On June 1, 2020, the Government of India announced the increase of the MSP for cotton (medium staple) and cotton (long staple) by INR 260 per 100 kilograms and INR 275 per 100 kilograms, respectively.
- Overall, India's stocks are forecast to more than double in the current year amidst the highest production in 6 years, a 4-million bale plunge in consumption, and a slowdown in exports.
- In the MY 2020/21 cotton consumption at 23 million 480-lb bales (29.45 million 170-kilogram bales/5 MMT).
- Trade sources indicate that mills are covered for 2-3 months which may get extended until the end of September if local wholesale markets don't open, and unless mill operational capacity improve.

Cotton India as of June 2020							
Attribute	20/21 Jun'20	Change	20/21 May'20	19/20	18/19	17/18	16/17
Area Harvested (1000 HA)	12,500	-	12,500	13,300	12,600	12,600	10,850
Beginning Stocks (1000 480 lb. Bales)	19,014	+900(+4.97%)	18,114	9,314	9,225	7,880	7,044
Production (1000 480 lb. Bales)	28,500	-	28,500	30,500	25,800	29,000	27,000
Imports (1000 480 lb. Bales)	1,100	-	1,100	2,200	1,800	1,677	2,736
Total Supply (1000 480 lb. Bales)	48,614	+900(+1.89%)	47,714	42,014	36,825	38,557	36,780
Exports (1000 480 lb. Bales)	4,500	-	4,500	3,000	3,511	5,182	4,550
Use (1000 480 lb. Bales)	23,000	-500(-2.13%)	23,500	20,000	24,000	24,150	24,350
Loss (1000 480 lb. Bales)	0	-	0	0	0	0	0
Total Dom. Cons. (1000 480 lb. Bales)	23,000	-500(-2.13%)	23,500	20,000	24,000	24,150	24,350
Ending Stocks (1000 480 lb. Bales)	21,114	+1400(+7.1%)	19,714	19,014	9,314	9,225	7,880
Total Distribution (1000 480 lb. Bales)	48,614	+900(+1.89%)	47,714	42,014	36,825	38,557	36,780
Stock to Use % (PERCENT)	76.78	+6(+9.05%)	70.41	82.67	33.86	31.45	27.27
Yield (KG HA)	496	-	496	499	446	501	542

Source: USDA

State wise Wholesale Prices Monthly Analysis for Cotton June, 2020

Spot market update-Arrivals

Prices in Rs/Quintal

State	Prices June, 2020	Prices May, 2020	Prices June, 2019	% Change (Over Previous Month)	% Change (Over Previous Year)
Gujarat	4290	4549	5726	-6	-25
Karnataka	4495	3987	6090	13	-26
Madhya Pradesh	4727	4924	5714	-4	-17
Maharashtra	5028	4572	6243	10	-19
Tamil Nadu	4369	3981	5686	10	-23
Average	4581.708	4402.424	5891.8		

Source: AGMARK

International market fundamentals

The U.S. Department of Agriculture's National Agricultural Statistics Service (NASS) estimated that:

- U.S cotton planted area for 2020 is estimated at 12.2 million acres, 11% below last year.
- Upland cotton is estimated at 12.0 million acres, down 11% from 2019.
- American Pima is estimated at 195,000 acres, down 15% from last year.
- 96% of Upland cotton planted acres are biotech varieties, down 2 percentage points from 2019.

Foresight

Cotton futures (July) on MCX would continue to trade with a negative bias & witness sell with every rise. In days to come, the price range shall get stuck within 15000-17000 levels, till there is uncertainty over the demand scenario, coupled with bearish factors of 100% jump in sowing area as compared to last year.

Looking at 2020/21, a larger MSP for the 2020/21 crop is expected to sustain India's record supplies as the global economy recovers from the COVID-19 epidemic. Furthermore, the recovery in consumption will not be enough to offset record 2020/21 stocks, as India is the most significant contributor to record stocks outside of China.

