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Technical Analysis

Price outlook for Gujarat-ICS-104, 29mm and ICE cotton futures for the period 3rd May 2022 to 6th June 2022

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 Dow Jones, 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 is a part of 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.

EXPERT'S Column



Shri Gnanasekar Thiagarajan
Director, Commtrendz Research

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

• Cotton prices have continued their one-way streak due to continued tightness and a relentless rally in ICE further adding to the bullish sentiment. The domestic cotton prices initially reached a high of 46,290 but met with good profit-taking to settle lower. International prices were supported by worsening drought

conditions. Taking cue from global prices, domestic cotton prices in India also surged. Thus, instead of softening, cotton prices increased immediately after the duty cut.

• The next 3-4 months may be difficult for the Indian textile sector due to limited availability of cotton in the country. In such a scenario, the

government may temporarily ban export of cotton if prices continue to rise. Upendra Prasad Singh, Secretary, Ministry of Textiles, has given indications for the same, but there is no timeline from the government.

- At present, cotton exports from India are decreasing sharply due to the price disparity. According to CAI, about 50 lakh bales i.e., about 15 percent of the total crop is left with the farmers. Of this, about 10 lakh bales can arrive in the current season. CAI has estimated total exports of 45 lakh bales in this season. Thus, negligible export of cotton is possible in the forthcoming months. So, there may not be a sharp downfall in cotton prices if export is banned.

International Markets

- ICE cotton futures fell more than 1% on Tuesday, as some investors locked in profits after a rally in the previous session. Futures rose near 3% in previous session, boosted by supply concerns and mill buying. Oil slipped by more than 1% as concerns about demand due to China's prolonged COVID lockdowns outweighed support from a possible European oil embargo on Russia over its actions in Ukraine.

- Beijing, reporting dozens of new cases daily, is mass-testing residents to avert a lockdown similar to Shanghai's over the past month. Covid-19 lockdowns and travel restrictions in major Chinese cities could weaken demand for commodities, helping offset the supply-chain snarls and dwindling inventories resulting from the Russian invasion. While prices for many commodities remain above pre pandemic levels, their retreat from records eases some immediate concerns about supply shocks adding to an inflationary spiral.

- Where from here? We can expect a great deal of volatility for the next couple of weeks as the market reacts to the news of the day. Plains of Texas received two to six inches of rain over the weekend. However, with the market weighing the positives of a large volume of on-call sales and unfavourable soil conditions in the southwest versus an inevitable decline in demand, there appears to be support at lower levels. However, market rallies cannot be sustained on supply issues alone and demand concerns will eventually weigh on prices.

Shankar 6 Guj ICS Price Trend

As mentioned in the previous update, more upside is likely to 26,500 at least in the near-term, with a possibility even to extend higher. Prices moved exactly in line with our expectations so far. But the up move is underway, without any major corrections that warn of equally sharp retracements if and when it happens. A potential target lies around 27,500-28,000 levels which is expected to strongly repulse upside attempts.





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The Cotton Association of India (CAI) is respected as the chief trade body in the hierarchy of the Indian cotton economy. Since its origin in 1921, CAI's contribution has been unparalleled in the development of cotton across India.

The CAI is setting benchmarks across a wide spectrum of services targeting the entire cotton value chain. These range from research and development at the grass root level to education, providing an arbitration mechanism, maintaining Indian cotton grade standards, issuing Certificates of Origin to collecting and disseminating statistics and information. Moreover, CAI is an autonomous organization portraying professionalism and reliability in cotton testing.

The CAI's network of independent cotton testing & research laboratories are strategically spread across major cotton centres in India and are equipped with:

- State-of-the-art technology & world-class Premier and MAG cotton testing machines
- HVI test mode with trash% tested gravimetrically

LABORATORY LOCATIONS

Current locations : • Maharashtra : Mumbai; Yavatmal; Aurangabad; Jalgaon • Gujarat : Rajkot; Ahmedabad • Andhra Pradesh : Adoni
 • Madhya Pradesh : Khargone • Karnataka : Hubli • Punjab : Bathinda • Telangana: Warangal, Adilabad



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Established 1921
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COTTON ASSOCIATION OF INDIA

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MCX May Contract Chart

The MCX benchmark cotton prices moved higher as expected. As mentioned earlier, charts continue to be bullish for 45,000 or even higher to 46,500 before any chances of a sustained correction. A push above 46350 would be a bullish sign, hinting at further advance towards 46,900 or even higher to 47,300 in a couple of weeks. However, an unexpected dip below 45,300 would warn about the possibility of prices declining to 43,800 where initial supports kick-in. Favoured view expects more upside initially followed by a strong correction to 43,500-800 and only a failure to hold here could result in a sharper decline subsequently.



ICE Cotton Futures

As mentioned earlier, most of our expectations on the upside have overshoot and the chart's structure and indicators are bullish for a rise towards \$1.48 or even higher to \$1.53. We are at these levels presently and still looking for trend reversal signs that seems to be elusive. This makes us believe that we could edge higher more towards \$160-165 levels on the upside where strong resistance kick in. However, if external markers like the weather does not show any improvements, speculators could be taking aim at the all-time highs at \$2.11 reached in March 2011.



