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Technical Analysis

Price outlook for Gujarat-ICS-105, 29mm and ICE cotton futures
for the period 06/08/19 to 02/09/19

(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 lower, tracking rise in imports at a higher rate amid crop shortfall for the 2018-19 season. Dampened prospects for global cotton demand fuelled the downtrend further. Exports of cotton yarn have fallen a steep 33 per cent in the first quarter of 2019

EXPERT'S Column



Shri Gnanasekar Thiagarajan
Director, Commtrendz Research

- According to traders, the cotton prices may fall below the government-mandated minimum support price (MSP) once new arrivals reached the markets October onwards, as major producers Brazil and the US are heading towards a bumper crop while India's exports have dropped sharply.

- A sharp pick up in monsoon rains in July has led to a rapid revival of summer crop planting across the country. The rainfall deficit, which was around 30% at the start of July, has now narrowed to 9%, boosting prospects of a good agricultural output. The crop area, which was down 6.4% last week compared with a year earlier, has slipped marginally to 6.6% as on Friday, but this is likely to be covered by next week with the weather office predicting above normal rains in August.

- The area under cotton crop is likely to be more than last year with planting happening across 11.51 million ha as against last year's 10.97 million ha.

Some of the fundamental drivers for International cotton prices are:

- ICE cotton futures slid more than 3% on Monday to their lowest in nearly three-and-a-

half years on fears that escalating trade tensions between the United States and China will worsen demand for the natural fibre.

- U.S. President Donald Trump said last week that he would slap an extra 10% tariff on \$300 billion worth of Chinese imports and would raise it further if trade talks do not progress. Cotton has fallen more than 10% since August 1 and by about 22% so far this year owing to a long-drawn trade war between the world’s top consumer of the fibre, China and one of the biggest producers, the United States.

- The USDA paid a total of 12 billion dollars last year to bail out eligible farmers who suffered loss from the trade tensions. A new tranche of payments, made through the Market Facilitation Program, rose to a tally of 16 billion dollars this year.

- The USDA’s latest forecast showed that cotton prices are to remain at the low sixties in the 2019 marketing year, according to the department’s World Agricultural Supply and Demand Estimates (WASDE) published on July 11. U.S. cotton planting is projected to be 13.7 million acres this year, a slight decrease from last year’s 14.1 million acres, according to the monthly WASDE report.

GUJ ICS PRICE TREND

As mentioned in the previous update, we were expecting prices to correct lower to 12,500 levels, or even lower. Strong resistance is seen at 12,700-800 levels now. Only, a rise above 13,500 could hint at a possible bottom, which happens to be the resistance that has fought attempts to rise for the past 6 years consecutively, as seen in the chart below.



As mentioned previously, we expected a correction to 12,500 levels, which perfectly materialised. The indicators are now indicating a clear bearish trend in progress. Only below 11,500 could result in further declines to 11,000 levels.

MCX August Contract Chart



The MCX benchmark August cotton chart is moving perfectly in line with our expectations. As mentioned earlier, with the way the international prices are poised, a fall below 21,000 could see prices correcting lower to 20,250-300 levels now. It has gone much below that, indicating the severity of the sell-off. We see more declines to 18,500 or even lower to 18,000 in the coming weeks. It is a significant support and most likely prices are expected to hold here and rise higher again. Any pullbacks to 21,000 could find it difficult to cross on the upside.

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



As mentioned earlier, the trend which was so far showing bullish tendencies has reversed and markets might be bracing for sharp falls ahead. Once, the important 65c levels gave way, it has been a one-way streak. More downside to 54c look likely in the coming sessions. A good reversal from these levels can be expected. But, any further negative news flows could see a break of this key support taking prices even lower to 47c. Our favoured view expects 54c to hold and markets to reverse higher from there.

CONCLUSION:

As mentioned before, the domestic and international prices are showing divergent trends. The domestic prices have more or less adjusted to the sharp fall in the international

prices. The international prices are weak and indicate more weakness ahead. Though, the scope for downside is still present, it might be limited from present levels in both the markets.

For Guj ICS supports are seen at 11,500 /qtl followed by 11,000 /qtl, and for ICE Dec cotton futures at 54 followed by 51c. Prices are in the process of completing a head and shoulder pattern with targets nearing 51c being the previous lows made in 2016. The domestic technical picture has turned bearish, but relatively less bearish compared to the international prices. We expect prices to edge lower, but the downside seems limited and therefore we remain cautiously bearish, looking for possible turnarounds near the levels mentioned above.