In an attempt to offload the large cotton inventory procured under the MSP program, CCI recently reduced the base price of auctioned cotton, along with revising the bulk discount scheme for buyers. The weak mill offtake and prospects of another large crop will likely continue to suppress market prices

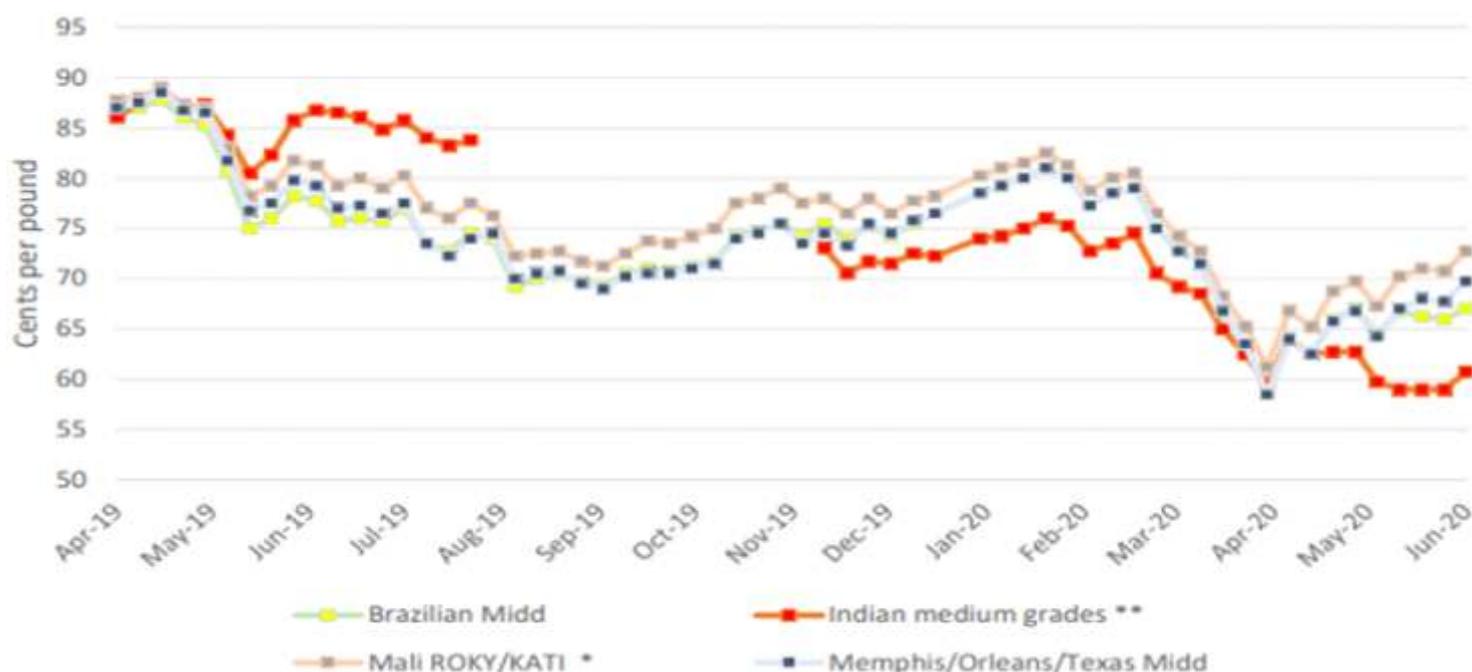
Overall, the fear of COVID-19 along with higher acreage this Kharif is still taking a toll over the domestic cotton market and additional bearish factor of India-China Standoff now had been added. The ongoing trade war between India and China has cast a shadow on the burgeoning textile sector of the country, with exporters worried about their stuck payment. As India stares at bumper cotton stocks, exporters are asking for urgent steps like exporting subsidies to help them offload their stocks. India's 2020/21 stocks are forecast to surpass the previous year's record despite a recovery in consumption from COVID-19's significant effects in 2019/20.

