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Technical Analysis

Price Outlook for Gujarat-ICS-105, 29mm and ICE Cotton Futures for the Period 1st August 2023 to 4th September 2023

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.

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.

EXPERT'S Column



Shri. Gnanasekar Thiagarajan
Director, Commtrendz Research

Domestic Markets

- Cotton yarn trade edged higher even though it did not rise as much as ICE cotton futures or domestic cotton prices. A slight improvement in fabric prices was also observed in the market, seen as an encouraging sign for the downstream industry. Selective counts and varieties seem to

have similarly gained. Though prices haven't gained as much, the huge discounts being offered to liquidate high priced stocks seem to have vanished.

- According to IMD, the rainfall over August and September across the country is very likely to

be normal (94 to 106% of Long Period Average (LPA)), most probably on the negative side of the normal. Weather in India will be very closely watched in the coming months as the standing crop progresses.

International Markets

- ICE cotton futures rose 1% on Tuesday as an ongoing heat wave in the U.S. delta and southeast spurred concerns over the water intensive natural fibre crop. It's still pretty hot out there in Texas, the delta and the southeast and that is driving cotton's gains. All these are important cotton growing areas. A searing heat wave that continues to blister much of the US is so hot, that even Arizona's iconic cactuses are dying.

- Once thought impossible, economic indicators are showing signs a soft landing may be possible. Despite interest rates at their highest level in 22 years, the economy is still growing. Last quarter's US gross domestic product (GDP) grew at an annualised rate of 2.4 percent because of both consumer and business spending. This is up from 2 percent the previous quarter and well above the 1.8 percent forecast. At the same time, underlying inflation is easing.

- The first sign of a Euro zone revival was seen in the latest economic numbers. In the second quarter (Q2) of 2023, the seasonally adjusted gross domestic product (GDP) increased by 0.3 per cent quarter-on-quarter (QoQ) in the euro area and was stable in the European Union (EU), as per a preliminary flash estimate. In Q1 2023, GDP had remained stable in the euro area and had increased by 0.2 per cent in the EU, Eurostat, the statistical office of the EU, said in a press release.

- China's manufacturing sector displayed a more favourable business environment in July 2023 as its purchasing managers' index (PMI) for the sector increased to 49.3 in July from 49 in June and 48.8 in May, as per the National Bureau of Statistics (NBS). This number, however, still lies below the 50-mark, indicating contraction rather than expansion.

	July 25	July 18	Net Chg
Chicago Wheat	-40,332	-54,418	14,086
Corn	26,603	-46,926	73,529
Soybean	120,739	95,814	24,925
Soybean Oil	54,190	44,914	9,276
Soy Meal	70,174	58,949	11,225
Raw Sugar	178,530	146,550	31,980
NYC Cocoa	78,397	74,545	3,852
Arabica Coffee	-14,687	-15,920	1,233
Cotton ←	29,284	5,397	⇒ 23,887
White Sugar	23,347	19,321	4,026
London Cocoa	79,015	78,096	919
Robust Coffee	32,146	32,404	-258
Live Cattle	104,115	114,630	-10,515
Lean Hogs	27,308	27,932	-624
Feeder Cattle	14,496	16,476	-1,980
Orange Juice	3,982	3,190	792

Source: CFTC

- Where to from here? The ten-cent rise in new crop prices since their reversal in late June has been fuelled by the managed funds. They have gone from a net short position of 1.5 million bales to a net long position of 2.9 million bales through last Tuesday as seen in the table above. Fundamentally, the recent price rally has not scared mills into buying. Conversely, growers have shown prices will have to approach ninety cents to encourage further hedging. months. Nevertheless, looking long term if the crop does get smaller and the Fed can pull off a soft landing, demand should improve along with prices.