Update on Cotton Acreage (As on 01.08.2019)

(Area in Lakh Ha)

Sr. No.	State	Normal Area (DES)*	Normal Area as on Date (2014-2018)	Area Covered (SDA)					
				2019-20	2018-19	2017-18	2016-17	2015-16	2014-15
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
1	Andhra Pradesh	6.56	3.832	3.580	3.740	4.051	3.060	3.530	4.779
2	Telangana	17.00	15.275	16.787	16.866	17.470	11.500	16.160	14.378
3	Gujarat	26.04	25.392	23.761	25.543	26.357	21.860	25.000	28.202
4	Haryana	6.06	6.078	6.760	6.650	6.560	4.980	5.810	6.390
5	Karnataka	6.47	4.370	3.813	3.550	4.080	3.910	4.070	6.240
6	Madhya Pradesh	5.65	5.621	6.100	5.240	5.760	5.990	5.420	5.695
7	Maharashtra	41.48	37.617	41.988	38.684	39.398	37.330	36.370	36.302
8	Odisha	1.31	1.329	1.665	1.510	1.444	1.260	1.190	1.240
9	Punjab	3.56	3.630	4.020	2.840	3.850	2.560	4.400	4.500
10	Rajasthan	4.76	4.294	6.360	4.961	5.031	3.830	3.490	4.158
11	Tamil Nadu	1.61	0.040	0.041	0.038	0.055	0.030	0.030	0.045
12	Others	0.43	0.230	0.271	0.172	0.286	0.170	0.210	0.310
All India		120.930	107.707	115.146	109.793	114.342	96.480	105.680	112.239

* Directorate of Economics & Statistics, Ministry of Agriculture and Farmers Welfare, Krishi Bhavan, New Delhi

Source : Directorate of Cotton Development, Nagpur

Excerpts from India Meteorological Department's Weather Report of 1st August 2019

Forecast for next two weeks

Weather systems & associated Precipitation during Week 1 (01 to 07 August, 2019) and Week 2 (08 to 14 August, 2019)

Rainfall for week 1: (01 to 07 August, 2019)

- Due to active monsoon trough at mean sea level, fairly widespread to widespread rainfall with isolated heavy to very heavy falls are likely over East Rajasthan, Madhya Pradesh and Gujarat mainly during 1st half and its intensity likely to decrease in 2nd half.

- Fairly widespread to widespread rainfall with isolated heavy falls is also likely over Jammu

& Kashmir, Himachal Pradesh, Uttarakhand, Punjab, Haryana, Chandigarh & Delhi and West Uttar Pradesh during most days of the week 1.

- Fairly widespread to widespread rainfall with isolated heavy falls likely over Konkan & Goa, Madhya Maharashtra, Vidarbha and Chhattisgarh during most days of the week 1.

- Due to likely formation of Low Pressure Area over northeast Bay of Bengal & neighbourhood, widespread to widespread rainfall with heavy to very heavy falls at isolated places are very likely over Gangetic West Bengal, Odisha and Chhattisgarhi during 2nd half of the week 1.