With the stoppage of imports from Bangladesh at the land ports between two countries in West Bengal coming to a halt, Indian exporters fear this would affect their prospects to one of the biggest markets of Indian cotton. Estimates say around 2 – 3 lakh bales have gone to China during this period, payment for which is yet to be released. Exporters avail credit from banks to export their produce and adjust the same once their received payment for shipment. As Indian companies start boycotting the Chinese market, textile manufacturers and cotton ginners feel they will have to do the same. The bigger worry for cotton ginners is the large unsold export surplus the country will carry forward for the next marketing season.

Trade with Bangladesh, one of the biggest importers of Indian cotton, has come under a cloud, given the uncertainty at the land border. While exports from India have been allowed to go to Bangladesh, imports have been stopped at land borders in West Bengal. This has affected Indian MSMEs who depend on Bangladesh for most of their raw material. Bangladesh alone imports 17-18 lakh bales from India and we should retain the market.

At present, Indian cotton is perhaps the cheapest in the world, with bales (170 kg of ginned and pressed cotton) priced at Rs 32,000 each.

India Quoted at Significant Discounts



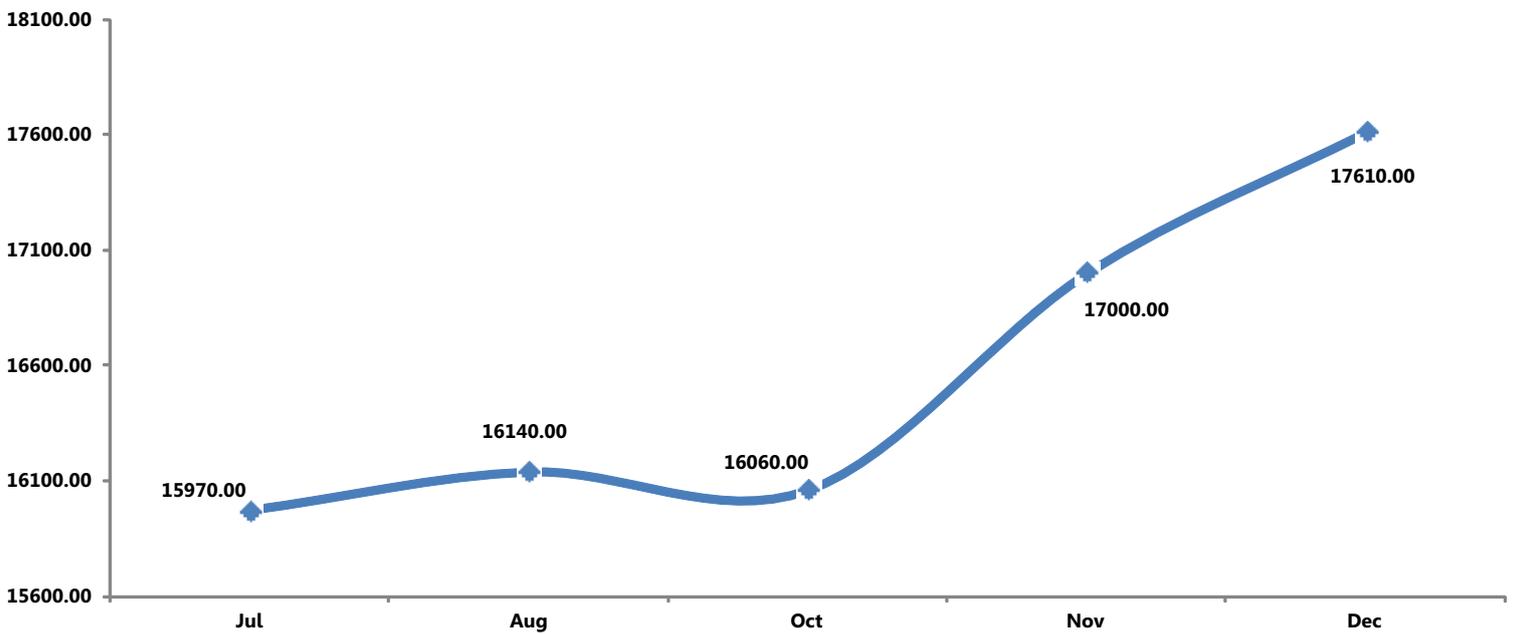
Source: Cotton Outlook

In the international market, ICE cotton futures (Dec) is trading above the 200 days moving average on daily charts and the trend is bullish. The volatility will start to expand tremendously as weather conditions will be the dictator of short-term price action going forward. In days to come, maybe we can see price facing resistance near 65-66 cents and profit booking from higher levels. Till then, the outlook is positive. There is a strong support near 60 cents.