Shankar 6 Guj ICS Price Trend

As mentioned in the previous update, a possible double bottom formation and a positive divergence in indicators makes us believe that we have seen the bottom for now. Prices are gradually expected to edge higher to 17,000 or even higher to

18,000 in the coming weeks with possibility to stretch even to 19,000 levels on the upside subsequently. Any corrections to 15,000 levels look quite supportive now.



MCX Cotton Candy Aug: After prices bottomed out near 54,000/candy before making a reversal from there, a smart bounce to 60,000 was seen. But it could not follow through higher. Key supports are in the 57,000 range now. Prices could spend time in the 57,000-60,000 range before climbing higher towards 62,000 or even higher in the coming month. After making a low of 53,860 on 28th June it has entered a mean reversion mode aiming at 60,500 or even higher in the coming weeks.



ICE Dec 23 Cotton Futures

The chart picture is still mixed and range bound with no clear directional bias. It is expected to hold above 83.75/83.25c area to try to start a recovery towards 86.25/75 area. Any unexpected fall below 83.00 would warn about the possibility of weakening further towards 82.25/82.00, turning the outlook neutral. Shorter-term charts suggest that while staying above 84.80/85.30 region it is more likely to rise again towards a stronger set of resistance lines near 88-89c region. Ideally it should stay below 89.00 and start declining again towards 84.75 or 85.50. An unexpected fall below 83.00 would caution about the possibility of falling further to 81.80/81.50 levels.

However, looking at the US weather and direction from external markets like the dollar and China Stimulus, we will not rule out a possibility of an extension to 95-97c on ICE Dec futures.



As mentioned before, 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 is ideal for the industry, but to take that leap of faith is a humungous task for this industry where raw material price moves makes or break the profit margins.

Hedging high priced inventories in a falling market could help offset some losses from the recent fall in cotton prices. Current bottoming levels could be ideal opportunities to Buy Call options in ICE to take advantage of a possible rise in the near-term. However, to protect against falling inventory cost and unexpected bearish factors, one can take Put options in ICE around resistance levels by paying a premium, where losses will be minimum and profits unlimited. The current fall in prices were a good opportunity for physical buyers to have use PUT options to cushion the impact of falling cotton prices and thus the helping in inventory management. MCX Candy contracts recent launched should be a good testing ground for mills and exporters desirous of hedging their price risk in ICE futures and options.

Conclusion:

The domestic prices bounced off 54,000 per candy levels also close to the MSP levels, a strong indication of long-term support. As cautioned in the previous update, prices could pull back towards 60,000 levels again. Most negative factors relating to demand have been priced in largely as price always has a ability to discount present weakness and look ahead where a weather premium could be built into prices. Also, the demand picture could turn friendly as global economies rebound. Strong resistance is presently noticed in the 60,000-61,000 per candy levels and may find it tough to cross that in the near-term.

Important support in ICE is at \$83-84c followed by \$78-80c on the downside and in that zone, prices could find a lot of buying interest again. The domestic prices are still at mild premium to ICE it has corrected from peaks. We expect prices to consolidate and gradually edge higher again. Weather in US and El Nino concerns globally could provide some tailwind to cotton prices in the coming months. The international price indicates that it is in the process of a consolidation before beginning an up move again.

For Shankar 6 Guj ICS supports are seen at 57,000 per candy and for ICE July cotton futures at \$83-84c now. The domestic technical picture looks neutral to mildly bullish. Therefore, we can expect prices to consolidate in a broad range initially absorbing all the negatives and reverse with a mild bullish bias for the local prices and rise expected in the international markets too.

