Experts' Column

Technical Approach to Commodity Trading

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(The author is the Director of Commtrendz Research and the views expressed in this column are his own and not that of Cotton Association of India.
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Goal of Technical Analysis

The goal of technical analysis is very often misunderstood by those who are unfamiliar in studying prices and do not know that tools exists to understand the markets better.

In brief the goal would be to …..

Identify a trend and ride with it until enough evidence proves that the trend has reversed direction - Martin.J.Pring

So, our job is to use the tools available to a technician and uncover the direction of the markets and identify when it has reversed direction.

Basically there are two ways to analyze the markets. Fundamental Analysis or Technical Analysis.

Fundamental Analysis	Technical Analysis
• Study various reports	
• Demand/Supply Analysis	• Study Price action alone
• Gather News	
• Examine economy data	
• Uncover Rumors	
• Study Related markets	

Is one approach best?

There's really no answer to that question. Some hedgers and speculators favor fundamental analysis over technical analysis or vice versa, while others use both approaches.

In Summary the technical analyst believes that everything that affects a certain market is contained in one variable which is the underlying price. If you understand the price of a currency, stock or a commodity, then you will know everything related to the market.

DOW THEORY
Overview

In 1897, Charles Dow developed two broad market averages. The "Industrial Average" included 12 blue-chip stocks and the "Rail Average" was comprised of 20 railroad enterprises. These are now known as the Dow Jones Industrial Average and the Dow Jones Transportation Average.

The Dow Theory resulted from a series of articles published by Charles Dow in The Wall Street Journal between 1900 and 1902. The Dow Theory is the common ancestor to most principles of modern technical analysis.

The Up Trend: All Up trends, in any market, must have a succession of higher tops and rising bottoms.

The Down Trend : All Down trends, in any market, must have a succession of falling tops and falling bottoms.
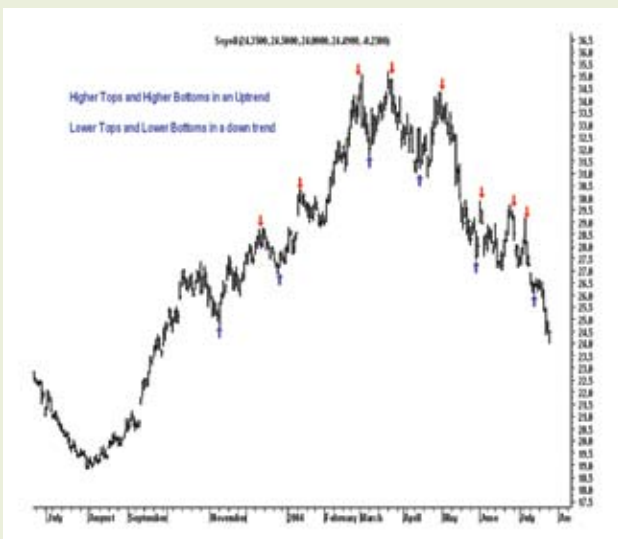

Dow further added to his theory of trend analysis by dividing trends into three categories. They are as follows:

1. Primary Trends

2. Secondary Trends

3. Minor Trends

Primary Trends- The Primary trend is the major underlying trend in the market. This trend will give a general direction of the market and should be the first observation in any market before any other analysis is done.

Secondary Trends- The secondary trend generally gives medium term movements in the market. Secondary trend can go against the primary trend for only a short period of time.

Minor Trends- Minor trends highlight the short term fluctuations of the market. They generally show nervousness with quick up or down swing.
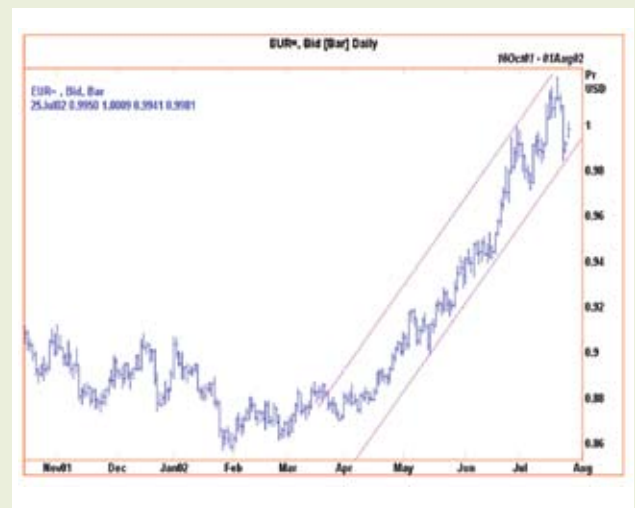

As shown in the chart above, if we combine all the minor trends together they will assist us in understanding the secondary trend; by combining a long term chart of secondary swings, it will confirm the primary trend which is the underlying direction of the market.

