



FOR PRIVATE CIRCULATION ONLY

31 July 2017

Cotton Market Analysis

Cotton price in the last week traded outside range from the previous week. The ICE December contract during the past week moved in the range of 67.76 to 69.72 cents per pound while ended the week at 68.80 cents up by 38 points from the previous week's close. In the similar lines the domestic cotton price both spot and future advanced while the future contract was more positive.

The July which is due to expiry witnessed strong rebound in the price due to short covering and ended the week at Rs. 20820 up by Rs. 580 from the previous close. The October future settled positive at Rs.18440 up by Rs. 570 from the previous week's close. The price action and behavior suggests market holding a precarious trend in the gone by week.

However, while we observe the Chinese market performance the ZCE cotton for September and subsequent contracts were down. The September future ended the week lower at 14760 Yuan/MT. The Chinese market movement was much different from the rest of the markets because there is extension of auction sales of cotton by the government until September 2017.

Broadly ICE market was very dull and participation was thin. The average daily trading volumes were around 15K contracts. In the meanwhile, unfixed on call sales were very high as of 21st July reported by CFTC. We believe market would continue to remain sideways. The 69 mark is failing continuously hold break and move strongly positive. Now we have to keep a watch 68 as strong support levels. Any break down below 68 would mean failure to hold the moving average support and possibly market may either trade sideways or turn marginally weak.

This morning ICE cotton is seen trading down by over quarter per cent at 68.50 cents. For the day the trading range would be 68.20 to 68.90 cents/lb.

Strategy: Oct- MCX: Sell at 18500-18530 TP 18k SL above 18700

Strategy: Dec- ICE: Sell @ 69-69.20 TP 67 SL above 70

Outlook for the week:

ICE cotton is trading with the given confined range of 66 to 69 cents for the past few weeks however, any strong close either side shall confirm a fresh direction. Looking at the supply side figure of the world outside china is still weighing on the market indicating cotton price may remain subdued. However, better export demand from the US, on call sales fixation and technical level respecting near 66 is also supporting cotton price to hold the support near the given levels. We expect cotton to remain in the same range in the short term.

From the domestic front as mentioned in the report the new crop estimation for the year 2017-18 is excessively higher. We estimate the new season crop should be around 370+ Lakh Bales. Although in the interim supply threat due to excessive rainfall in Gujarat region has kept the spot price upbeat and there is talk of re-sowing of cotton. We believe market may remain sideways. The domestic cotton future which surged in the last week for October contract is expected to remain in the sideways tone. From the technical perspective we see October future to trade in the range of Rs. 18500 to Rs. 18000 and recommend selling with strict stop loss above Rs. 18700 level.

Spot Market Performance				
Spot	Current	Previous	Change	Unit
MCX Spot-Rajkot	20300	20340	-40	Rs/Bale
ICS 105 (CAI)	41,000	40700	300	Rs/Candy
Total Arrival	22000	20000	2000	Bales
Cotlook A Index Forward	85	84.5	0.50	Index
CRB INDEX	182	181	0.98	Index

Import Parity				
W. Afr. at Mill in south	42874	42874	0	per Candy
ICS 105 at mill in south	43452	43146	306	per Candy

* W. African comes close to ICS 105 variety in Maharashtra 28 mm, 3.5-4.9 mic

Export Parity				
Spot - Rajkot	per candy	per bale	In Yuan	In USD
Currency Rate	(356Kg)	(170 KG)	6.749	64.338
MCX	42511	20340	21234	86.2

* Price in Yuan is all costs incl delivered in a China mill; price in USD is FOB

Stocks In Bales				
Commodity	Current	In Process	Previous	change
MCX(21st January physical)	38,700	-	38,300	400



Cotton Market Performance

International Cotton Futures						
	Open	High	Low	Close	Change	%
ICE Cotton USA						
						28-Jul-17
Jul-17	71.54	71.65	70.80	71.35	-0.04	0.00
Oct-17	70.00	70.50	68.20	69.04	-1.32	-0.02
Dec-17	69.29	69.29	68.51	68.97	-0.07	0.00
ZCE Cotton China						
						28-Jul-17
Sep-17	15510	15780	15450	15625	290	1.89%
Jan-18	15510	15780	15450	15625	290	1.89%

