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Technical Analysis

Price outlook for Gujarat-ICS-10, 29mm and ICE cotton futures for the period 29/08/17 to 24/09/17

(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:

- The ICE cotton futures edged lower on MCX, due to the easing demand from traders and stockists at the spot market. Concerns of crop damage as tropical storm Harvey battered through some of the major cotton-growing regions, capped some losses in cotton futures.

- Cotton futures edged higher as the monsoon seems to be uneven. With a rise in spot prices in India amid tight stocks of 2016-2017,

higher ICE futures movement are supporting the domestic prices to rise.

- Monsoon rains have been reported as very uneven in India and Pakistan, but conditions are better after more general rains in the last couple of weeks. Indian cotton crop continues to depend heavily on weather conditions. Although the amount of sowing is a significant factor in estimation of cotton crop, it is the final yield that matters and so far with the monsoon progressing well, the yields should rise higher.

- Cotton Association of India (CAI) has released its June - 2017 estimate of the cotton crop for the season 2016-17 beginning from 1st October 2016. In its latest estimate, the CAI has estimated cotton crop for the 2016-17 crop year at 337.25 lakh bales of 170 kgs. each.

- The Cotton Advisory Board (CAB), which comprises representatives from the textile industry, trade, ginners and government officials, has estimated the crop at 345 lakh bales for the 2016-17 season at its meeting held on August 18.

Some of the fundamental drivers for International cotton prices are:

- The ICE cotton futures edged higher on Tuesday, as concerns of potential crop damage

EXPERT'S Column



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due to hurricane Harvey lifted the prices of the natural fiber to near three-week high. The U.S. Department of Agriculture’s weekly crop progress report on Monday showed 65 percent of the crop was in good or excellent condition against 63 percent a week ago.

- Hurricane Harvey was expected to bring heavy rains of up to five feet into Texas and potentially hurt the quality and harvest progress in some areas of the state. No one is willing to say if any cotton was lost or how much was lost as the catastrophic rains are still around. Reports indicate that about 600,000 acres of high quality cotton could be damaged or destroyed in southern parts of the state, while optimists hope that less than 300,000 acres will be lost.

- The speculators cut net long position in cotton by 6,516 contracts to 21,172 in the week to Aug. 22, U.S. Commodity Futures Trading Commission data showed on Friday.

With the cap at 12,300s, we can expect prices to edge lower towards 11,220/ qtl. Once above 12,200, they could aim for 12300-400 levels.

As mentioned previously, indicators are still in a neutral state and prices could remain range bound for a while till some clear directional clues are obtained. We see support in the 11,300-400 / qtl range followed by more important support at 10,800 /qtl range now. It looks like the upward trend is unlikely to materialise and more pressure on the downside is likely in the coming weeks. The indicators still display neutral tendencies and corrective upticks can be strongly capped in the coming month.

MCX June Contract Continuation Chart



The MCX benchmark October cotton chart as mentioned earlier, shows signs of an intermediate bottom around 17,740 levels. A recovery to 19,000 levels materialised. Prices have corrected lower, but managed to hold supports around 18,000 levels so far. While 18,000 holds, we expect prices to edge higher once again towards 19,000 or even higher in the coming sessions. Close below 18,000 could revive bearish hopes for 16,850-17,000 subsequently.



Technical indications are still neutral now. Prices are moving in a broad range and still sticking around the 11,800-12,200 /qtl range. Prices are still finding it difficult to sustain and push higher and could be vulnerable for a drop in the coming months if they fail to get momentum.



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

As mentioned earlier, December active month is indicating a mixed picture with a bearish bias. Charts' structures are bearish for a fall in the 65.00/66.00 area. Resistance levels around 72/73c could cap upticks if any. Any unexpected rise and close above 72.50c, might lessen the chances for the expected fifth wave type of decline and further upside to 75c followed by 78c can be seen. Our favoured view is mildly bullish initially for 72 levels again. We now expect prices to get resisted there before heading lower to 65-66c again.

CONCLUSION:

Both the domestic and international prices are unable to see follow-through upside momentum. The technical picture presently

is neutral with some mild indications of bullishness. Only a rise above 73c could revive bullish hopes again. The international prices indicate some near-term strength while the domestic prices look benign.

For Guj ICS support is seen at 11,700 /qtl followed by 11,400 /qtl, and for ICE Dec cotton futures at 68c followed by 66c. Failure to follow-through higher above 12,500 /qtl has weakened the bullish picture in the domestic markets. In the international markets, prices are indicating a possible bearish turnaround, and the indicators have turned neutral. The international markets could potentially change direction and push higher, but the technical picture is indicating prices to edge lower to 64c on the downside and the domestic prices to edge lower around 10,800 /qtl levels in the coming weeks after a minor recovery upwards.

