

Weekly Publication of



**Cotton
Association
of India**

COTTON STATISTICS & NEWS

Edited & Published by Amar Singh

2022-23 • No. 14 • 5th July, 2022 Published every Tuesday

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Technical Analysis

Price outlook for Gujarat-ICS-105, 29mm and ICE cotton futures
for the period 5th July 2022 to 8th August 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 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 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.

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

- The domestic cotton July futures held well to close at 40,780 despite a massive sell-off across the board on all commodities. This is partly due to lower stocks amid lower production last season.

- In the domestic market, the government extended exemptions on all customs duty on raw cotton imports till 31st October 2022. Earlier it was

till 30th September 2022. This exemption would benefit the textile chain and cotton importers as the shipments may delay due to lower availability of containers.

International Markets

- ICE Cotton futures slid nearly 4% on Tuesday as the dollar's rally to multi-decade highs and growing recession risks sapped

appetite for the natural fibre, while concerns over demand from China lingered. The inflation, rising U.S. interest rates and fears that China could retaliate over any type of ban on Xinjiang cotton also lead to the slide. Cotton, which is especially sensitive to wider economic sentiment, also took cues from a dip on Wall Street amid growing concerns of a recession as global central banks take aggressive step to tame surging inflation.

- The dollar gained further as it pushed currencies around the world to their lowest levels in years, as economic prospects in Europe and elsewhere darkened under the cloud of soaring energy prices. Market is now factoring another 75-basis points rate hike from the U.S. Federal Reserve this month. The next Fed meeting outcome will be on July 27.
- The United States Department of Agriculture's report on Monday showed that 37% of the cotton crop was in a good-to-excellent condition in the week ending June 26. That compares with 52% for the same period a year ago. While the Indian crop may be improving, the Chinese crop is on the verge of stabilising, the U.S. crop is very questionable.
- Speculators cut net long position in cotton futures by 1,485 contracts to 42,786 in the week to June 21, data from the Commodity Futures Trading Commission showed.

Shankar 6 Guj ICS Price Trend

As mentioned in the previous update, after testing 28,500, prices have been struggling to find further buying momentum. Most of the supply issues have been factored in and markets will now focus on weather and demand. Going forward, we expect prices to gradually edge lower to 25,000 or even lower now.



MCX July Contract Chart

The MCX benchmark cotton prices after testing an all-time high of 50,330 has been steadily declining lower - a much-needed correction. As mentioned in the previous update, we expected prices to decline lower 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 from where a possible intermediate bottom can be seen.



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. Charts shows a strong trend support at \$91.00, followed by Fibonacci support at \$88.25. Mild relenting of bearish indications noticed in the daily chart might allow a minor recovery towards 96.20 before starting the next decline to break below 91.00. Any unexpected rise above 96.60 would see it getting back into a channel from which it broke down. Next resistance would be near 98.40 & 99.45. So, the broad range in the coming month would be between 85-88c on the lower side and \$98-1.03 on the upside.

There were several opportunities for hedging the high price risk for buyers, who were forced to contract cotton at recent higher prices and a handful did take that route. But the rest are still groping in the dark, cursing the markets and every other person/entity and never reflecting on the mistakes that are repeated over and over again, unable to learn from past experiences that happened in 2018 or even before. Making mistakes is fine, but learning from them and ensuring they haunt us again is wise. 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.

Conclusion:

The domestic prices have corrected sharply lower from recent highs. As mentioned before, it looks like we have more or less seen a top around 110,000/ candy, and such levels cannot be seen for a very

long time, provided we don't have a repeat of the weather anomalies that we saw in the previous year, as late rains created havoc for the standing crop. Prices could ideally see a potential test of 75,000-77,000 per candy in the near-term where they can find a possible near-term bottom.

Important support is at \$91c followed by \$85-87c on the downside and in that zone, prices could find a lot of buying interest again. The domestic prices have fallen lower and relatively much lower as compared to international prices, and perfectly in line with our expectations over the past several months now. We expect a broad range for the prices to move in the coming month. Prices will now be falling in line with fundamentals and external factors like On-call

sales and speculative fund activity is unlikely to influence it any major way. 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 25,000- /Qtl and for ICE May cotton futures at \$91c followed by \$85c. 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, it has finally materialized. Therefore, we can expect a range bound and cotton markets looking to the sky in the coming months for further direction both domestic and international.