Why I Am Against the Mechanical Harvesting of Cotton, The Way It Is Being Attempted in India at Present

Dr. Nachane worked in CIRCOT for 38 years. He was the first scientist to have observed and reported the phenomenon, 'Inverse Relaxation' in the English-speaking world and to have given mathematical analysis of the phenomenon. He was also the first scientist to have reported the phenomenon, 'Inverse Creep'. He has carried out work in various fields in Textile Physics with specific reference to cotton and other natural fibres. His research projects include: A Value Chain for Cotton Fibre, Seed and Stalks: An Innovation for Higher Economic Return to Farmers and Allied Stakeholders; A Value Chain On Banana

EXPERT'S Column



Dr. Rajan Nachane
Retired Principal Scientist & Head, Quality Evaluation & Improvement Division, Central Institute for Research on Cotton Technology (CIRCOT), Mumbai

Psudosteam for Fibres and Other Value Added Products; Preparation and Marketing of CIRCOT Calibration Cotton Standards and Zonal Technology Management and BPD Unit at CIRCOT, Mumbai.

He has as published more than 50 research papers in National and International Journals and has presented more than 50 papers in National and International conferences. He was a member of Faculty Selection Committee of VJTI as well as DKTE, Ichalkaranji.

Presently, he is President of the Indian Fibre Society, an organisation of professionals working in the field of textiles.

Let me make it clear that I am not against mechanisation of harvesting of cotton. Day by day, farmers are finding it difficult to get enough labour for cotton picking. Also, labour charges have increased considerably. This puts a considerable financial burden on the farmer. He has to therefore, increase the price of kapas, or get less profit margin, i.e., get less balance after removing the amount spent on crop from the amount received in sale. If the farmer has taken a loan, which may be the general case, then he has to pay interest on the loan along with capital repayment. Both the options, of increasing or not increasing the price of kapas are not feasible. Presently, a labour can hand pick about 30 to 40 kg of kapas per day.

Let us see what are the requirements for mechanical harvesting of kapas as it is being planned and discussed in India. For mechanical harvesting, we require small bushes, that too, with no branching, so that planting density can be very high. Also, since flowering and ball opening has to be simultaneous in all the plants, only one variety should have been planted in the field. Plus, the field in which mechanical picking is to be done, has to be large, maybe tens of hectares, if not hundreds of hectares. This is with the assumption that mechanical harvesters being planned in Indian situation are miniature versions of those available in USA, Australia, etc.

Now let's look at the present situation in India. Land holdings of farmers are very small. Average land holding is less than two hectares. Some cotton cultivating farmers may have even less than half a hectare of land. Even for such small land holdings, farmers generally use more than one variety of cotton. Also, almost all the varieties we have are of the tall and branching type. In addition, all these varieties have three to five different flowerings and therefore ball openings. This is the reason, we always get kapas from first picking, second picking, third picking and sometimes even fourth and fifth pickings, spread over almost four to eight weeks or even more.

Some attempt is being made to develop varieties suitable for mechanical harvesting. That is, to develop short, non-bushy plant varieties flowering and ball opening at the same time. Scientists involved in developing such varieties may succeed or may not succeed. Also, we have wide variation in agro-climatic conditions in the country. Accordingly, for each agro-climatic zone, different variety will have to be developed. Developing such varieties will take a long time.

Let us assume that such varieties are developed in due course. After developing and certifying, their acceptance by a majority of farmers is the next hurdle. Here also, because of small land holdings,

a large number of farmers from the same locality will have to come together. They will have to plant the same variety at the same time to get flowering and ball opening at the same time. All these are difficult propositions.

I, therefore, recommend that we should think of improving hand picking by introducing some device so that a labourer is able to pick more than double the kapas per day, i.e., above 80 kg per day without much increase in his/her efforts. Since the efforts have not increased, labour charges need not increase or increase only marginally. This will

reduce labour charge per kg for the farmer. Also, this will either reduce the time required for picking or reduce the number of labourers required. Here, there is no need to change the farming practices which are in existence. I am sure, with the type of expertise we have in India, we should be able to brain storm and come up with some device, that will aid the cotton picker and result in high economic benefit to farmers and the entire cotton value chain.