Different Types of Charts

Depending on the type of trader you are and your preference for looking at the markets in visually different perspectives, technical analysis offer a host of charting techniques:

Line Chart: These are simple charts showing the closing price of each period and connects them as a single line. These are simple charts showing the closing price of each period and connects them as a single line. You can also draw a line of the High or Low; a popular method is the line chart of the closing price.
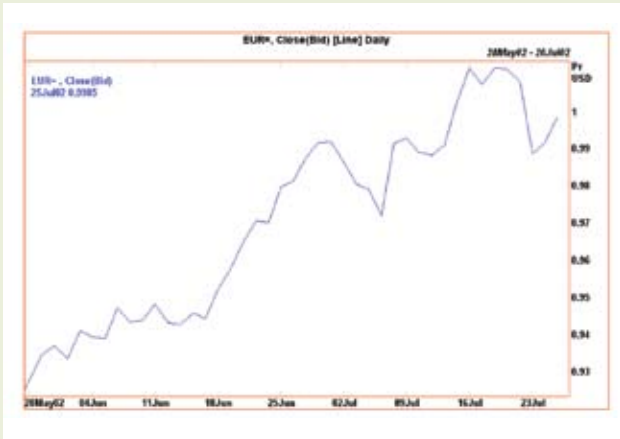
Bar Chart : This type of chart is the most popular and shows the intraday movements of the market. Each bar, represents one period, will show the Open (small dot on the left), High, Low and Close (Small dot on the right).

Candle Stick Charts – Developed by the Japanese few centuries back, this chart is similar to the construction of a bar chart, however, the color of the candle is determined by the difference between the Opening and the closing price. If the Closing price is lower than the Open then the candle is solid, other wise it is hollow.

THE TREND LINE

The trend line is the simplest of all technical tools available and is the most up to date indicator by including the most recent price action and giving a clear path for the market to follow.

Listed below are some basic rules on trend line applications:

a.Trend lines should touch at least two points(highs or lows) and possibly be confirmed by a third point.

b.The breaking of a trend line is the best signal that the market has changed direction.

c.The longer the trend line stays intact and the more times the trend line is tested signifies the strength of the underlying trend.

It is important to note that the steepness of a trend line has a major significance to the underlying trend.

All trend lines can be measured in degree using a simple compass.
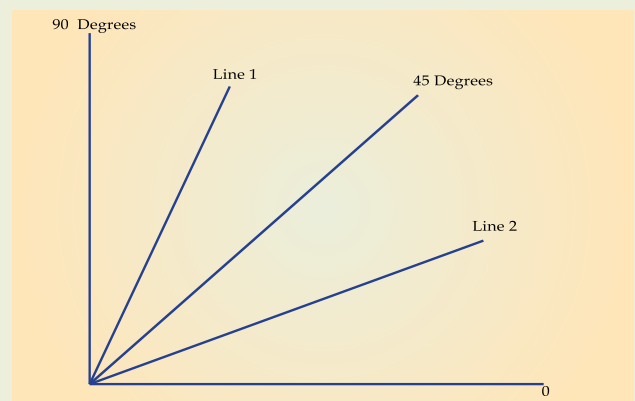
Line 1- If a trend line is too steep (Line 1) it can indicate that the trend is rising too fast and can not be held at the increasing rate. In general this is not favorable.
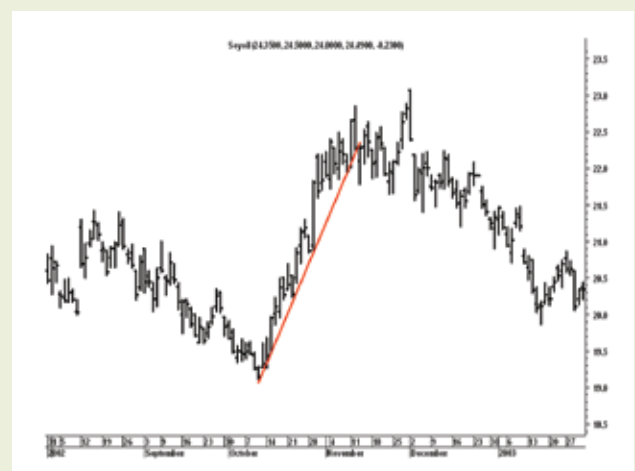
45 degrees- The 45 degree line is the most preferred. It is generally felt that the market is in balance with price and time rising and falling together. A trend line close to the above 45 degree

angle signifies a more stable trend where prices are moving at the best speed.

