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Sailing Through Tides of Risks in Cotton Trade

Shri. Vinay N. Kotak is the Additional Vice-President of Cotton Association of India since 2017. He is on the Board of Directors of CAI for the last 9 years. He was also a Director on the Board of International Cotton Association (ICA), U.K. He is also the Vice-President of the Bombay Cotton Merchants & Muccadums Association and the Secretary of All India Exporters Chamber.

Shri. Vinay N. Kotak joined the commodity business in the year 1980. He held the positions of Director on Kotak Commodity Service Pvt. Ltd., Kotak & amp; Co. Pvt. Ltd., Kotak Ginning & amp; Pressing Pvt. Ltd and Asian Machinery Equipments Pvt. Ltd.

In any business, including cotton, challenges and opportunities ebb and flow like the tide. For my readers, I would like to throw light on challenges to start with, as without understanding and mitigating challenges, opportunities cannot be captured.

Challenges

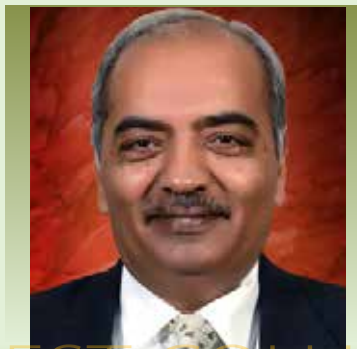
1. **Back to Back Margin** - In today's information overload and transparent world armed with

the internet, WhatsApp and other mediums, there are no margins in information or reach arbitrage. The days of back to back margin trying to capture this information or reach arbitrage are over.

Mitigation - try to innovate, and use your domain knowledge and experience to add to the margins.

2. **Spoiled Customer** - The buyer demands good quality, timely deliveries at cheap prices. Competition is immense.

Mitigation - Develop relationship and without diluting focus on service, get in to addressing his supply chain needs. Price alone will not matter.



GUEST COLUMN

Shri. Vinay N. Kotak
Director, Kotak Group of Companies

3. **Increased Risks** -

a. **Capital Risk** - Even the best of your buyers can end up in trouble due to evolving policies, over capacities etc., This can lead to capital erosion for the commodity trader and wipe off his accumulated profits.

Mitigation - Diversify your customer base and do not put too many eggs in the same basket. Study both - your buyer's ability and willingness to pay.

b. **Counter Party Risk** - Business is becoming ruthless and "me first". Counterparts do not hesitate to back off if their interests are not protected first.

Mitigation – One should be very choosy with a vendor or a customer. Monitor exposure limits and look at them in light of the evolving macro and micro environment.

- c. **Market Risk - Managing high volatility.**
Mitigation – Fix limits of open position and strict discipline should be maintained around those limits. Value at risk limits and stop losses are basic tools that traders overlook. Do not love your position.
- d. **Transaction Risk – Loss on account of actual direct costs as compared to estimated direct costs.**
Mitigation – We suggest the formula “WIFE IN Q” for the purpose of control of major variable direct costs.

W – Weight Shortage
I – Interest
F – Freight
E – Exchange/Forex
Q – Quality

Recommend – Constant watch on actual above costs versus estimated.

4. **Risk of Two “Gs” – Act of God and Government, which are most uncertain and beyond control.**
Mitigation –
- a. Keep a close watch on weather forecast. Identify a weather market.
- b. When the price levels in the market are exorbitantly high or low, measure your pace of business as such a situation is most likely to invite government intervention.
5. **Information Overload – It is a challenge to decide which information to rely upon.**
Mitigation - Rely on trusted sources that have credibility, analyse objectively and come to your independent conclusion.