Annexure III

METEOROLOGICAL SUB-DIVISIONWISE WEEKLY RAINFALL FORECAST & Wx. WARNINGS-2019								
Sr. No	MET.SUB-DIVISIONS	01 AUG	02 AUG	03 AUG	04 AUG	05 AUG	06 AUG	07 AUG
1	ANDAMAN & NICO.ISLANDS	FWS	WS	WS	WS	WS	FWS	FWS
2	ARUNACHAL PRADESH	FWS ⁺	FWS	SCT ⁺	SCT	SCT	SCT	FWS
3	ASSAM & MEGHALAYA	WS	FWS ⁺	FWS	FWS	FWS	SCT	FWS ⁺
4	NAGA.MANI.MIZO.& TRIPURA	WS ⁺	WS ⁺	FWS ⁺	FWS	FWS	SCT	SCT
5	SUB-HIM.W. BENG. & SIKKIM	WS	FWS	FWS	FWS	FWS	FWS	FWS
6	GANGETIC WEST BENGAL	SCT	FWS	FWS	FWS	WS ⁺	WS ⁺	WS ⁺
7	ODISHA	FWS ⁺	FWS ⁺	WS ⁺	WS ⁺	WS ⁺	WS ⁺	WS ⁺
8	JHARKHAND	SCT	SCT	FWS	WS ⁺	WS ⁺	WS ⁺	WS ⁺
9	BIHAR	SCT	SCT	SCT	SCT	SCT	SCT	SCT
10	EAST UTTAR PRADESH	SCT	FWS	FWS	SCT	SCT	FWS	FWS
11	WEST UTTAR PRADESH	FWS	WS ⁺	WS ⁺	WS ⁺	FWS ⁺	FWS	FWS
12	UTTARAKHAND	WS	WS	WS ⁺	WS ⁺	WS ⁺	WS ⁺	WS
13	HARYANA CHD. & DELHI	FWS	WS ⁺	WS ⁺	WS ⁺	WS ⁺	FWS	FWS
14	PUNJAB	WS ⁺	WS ⁺	FWS	FWS	WS ⁺	FWS	FWS
15	HIMACHAL PRADESH	WS ⁺	WS	WS ⁺	WS ⁺	WS ⁺	FWS ⁺	FWS
16	JAMMU & KASHMIR	WS ⁺	WS ⁺	FWS	SCT	FWS ⁺	SCT ⁺	SCT
17	WEST RAJASTHAN	SCT ⁺	SCT ⁺	SCT	SCT ⁺	ISOL ⁺	SCT ⁺	FWS ⁺
18	EAST RAJASTHAN	FWS ⁺	WS ⁺	WS ⁺	FWS ⁺	FWS ⁺	FWS ⁺	FWS ⁺
19	WEST MADHYA PRADESH	WS ⁺	WS ⁺	WS ⁺	WS ⁺	WS	FWS	FWS ⁺
20	EAST MADHYA PRADESH	FWS	FWS	FWS	FWS	FWS	WS	WS ⁺
21	GUJARAT REGION D.D. & N.H.	WS ⁺	WS ⁺	WS ⁺	FWS	FWS	SCT	SCT
22	SAURASTRA KUTCH & DIU	WS ⁺	FWS ⁺	FWS	SCT	SCT	SCT	SCT
23	KONKAN & GOA	WS ⁺	WS ⁺	WS ⁺	WS ⁺	WS ⁺	WS ⁺	WS ⁺
24	MADHYA MAHARASHTRA	FWS ⁺	FWS ⁺	WS ⁺	WS ⁺	FWS ⁺	FWS ⁺	FWS ⁺
25	MARATHAWADA	SCT	SCT	SCT	FWS	SCT	SCT	SCT
26	VIDARBHA	FWS	FWS	FWS	FWS	FWS	WS	WS ⁺
27	CHHATTISGARH	FWS	FWS	FWS	FWS	WS	WS ⁺	WS ⁺
28	COASTAL A. PR. & YANAM	FWS ⁺	SCT	SCT	FWS	FWS ⁺	FWS ⁺	SCT
29	TELANGANA	FWS	SCT	SCT	FWS	FWS	FWS	FWS
30	RAYALASEEMA	ISOL	ISOL	ISOL	ISOL	ISOL	ISOL	ISOL
31	TAMIL. PUDU. & KARAIKAL	ISOL	ISOL	ISOL	ISOL	ISOL	ISOL	ISOL
32	COASTAL KARNATAKA	WS	WS ⁺	WS ⁺	WS ⁺	WS ⁺	WS ⁺	WS ⁺
33	NORTH INT.KARNATAKA	FWS	SCT	SCT	FWS	FWS	FWS	FWS
34	SOUTH INT.KARNATAKA	SCT	SCT	SCT	SCT	FWS	FWS	FWS
35	KERALA & MAHE	SCT	SCT	FWS	FWS ⁺	WS ⁺	WS ⁺	WS ⁺
36	LAKSHADWEEP	ISOL	ISOL	SCT	SCT	FWS	FWS	FWS

LEGENDS:

WS	WIDE SPREAD / MOST PLACES (76-100%)	FWS	FAIRLY WIDE SPREAD / MANY PLACES (51% to 75%)
SCT	SCATTERED / FEW PLACES (26% to 50%)	ISOL	ISOLATED (up to 25%)
			D/DRY
			NIL RAINFALL
⁺ Heavy Rainfall (64.5-115.5 mm)	⁺ Heavy to Very Heavy Rainfall (115.6-204.4 mm)	⁺ Extremely Heavy Rainfall (204.5 mm or more)	
[*] FOG	[*] SNOWFALL	[*] HAILSTORM	⁺ HEAT WAVE (+4.5 °C to +6.4 °C)
⁺ THUNDERSTORM WITH SQUALL/GUSTY WIND	⁺ DUST/THUNDERSTORM	⁺ COLD WAVE (-4.5 °C to -6.4 °C)	⁺ SEVERE HEAT WAVE (> +6.4)
			⁺ SEVERE COLD WAVE (< -6.4)

- Fairly widespread to widespread rainfall with isolated heavy falls likely over northeastern states and Sub Himalayan West Bengal & Sikkim during most days of the week 1.

