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Technical Analysis

Price outlook for Gujarat-ICS-105, 29mm and ICE cotton futures for the period 2nd May 2023 to 5th June 2023

Shri. Gnanasekar Thiagarajan is currently the head of Commtrendz Research, an organization which, specializes in commodity research and advisory to market participants in India and overseas. He works closely with mostly Agri-Business, base metals and precious metals business corporates in India and across the globe helping them in managing their commodity and currency price risk. Further to his completing a post graduate in software engineering, he did a long stint with DowJones, promoters of "The Wall Street Journal" and had the opportunity of closely working with some of the legends in Technical Analysis history in the U.S.

His columns in The Hindu Business Line have won accolades in the international markets. He also writes a fortnightly column on a blog site for The Economic Times on Global commodities and Forex markets. He

EXPERT'S Column



Shri. Gnanasekar Thiagarajan
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is a part an elite team of experts for moneycontrol.com in providing market insights. He was awarded "The Best Market Analyst", for the category- Commodity markets- Bullion, by then President of India, Mr. Pranab Mukherji.

He is a consultant and advisory board member for leading corporates and commodity exchanges in India and overseas. He is regularly invited by television channels including CNBC and ET NOW and Newswires like Reuters and Bloomberg, to opine on the commodity and forex markets. He has conducted training sessions for

markets participants at BSE, NSE, MCX and IIM Bangalore and conducted many internal workshops for corporates exposed to commodity price risk. He has also done several training sessions for investors all over the country and is also a regular speaker at various conferences in India and abroad.

Domestic Markets

- The domestic prices ended higher amid low arrivals. Total arrivals were around 70-80K bales, lower on account of Labour Day holiday. Domestic arrivals from Oct 22-Mar 23 are pegged at 190.63 lakh bales Vs 262.68 lakh bales.

- Weather will be a key now as cotton gets into the fresh planting season. With the possibilities

of an El Nino quite high supply concerns could soon dominate. However, despite these supply concerns, demand continues to struggle putting a lid on prices.

- The cotton yarn market traded with weak sentiment as the market struggled to find support from the demand side. Traders are hoping for export orders for the next winter season, which

they believe will provide the necessary boost to the market. However, poor demand has further weakened the market sentiment, resulting in more declines in cotton yarn prices.

30 Count Combed Compact Yarn Price Chart



International Markets

- ICE cotton futures edged lower on Tuesday on a firmer dollar and weak economic data from key buyer China. Cotton seemed to take cues from a retreat in Wall Street after Treasury Secretary Janet Yellen said the U.S. government could run out of money within a month, while investors awaited the Federal Reserve’s policy decision. More important will be Chairman Powell’s comments subsequently.

- China’s manufacturing activity unexpectedly shrank in April, official data showed on Sunday, raising pressure on policymakers seeking to boost an economy struggling for a post-COVID lift-off. This comes after several months of really good economic numbers out of China, so that’s the negative. China’s (world’s dominant cotton consumer) manufacturing activity unexpectedly weakened as the manufacturing PMI fell to 49.2 in April from 51.9 in March 2023. This could weigh on the market sentiment as the trade session progresses. This data will add to expectations that China’s growth traction continues to fluctuate.

Shankar 6 Guj ICS Price Trend

As mentioned in the previous update, we expected prices to bottom around 17,000/ qtl and to gradually inch higher towards 20,000 levels from here, where strong resistances are seen. A consolidation is still



underway presently. Some signs of bottom are visible and the downside from here looking extremely limited. However, it has spent a whole month in that price range building itself for the next move which is mostly higher. Once above here, it could even start rising towards 22,000 levels subsequently. Though prices can drop again, the recent bottom at 17,000 looks intact and unlikely to test that once again. Any unexpected fall below here could be disastrous, as a fall towards 15,700-800 is not our favoured view.

MCX Cotton Candy June: The selling pressure saw prices testing close to 62,000/candy before making a reversal from there. Key supports are in the 61,500-62,000 range now. Ideally, it is expected to hold and push higher towards 65,000 levels on the upside. However, any unexpected fall below 61,000 could caution about more downside in the offing, and it should start edging lower immediately. However, major weakness from present levels still looks unlikely.