(The views expressed in this column are of the author and not that of Cotton Association of India)

USDINR Monthly Report: August 2023

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

EXPERT'S Column



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

USDINR is expected to trade within the range of 81.60-82.95 for August 2023. Potential inflows and risk on domestic market sentiments with Nifty and Sensex trading near a life time high amid improving economic data is expected to help Rupee. However, rising oil prices and with RBI protecting both sides of the pair may keep USDINR in the range. Immediate support lies at 81.85 below which doors will be open for 81.65. While breach of crucial resistance of 82.40 will lead upside move towards 82.65-82.95.

Key Triggers

RBI Policy: Next meeting is on 10th August 2023 and it is anticipated that RBI will keep repo rates unchanged.

Chinese Yuan: Rising worries over slow growth in China, CNH may depreciate in coming days, unless the government comes up with strong booster for its economy. If yuan sustains above 7.18 then 7.23 and 7.27 is expected. But if it falls below 7.10 then 7.06-7.01 is the next support level.

Brent Oil Prices: We can expect oil prices to move towards \$89.0+ levels buoyed by growing evidence of supply shortages in the coming months

coupled with rising tensions between Russia and Ukraine that could further hit supplies.

Trade Balance: The trade deficit is likely to shrink towards \$16-18 bn in the coming months, ensuring the CAD narrows further. India's CAD for 2022-23 amounted to 2% of GDP, up from 1.2% in 2021-22, as per the RBI data. Most economists see the gap narrowing below the 2% mark in the current fiscal. But, risks from a global slowdown may affect the exports and if oil prices sustain above \$95/bl then

this may put some pressure on CAD.

FII Flows: With the Indian economy booming like a bright spot in an intractable global macro backdrop and China's lower-than-expected recovery, India has seen net inflows of \$19.4 billion since March. The consistent flow is offering momentum to the markets, propelling Nifty to a record peak near the 20000 mark. With more potential FIIs inflows in the pipeline, may well strengthen the Rupee.

FX Reserves: RBI will continue to buy dollars at lower levels to absorb the inflows and sell at higher levels to prevent sharp upside.

We can once again see reserves to reach \$620+ bn mark in coming few weeks.