Conclusion:

The domestic prices are at peaks never seen before and corrections are quite shallow and unable to see any follow-through selling. But the entire markets are skewed on the long side, which could lead to terrible consequences as seen in the past. International cotton futures are showing bullish signs and it needs to be seen if markets are able to take the \$1.65 levels, which could be a strong resistance.

Both in 2011 and 2018 the on-call sales positions bloated like how we are at present and the end was not a happy one for the industry; which panicked and bought at high prices. Important support is at \$1.42

followed by \$1.38c on the downside and in that zone, prices could find a lot of buying interest again. The domestic prices have risen sharply higher and much higher relative to international prices, and perfectly in line with our expectations over the past several months now. The international price indicates that it is in the process of a further rise followed by a downward correction in the coming sessions.

For Guj ICS supports are seen at 25,500/qtl and for ICE May cotton futures at \$1.42 followed by \$1.35c. The domestic technical picture looks extremely overdone and one needs to be cautiously bullish, as prices are ruling at all-time highs. It could however grind higher. The international prices are relatively more bullish compared to the domestic prices presently. Though we have been expecting domestic prices to see a sharp retracement lower, it hasn't materialised yet. Therefore, we can expect sharp moves lower in domestic prices after making new highs and international prices to remain neutral to mildly bearish going forward.

US\$INR Monthly Report for May 2022

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 remain volatile and trade in the wide range of 75.50-77.30 for May 2022. The major events to be in focus will be FOMC policy outcome on 4th May and the LIC IPO which is set to open on 4th May and is likely to close on 9th May. Development regarding Russia-Ukraine wars crisis, FII flows and RBI stance to maintain stability in Rupee will also be on the radar. RBI has been selling dollars above 76.50 and despite DXY testing nearly 104 levels, almost a 20-yr high, USDINR is quite stable.

Following will be the key triggers for USDINR in the month of May:-

✓ FOMC Policy outcome on 4th May 2022: The US Federal Open Market Committee (FOMC) is scheduled to meet on 3rd-4th May 2022 and it is anticipated that the Fed could raise the interest rates by 50 bps in May meeting. However, the Fed's stance for further rate hikes in June and July will be in focus as current expectation is of again 50-bps in June as well as July.

✓ LIC IPO: The much-awaited LIC IPO is set to open on 4th May and is likely to close on 9th May. Price band has been set at Rs. 902 to Rs. 949, with a discount of Rs. 60 for policyholders and

EXPERT'S Column



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

Rs. 45 for retail and employees. The government, which wholly owns the insurance behemoth, plans to raise an amount of Rs. 21,000 crore by selling around 22 crore shares which is equivalent to a 3.5 percent stake. This may lead downside in USDINR to some extent.

✓ Ukraine - Russia war crisis: Investors will remain sensitive to any news regarding Russia-Ukraine front and will react accordingly, thus effecting the market sentiments. Intensifying situation due to any more sanctions by major economies on Russian products and delay in talks progress will create volatility in market.

✓ Brent oil prices: Brent oil continued to remain above \$100/bl. Prices will take cues from concerns over supply tightness in the market, while demand worries from China on Shanghai lockdowns and as Beijing expands mass testing may limit gains. Any escalation in Russia-Ukraine may lead to further upside.

✓ FII sell off continues: Domestic markets continued to experience outflows for the seventh month in a row. From Oct 2021-Apr 2022 total outflows counts at \$24.338 bn. In CY 2022 from January to April total outflows stands at \$18.413 bn, with April witnessing FII's selling of \$2.961bn (as of 29th Apr 2022).

✓ RBI Forex strategy: In order to maintain the USDINR in the range, RBI bought US dollar to protect downside at around 75.50-75.30 and is also protecting upside at around 76.75-77.00.

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Established in 1957
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SAY NO TO CHILD LABOUR**

