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Technical Analysis

Price outlook for Gujarat-ICS-105, 29mm and ICE cotton futures
for the period 03/07/18 to 31/07/18

(The author is Director of Commtrendz Research and the views expressed in this column are his own and the author is not liable for any loss or damage, including without limitations, any profit or loss which may arise directly or indirectly from the use of following information.)

We will look into the Gujarat-ICS-105, 29mm prices along with other benchmarks and try to forecast price moves going forward.

As mentioned in the previous update, fundamental analysis involves studying and analysing various reports, data and based on that arriving at some possible direction for prices in the coming months or quarters.

Some of the recent fundamental drivers for the domestic cotton prices are:

- Cotton futures edged higher on MCX as the announcement by the Narendra Modi-led government on increasing the MSP of 14 kharif crops is set to impact international price of rice and cotton – items topping the list of agricultural commodities exported from the country. The hike is expected to firm up cotton prices in India.

- Supply constraints may arise from lower fibre production this season due to pests, acreage drop in the next season and adverse weather in other key cotton-growing nations. However, the expectation of firming prices may encourage farmers to sow more in the coming crop year.

- The Cotton Association of India (CAI) has released its June estimate of the cotton crop for the season 2017-18 beginning from 1st October 2017. The CAI has retained its cotton crop estimate for the ongoing crop year 2017-18 at 365 lakh bales of 170 kgs. each i.e. at the same level as in its estimate made in the previous month.

Some of the fundamental drivers for International cotton prices are:

- ICE cotton futures closed marginally lower on profit-taking ahead of the 4th July holiday in the USA. ICE cotton futures fell over 1 percent on Monday, to mark a six-week low as investors remained on the sidelines amid trade tensions between the United States, the world's biggest cotton exporter, and China, the top consumer.

- A combination of factors has muddied the waters of the global cotton market, at least in the short term, according to the July 2018 edition of Cotton This Month. Cotton demand is up, especially in Asia and South Asia, but drought conditions in the West Texas region of the United States and the potential of new tariffs on cotton are serious concerns - and one of the reasons that prices have dropped from a season-high of 102 cents per pound.

- The Relations between the world's largest exporter, the United States, and the world's largest consumer, China, have been tense. China has

EXPERT'S Column



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announced a 25% tariff on uncombed US cotton that is scheduled to go into effect on 6th July. However, the current price for cotton is still higher than the season average to date - 87 cents per pound - and considerably higher than the 20-year historical average of 73 cents per pound.



As indicated in the previous update, a rise above important resistance at 12,000 zone confirms bullishness ahead. And positive signs persist, hinting at further bullishness ahead and we seem to have got that right. Only an unexpected fall below 12,000 could change the picture to neutral again. Further upside can be seen in the coming weeks towards 13500-700, but strong resistance will be seen there, being a long-term resistance zone as seen in the chart above.



As mentioned previously, as per the indicators, prices could remain range bound with a bullish bias. Mild overbought conditions in the indicators hint at a corrective downward tilt in the coming sessions. Downward corrections are possible, but might not be major ones. While 12,500-600 levels hold on the downside, we can expect prices to gradually edge higher from here towards 13,500 levels in the coming month.

MCX July Contract Chart

The MCX benchmark July cotton chart is moving exactly as we anticipated. In our previous update, we anticipated a strong rally ahead to 23,500 levels. It hit 23,300 and then has corrected from there. Strong supports will be seen at 21,800-22,000 levels now. Near-term resistance is seen at 22,800 levels in the coming sessions. Potential exists for a push higher even to 23,000/500 levels now. Only an unexpected fall below 21,000 could postpone the bullishness.



We will also look at the ICE Cotton futures charts for a possible direction in international prices.

As mentioned earlier, our favoured view is bullish. Prices were expected to edge higher above 87c towards 94-95c where strong resistances kick in. Prices moved exactly as expected. A correction is underway presently and this can extend till the 79-80c levels hold support in the coming weeks. And while this zone holds up, prices could make a shy at 97-98c on the upside. There is scope for an extension even to \$1.00. An unexpected fall below 78c could postpone the bullishness.