ICE July 23 Cotton Futures

The chart picture is not looking very friendly as it fails to find follow through buying above 85-86c levels on the upside. A push above 87.00c in July would most probably change the picture. The price action in the monthly and fortnightly charts favour such a rise, tilting the scale mildly in favour of the upside. Supports are located near 76/77c area followed by 75c levels. Dips could most probably be cushioned near any of these supports for a rise past 86, improving the scope for extending the gains to 89c. It must fall below 73.25c to indicate weakening further. Weekly chart shows the possible start of an up move that could cross above a nearer resistance at 86.50c. Such a move would strengthen the scope for an extension to 88.50/89.00c. Unexpected fall below 73.50c would erase the mildly positive signs that are present now.

As mentioned before, using ICE futures and Options for mitigating prices risk especially when prices are at elevated levels helps cushion the fall and manage high priced inventory of cotton and yarn is ideal for the industry, but to take that leap of faith is a humungous task for this industry where raw material price moves makes or break the profit margins. Hedging high priced inventories in a falling market could help offset some losses from the recent fall in cotton prices. Current bottoming levels could be ideal opportunities to Buy Call options in ICE to take advantage of a possible rise in the near-term. However, to protect against falling inventory cost and unexpected bearish factors, one can take Put options in ICE around resistance levels by paying a premium, where losses will be minimum and profits unlimited. MCX Candy contracts recent launched should be a good testing ground for mills and exporters desirous of hedging their price risk in ICE futures and options.

Conclusion

The domestic prices are still steadfastly holding the 60,000-61,000 per candy for now, as it seems to be discounting negative fundamentals of poor demand. But it is failing to sustain at higher prices also

which makes us believe there is a 25% chance that it could take a shy at 56,000-57,000 before bottoming out completely. More negative factors continue to weigh on domestic markets by way of arrivals and weak demand. But price always has a ability to discount present weakness and look ahead where a weather premium could be built into prices. This is what is likely happening in the local prices. Strong resistance is presently noticed in the 62000,-63,000 per candy levels and it may be tough to cross that in the near-term.

Important support in ICE is at \$76c followed by \$74-75c on the downside and in that zone, prices could find a lot of buying interest again. The domestic prices are still at a mild premium to ICE, where it has corrected from peaks. We expect prices to consolidate and gradually edge higher again. Texas which produces more than 40% of

cotton is still reeling under drought conditions and the recent rains have not been enough. The international price indicates that it is in the process of a consolidation before beginning an up move again.

For Shankar 6 Guj ICS supports are seen at 61,500 per candy and for ICE May cotton futures at \$75-76c. The domestic technical picture looks neutral to mildly bearish. Therefore, we can expect prices to consolidate in a broad range initially absorbing all the negatives and reverse with a mild bullish bias for the local prices and sharp rise expected in the international markets, as there are some upside breakout signs still visible in ICE futures presently. Any unexpected fall below key supports in ICE could change the picture to neutral.

USDINR Monthly Report: May 2023

Shri. Anil Kumar Bhansali, Head of Treasury, Finrex Treasury Advisors LLP, has a rich experience of Banking and Foreign Exchange for the past 36 years. He was a Chief Dealer with an associate bank of SBI

We expect USDINR to trade within the range of 81.60-83.50 for April 2023

We expect USDINR to trade within the range of 80.95-82.60 for May 2023. Potential inflows, a softer US dollar due to US recession fears and easing oil prices is expected to help the Rupee. However, RBI is protecting both side of the pair thus keeping USDINR in the range. USDINR is trading above crucial support zone of 81.50/81.45 and only a fall below this will open doors for 80.95. However, if it respects the trend line support of 81.45 then we can see a reversal up to 82.10 and then 82.60.

Key Triggers

FOMC Policy: Next meeting is on 3rd May 2023 and it is anticipated that Fed could raise the

EXPERT'S Column



Shri. Anil Kumar Bhansali
Head of Treasury,
Finrex Treasury Advisors LLP

interest rates by 25 bps and then opt to pause the tightening cycle.

US Economy: US GDP grew at an annualized rate of 1.1% in the first quarter of 2023 Vs 2.6% in prior quarter. This slowdown increased fears of recession in world's top economy with inflation still at higher levels at 5.0% in US.

Brent Oil Prices: Oil companies will keep on buying additional US\$ requirements which will support USDINR on any dips. We can expect oil prices to again move towards \$70.0/68.70/bl as growing recession fears in the US, the world's top economy, may hurt oil demand outlook. This may also nullify the positive impact of supply cuts from OPEC which starts in May.

