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Technical Analysis

Price Outlook for Gujarat-ICS-105, 29mm and ICE Cotton Futures
for the period 7th June 2022 to 4th July 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 are mildly higher in line with international prices that bounced from recent lows on mill buying. But the lack of follow-through buying on the back of poor demand continues to weigh on futures presently.

- Position limits that have been imposed

in MCX is one of the reasons why there is no follow-through buying, as the new member level position will now be at 800,000 bales (38,00,000 bales earlier) and at individual client level at 80,000 bales (vs 380,000 bales). Near month futures positions limit has been cut to 20000 bales at client level (vs 95000 bales) and 200,000 bales (vs 950,000 bales) at member level.

- Separately, as per the Government of India data, India's cotton planting upto June 3rd stood at 10.73 lakh hectares vs 13.08 lakh seen last year, same time. While details at state level were still awaited, the fall in overall number is a bit surprising. Normally, North India - Punjab, Haryana and Rajasthan see an early start to cotton planting by late April. This planting is nearly complete by the end of June.

International Markets

- ICE Cotton futures fell on Monday, weighed by a firmer dollar, as focus turned to a federal supply-demand report due later in the week. Investors are awaiting the U.S. Department of Agriculture's monthly supply and demand report on Friday. The supply-demand report and the expiration of July futures and options are going to reduce the open interest in the market. Cotton seems to be finding initial support from mill fixations that still have to be done. But it doesn't seem to be a worry anymore.

- Cotton producing locales across West Texas received at least 1 inch of precipitation over the course of last week – some received much more. However, short- and mid-term forecasts are less than encouraging. Much of the headlines last week centred around rains in the Southwest. Previously, most of the rainfall was relegated to irrigated areas. However, recent showers did fall on a sizable portion of the dryland acreage. This should allow stands to be obtained in areas where once it looked doubtful.

- The question now to be asked is will the impending global recession be the next major world crisis? The USDA currently estimates world consumption at 123 million bales. A three percent decline due to the recession would have the world use at 119 million bales, or worse, a five percent decrease would drop world consumption to 117 million bales. If a recession reaches crisis stage significantly eroding demand, the shorts will feast in driving this market south.

Shankar 6 GUJ ICS Price Trend

As mentioned in the previous update, a potential target lies around 27,500-28,000 levels which is expected to strongly repulse upside attempts. After testing 28,500, prices have been struggling to find further buying momentum. Most of the supply issues have been factored in and going forward, markets will now focus on weather and demand. We expect prices to gradually edge lower to 26,500 or even lower to 25,000 levels now.



MCX June Contract Chart

The MCX benchmark cotton prices after testing an all-time high of 50,330 has been steadily declining thanks to some proactive measures taken by the government, although it might have come a tad bit late. A sharp correction from the highs so far has seen a decline to 43,800. Presently, we expect

a pullback again to 46,500-47,000 levels on the upside and a subsequent decline lower again towards 42,000 or even lower to 40,000 in the coming month. In the bigger picture, we anticipate prices to edge lower eventually towards 37,000, a Fibonacci retracement level as seen in the chart below.



ICE Dec Cotton Futures

ICE cotton December futures after testing highs \$1.33 has seen a sharp decline with rising volumes, a typical sign of bulls exiting the market. We expect a minor pullback towards \$1.23 levels before declining sharply lower from there towards \$1.05 eventually. Weather and demand are going to dominate the narrative for cotton prices going forward and markets seems to have moved on and taken all supply issues into account already. However, if the external factors like weather do not show any improvements, speculators could be taking aim at the all-time highs at \$2.11 reached in March 2011. Any unexpected rise above \$1.29 on a closing basis could cause doubts on the bearish view.



Conclusion

The domestic prices have corrected sharply lower from recent highs. Though, it looks like we have more or less seen an intermediate top around 110,000/candy, the decline going forward will be measured and steady. Buying frenzy from futures will most probably be absent due to position limits imposed on it. International prices too have seen a healthy correction so far.

Both in 2011 and 2018, the On-call sales positions bloated like how we are at presently and the end was not a happy one for the industry which panicked and bought at high prices. Important support is at \$1.15 followed by \$1.05c on the downside and in that zone, prices could find a lot of buying interest again. The domestic prices have risen much higher relative to international prices, and perfectly in line with our expectations over the past several months now. The ensuing correction will be equally sharp on the downside and the premium over ICE could gradually become neutral. The international price indicates that it is in the process of a downward correction in the coming sessions.