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) 2021-22 Crop April 2022					
Sr. No.	Growth	Grade Standard	Grade	Staple	Micronaire	Gravimetric Trash	Strength /GPT	25th	26th	27th	28th	29th	30th
1	P/H/R	ICS-101	Fine	Below 22mm	5.0 – 7.0	4%	15	16366 (58200)	16085 (57200)	16366 (58200)	17491 (62200)	18194 (64700)	18194 (64700)
2	P/H/R (SG)	ICS-201	Fine	Below 22mm	5.0 – 7.0	4.5%	15	16563 (58900)	16281 (57900)	16563 (58900)	17687 (62900)	18390 (65400)	18390 (65400)
3	GUJ	ICS-102	Fine	22mm	4.0 – 6.0	13%	20	13779 (49000)	13779 (49000)	13779 (49000)	14060 (50000)	14341 (51000)	14341 (51000)
4	KAR	ICS-103	Fine	23mm	4.0 – 5.5	4.5%	21	15747 (56000)	16310 (58000)	16310 (58000)	16591 (59000)	16872 (60000)	16872 (60000)
5	M/M (P)	ICS-104	Fine	23mm	4.5 – 7.0	4%	22	21652 (77000)	22215 (79000)	22215 (79000)	22496 (80000)	22777 (81000)	22777 (81000)
6	P/H/R(U) (SG)	ICS-202	Fine	27mm	3.5 – 4.9	4.5%	26	24774 (88100)	24774 (88100)	24914 (88600)	25195 (89600)	25505 (90700)	25505 (90700)
7	M/M(P)/SA/TL	ICS-105	Fine	26mm	3.0 – 3.4	4%	25	21371 (76000)	21371 (76000)	21371 (76000)	21371 (76000)	21512 (76500)	21371 (76000)
8	P/H/R(U)	ICS-105	Fine	27mm	3.5 – 4.9	4%	26	25055 (89100)	25055 (89100)	25195 (89600)	25477 (90600)	25786 (91700)	25786 (91700)
9	M/M(P)/SA/TL/G	ICS-105	Fine	27mm	3.0 – 3.4	4%	25	21934 (78000)	21934 (78000)	21934 (78000)	21934 (78000)	22074 (78500)	21934 (78000)
10	M/M(P)/SA/TL	ICS-105	Fine	27mm	3.5 – 4.9	3.5%	26	22918 (81500)	22918 (81500)	22918 (81500)	23058 (82000)	23340 (83000)	23340 (83000)
11	P/H/R(U)	ICS-105	Fine	28mm	3.5 – 4.9	4%	27	25477 (90600)	25477 (90600)	25617 (91100)	26180 (93100)	26517 (94300)	26517 (94300)
12	M/M(P)	ICS-105	Fine	28mm	3.7 – 4.5	3.5%	27	25730 (91500)	25730 (91500)	25730 (91500)	25870 (92000)	26152 (93000)	26152 (93000)
13	SA/TL/K	ICS-105	Fine	28mm	3.7 – 4.5	3.5%	27	25786 (91700)	25786 (91700)	25786 (91700)	25927 (92200)	26208 (93200)	26208 (93200)
14	GUJ	ICS-105	Fine	28mm	3.7 – 4.5	3%	27	25730 (91500)	25730 (91500)	25730 (91500)	25870 (92000)	26152 (93000)	26152 (93000)
15	R(L)	ICS-105	Fine	29mm	3.7 – 4.5	3.5%	28	25308 (90000)	25027 (89000)	25167 (89500)	25308 (90000)	25589 (91000)	25589 (91000)
16	M/M(P)	ICS-105	Fine	29mm	3.7 – 4.5	3.5%	28	26573 (94500)	26573 (94500)	26573 (94500)	26714 (95000)	26995 (96000)	26995 (96000)
17	SA/TL/K	ICS-105	Fine	29mm	3.7 – 4.5	3%	28	26630 (94700)	26630 (94700)	26630 (94700)	26770 (95200)	27051 (96200)	27051 (96200)
18	GUJ	ICS-105	Fine	29mm	3.7 – 4.5	3%	28	26292 (93500)	26292 (93500)	26292 (93500)	26433 (94000)	26714 (95000)	26714 (95000)
19	M/M(P)	ICS-105	Fine	30mm	3.7 – 4.5	3.5%	29	27417 (97500)	27417 (97500)	27417 (97500)	27558 (98000)	27839 (99000)	27839 (99000)
20	SA/TL/K/O	ICS-105	Fine	30mm	3.7 – 4.5	3%	29	27558 (98000)	27558 (98000)	27558 (98000)	27698 (98500)	27979 (99500)	27979 (99500)
21	M/M(P)	ICS-105	Fine	31mm	3.7 – 4.5	3%	30	27839 (99000)	27839 (99000)	27839 (99000)	27979 (99500)	28401 (101000)	28401 (101000)
22	SA/TL/K/TN/O	ICS-105	Fine	31mm	3.7 – 4.5	3%	30	27923 (99300)	27923 (99300)	27923 (99300)	28120 (100000)	28542 (101500)	28542 (101500)
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	30651 (109000)	30651 (109000)	30651 (109000)	30651 (109000)	30651 (109000)	30651 (109000)
25	K/TN	ICS-107	Fine	34mm	2.8 - 3.7	3.5%	34	31775 (113000)	31775 (113000)	31775 (113000)	31775 (113000)	31775 (113000)	31775 (113000)
26	M/M(P)	ICS-107	Fine	35mm	2.8 - 3.7	4%	35	32057 (114000)	32057 (114000)	32057 (114000)	32057 (114000)	32057 (114000)	32057 (114000)
27	K/TN	ICS-107	Fine	35mm	2.8 - 3.7	3.5%	35	33041 (117500)	33041 (117500)	33041 (117500)	33041 (117500)	33041 (117500)	33041 (117500)

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