- Light/moderate scattered to fairly widespread rainfall activity likely to occur over rest parts of the country during most days of week 1 (Annexure III).

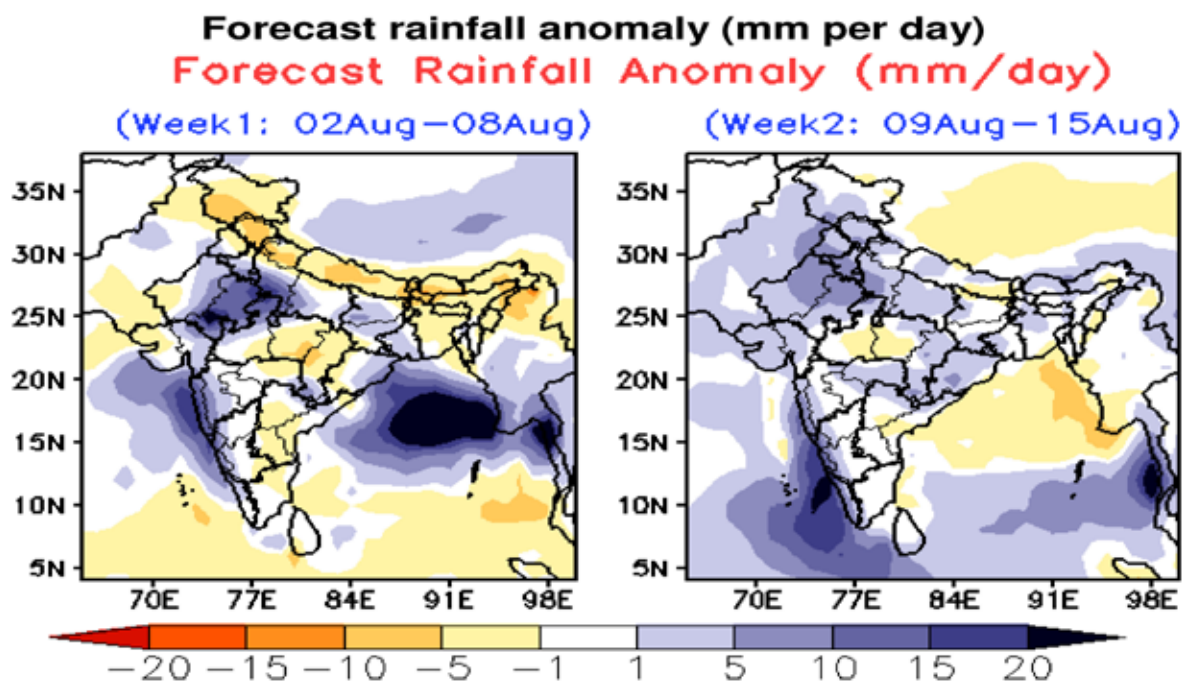
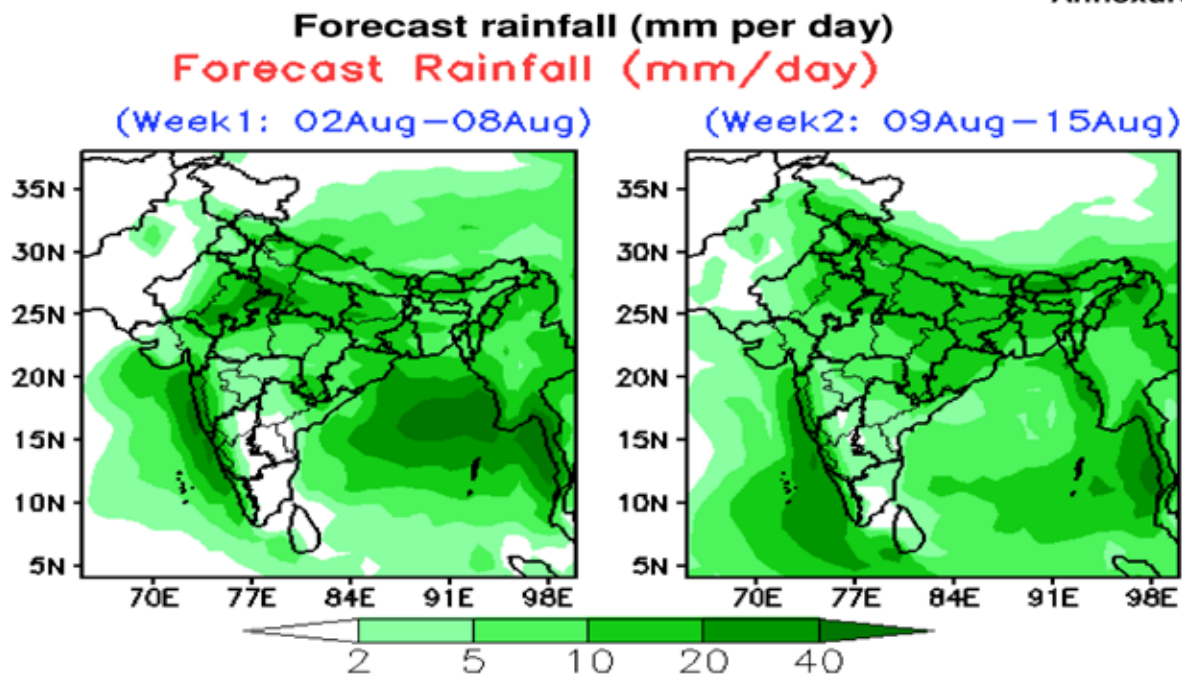
- Cumulatively, above normal rainfall likely over plains of northwest India & West Coast and