I also recommend a constant watch on the profit/loss statement to monitor performance of your portfolio

- a. **Mark to Market Profit/Loss – Value of your position versus the market today.**

- b. **Efficiency Profit/Loss – Budget direct cost less actual direct cost.**
- c. **Merchandising Profit/Loss – Actual purchase or sale price less budgeted purchase or sale price**

Opportunities

First condition required is to remain alert and be adaptive to grab the opportunities -

1. **Investment – Interest rates are almost at bottom and likely to go up at a very slow pace. Returns on commodities are going to be much higher than interest.**
2. **Exit of players is leading to market consolidation which will stabilise and rationalise margins.**
3. **Yields are increasing the world over which will augment supply and support free movement of goods.**
4. **GDP growth in developing countries is rising at a faster pace and recession in developed countries is getting over and their GDP is also looking up. This will increase disposable income in the hands of consumers and lead to a spike in overall commodity demand.**
5. **Government agricultural subsidies especially in developed countries are likely to reduce as they want to control budget deficits. This will lead to more free trade of agri commodities and opportunities for developing countries.**

Commodity business is thrilling and addictive. Like me you can learn swimming only if you jump into the pool.

Success can be achieved if you acquire domain knowledge first, control your instinct, focus on controlling indirect costs, manage your risks proactively and remain alert to grab opportunities.

Courtesy: Cotton India 2018 (Mumbai)

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

Excerpts from India Meteorological Department's Weather Report of 15th August 2019

Outlook for next two weeks

[week - 1 (16th - 22nd August) & week - 2 (23rd - 29th August)]

- The present well marked low pressure area over northwest Madhya Pradesh and adjoining areas of south Uttar Pradesh and east Rajasthan is likely to move west-northwestwards along the monsoon trough during next 2 days. As a result of a likely constructive interaction of this low pressure area with the westerly trough which is lying to the west of Jammu & Kashmir could cause fairly widespread to widespread rainfall with isolated heavy to very heavy falls over Jammu & Kashmir, Punjab, Himachal Pradesh, Haryana & Chandigarh and west Uttar Pradesh mainly during 16th - 18th August. Then the low pressure area is likely to move northeastwards and weaken subsequently.

- A fresh cyclonic circulation is likely to develop over west central and adjoining

northwest Bay of Bengal towards the end of week - 1 and move west-northwestwards, thereby enhancing the rainfall activity over east & central India during week - 2.

- During week - 1, large excess rainfall is very likely over Rajasthan, above normal rainfall over Punjab, Haryana, Chandigarh & Delhi, southern parts of Jammu & Kashmir and Ladakh, Himachal Pradesh, west Madhya Pradesh, west Bengal, Andhra Pradesh, Tamil Nadu, Kerala, Andaman & Nicobar and Lakshadweep Islands, coastal Karnataka and south Konkan & Goa and near normal rainfall over interior Karnataka and Odisha. Interior parts of Maharashtra, northeast Madhya Pradesh, north Chhattisgarh, Jharkhand, Uttar Pradesh, Bihar, Uttarakhand, Sikkim, Arunachal Pradesh, Assam, Meghalaya, Nagaland, Manipur and Mizoram are likely to receive below normal rainfall. (Annexure III & IV)

Annexure-III

Forecast & Warnings (15th -21st August 2019)

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

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%)	
* 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)	†† SEVERE HEAT WAVE (> +6.4)
* THUNDERSTORM WITH SQUALL/GUSTY WIND		††† DUST/THUNDERSTORM	‡ COLD WAVE (-4.5 °C to -6.4 °C)	‡‡ SEVERE COLD WAVE (< -6.4)

● During week - 2, further reduction in rainfall likely over major parts of the country as compared to week - 1. However, above normal rainfall likely over Madhya Pradesh, Uttar Pradesh, north Chhattisgarh, Jharkhand, Bihar, Nagaland, Manipur, Mizoram, Tripura, Kerala and Lakshadweep and near normal over Tamil

Nadu, Rajasthan , Gangetic west Bengal and Odisha. Rest of the country is likely to receive below normal rainfall. (Annexure IV)