For Guj ICS supports are seen at 25,500/qtl and for ICE May cotton futures at \$1.15 followed by \$1.05c. The domestic technical picture looks weak and could grind lower eventually. It could however find traction from time to time based on news flows. We have been expecting domestic prices to see a sharp retracement lower and it has finally materialised. 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 June 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 trade in the wide range of 77.0-78.50 for June 2022. The major events to be focus will be outcome of RBI policy on 8th June and FOMC policy on 15th June. Updates regarding Russia-Ukraine crisis, USDCNY movement, oil prices, FII flows and RBI stance to maintain stability in Rupee will as well be on the radar. USDINR is quite stable as RBI has been selling dollars above 77.80 and oil companies buying at around 77.40.

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

✓ **RBI Policy outcome on 8th June:** The RBI committee is scheduled to meet on 6-8th June 2022, and is anticipated that it could raise the interest rates between 25-50 bps in June. RBI is expected to unveil revised upward projections on inflation in the June meeting.

✓ **FOMC Policy outcome on 15th June:** The US Federal Open Market Committee (FOMC) is scheduled to meet on 14-15th June 2022, and it is anticipated that the Fed could raise the interest rates by 50 bps and will start scaling back its nearly \$9trn balance sheet in June.

EXPERT'S Column



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

✓ **Ukraine - Russia war crisis:**

Investors will remain sensitive to any news regarding the Russia-Ukraine front and will react accordingly, thus effecting the market sentiments. Intensifying situation due to any more stricter actions by major economies on Russia and delay in talks, will create volatility in the market.

✓ **Brent oil prices:**

Brent oil continued to remain above \$100/bl. Prices will take cues from concerns over supply tightness in the market. Strong demand with the start of the US as well as European driving season and gradual reopening of Shanghai after two months of strict lockdowns. EU has also agreed to slash oil imports from Russia by the end of 2022, fuelling worries of a tighter market which is already strained for supply.

✓ **FII sell off continues:** Domestic markets continued to experience outflows for eighth consecutive month. From Oct 2021-May 2022 the total outflows count was at \$29.068 bn. In CY 2022 from January to May total outflows stand at \$23.143 bn, with May witnessing FII's selling of \$4.73 bn (as of 31st May 2022).

✓ **RBI Forex strategy:** In order to maintain the USDINR in the range, RBI sold US dollar to protect upside at around 77.80 and oil companies are buying on dips at around 77.40 which is limiting downside in the pair.

Glimpses of Varun Yagna

organised by the
Bombay Cotton Merchant's and
Muccadums' Association Ltd.
on 30th May 2022 at CAI