most parts of the East India and Andaman & Nicobar Islands. It is very likely to be normal to below normal over remaining parts of the country during week 1 (Annexure V).

Rainfall for week 2: (08 to 14 August, 2019)

- During week 2, rainfall activity likely to increase over most parts of the country with normal to above normal rainfall outside Madhya Pradesh where, it is very likely to be below normal over during week 2 (Annexure IV).

Annexure IV



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) 2018-19 Crop July 2019		
Sr. No.	Growth	Grade Standard	Grade	Staple	Micronaire	Strength /GPT	29th	30th	31st
1	P/H/R	ICS-101	Fine	Below 22mm	5.0-7.0	15	11501 (40900)	11473 (40800)	11473 (40800)
2	P/H/R	ICS-201	Fine	Below 22mm	5.0-7.0	15	11642 (41400)	11614 (41300)	11614 (41300)
3	GUJ	ICS-102	Fine	22mm	4.0-6.0	20	9420 (33500)	9392 (33400)	9392 (33400)
4	KAR	ICS-103	Fine	23mm	4.0-5.5	21	10798 (38400)	10770 (38300)	10770 (38300)
5	M/M	ICS-104	Fine	24mm	4.0-5.0	23	11360 (40400)	11332 (40300)	11332 (40300)
6	P/H/R	ICS-202	Fine	26mm	3.5-4.9	26	12457 (44300)	12345 (43900)	12260 (43600)
7	M/M/A	ICS-105	Fine	26mm	3.0-3.4	25	11389 (40500)	11360 (40400)	11360 (40400)
8	M/M/A	ICS-105	Fine	26mm	3.5-4.9	25	11670 (41500)	11642 (41400)	11642 (41400)
9	P/H/R	ICS-105	Fine	27mm	3.5-4.9	26	12513 (44500)	12401 (44100)	12317 (43800)
10	M/M/A	ICS-105	Fine	27mm	3.0-3.4	26	11670 (41500)	11642 (41400)	11642 (41400)
11	M/M/A	ICS-105	Fine	27mm	3.5-4.9	26	11951 (42500)	11923 (42400)	11923 (42400)
12	P/H/R	ICS-105	Fine	28mm	3.5-4.9	27	12570 (44700)	12457 (44300)	12373 (44000)
13	M/M/A	ICS-105	Fine	28mm	3.5-4.9	27	12148 (43200)	12092 (43000)	12063 (42900)
14	GUJ	ICS-105	Fine	28mm	3.5-4.9	27	12148 (43200)	12092 (43000)	12063 (42900)
15	M/M/A/K	ICS-105	Fine	29mm	3.5-4.9	28	12317 (43800)	12260 (43600)	12232 (43500)
16	GUJ	ICS-105	Fine	29mm	3.5-4.9	28	12288 (43700)	12232 (43500)	12204 (43400)
17	M/M/A/K	ICS-105	Fine	30mm	3.5-4.9	29	12598 (44800)	12570 (44700)	12541 (44600)
18	M/M/A/K/T/O	ICS-105	Fine	31mm	3.5-4.9	30	12879 (45800)	12851 (45700)	12823 (45600)
19	A/K/T/O	ICS-106	Fine	32mm	3.5-4.9	31	13273 (47200)	13244 (47100)	13216 (47000)
20	M(P)/K/T	ICS-107	Fine	34mm	3.0-3.8	33	15325 (54500)	15325 (54500)	15325 (54500)