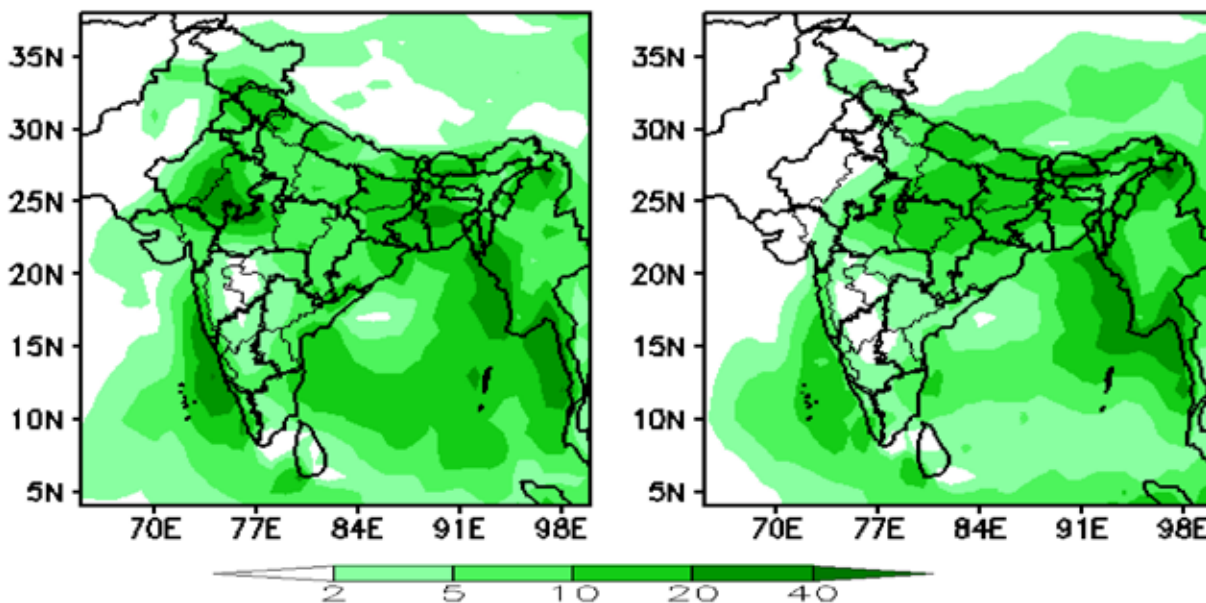
● Probability for genesis of monsoon Depression during next 2 weeks is low.

Annexure-IV

Forecast Rainfall (mm/day)

(Week1: 16Aug-22Aug)

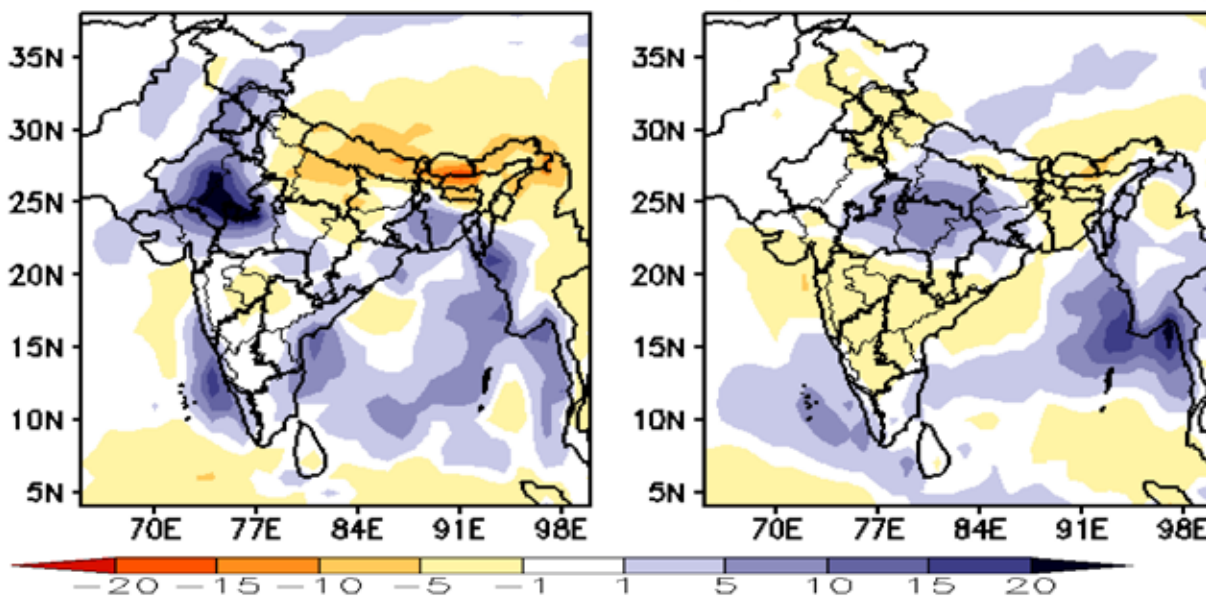
(Week2: 23Aug-29Aug)