Line 2- If the trend line is flat (Line 2) the up trend or down trend is generally thought to be weak with the general uncertainty of a trend-less market.

Channel Line : Support & Resistance

It is common practice to draw two trend lines around price movement. These lines will temporarily contain the trend and alert us when the price is breaking up or turning down. These two lines that contain the trend are called lines of SUPPORT, which act like a floor under the market, and RESISTANCE, which acts like a ceiling over the market.

The UP TREND

The DOWN TREND

P R E S I D E N T ' S   C O M M U N I Q U E

Dear Readers,

At the outset, I sincerely thank our readers for their unstinted support to this weekly bulletin, Cotton Statistics and News. It has been our endeavour to provide to our readers through this bulletin the time critical data on all matters relating to cotton and textile.

Since June 2013, the number of pages of this weekly bulletin has been increased from four to eight and it now comes in a new colour and design. Moreover, the contents of this weekly bulletin has also been enhanced considerably by incorporating periodical updates on production, arrival, consumption etc; experts' columns on various research initiatives, price behavioural analysis and other topical issues of importance.

This has made our weekly bulletin more reader friendly, contextual and relevant to all those connected with the cotton value chain.

The Association has further plans to add more value to the contents of this weekly bulletin by bringing out regularly interviews and guest columns, etc.

We seek your continued support and guidance and shall appreciate your feedback and suggestions regarding the contents and for making this publication more reader friendly and interactive. Please send your feedback and suggestions at publication@caionline.in

Sincerely,
Dhiren N. Sheth

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ASSOCIATES THROUGHOUT THE WORLD

Data of registration of contract for export of cotton yarn

Month	Quantity in Million Kgs.	Month	Quantity in Million Kgs.
Apr'2011	71.36	May 2012(Provisional)	74.455
May 2011	63.19	Jun'2012 (Provisional)	82.419
Jun'2011	54.079	Jul'2012 (Provisional)	94.507
Jul'2011	57.212	Aug'2012 (Provisional)	83.055
Aug'2011	97.734	Sep'2012(Provisional)	64.269
Sep'2011	77.157	Oct'2012 (Provisional)	94.462
Oct'2011	43.69	Nov'2012 (Provisional)	100.769
Nov'2011	76.362	Dec'2012 (Provisional)	100.778
Dec'2011	83.005	Jan'2013 (Provisional)	117.143
Jan'2012	79.148	Feb'2013 (Provisional)	103.955
Feb'2012	60.518	Mar'2013 (Provisional)	88.685
Mar'2012 (Provisional)	64.227	Apr'2013 (Provisional)	115.960
Apr'2012(Provisional)	62.811	May 2013(Provisional)	90.152

(Source: Directorate General of Foreign Trade)

Update on Cotton Acreage (as on 20/06/2013)

Sl. No	States	Normal of Year*	Normal on Week**	Area Sown (During the corresponding week in)	
				2013	2012
1	2	3	4	5	6
1	Andhra Pradesh	20.09	2.98	3.53	6.53
2	Gujarat	26.97	3.03	5.02	3.83
3	Haryana	5.82	5.07	4.86	5.15
4	Karnataka	5.28	0.98	1.81	1.06
5	Madhya Pradesh	6.55	1.27	2.17	0.8
6	Maharashtra	40.71	2.98	3.14	5.46
7	Orissa	0.98	0.09	0.09	0.24
8	Punjab	5.24	5.5	5.03	5.16
9	Rajasthan	4.18	2.37	2.25	2.8
10	Tamil Nadu	1.28	0.07	0	0.05
11	Uttar Pradesh	0	0.25	0.23	0.3
12	West Bengal	0	0	0	0
13	Others	0.43	0	0	0
	Total	117.53	24.59	28.13	31.38

* Normal area mentioned above is average of last three years   ** It is average of last three years
(Source: Directorate of Cotton Development, Mumbai)

UPCOUNTRY SPOT RATES (Rs./Qtl)

