

MONTHLY REPORT ON

03 April, 2020

COTTON

(April)



Moneywise. Be wise.

History

Spread of the coronavirus dominated headlines and mindsets of financial traders. Fear of outbreaks outside China pulled down cotton to three year low of 48.80 cents per pound. U.S & China, the main drivers of cotton fell to the prey of this pandemic. In the domestic market, cotton futures on the national exchange plunged to two year low of 15660.

Measures of factory activity signaled a record contraction in Chinese manufacturing in February. Progress towards a return to normal has been reported from China, but the shutdown that occurred in recent weeks is still being digested by supply chains. Even if garments are assembled outside of China, many other major apparel exporting nations, notably those in Southeast Asia, are dependent on Chinese manufacturing for inputs. For example, a significant proportion of Vietnamese cut and sew operations rely on Chinese fabric.

Cases of coronavirus continue to rise at an alarming pace in the India, US and other parts of world. The White House is projecting that between 100,000 to 240,000 people in the U.S. will die from the coronavirus pandemic if social distancing measures continue to be followed. The projections were presented during a White House briefing. Goldman Sachs revised down its already pessimistic outlook for the U.S. economy, forecasting it would shrink 34% in the second quarter and projecting unemployment would rise to 15%.

The spread of the coronavirus has created a life-or-death crisis not just for individuals but for businesses and economies as a whole. As governments and businesses face down the coronavirus crisis, the question when & how will this war against corona end, and, will this sell off in commodities, especially internationally linked commodities like cotton? To find the answers, we need to go through the fundamentals, keep a track of the special events in the global economies & accordingly take positions cautiously in the commodity space.

MONTHLY CHART OF ICE COTTON FUTURES



MONTHLY CHART OF MCX COTTON FUTURES



Domestic market demand side fundamentals

- Weighed by the impact of coronavirus (COVID-19) outbreak, India's cotton exports to China have slumped. If the pandemic is not contained soon, China's demand for cotton from India is likely to suffer.
- Deals to export around 150,000 bales of cotton mainly to Bangladesh and a few to China have been put on hold due to disruption in business and transport services because of the spread of coronavirus.
- Slowdown in banking activity and closure of ports and borders has affected the entire business. These export consignments of 150,000 bales (1 bale = 170 kg) might get cancelled if everything does not come back to normalcy soon.
- There are no export orders since last 15-20 days & this scenario will probably prevail as slowdown in business activity across the globe due to the pandemic has led to fall in demand for the natural fiber.
- Cotton Corp of India has halted procurement of the fibre at its centres due to closure of spot markets after the Centre imposed a 21-day nationwide lockdown to curb the rapid spread of coronavirus in the country.

Domestic market supply side fundamentals

- Around 60% of the cotton has already arrived in the markets. The daily arrivals are gradually declining as the peak harvest season has come to an end. So far, around 24.4 mln bales of cotton have arrived in the market.
- The Cotton Association of India has pegged 2019-20 crop at 35.45 mln bales, compared with 31.2 mln bales last year.
- The situation is also in wait & watch for imports. Import deals of around 100,000 bales mainly from the US and West Africa have not reached Indian shores so far. Imports into India are very minimal this season because of the higher domestic crop. Sellers are waiting and watching how this scenario unfolds

Domestic market inventories

Cotton India as of March 2020							
Attribute	19/20 Mar'20	Change	19/20 Feb'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)	2,300	-	2,300	1,800	1,677	2,736	1,072
Total Supply (1000 480 lb. Bales)	41,114	-	41,114	36,825	38,557	36,780	37,558
Exports (1000 480 lb. Bales)	3,600	-	3,600	3,511	5,182	4,550	5,764
Use (1000 480 lb. Bales)	24,500	-	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)	24,500	-	24,500	24,000	24,150	24,350	24,750
Ending Stocks (1000 480 lb. Bales)	13,014	-	13,014	9,314	9,225	7,880	7,044
Total Distribution (1000 480 lb. Bales)	41,114	-	41,114	36,825	38,557	36,780	37,558
Stock to Use % (PERCENT)	46.31	-	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 March, 2020	Prices February, 2020	Prices March, 2019	% Change (Over Previous Month)	% Change (Over Previous Year)
Gujarat	4639	4914	5479	-6	-15
Haryana	5105	5100	5684	0	-10
Karnataka	4826	4950	5327	-3	-9
Madhya Pradesh	5104	5193	5443	-2	-6
Punjab	5178	5179	5704	0	-9
Rajasthan	5040	5205	5655	-3	-11
Tamil Nadu	4912	4861	5393	1	-9
Telangana	4921	4938	5512	0	-11
Average	4966	5043	5525		

*Report Generation: As per the data reported by APMCs

Source: AGMARK

International market fundamentals

The prospective plantings, released by the National Agricultural Statistics Service (NASS), Agricultural Statistics Board, United States Department of Agriculture (USDA), cited:

- All US cotton planted area for 2020 is estimated at 13.7 million acres, down less than 1 percent from last year. Upland area is estimated at 13.5 million acres, down less than 1 percent from 2019. American Pima area is estimated at 228,000 acres, down 1 percent from 2019.
- The largest increase in acres is expected in Texas. Compared with the previous year, 11 States are expected to plant fewer.
- The upland cotton acres in 2020. If realized, Upland cotton planted area in Kansas, at 200,000 acres, will be a record high.
- The global cotton business is affected by this contagious virus, not only U.S, China & India, but also major importing nations like Bangladesh & Vietnam. It is reported that Bangladesh is set to lose roughly \$6 billion in export revenue this financial year amid cancellations from some of the world's largest brands and retailers. All orders until July have been cancelled or suspended.
- Globally, the demand-supply equation is jeopardized as the importing nations are suspending orders for coming 2-3 months, which will eventually get cancelled. All these orders were placed for summer and it takes three months to get these delivered. If they are not taking supplies now they will not take it when the summer is over.
- This will create an over-supply in the global market, which may bring negative impact on cotton prices.

Foresight

On MCX, cotton futures (April) is looking extremely bearish and there are possibilities that it may plunge towards 15300-15000, may be even can fall sharply to test 14000, if this pandemic continues to spread more & more, especially in U.S & India. Any short covering due to minor pullback in crude prices, may remain limited & face resistance near 16600-16800 levels.

For India, cotton business is mostly dependant on exports & in the ongoing worldwide crisis, the demand is coming down by day. The domestic cotton spinning industry is highly dependent on exports, particularly to China, with around 30 per cent of the cotton yarn produced in the country being exported, and China accounting for nearly one-third of the exports in recent years. According to the Cotton Textiles Export Promotion Council (Texprocil), 11 countries buy 41% of India's cotton yarn exports and these countries have reported Covid-19 cases.

India's cotton exports may witness a temporary slowdown as domestic prices are currently uncompetitive. Given the steep fall in international prices, Indian cotton is currently 2-3 cents higher compared to price of the US crop. Textile and clothing exporters have started feeling the impact of Covid-19 because of supply chain disruptions, fall in exports and cancellation of international events. Already, there is a sharp fall in cotton yarn exports to China, Iran, Korea and Vietnam.

On the supply side, farmers say that they are not able to transport or sell it. As far as the forthcoming kharif season is concerned, the production of cotton remains in limbo because the seed packaging operations have ground to a halt.

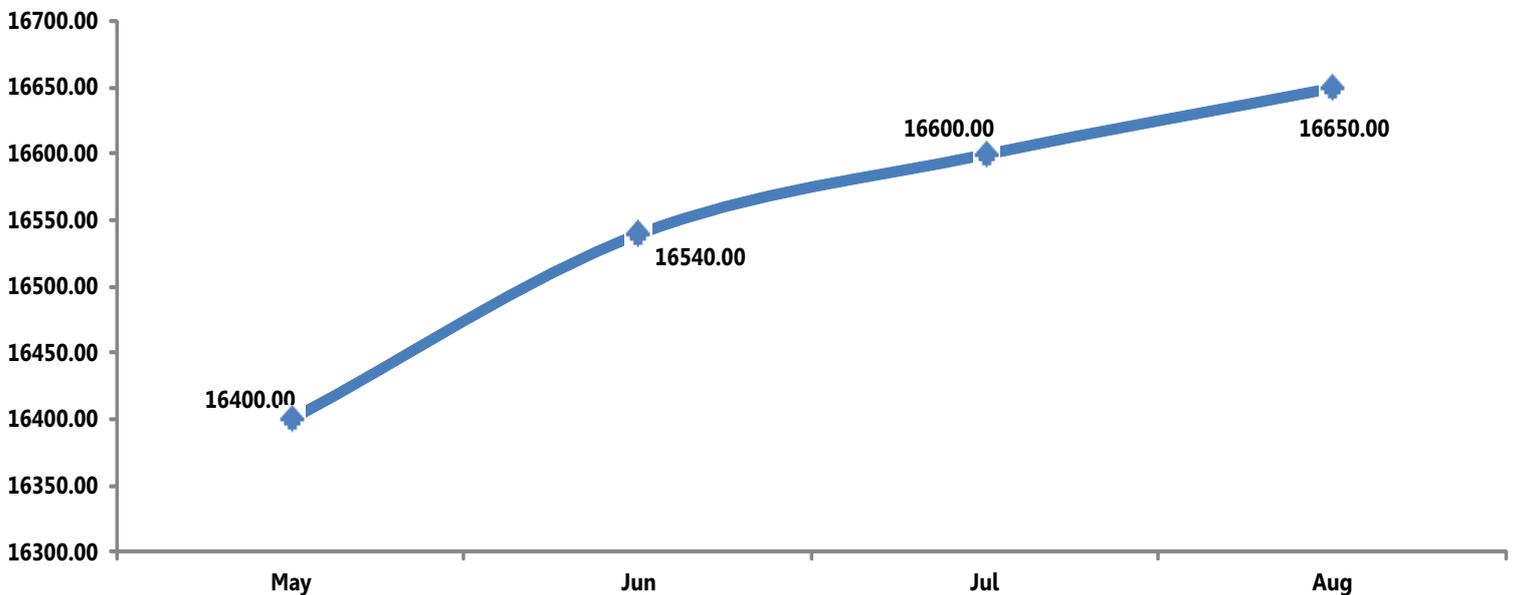
In the international market, ICE cotton futures in the present scenario, much of the selling is related to lost demand potential due to the Coronavirus and the extremely weak crude oil prices. The Coronavirus has the chance to hurt trade in Cotton between the US and China. China has also been slow to buy products from Southeast Asia and demand for US Cotton has been hurt in the entire region.