CONCLUSION:

Both the domestic and international prices are edging back towards the multi-month highs made earlier. The technical picture presently is bullish with chances of even a stronger market ahead. But, prices could be in a broad range before breaking out further higher, and close above 95c. Such a move could again revive bullish hopes for the long-term target of \$110-14. The international prices indicate supports to hold on corrective declines in the coming weeks, but the medium-term picture still looks neutral to positive, while the domestic prices also looks stable.

For Guj ICS supports are seen at 12,700-800 /qtl followed by 12,000 /qtl, and for ICE Jul cotton futures at 79-80c. the rise above 12,500 /qtl has once again revived the bullish picture in the domestic markets. In the international markets, prices are indicating either a correction or a pause before it resumes the uptrend. Prices are nearing a strong long-term resistance zone and could take a while to break it higher. The domestic technical picture has turned friendly as the international one, but it might not be a one-way streak and corrections can be expected from time to time. We favour prices to correct lower, testing support levels as mentioned above initially and gradually push higher in the coming month.

CAI Maintains Its Cotton Crop Estimate for 2017-18 Crop Year at 365 Lakh Bales

Cotton Association of India (CAI) has released its June estimate of the cotton crop for the season 2017-18 beginning from 1st October 2017. The CAI has retained its cotton crop estimate for the ongoing crop year 2017-18 at 365 lakh bales of 170 kgs. each i.e. at the same level as in its estimate made in the previous month. Statements containing the state-wise estimate of the cotton crop and the Balance Sheet for the crop year 2017-18 with the corresponding data for the previous year is given below.

The CAI has projected total cotton supply upto 30th June 2018 at 394.45 lakh bales which consists the arrival of 348.45 lakh bales upto 30th June 2018, imports the Committee has estimated at 10 lakh bales and the opening stock at the beginning of the season as on 1st October 2017 which the Committee has revised from 30 lakh bales to 36 lakh bales based on the discussions held at the meeting of the Sub-committee constituted by the Cotton Advisory Board (CAB) held on 14th June 2018. Further, the Committee has estimated cotton consumption for 9 months i.e. from October 2017 to June 2018 at 243 lakh bales @ 27 lakh bales per month while the shipment of cotton till 30th June 2018 has been estimated at 64 lakh bales. The stock at the end of June 2018 is estimated at 87.45 lakh bales including 51.85 lakh bales with textile mills while the remaining 35.60 lakh bales are estimated to be held by CCI and others (MNCs, traders, ginners, etc.).

The projected yearly Balance Sheet for the Season 2017-18 drawn by the CAI has estimated total cotton supply till end of the season i.e. upto 30th September 2018 at 416 lakh bales of 170 kgs. each which includes opening stock of 36 lakh bales at the beginning of the season. The CAI has estimated domestic consumption for the season at 324 lakh bales while the exports are estimated to be 70 lakh bales. The carry-over stock at the end of the 2017-18 season is estimated by the CAI at 22 lakh bales.

CAI's Estimates of Cotton Crop as on 30th June 2018 for the Seasons 2017-18 and 2016-17

(in lakh bales)

State	Production *		Arrivals as on 30th June 2018 (2017-18)
	2017-18	2016-17	
Punjab	11.00	8.75	10.03
Haryana	24.00	20.50	22.21
Upper Rajasthan	10.00	7.25	9.74
Lower Rajasthan	11.00	9.25	11.02
Total North Zone	56.00	45.75	53.00
Gujarat	108.00	89.00	101.75
Maharashtra	82.00	88.00	81.25
Madhya Pradesh	21.25	20.50	20.65
Total Central Zone	211.25	197.50	203.65
Telangana	51.50	48.00	49.85
Andhra Pradesh	18.50	18.50	17.70
Karnataka	18.50	17.00	17.75
Tamil Nadu	5.25	5.50	2.50
Total South Zone	93.75	89.00	87.80
Orissa	3.40	3.00	3.40
Others	0.60	2.00	0.60
Total	365.00	337.25	348.45

* Including loose

The Balance Sheet drawn by the Association for 2017-18 and 2016-17 is reproduced below:-

(in lakh bales)