Weather conditions at the current time remain ideal as we start to enter the hot & dry season which could push prices sharply higher if the crop starts to experience some stress, but at the current time the 7/10 day weather forecast has average temperatures with normal rain.

With estimates for mill-use falling and projections for ending stocks rising, there has been a contradiction in price movement and trends in market

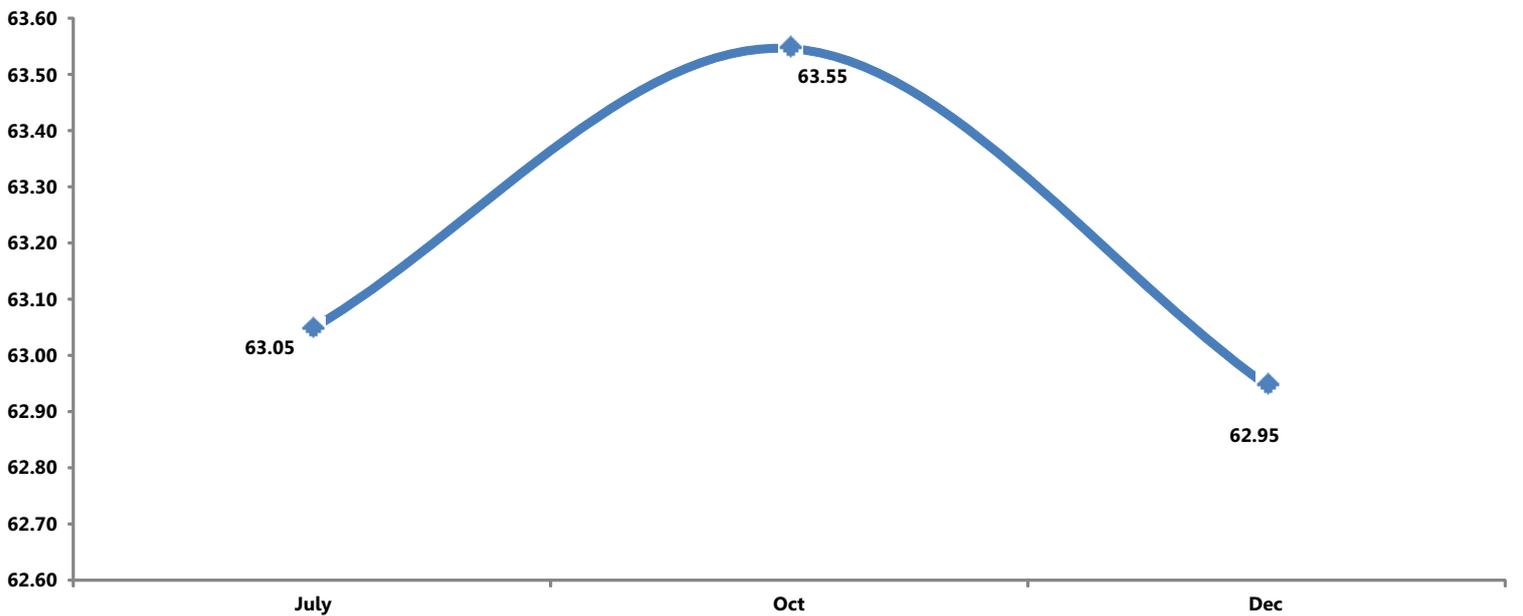
Forward curve of Cotton futures (MCX)



Closing as on 3rd July, 2020

Source: MCX

Forward curve of Cotton futures (ICE)



Closing as on 2nd July, 2020

Source: Barchart

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