USDINR Monthly Report: July 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 range of 78.40-79.50 for July 2022. The major events in focus will be outcome of FOMC policy on 27th July. Updates regarding Russia-Ukraine crisis, USDCNY movement, oil prices, FII flows and RBI stance to maintain stability in Rupee will also be closely observed. Rupee has depreciated to almost 79.00 levels as RBI took a backseat and with no sellers of dollars in the market, strengthening of US\$, US rate hikes, elevated oil prices and continuous FII outflows will support further upside move in USDINR in the coming days. Shortage of dollar due to quantitative tightening by Fed will also be the reason for USDINR to move in northward direction. Following will be the key triggers for USDINR in the month of July:-

FOMC Policy outcome on 27th July: The US Federal Open Market Committee (FOMC) is scheduled to meet on 26-27th July 2022, and is anticipated that the Fed could raise the interest rates by 75bps in July. As per Reuters poll, Fed is also expected to increase rates by 50bps in September.

Ukraine - Russia war crisis: Investors will remain sensitive to any news regarding

EXPERT'S Column



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

Russia-Ukraine front and will react accordingly, thus effecting the market sentiments. Escalation in situation regarding Russia-Ukraine or other major economies action against Russia and delay in talks over progress will create volatility in market.

Brent oil prices: Brent oil continued to remain elevated above \$100/bl on supply tightness concerns as there is limited room for major producers such as Saudi Arabia to boost production. This resulted in widening of trade deficit. However,

investor worries that aggressive US interest rate hikes could trigger a recession and dent fuel demand, could ease oil prices to some extent and may provide some respite to the Rupee.

FII sell off continues: Domestic markets continued to experience outflows for the ninth consecutive month. From Oct 2021-Jun 2022, total outflows counts at \$35.638 bn. In CY 2022 from January to June, total outflows stands at \$29.713 bn, with June witnessing FII's selling of \$6.57 bn (as of 29th June 2022), highest monthly outflows since March 2020 when \$15.924 bn outflows was observed.

Trade Balance: India's trade deficit in May 2022 ballooned to a record \$24.29 bn, with exports valued at \$38.94 bn, up by 20.55% on year and imports at \$63.22 bn, up 62.83% y/y



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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



COTTON ASSOCIATION OF INDIA

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COTTON ASSOCIATION OF INDIA



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Established in 1957
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**A CHILD'S CHILDHOOD IS FOR LEARNING
DON'T USE THEIR CHILDHOOD FOR EARNING
SAY NO TO CHILD LABOUR**