Details	2017-18	2016-17
Opening Stock	36.00	36.50
Production	365.00	337.25
Imports	15.00	30.94
Total Supply	416.00	404.69
Mill Consumption	280.00	262.70
Consumption by SSI Units	29.00	26.21
Non-Mill Use	15.00	21.50
Total Domestic Demand	324.00	310.41
Available Surplus	92.00	94.28
Exports	70.00	58.21
Closing Stock	22.00	36.07

**Balance Sheet of 9 months
i.e. from 1.10.2017 to 30.06.2018
for the season 2017-18**

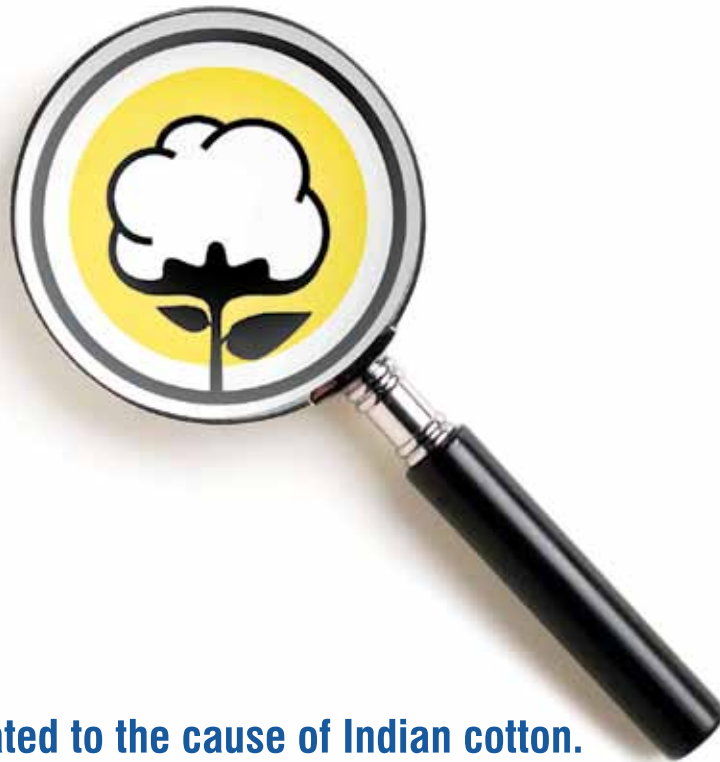
Details	(in lakh b/s of 170 kg)	(in '000 Tons)
Opening Stock as on 01.10.2017	36.00	612.00
Arrivals upto 30.06.2018	348.45	5923.65
Imports upto 30.06.2018	10.00	170.00
Total Available	394.45	6705.65

Consumption (27 Lakhs X 9 months)	243.00	4131.00
Export Shipment upto 30.06.2018	64.00	1088.00
Stock with Mills	51.85	881.45
Stock with CCI, MNCs, MCX & Ginners	35.60	605.20
Total	394.45	6705.65

**As per Cotton Association Of India
Stock as on 30.06.2018**

(Figures in lakh bales of 170 kg.)

State	Ginners	MNC	CCI	MCX	Total
Gujarat	5.00	3.50	0.20	1.00	9.70
North	1.20	3.40	0.00	0.00	4.60
Maharashtra	4.50	4.00	0.15	0.35	9.00
M.P.	1.50	0.25	0.15	0.00	1.90
Telangana	1.50	4.00	1.00	0.25	6.75
Karnataka	0.40	0.75	0.25	0.00	1.40
A.P.	1.25	1.00	0.00	0.00	2.25
Total	15.35	16.90	1.75	1.60	35.60



Since 1921, we are dedicated to the cause of Indian cotton.