Forecast Rainfall Anomaly (mm/day)

(Week1: 16Aug-22Aug)

(Week2: 23Aug-29Aug)



Celebrating Nariyali Poornima

Members of the Cotton Association of India performed the annual ritual of Dariya Poojan at Girgaum Chowpatty on Wednesday, August 14, 2019. CAI Additional Vice-President Shri Vinay N. Kotak accompanied by others including Shri. Shyam Makharia, Shri. Arun Sekhsaria, Shri. Ram Niranjn Verma, Shri. Jitendra Sharma, Shri. Hiten Negandhi, Shri. Manoj Bangdiwala, Shri. Dinesh Lodaya and Shri. Dinesh Nagda performed the pooja and prayed for all-year-long prosperity of the cotton trade.



Glimpses of Independence Day Celebrations

The 73rd Independence Day of our country was celebrated on Thursday August 15, on the premises of the Cotton Association of India. The flag hoisting ceremony was performed by senior member Shri. Brijmohan Sekhsaria. This was followed by the screening of a short documentary film, *Do or Die*, on India's fight for Independence.



Update on Cotton Acreage (As on 14.08.2019)

(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	4.718	4.910	4.520	4.980	3.750	4.490	5.850
2	Telangana	17.00	15.633	17.240	17.065	17.890	12.500	16.330	14.378
3	Gujarat	26.04	26.597	25.992	26.744	26.510	23.131	26.790	29.810
4	Haryana	6.06	6.078	6.760	6.650	6.560	4.980	5.810	6.390
5	Karnataka	6.47	4.784	4.610	3.760	4.330	4.280	4.400	7.150
6	Madhya Pradesh	5.65	5.964	6.100	6.880	5.760	5.990	5.460	5.730
7	Maharashtra	41.48	39.420	43.499	39.946	41.377	39.000	37.557	39.220
8	Odisha	1.31	1.356	1.690	1.578	1.450	1.260	1.250	1.240
9	Punjab	3.56	3.630	4.020	2.840	3.850	2.560	4.400	4.500
10	Rajasthan	4.76	4.300	6.445	4.961	5.031	3.862	3.490	4.158
11	Tamil Nadu	1.61	0.067	0.048	0.050	0.119	0.056	0.040	0.070
12	Others	0.43	0.230	0.271	0.172	0.286	0.170	0.210	0.310
All India		120.930	112.776	121.584	115.166	118.143	101.539	110.227	118.806

* Directorate of Economics & Statistics, Ministry of Agriculture and Farmers Welfare, Krishi Bhavan, New Delhi
Source : Directorate of Cotton Development, Nagpur