Trade Balance: Due to fall in oil prices and strong trade performance on the services front we can expect May trade deficit to narrow down towards \$16-17 bn. India's current account deficit is expected to remain moderate in the fourth quarter of FY23 and also in FY24 at a level, which is viable and eminently manageable. ICRA estimates India's CAD to recede further to around \$10-12

bn in Q4 FY2023. Based on this, they project the FY2023 CAD at \$77-80 bn (2.3% of GDP).

FII Flows: Being the months of results season and any upbeat outcome may attract FII flows back into the country. Rise in inflows will strengthen the Rupee. In both March and April, we have witnessed total inflows of \$2.367 billion (as on 28th Apr).

FX Reserves: In order to replenish its reserves RBI will continue to buy dollars at lower levels. We can once again see reserves to reach \$600 bn mark in the coming months. The current level of foreign reserves is enough for around 10 months of imports.

(The views expressed in this column is of the author and not that of Cotton Association of India)

ICAC's 'Cone Pit Open-Earth Kiln Technique' Is Improving Soil Health across Asia and Africa

A simple technique called an 'Cone-Pit Open Earth Kiln', originally proposed by Schmidt and Taylor (Ithaka Journal, 2014), was standardised by the ICAC for rapidly turning cotton stalks into biochar without any infrastructure. The low-cost technique, which can rejuvenate soil health and improve yields, is spreading throughout Africa and Asia. The most recent practical training session on the technique was held in Yamoussoukro, Cote d'Ivoire, on 13 April 2023, for the staff of multiple organisations. Prior to that, the ICAC conducted a three-day training course for a different group of participants in March 2023 in Kushtia, Bangladesh.

Over the past two years, the ICAC has conducted several practical training programs on this simple, low-cost technique to produce biochar from cotton stalks and other farm

residues in Zambia, Cameroon, Burkina Faso and other countries. It is now being widely used by hundreds of farmers in Africa and is spreading to other countries, including Cameroon, Côte d'Ivoire, Bangladesh and India.

According to Dr Keshav Kranthi, ICAC Chief Scientist, preliminary results show that biochar produced from cotton stalks was found to be highly alkaline and can effectively remediate acidic soils, improve soil structure, enhance cation exchange capacity, and enrich soil health by adding organic carbon. For non-acidic soils, the ICAC developed a novel composting technique combining biochar with the principles of bokashi to improve soil health and obtain higher yields. These techniques help growers not only with additional income today but also improve their resilience to the future impacts of climate change.



