



FOR PRIVATE CIRCULATION ONLY

22 May 2017

## Cotton Market Analysis

The week gone by cotton price drifted sharply lower from 87 cents to end at 79.45 cents per pound for July ICE contract with highest trading volume. Market was volatile while hefty profit booking was witnessed causing price to correct downside.

The effect was clearly visible on the domestic cotton price as well. The spot price corrected over Rs. 500 per candy to end the week near Rs. 43K per candy. Also similar kind of movement was noticed on the futures contract. The most active May contract ended at Rs. 20940 down by Rs. 100 from the previous week's close while made a weekly high of Rs. 21,500 per bale. Market is volatile and mixed factors are ruling the cotton market and price globally.

This morning ICE cotton is seen trading at 79 cents per pound down by more than half per cent and believe price may remain under stress in the near term and could fall towards 78 cents during today or in the week ahead.

However, while we critically assess the December contract at ICE the counter is moving sideways and the same is seen trading at 73 cents. The spread between July and December has moved down to 6 cents which earlier in the last week had moved to 14 cents. This indicates mill fixations continue, although some mills are prepared to wait and see if ICE cotton futures lose additional ground in the coming days.

Further on the trading behavior, total open interest decreased by 4,565 contracts to 258,288. July open interest decreased by 4,669 contracts to 118,490 and December open interest decreased by 164 contracts to 119,667. Last Friday was the first day interest in the December contract surpassed interest in the July contract. Certificated stocks were last reported at 402,998 bales which included new certs for 15,996 bales and de-certs for 265 bales. There were 5,984 bales awaiting review. In the last 6 reports, certificated stocks have added 92,495 bales.

**Strategy: May- MCX: Trading Range: 20700-21250**

**Strategy: July- ICE: Trading Range: 77.40-79.40**

### Outlook for the week:

Cotton is expected to trade sideways this week however volatility is likely to prevail in the near term. From the price perspective we expect ICE cotton July to correct down to the average price band of 78 cents per pound. Also from the technical perspective as mentioned above we expect ICE cotton to trade in the range of 77.50 to 79.50 cents. At the domestic front spot price in India to remain steady near Rs. 43K per candy. From the futures front the May contract is expected to trade in the range of Rs. 20700 to Rs. 21250 per bale.

| Spot Market Performance |         |          |         |          |
|-------------------------|---------|----------|---------|----------|
| Spot                    | Current | Previous | Change  | Unit     |
| MCX Spot-Rajkot         | 20540   | 20480    | 60      | Rs/Bale  |
| ICS 105 (CAI)           | 41,200  | 41000    | 200     | Rs/Candy |
| Total Arrival           | 47000   | 47000    | 0       | Bales    |
| Cotlook A Index Forward | 0       | 90.8     | -91     | Index    |
| CRB INDEX               | 0       | 183      | -182.51 | Index    |

| Import Parity            |       |       |     |           |
|--------------------------|-------|-------|-----|-----------|
| W. Afr. at Mill in south | 46818 | 46818 | 0   | per Candy |
| ICS 105 at mill in south | 43656 | 43452 | 204 | 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) | 6.8925  | 64.75  |
| MCX           | 42929     | 20540    | 21743   | 86.5   |

\* 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 Spread: ICE: July – December:





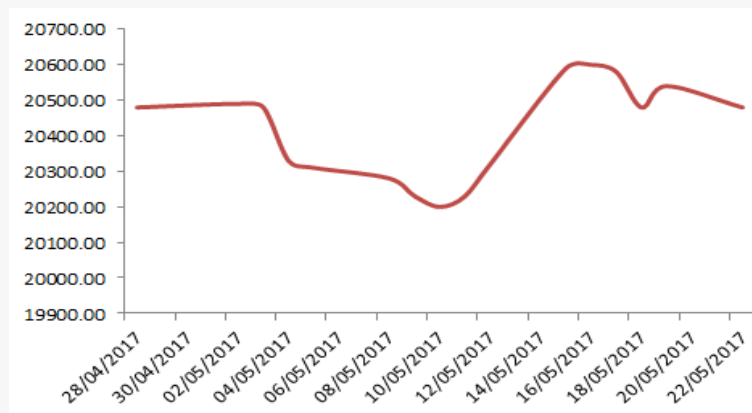
## Cotton Market Performance

| International Cotton Futures |       |       |       |       |           |       |
|------------------------------|-------|-------|-------|-------|-----------|-------|
|                              | Open  | High  | Low   | Close | Change    | %     |
| <b>ICE Cotton USA</b>        |       |       |       |       |           |       |
|                              |       |       |       |       | 19-May-17 |       |
| Jul-17                       | 80.36 | 80.63 | 78.84 | 79.24 | -0.93     | -0.01 |
| Oct-17                       | 76.56 | 76.56 | 75.68 | 75.68 | -0.88     | -0.01 |
| Mar-18                       | 73.74 | 73.74 | 73.01 | 73.24 | -0.51     | -0.01 |
| <b>ZCE Cotton China</b>      |       |       |       |       |           |       |
|                              |       |       |       |       | 19-May-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      |       |                                |       |       |              |       |      |            |
|                  |       |                                |       |       |              |       |      | 19-May-17  |
|                  |       | Price Quote per bales (170 kg) |       |       |              |       |      |            |
| 31-May-17        | 21100 | 21160                          | 20900 | 20940 | -160         | -0.8% | 1870 | 3401       |
| 30-Jun-17        | 21330 | 21370                          | 21120 | 21140 | -160         | -0.8% | 1612 | 4150       |
| 31-Jul-17        | 21530 | 21560                          | 21330 | 21350 | -140         | -0.7% | 235  | 1628       |
| NCDEX : Kapas    |       |                                |       |       |              |       |      |            |
|                  |       |                                |       |       |              |       |      |            |
|                  |       | Price Quote per Maund (20 kg)  |       |       |              |       |      |            |
| 30-Apr-18        | 990   | 997                            | 981   | 983   | -5.0         | -0.5% | 1555 | 2759       |

## Domestic Spot Market:



**US Export Sale:** During the week ended May 11, net export sales registrations of upland cotton for shipment during the current 2016/17 season amounted to 120,700 running bales. Increases were reported for Vietnam (51,600, including 8,800 switched from Japan and 4,400 switched from China), Turkey (51,300), Indonesia (13,000, including 1,600 switched from Japan), Thailand (12,400, including 100 switched from Japan) and China (8,800). Reductions were reported for India (23,300) and Japan (12,800). Export shipments of 388,000 running bales were mainly for Vietnam (67,900), India (53,800), China (48,900), Turkey (48,300) and Indonesia (32,300). Net sales of Pima for the 2016/17 season totaled 6,500 running bales. Increases were mainly for China (5,100), India (500), Egypt (400) and Turkey (300). For 2017/2018, net sales of 165,100 running bales were reported, primarily for China (66,400), Vietnam (32,200), Bangladesh (25,100) and Taiwan (7,900).

**China Auction:** As of last week's report, cotton reserve auction of 29,963 tonnes, the quantity sold (rounded) was 25,544 tonnes, equivalent to around 85 percent, comprising 1,255 tonnes from the 2011/12 crop, 9,549 from 2012/13 and 14,740 from 2013/14. The highest price paid was 16,180 Yuan per tonne and the lowest 14,080. The average, adjusted to a Type 3128 basis, was 16,243, which is 23 Yuan lower than yesterday and 691 Yuan above this week's base price. Cumulative sales to date are now placed at over 1.16 million tonnes.



### Technical Analysis: Cotton May MCX:



### Technical Analysis: Cotton July ICE:





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