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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; Akola; Aurangabad • **Gujarat :** Rajkot; Mundra; Ahmedabad • **Andhra Pradesh :** Guntur, Warangal
• **Madhya Pradesh :** Indore • **Karnataka :** Hubli • **Punjab :** Bathinda • **Telangana :** Adilabad



**COTTON
ASSOCIATION
OF INDIA**

Established 1921

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) 2017-18 Crop JUNE 2018					
Sr. No.	Growth	Grade Standard	Grade	Staple	Micronaire	Strength /GPT	25th	26th	27th	28th	29th	30th
1	P/H/R	ICS-101	Fine	Below 22mm	5.0-7.0	15	12598 (44800)	12598 (44800)	12598 (44800)	12598 (44800)	12598 (44800)	12598 (44800)
2	P/H/R	ICS-201	Fine	Below 22mm	5.0-7.0	15	12738 (45300)	12738 (45300)	12738 (45300)	12738 (45300)	12738 (45300)	12738 (45300)
3	GUJ	ICS-102	Fine	22mm	4.0-6.0	20	8717 (31000)	8773 (31200)	8773 (31200)	8858 (31500)	8858 (31500)	8942 (31800)
4	KAR	ICS-103	Fine	23mm	4.0-5.5	21	10067 (35800)	10067 (35800)	10067 (35800)	10095 (35900)	10095 (35900)	10179 (36200)
5	M/M	ICS-104	Fine	24mm	4.0-5.0	23	10911 (38800)	10911 (38800)	10911 (38800)	10939 (38900)	10939 (38900)	11023 (39200)
6	P/H/R	ICS-202	Fine	26mm	3.5-4.9	26	12907 (45900)	12935 (46000)	12935 (46000)	12963 (46100)	12879 (45800)	12935 (46000)
7	M/M/A	ICS-105	Fine	26mm	3.0-3.4	25	9983 (35500)	10039 (35700)	10039 (35700)	10039 (35700)	10123 (36000)	10123 (36000)
8	M/M/A	ICS-105	Fine	26mm	3.5-4.9	25	10714 (38100)	10714 (38100)	10714 (38100)	10714 (38100)	10714 (38100)	10714 (38100)
9	P/H/R	ICS-105	Fine	27mm	3.5-4.9	26	12963 (46100)	12991 (46200)	12991 (46200)	13020 (46300)	12935 (46000)	12991 (46200)
10	M/M/A	ICS-105	Fine	27mm	3.0-3.4	26	10545 (37500)	10545 (37500)	10545 (37500)	10545 (37500)	10629 (37800)	10629 (37800)
11	M/M/A	ICS-105	Fine	27mm	3.5-4.9	26	11248 (40000)	11248 (40000)	11248 (40000)	11248 (40000)	11248 (40000)	11248 (40000)
12	P/H/R	ICS-105	Fine	28mm	3.5-4.9	27	13048 (46400)	13048 (46400)	13048 (46400)	13076 (46500)	12991 (46200)	13048 (46400)
13	M/M/A	ICS-105	Fine	28mm	3.5-4.9	27	12429 (44200)	12429 (44200)	12288 (43700)	12288 (43700)	12513 (44500)	12513 (44500)
14	GUJ	ICS-105	Fine	28mm	3.5-4.9	27	12879 (45800)	12879 (45800)	12738 (45300)	12738 (45300)	12879 (45800)	12879 (45800)
15	M/M/A/K	ICS-105	Fine	29mm	3.5-4.9	28	13020 (46300)	13020 (46300)	12935 (46000)	12935 (46000)	12935 (46000)	12935 (46000)
16	GUJ	ICS-105	Fine	29mm	3.5-4.9	28	13301 (47300)	13301 (47300)	13216 (47000)	13216 (47000)	13216 (47000)	13216 (47000)
17	M/M/A/K	ICS-105	Fine	30mm	3.5-4.9	29	13357 (47500)	13357 (47500)	13273 (47200)	13273 (47200)	13357 (47500)	13357 (47500)
18	M/M/A/K/T/O	ICS-105	Fine	31mm	3.5-4.9	30	13582 (48300)	13582 (48300)	13498 (48000)	13498 (48000)	13638 (48500)	13638 (48500)
19	A/K/T/O	ICS-106	Fine	32mm	3.5-4.9	31	13779 (49000)	13779 (49000)	13779 (49000)	13779 (49000)	13919 (49500)	14060 (50000)
20	M(P)/K/T	ICS-107	Fine	34mm	3.0-3.8	33	16872 (60000)	16872 (60000)	17013 (60500)	17013 (60500)	17153 (61000)	17294 (61500)

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