COTTON ASSOCIATION OF INDIA



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UPCOUNTRY SPOT RATES								(Rs./Qtl)					
Standard Descriptions with Basic Grade & Staple in Millimetres based on Upper Half Mean Length [By law 66 (A) (a) (4)]								Spot Rate (Upcountry) 2022-23 Crop April 2023					
Sr. No.	Growth	Grade Standard	Grade	Staple	Micronaire	Gravimetric Trash	Strength /GPT	24th	25th	26th	27th	28th	29th
1	P/H/R	ICS-101	Fine	Below 22mm	5.0 – 7.0	4%	15	19037 (67700)	19037 (67700)	19037 (67700)	18756 (66700)	18700 (66500)	18700 (66500)
2	P/H/R (SG)	ICS-201	Fine	Below 22mm	5.0 – 7.0	4.5%	15	19178 (68200)	19178 (68200)	19178 (68200)	18897 (67200)	18840 (67000)	18840 (67000)
3	GUJ	ICS-102	Fine	22mm	4.0 – 6.0	13%	20	13723 (48800)	13666 (48600)	13554 (48200)	13554 (48200)	13638 (48500)	13638 (48500)
4	KAR	ICS-103	Fine	23mm	4.0 – 5.5	4.5%	21	16169 (57500)	16169 (57500)	15747 (56000)	15607 (55500)	15466 (55000)	15466 (55000)
5	M/M (P)	ICS-104	Fine	23mm	4.5 – 7.0	4%	22	17153 (61000)	17153 (61000)	17013 (60500)	17013 (60500)	17013 (60500)	17013 (60500)
6	P/H/R(U) (SG)	ICS-202	Fine	27mm	3.5 – 4.9	4.5%	26	16788 (59700)	16872 (60000)	16759 (59600)	16619 (59100)	16619 (59100)	16619 (59100)
7	M/M(P)/SA/TL	ICS-105	Fine	26mm	3.0 – 3.4	4%	25	-	-	-	-	-	-
8	P/H/R(U)	ICS-105	Fine	27mm	3.5 – 4.9	4%	26	16928 (60200)	17013 (60500)	16900 (60100)	16759 (59600)	16759 (59600)	16759 (59600)
9	M/M(P)/SA/TL/G	ICS-105	Fine	27mm	3.0 – 3.4	4%	25	15747 (56000)	15691 (55800)	15691 (55800)	15691 (55800)	15691 (55800)	15691 (55800)
10	M/M(P)/SA/TL	ICS-105	Fine	27mm	3.5 – 4.9	3.5%	26	16506 (58700)	16450 (58500)	16310 (58000)	16310 (58000)	16394 (58300)	16394 (58300)
11	P/H/R(U)	ICS-105	Fine	28mm	3.5 – 4.9	4%	27	17322 (61600)	17406 (61900)	17294 (61500)	17153 (61000)	17153 (61000)	17153 (61000)
12	M/M(P)	ICS-105	Fine	28mm	3.7 – 4.5	3.5%	27	16928 (60200)	16900 (60100)	16788 (59700)	16788 (59700)	16844 (59900)	16844 (59900)
13	SA/TL/K	ICS-105	Fine	28mm	3.7 – 4.5	3.5%	27	16984 (60400)	16956 (60300)	16788 (59700)	16788 (59700)	16844 (59900)	16844 (59900)
14	GUJ	ICS-105	Fine	28mm	3.7 – 4.5	3%	27	17209 (61200)	17209 (61200)	16984 (60400)	16984 (60400)	17041 (60600)	17041 (60600)
15	R(L)	ICS-105	Fine	29mm	3.7 – 4.5	3.5%	28	17378 (61800)	17378 (61800)	17266 (61400)	17125 (60900)	17153 (61000)	17153 (61000)
16	M/M(P)	ICS-105	Fine	29mm	3.7 – 4.5	3.5%	28	17266 (61400)	17209 (61200)	17097 (60800)	17097 (60800)	17153 (61000)	17153 (61000)
17	SA/TL/K	ICS-105	Fine	29mm	3.7 – 4.5	3%	28	17322 (61600)	17266 (61400)	17097 (60800)	17097 (60800)	17153 (61000)	17153 (61000)
18	GUJ	ICS-105	Fine	29mm	3.7 – 4.5	3%	28	17575 (62500)	17519 (62300)	17294 (61500)	17294 (61500)	17350 (61700)	17350 (61700)
19	M/M(P)	ICS-105	Fine	30mm	3.7 – 4.5	3.5%	29	17491 (62200)	17491 (62200)	17434 (62000)	17378 (61800)	17434 (62000)	17434 (62000)
20	SA/TL/K/O	ICS-105	Fine	30mm	3.7 – 4.5	3%	29	17547 (62400)	17547 (62400)	17434 (62000)	17378 (61800)	17434 (62000)	17434 (62000)
21	M/M(P)	ICS-105	Fine	31mm	3.7 – 4.5	3%	30	17687 (62900)	17687 (62900)	17631 (62700)	17631 (62700)	17631 (62700)	17631 (62700)
22	SA/TL/K/TN/O	ICS-105	Fine	31mm	3.7 – 4.5	3%	30	17744 (63100)	17744 (63100)	17687 (62900)	17687 (62900)	17687 (62900)	17687 (62900)
23	SA/TL/K/TN/O	ICS-106	Fine	32mm	3.5 – 4.2	3%	31	N.A. (N.A.)	N.A. (N.A.)	N.A. (N.A.)	N.A. (N.A.)	N.A. (N.A.)	N.A. (N.A.)
24	M/M(P)	ICS-107	Fine	34mm	2.8 - 3.7	4%	33	20387 (72500)	20387 (72500)	20387 (72500)	20668 (73500)	20668 (73500)	20668 (73500)
25	K/TN	ICS-107	Fine	34mm	2.8 - 3.7	3.5%	34	20809 (74000)	20809 (74000)	20949 (74500)	20949 (74500)	21090 (75000)	21090 (75000)
26	M/M(P)	ICS-107	Fine	35mm	2.8 - 3.7	4%	35	20949 (74500)	20949 (74500)	20949 (74500)	21090 (75000)	21090 (75000)	21090 (75000)
27	K/TN	ICS-107	Fine	35mm	2.8 - 3.7	3.5%	35	21090 (75000)	21090 (75000)	21231 (75500)	21371 (76000)	21371 (76000)	21371 (76000)

(Note: Figures in bracket indicate prices in Rs./Candy)