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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) 2022-23 Crop July 2023					
Sr. No.	Growth	Grade Standard	Grade	Staple	Micronaire	Gravimetric Trash	Strength /GPT	24th	25th	26th	27th	28th	29th
1	P/H/R	ICS-101	Fine	Below 22mm	5.0 – 7.0	4%	15	17716 (63000)	17716 (63000)	17716 (63000)	17716 (63000)	17434 (62000)	17153 (61000)
2	P/H/R (SG)	ICS-201	Fine	Below 22mm	5.0 – 7.0	4.5%	15	17856 (63500)	17856 (63500)	17856 (63500)	17856 (63500)	17575 (62500)	17294 (61500)
3	GUJ	ICS-102	Fine	22mm	4.0 – 6.0	13%	20	12991 (46200)	13076 (46500)	13132 (46700)	13132 (46700)	13048 (46400)	13048 (46400)
4	KAR	ICS-103	Fine	22mm	4.5 – 6.0	6%	21	14060 (50000)	14060 (50000)	14060 (50000)	14060 (50000)	14060 (50000)	14060 (50000)
5	M/M (P)	ICS-104	Fine	23mm	4.5 – 7.0	4%	22	15044 (53500)	15044 (53500)	15100 (53700)	15185 (54000)	15185 (54000)	15185 (54000)
6	P/H/R (U) (SG)	ICS-202	Fine	27mm	3.5 – 4.9	4.5%	26	15325 (54500)	15494 (55100)	15578 (55400)	15719 (55900)	15550 (55300)	15438 (54900)
7	M/M(P)/SA/TL	ICS-105	Fine	26mm	3.0 – 3.4	4%	25	-	-	-	-	-	-
8	P/H/R(U)	ICS-105	Fine	27mm	3.5 – 4.9	4%	26	15466 (55000)	15635 (55600)	15719 (55900)	15860 (56400)	15691 (55800)	15578 (55400)
9	M/M(P)/SA/TL/G	ICS-105	Fine	27mm	3.0 – 3.4	4%	25	14622 (52000)	14707 (52300)	14707 (52300)	14847 (52800)	14679 (52200)	14622 (52000)
10	M/M(P)/SA/TL	ICS-105	Fine	27mm	3.5 – 4.9	3.5%	26	15185 (54000)	15325 (54500)	15466 (55000)	15607 (55500)	15522 (55200)	15466 (55000)
11	P/H/R(U)	ICS-105	Fine	28mm	3.5 – 4.9	4%	27	16169 (57500)	16338 (58100)	16422 (58400)	16563 (58900)	16394 (58300)	16310 (58000)
12	M/M(P)	ICS-105	Fine	28mm	3.7 – 4.5	3.5%	27	15607 (55500)	15607 (55500)	15747 (56000)	15888 (56500)	15803 (56200)	15775 (56100)
13	SA/TL/K	ICS-105	Fine	28mm	3.7 – 4.5	3.5%	27	15663 (55700)	15663 (55700)	15803 (56200)	15944 (56700)	15860 (56400)	15832 (56300)
14	GUJ	ICS-105	Fine	28mm	3.7 – 4.5	3%	27	15803 (56200)	15944 (56700)	16113 (57300)	16197 (57600)	16113 (57300)	16028 (57000)
15	R(L)	ICS-105	Fine	29mm	3.7 – 4.5	3.5%	28	16028 (57000)	16169 (57500)	16253 (57800)	16394 (58300)	16225 (57700)	16141 (57400)
16	M/M(P)	ICS-105	Fine	29mm	3.7 – 4.5	3.5%	28	16028 (57000)	16113 (57300)	16281 (57900)	16422 (58400)	16338 (58100)	16310 (58000)
17	SA/TL/K	ICS-105	Fine	29mm	3.7 – 4.5	3%	28	16056 (57100)	16141 (57400)	16310 (58000)	16450 (58500)	16366 (58200)	16338 (58100)
18	GUJ	ICS-105	Fine	29mm	3.7 – 4.5	3%	28	16085 (57200)	16225 (57700)	16394 (58300)	16535 (58800)	16450 (58500)	16366 (58200)
19	M/M(P)	ICS-105	Fine	30mm	3.7 – 4.5	3.5%	29	16253 (57800)	16394 (58300)	16563 (58900)	16703 (59400)	16619 (59100)	16591 (59000)
20	SA/TL/K/O	ICS-105	Fine	30mm	3.7 – 4.5	3%	29	16281 (57900)	16422 (58400)	16591 (59000)	16731 (59500)	16647 (59200)	16619 (59100)
21	M/M(P)	ICS-105	Fine	31mm	3.7 – 4.5	3%	30	16366 (58200)	16506 (58700)	16675 (59300)	16816 (59800)	16816 (59800)	16731 (59500)
22	SA/TL/K / TN/O	ICS-105	Fine	31mm	3.7 – 4.5	3%	30	16422 (58400)	16563 (58900)	16731 (59500)	16872 (60000)	16872 (60000)	16788 (59700)
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	20246 (72000)	20246 (72000)	20246 (72000)	20246 (72000)	20246 (72000)	20246 (72000)
25	K/TN	ICS-107	Fine	34mm	2.8 - 3.7	3.5%	34	20387 (72500)	20387 (72500)	20387 (72500)	20387 (72500)	20387 (72500)	20387 (72500)
26	M/M(P)	ICS-107	Fine	35mm	2.8 - 3.7	4%	35	20668 (73500)	20668 (73500)	20809 (74000)	20809 (74000)	20809 (74000)	20809 (74000)
27	K/TN	ICS-107	Fine	35mm	2.8 - 3.7	3.5%	35	20949 (74500)	20949 (74500)	21090 (75000)	21090 (75000)	21090 (75000)	21090 (75000)

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