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

UPCOUNTRY SPOT RATES (Rs./Qtl)										
Sr. No.	Growth	Grade Standard	Standard Descriptions with Basic Grade & Staple in Millimetres based on Upper Half Mean Length [By law 66 (A) (a) (4)]					Spot Rate (Upcountry) 2018-19 Crop August 2019		
			Grade	Staple	Micronaire	Gravimetric Trash	Strength /GPT	1st	2nd	3rd
1	P/H/R	ICS-101	Fine	Below 22mm	5.0 – 7.0	4%	15	11473 (40800)	11473 (40800)	11389 (40500)
2	P/H/R (SG)	ICS-201	Fine	Below 22mm	5.0 – 7.0	4.5%	15	11614 (41300)	11614 (41300)	11529 (41000)
3	GUJ	ICS-102	Fine	22mm	4.0 – 6.0	13%	20	9392 (33400)	9392 (33400)	9280 (33000)
4	KAR	ICS-103	Fine	23mm	4.0 – 5.5	4.5%	21	10770 (38300)	10770 (38300)	10686 (38000)
5	M/M (P)	ICS-104	Fine	24mm	4.0 – 5.5	4%	23	11332 (40300)	11332 (40300)	11248 (40000)
6	P/H/R (SG)	ICS-202	Fine	27mm	3.5 – 4.9	4.5%	26	12035 (42800)	11979 (42600)	11754 (41800)
7	M/M(P)/SA/TL	ICS-105	Fine	26mm	3.0 – 3.4	4%	25	11304 (40200)	11164 (39700)	11079 (39400)
8	P/H/R	ICS-105	Fine	27mm	3.5 – 4.9	4%	26	12176 (43300)	12120 (43100)	11895 (42300)
9	M/M(P)/SA/TL/G	ICS-105	Fine	27mm	3.0 – 3.4	4%	26	11585 (41200)	11445 (40700)	11360 (40400)
10	M/M(P)/SA/TL	ICS-105	Fine	27mm	3.5 – 4.9	3.5%	26	11867 (42200)	11726 (41700)	11642 (41400)
11	P/H/R	ICS-105	Fine	28mm	3.5 – 4.9	4%	27	12260 (43600)	12204 (43400)	11979 (42600)
12	M/M(P)/SA/TL	ICS-105	Fine	28mm	3.5 – 4.9	3.5%	27	11979 (42600)	11838 (42100)	11670 (41500)
13	GUJ	ICS-105	Fine	28mm	3.5 – 4.9	3.5%	27	11951 (42500)	11838 (42100)	11670 (41500)
14	M/M(P)/SA/TL/K	ICS-105	Fine	29mm	3.5 – 4.9	3.5%	28	12148 (43200)	12007 (42700)	11838 (42100)
15	GUJ	ICS-105	Fine	29mm	3.5 – 4.9	3.5%	28	12120 (43100)	12007 (42700)	11838 (42100)
16	M/M(P)/SA/TL/K/O	ICS-105	Fine	30mm	3.5 – 4.9	3%	29	12317 (43800)	12148 (43200)	12063 (42900)
17	M/M(P)/SA/TL/K/TN/O	ICS-105	Fine	31mm	3.5 – 4.9	3%	30	12654 (45000)	12485 (44400)	12373 (44000)
18	SA/TL/K/TN/O	ICS-106	Fine	32mm	3.5 – 4.9	3%	31	13132 (46700)	12963 (46100)	12851 (45700)
19	M/M(P)/K/TN	ICS-107	Fine	34mm	3.0 – 3.8	3.5%	33	15185 (54000)	15044 (53500)	14960 (53200)

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