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) 2021-22 Crop May-June 2022					
Sr. No.	Growth	Grade Standard	Grade	Staple	Micronaire	Gravimetric Trash	Strength /GPT	30th	31st	1st	2nd	3rd	4th
1	P/H/R	ICS-101	Fine	Below 22mm	5.0 – 7.0	4%	15	20218 (71900)	20218 (71900)	19796 (70400)	19796 (70400)	19796 (70400)	19796 (70400)
2	P/H/R (SG)	ICS-201	Fine	Below 22mm	5.0 – 7.0	4.5%	15	20415 (72600)	20415 (72600)	19993 (71100)	19993 (71100)	19993 (71100)	19993 (71100)
3	GUJ	ICS-102	Fine	22mm	4.0 – 6.0	13%	20	16450 (58500)	16310 (58000)	16310 (58000)	16310 (58000)	16310 (58000)	16310 (58000)
4	KAR	ICS-103	Fine	23mm	4.0 – 5.5	4.5%	21	18278 (65000)	18137 (64500)	18137 (64500)	18137 (64500)	18137 (64500)	18137 (64500)
5	M/M (P)	ICS-104	Fine	23mm	4.5 – 7.0	4%	22	22777 (81000)	22496 (80000)	21934 (78000)	21371 (76000)	21090 (75000)	20809 (74000)
6	P/H/R(U) (SG)	ICS-202	Fine	27mm	3.5 – 4.9	4.5%	26	26573 (94500)	26011 (92500)	25449 (90500)	25167 (89500)	25589 (91000)	25308 (90000)
7	M/M(P)/SA/TL	ICS-105	Fine	26mm	3.0 – 3.4	4%	25	22074 (78500)	21793 (77500)	21512 (76500)	20949 (74500)	20949 (74500)	20387 (72500)
8	P/H/R(U)	ICS-105	Fine	27mm	3.5 – 4.9	4%	26	27164 (96600)	26601 (94600)	26039 (92600)	25758 (91600)	26180 (93100)	25898 (92100)
9	M/M(P)/SA/TL/G	ICS-105	Fine	27mm	3.0 – 3.4	4%	25	22777 (81000)	22496 (80000)	22215 (79000)	21652 (77000)	21652 (77000)	21090 (75000)
10	M/M(P)/SA/TL	ICS-105	Fine	27mm	3.5 – 4.9	3.5%	26	24746 (88000)	24464 (87000)	24183 (86000)	23902 (85000)	23902 (85000)	23621 (84000)
11	P/H/R(U)	ICS-105	Fine	28mm	3.5 – 4.9	4%	27	27558 (98000)	26995 (96000)	26433 (94000)	26152 (93000)	26573 (94500)	26292 (93500)
12	M/M(P)	ICS-105	Fine	28mm	3.7 – 4.5	3.5%	27	27558 (98000)	27276 (97000)	26995 (96000)	26714 (95000)	26995 (96000)	26714 (95000)
13	SA/TL/K	ICS-105	Fine	28mm	3.7 – 4.5	3.5%	27	27614 (98200)	27333 (97200)	27051 (96200)	26770 (95200)	27051 (96200)	26770 (95200)
14	GUJ	ICS-105	Fine	28mm	3.7 – 4.5	3%	27	27136 (96500)	26855 (95500)	26573 (94500)	26292 (93500)	26573 (94500)	26292 (93500)
15	R(L)	ICS-105	Fine	29mm	3.7 – 4.5	3.5%	28	27558 (98000)	27558 (98000)	27276 (97000)	26995 (96000)	27417 (97500)	27136 (96500)
16	M/M(P)	ICS-105	Fine	29mm	3.7 – 4.5	3.5%	28	28401 (101000)	28120 (100000)	28120 (100000)	27839 (99000)	28261 (100500)	27979 (99500)
17	SA/TL/K	ICS-105	Fine	29mm	3.7 – 4.5	3%	28	28457 (101200)	28176 (100200)	28176 (100200)	27895 (99200)	28317 (100700)	28036 (99700)
18	GUJ	ICS-105	Fine	29mm	3.7 – 4.5	3%	28	27839 (99000)	27558 (98000)	27558 (98000)	27276 (97000)	27558 (98000)	27276 (97000)
19	M/M(P)	ICS-105	Fine	30mm	3.7 – 4.5	3.5%	29	29807 (106000)	29526 (105000)	29526 (105000)	29245 (104000)	29526 (105000)	29526 (105000)
20	SA/TL/K/O	ICS-105	Fine	30mm	3.7 – 4.5	3%	29	29948 (106500)	29666 (105500)	29666 (105500)	29385 (104500)	29666 (105500)	29666 (105500)
21	M/M(P)	ICS-105	Fine	31mm	3.7 – 4.5	3%	30	30229 (107500)	30229 (107500)	30229 (107500)	30229 (107500)	30510 (108500)	30510 (108500)
22	SA/TL/K/TN/O	ICS-105	Fine	31mm	3.7 – 4.5	3%	30	30369 (108000)	30369 (108000)	30369 (108000)	30369 (108000)	30651 (109000)	30651 (109000)
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	30510 (108500)	30510 (108500)	30510 (108500)	30510 (108500)	30510 (108500)	30510 (108500)
25	K/TN	ICS-107	Fine	34mm	2.8 - 3.7	3.5%	34	31635 (112500)	31635 (112500)	31635 (112500)	31635 (112500)	31635 (112500)	31635 (112500)
26	M/M(P)	ICS-107	Fine	35mm	2.8 - 3.7	4%	35	31775 (113000)	31775 (113000)	31775 (113000)	31775 (113000)	31775 (113000)	31775 (113000)
27	K/TN	ICS-107	Fine	35mm	2.8 - 3.7	3.5%	35	32760 (116500)	32760 (116500)	32760 (116500)	32760 (116500)	32760 (116500)	32760 (116500)

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