Sr. No.	Growth	Grade Standard	Grade	Staple	Micronaire	Strength /GPT	Spot Rate (Upcountry) 2012-13 Crop June 2013					
							17th	18th	19th	20th	21st	22nd
1	P/H/R	ICS-101	Fine	Below 22mm	5.0 – 7.0	15	10967 (39000)	10967 (39000)	10967 (39000)	10967 (39000)	10967 (39000)	10967 (39000)
2	P/H/R	ICS-201	Fine	Below 22mm	5.0 – 7.0	15	11220 (39900)	11220 (39900)	11220 (39900)	11220 (39900)	11220 (39900)	11220 (39900)
3	GUJ	ICS-102	Fine	22mm	4.0 – 6.0	20	8014 (28500)	7874 (28000)	7733 (27500)	7817 (27800)	7817 (27800)	7845 (27900)
4	KAR	ICS-103	Fine	23mm	4.0 – 5.5	21	8858 (31500)	8717 (31000)	8577 (30500)	8633 (30700)	8633 (30700)	8661 (30800)
5	M/M	ICS-104	Fine	24mm	4.0 – 5.5	23	9954 (35400)	9842 (35000)	9842 (35000)	9898 (35200)	9898 (35200)	9954 (35400)
6	P/H/R	ICS-202	Fine	26mm	3.5 – 4.9	26	10967 (39000)	10911 (38800)	10967 (39000)	11023 (39200)	11079 (39400)	11220 (39900)
7	M/M/A	ICS-105	Fine	26mm	3.0 – 3.4	25	9983 (35500)	9926 (35300)	9983 (35500)	10067 (35800)	10123 (36000)	10179 (36200)
8	M/M/A	ICS-105	Fine	26mm	3.5 – 4.9	25	10348 (36800)	10208 (36300)	10264 (36500)	10348 (36800)	10404 (37000)	10461 (37200)
9	P/H/R	ICS-105	Fine	27mm	3.5 – 4.9	26	11107 (39500)	11051 (39300)	11107 (39500)	11164 (39700)	11220 (39900)	11360 (40400)
10	M/M/A	ICS-105	Fine	27mm	3.0 – 3.4	26	10348 (36800)	10208 (36300)	10208 (36300)	10292 (36600)	10348 (36800)	10404 (37000)
11	M/M/A	ICS-105	Fine	27mm	3.5 – 4.9	26	10714 (38100)	10573 (37600)	10461 (37200)	10545 (37500)	10601 (37700)	10657 (37900)
12	P/H/R	ICS-105	Fine	28mm	3.5 – 4.9	27	11248 (40000)	11192 (39800)	11248 (40000)	11304 (40200)	11360 (40400)	11501 (40900)
13	M/M/A	ICS-105	Fine	28mm	3.5 – 4.9	27	11304 (40200)	11135 (39600)	11023 (39200)	11107 (39500)	11164 (39700)	11220 (39900)
14	GUJ	ICS-105	Fine	28mm	3.5 – 4.9	27	11192 (39800)	11079 (39400)	11051 (39300)	11135 (39600)	11192 (39800)	11248 (40000)
15	M/M/A/K	ICS-105	Fine	29mm	3.5 – 4.9	28	11332 (40300)	11192 (39800)	11107 (39500)	11192 (39800)	11248 (40000)	11304 (40200)
16	GUJ	ICS-105	Fine	29mm	3.5 – 4.9	28	11276 (40100)	11192 (39800)	11164 (39700)	11248 (40000)	11304 (40200)	11360 (40400)
17	M/M/A/K	ICS-105	Fine	30mm	3.5 – 4.9	29	11332 (40300)	11248 (40000)	11248 (40000)	11332 (40300)	11389 (40500)	11445 (40700)
18	M/M/A/K/T/O	ICS-105	Fine	31mm	3.5 – 4.9	30	11445 (40700)	11360 (40400)	11332 (40300)	11417 (40600)	11473 (40800)	11529 (41000)
19	K/A/T/O	ICS-106	Fine	32mm	3.5 – 4.9	31	11810 (42000)	11726 (41700)	11726 (41700)	11810 (42000)	11867 (42200)	11951 (42500)
20	M(P)/ K/T	ICS-107	Fine	34mm	3.0 - 3.8	33	14060 (50000)	13919 (49500)	13919 (49500)	13919 (49500)	13919 (49500)	14004 (49800)

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