UPCOUNTRY SPOT RATES													
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 June - July 2022					
Sr. No.	Growth	Grade Standard	Grade	Staple	Micronaire	Gravimetric Trash	Strength /GPT	27th	28th	29th	30th	1st	2nd
1	P/H/R	ICS-101	Fine	Below 22mm	5.0 – 7.0	4%	15	17716 (63000)	17997 (64000)	17997 (64000)	18278 (65000)	18278 (65000)	18278 (65000)
2	P/H/R (SG)	ICS-201	Fine	Below 22mm	5.0 – 7.0	4.5%	15	17913 (63700)	18194 (64700)	18194 (64700)	18475 (65700)	18475 (65700)	18475 (65700)
3	GUJ	ICS-102	Fine	22mm	4.0 – 6.0	13%	20	15747 (56000)	15747 (56000)	15747 (56000)	15747 (56000)	15747 (56000)	15747 (56000)
4	KAR	ICS-103	Fine	23mm	4.0 – 5.5	4.5%	21	17294 (61500)	17294 (61500)	17294 (61500)	17294 (61500)	17294 (61500)	17294 (61500)
5	M/M (P)	ICS-104	Fine	23mm	4.5 – 7.0	4%	22	18981 (67500)	18981 (67500)	18981 (67500)	18981 (67500)	18981 (67500)	18981 (67500)
6	P/H/R(U) (SG)	ICS-202	Fine	27mm	3.5 – 4.9	4.5%	26	22412 (79700)	22833 (81200)	23115 (82200)	23396 (83200)	23396 (83200)	23396 (83200)
7	M/M(P)/SA/TL	ICS-105	Fine	26mm	3.0 – 3.4	4%	25	19122 (68000)	19122 (68000)	19122 (68000)	19122 (68000)	19122 (68000)	19122 (68000)
8	P/H/R(U)	ICS-105	Fine	27mm	3.5 – 4.9	4%	26	22102 (78600)	22524 (80100)	22805 (81100)	23086 (82100)	23086 (82100)	23086 (82100)
9	M/M(P)/SA/TL/G	ICS-105	Fine	27mm	3.0 – 3.4	4%	25	19403 (69000)	19403 (69000)	19403 (69000)	19403 (69000)	19403 (69000)	19403 (69000)
10	M/M(P)/SA/TL	ICS-105	Fine	27mm	3.5 – 4.9	3.5%	26	21652 (77000)	21652 (77000)	21652 (77000)	21652 (77000)	21652 (77000)	21652 (77000)
11	P/H/R(U)	ICS-105	Fine	28mm	3.5 – 4.9	4%	27	23058 (82000)	23621 (84000)	24183 (86000)	24746 (88000)	24746 (88000)	24746 (88000)
12	M/M(P)	ICS-105	Fine	28mm	3.7 – 4.5	3.5%	27	25167 (89500)	25167 (89500)	25167 (89500)	25167 (89500)	25167 (89500)	25167 (89500)
13	SA/TL/K	ICS-105	Fine	28mm	3.7 – 4.5	3.5%	27	25224 (89700)	25224 (89700)	25224 (89700)	25224 (89700)	25224 (89700)	25224 (89700)
14	GUJ	ICS-105	Fine	28mm	3.7 – 4.5	3%	27	25308 (90000)	25870 (92000)	25870 (92000)	25870 (92000)	25870 (92000)	25870 (92000)
15	R(L)	ICS-105	Fine	29mm	3.7 – 4.5	3.5%	28	24183 (86000)	24464 (87000)	25027 (89000)	25308 (90000)	25308 (90000)	25308 (90000)
16	M/M(P)	ICS-105	Fine	29mm	3.7 – 4.5	3.5%	28	25870 (92000)	26152 (93000)	26152 (93000)	26152 (93000)	26152 (93000)	26152 (93000)
17	SA/TL/K	ICS-105	Fine	29mm	3.7 – 4.5	3%	28	25927 (92200)	26208 (93200)	26208 (93200)	26208 (93200)	26208 (93200)	26208 (93200)
18	GUJ	ICS-105	Fine	29mm	3.7 – 4.5	3%	28	25870 (92000)	26433 (94000)	26433 (94000)	26433 (94000)	26433 (94000)	26433 (94000)
19	M/M(P)	ICS-105	Fine	30mm	3.7 – 4.5	3.5%	29	26855 (95500)	27136 (96500)	27136 (96500)	27136 (96500)	27136 (96500)	27136 (96500)
20	SA/TL/K/O	ICS-105	Fine	30mm	3.7 – 4.5	3%	29	26995 (96000)	27276 (97000)	27276 (97000)	27276 (97000)	27276 (97000)	27276 (97000)
21	M/M(P)	ICS-105	Fine	31mm	3.7 – 4.5	3%	30	27417 (97500)	27979 (99500)	27979 (99500)	27979 (99500)	27979 (99500)	27979 (99500)
22	SA/TL/K/TN/O	ICS-105	Fine	31mm	3.7 – 4.5	3%	30	27558 (98000)	28120 (100000)	28120 (100000)	28120 (100000)	28120 (100000)	28120 (100000)
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	29104 (103500)	29104 (103500)	28261 (100500)	28261 (100500)	28261 (100500)	28261 (100500)
25	K/TN	ICS-107	Fine	34mm	2.8 - 3.7	3.5%	34	30088 (107000)	30088 (107000)	29526 (105000)	29526 (105000)	29526 (105000)	29526 (105000)
26	M/M(P)	ICS-107	Fine	35mm	2.8 - 3.7	4%	35	30369 (108000)	30369 (108000)	29526 (105000)	29526 (105000)	29526 (105000)	29526 (105000)
27	K/TN	ICS-107	Fine	35mm	2.8 - 3.7	3.5%	35	31213 (111000)	31213 (111000)	30651 (109000)	30651 (109000)	30651 (109000)	30651 (109000)

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