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 August 2019						
Sr. No.	Growth	Grade Standard	Grade	Staple	Micronaire	Gravimetric Trash	Strength /GPT	12th	13th	14th	15th	16th	17th	
1	P/H/R	ICS-101	Fine	Below 22mm	5.0 – 7.0	4%	15	11389 (40500)	11389 (40500)	11445 (40700)		11445 (40700)	11473 (40800)	
2	P/H/R (SG)	ICS-201	Fine	Below 22mm	5.0 – 7.0	4.5%	15	11529 (41000)	11529 (41000)	11585 (41200)		11585 (41200)	11614 (41300)	
3	GUJ	ICS-102	Fine	22mm	4.0 – 6.0	13%	20	9280 (33000)	9308 (33100)	9364 (33300)	H	9364 (33300)	9392 (33400)	
4	KAR	ICS-103	Fine	23mm	4.0 – 5.5	4.5%	21	10657 (37900)	10686 (38000)	10714 (38100)		10714 (38100)	10742 (38200)	
5	M/M (P)	ICS-104	Fine	24mm	4.0 – 5.5	4%	23	11220 (39900)	11248 (40000)	11276 (40100)	O	11276 (40100)	11304 (40200)	
6	P/H/R (SG)	ICS-202	Fine	27mm	3.5 – 4.9	4.5%	26	11754 (41800)	11867 (42200)	11923 (42400)		12035 (42800)	12092 (43000)	
7	M/M(P)/SA/TL	ICS-105	Fine	26mm	3.0 – 3.4	4%	25	10967 (39000)	10995 (39100)	11051 (39300)		11192 (39800)	11220 (39900)	
8	P/H/R	ICS-105	Fine	27mm	3.5 – 4.9	4%	26	11838 (42100)	11951 (42500)	12007 (42700)	L	12120 (43100)	12176 (43300)	
9	M/M(P)/SA/TL/G	ICS-105	Fine	27mm	3.0 – 3.4	4%	26	11107 (39500)	11135 (39600)	11192 (39800)		11332 (40300)	11360 (40400)	
10	M/M(P)/SA/TL	ICS-105	Fine	27mm	3.5 – 4.9	3.5%	26	11389 (40500)	11417 (40600)	11473 (40800)	I	11614 (41300)	11642 (41400)	
11	P/H/R	ICS-105	Fine	28mm	3.5 – 4.9	4%	27	11979 (42600)	12035 (42800)	12092 (43000)		12204 (43400)	12260 (43600)	
12	M/M(P)/SA/TL	ICS-105	Fine	28mm	3.5 – 4.9	3.5%	27	11529 (41000)	11557 (41100)	11614 (41300)		11754 (41800)	11782 (41900)	
13	GUJ	ICS-105	Fine	28mm	3.5 – 4.9	3.5%	27	11557 (41100)	11585 (41200)	11642 (41400)	D	11782 (41900)	11810 (42000)	
14	M/M(P)/SA/TL/K	ICS-105	Fine	29mm	3.5 – 4.9	3.5%	28	11782 (41900)	11810 (42000)	11867 (42200)		12063 (42900)	12092 (43000)	
15	GUJ	ICS-105	Fine	29mm	3.5 – 4.9	3.5%	28	11782 (41900)	11810 (42000)	11867 (42200)	A	12007 (42700)	12035 (42800)	
16	M/M(P)/SA/TL/K/O	ICS-105	Fine	30mm	3.5 – 4.9	3%	29	11979 (42600)	12007 (42700)	12092 (43000)		12288 (43700)	12317 (43800)	
17	M/M(P)/SA/TL/K/TN/O	ICS-105	Fine	31mm	3.5 – 4.9	3%	30	12288 (43700)	12317 (43800)	12373 (44000)		12626 (44900)	12654 (45000)	
18	SA/TL/K/TN/O	ICS-106	Fine	32mm	3.5 – 4.9	3%	31	12710 (45200)	12738 (45300)	12795 (45500)	Y	12935 (46000)	12963 (46100)	
19	M/M(P)/K/TN	ICS-107	Fine	34mm	3.0 – 3.8	3.5%	33	14960 (53200)	15044 (53500)	15129 (53800)		15185 (54000)	15213 (54100)	

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