Looking at the extension of lock down & the scare around the world, the demand for cotton is going to be really low & prices would drop precipitously. The Coronavirus has closed malls across major affected countries and stores are not selling clothes. Even, clothes for the US market made in Asia are

not being ordered. Overall, cotton market remains extremely bearish as people are not coming out of homes & going out for shopping, as everyone is stuck in quarantine. There's absolutely no demand for this commodity and until some type of clarity comes about with the coronavirus vaccination, this scenario worldwide is likely to continue for months together. President Trump said he was extending the administration's social-distancing guidelines for another 30 days through the end of April, after saying for days that he was hoping to open up the country in the coming weeks.

The main events to watch for will be every week Thursday's exports-sales report. Of late sales and shipments have been strong, but fears of foreign mill closures have initiated some cancellations. If so happens, then U.S cotton will witness further correction. **Regarding price outlook, the next potential support is at 48.00 & if this is breached, then we may see 45-41 levels. To conclude, analyzing the grim situation, it is advised to stay on the selling side.** Large money managed funds are short around 15,000 contracts as they still believe lower prices are ahead and they have been right so far.

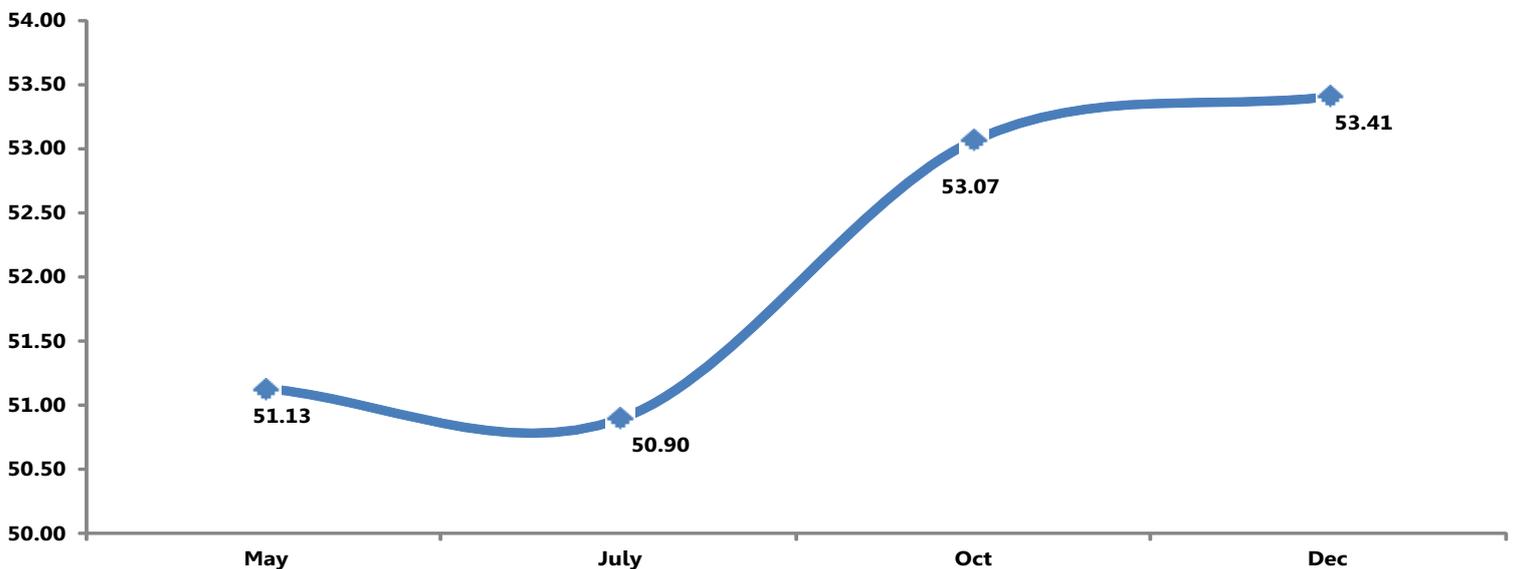
Forward curve of Cotton futures (MCX)



Closing as on 31st March, 2020

Source: MCX

Forward curve of Cotton futures (ICE)



Closing as on 31st March, 2020

Source: Barchart

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