Source: Reuters, Compiled By Kotak Commodities Research

Domestic Futures								
Contract	Open	High	Low	Close	Price Change	in %	Lots	OI in lots
MCX: Cotton								28-Jul-17
		Price Quote per bales (170 kg)						
30-Nov-17	18000	18060	17950	18000	-130	-0.7%	78	508
31-Oct-17	18550	18550	18320	18440	-130	-0.7%	1167	2112
31-Jul-17	20760	20900	20650	20820	-20	-0.1%	725	1800
NCDEX : Kapas								
		Price Quote per Maund (20 kg)						
30-Apr-18	879	879	867	870	-10.0	-1.1%	3885	7772

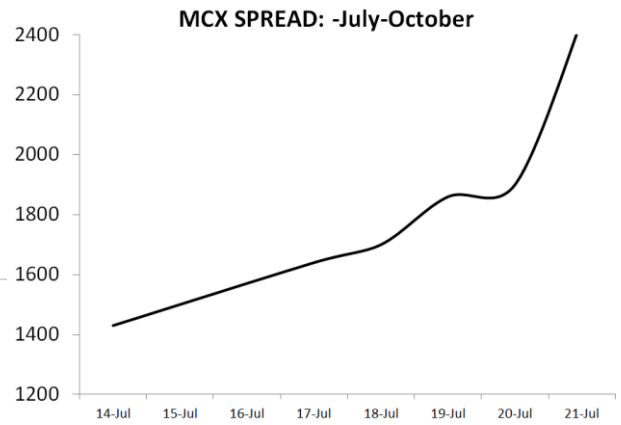
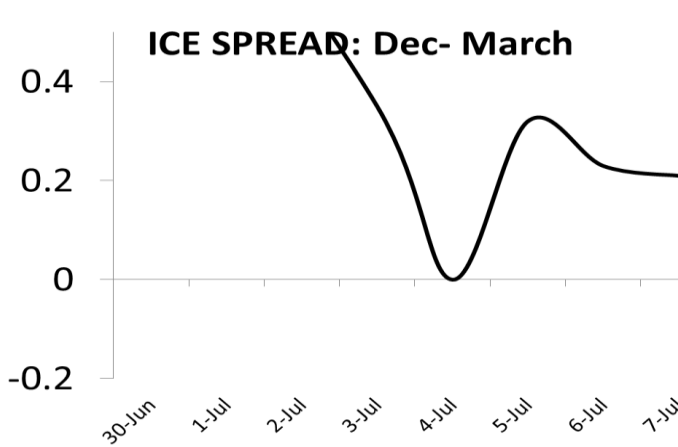
Market Dynamic:

Spot Market and Monsoon Update: Coming to domestic market the spot price moved slightly positive. The monsoon is the major factor to look at in the near term. This season two features have emerged, first, the July monsoon was excessive in Gujarat and second, the monsoon has for the past 60 days been lighter than typical across the Southern cotton belt. Now, we enter the critical August time period. The typical monsoon begins to withdraw around September 1st in the north and slowly exits the rest of the country. The Southern belt, which has been very dry, normally has another 60 days of more of rainfall. One issue this season is the early arrival of the monsoon in the South resulted in earlier than normal planting there which resulted in a portion of the crop having water requirements earlier than normal.

The monsoon rains last week were again very heavy in Rajasthan and Gujarat. The eastern half of Gujarat was hit by record rains which caused considerable flooding and loss of life. An estimated 646,000 hectares of cotton planted before July 25th was washed out and lost. 2,584,600 hectares had been planted to cotton on that date. The Saurashtra and Kutch region of the state, which contains near 70% of the acreage, missed most of the excessive rains while receiving mostly beneficial moisture. The losses in the eastern half of the state hit the largest cotton areas of that region including Rajkot, Morbi, Banaskantha and Amrei. The Gujarat is forecast to be dry August 1 - 7. The forecast also has the Southern Indian belt dry during the same period which will cause concern regarding yields. The Southern belt produced 8.9 million 170 kg bales in 2016 which represented 26.5% of the total crop. A reduction in yields will have a significant impact on overall production.



Spread Analysis:



Technical Analysis: Cotton Dec -ICE:





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