Cotton Consumption - Cotton Year-wise

(In Lakh bales)

Month	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17 (P)
Oct.	16.54	18.13	22.09	17.77	21.84	24.03	24.17	24.70	21.52
Nov.	16.94	18.47	21.09	18.34	21.09	22.96	25.05	23.35	23.06
Dec.	17.98	19.49	22.57	20.13	22.63	25.16	25.89	25.49	24.59
Jan.	16.93	19.54	22.1	20.33	23.3	25.19	25.77	25.26	25.02
Feb.	16.23	18.81	20.23	20.31	22.24	23.22	24.58	24.64	24.44
March	17.51	20.01	21.77	20.38	23.61	25.07	26.18	25.61	25.90
April	17.12	20.53	20.17	20.31	23.22	24.32	25.57	24.95	24.67
May	17.83	20.93	18.64	21.27	22.85	24.38	25.62	25.38	24.86
June	18.01	20.71	18.23	21.17	22.51	24.11	25.61	25.38	24.70
July	18.98	22.11	19	22.14	24.11	24.54	25.56	25.01	
Aug.	18.59	21.73	18.64	22.08	24.23	24.46	25.86	24.37	
Sept.	18.29	21.42	21.71	21.46	23.7	25.81	24.58	23.14	
Total	210.96	241.88	246.23	245.47	275.34	293.24	304.43	297.28	218.75

Source: Office of the Textile Commissioner

Glimpses of Shraavan Mass Utsav

Shraavan Mass Utsav was celebrated at Bhid Bhanjan Mahadev Mandir, Colaba, on Monday 21st August 2017.



Rainfall Distribution (01.06.2017 to 27.08.2017)

Sr. No.	State	Day 27.08.2017				Period 01.06.2017 to 27.08.2017			
		Actual (mm)	Normal (mm)	% Dep.	Cat.	Actual (mm)	Normal (mm)	% Dep.	Cat.
1	Punjab	0.0	5.3	-100%	NR	313.8	389.2	-19%	N
2	Haryana	0.5	6.1	-92%	LD	254.7	364.3	-30%	D
3	West Rajasthan	2.5	2.9	-14%	N	333.2	213.3	56%	E
	East Rajasthan	7.0	6.2	14%	N	492.2	493.8	0%	N
4	Gujarat	6.4	5.5	17%	N	660.7	531.6	24%	E
	Saurashtra & Kutch	1.2	3.6	-66%	LD	510.8	381.7	34%	E
5	Maharashtra	11.3	7.7	46%	E	735.6	795.9	-8%	N
	Madhya Maharashtra	6.7	5.1	31%	E	605.5	556.4	9%	N
	Marathwada	12.3	5.7	116%	LE	454.3	492.6	-8%	N
	Vidarbha	5.2	7.9	-34%	D	544.6	750.7	-27%	D
6	West Madhya Pradesh	14.3	7.3	96%	LE	534.3	668.8	-20%	D
	East Madhya Pradesh	4.7	8.4	-44%	D	607.8	811.8	-25%	D
7	Telangana	6.1	6.0	1%	N	517.3	565.7	-9%	N
8	Coastal Andhra Pradesh	4.2	6.1	-31%	D	475.6	401.9	18%	N
	Rayalseema	14.7	4.1	258%	LE	301.3	252.0	20%	E
9	Coastal Karnataka	59.6	14.5	311%	LE	2157.7	2726.3	-21%	D
	N.I. Karnataka	7.3	3.4	116%	LE	287.1	344.8	-17%	N
	S.I. Karnataka	13.1	3.8	245%	LE	388.1	504.4	-23%	D
10	Tamil Nadu & Pondicherry	2.3	3.7	-38%	D	237.8	187.7	27%	E
11	Orissa	8.4	13.3	-37%	D	813.9	869.0	-6%	N

L. Excess, Excess, Normal, Deficient, L. Deficient

Source : India Meteorological Department, Hydromet Division, New Delhi



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Cotton Prices Uncertain in 2017/18

In 2017/18, world cotton production is projected to increase by 8% to 24.9 million tons. However, this increase is due entirely to an 8% expansion in world cotton area to 31.7 million hectares, which is below the 20-year average of 32.7 million hectares. The world average yield is forecast at 785 kg/ha, unchanged from 2016/17. India is expected to remain the world's largest producer in 2017/18 with output increasing by 6% to 6.1 million tons. An early and adequate monsoon, a higher minimum support price, and the prospect of better returns from cotton compared to competing crops have encouraged farmers in India to expand area by 8% to 11.3 million hectares. After falling by 6% in 2016/17, China's production is projected to rebound by 7% to 5.2 million tons. Cotton area in China is expected to expand by 6% to 3.1 million hectares, which is the first increase in five seasons due to higher domestic cotton prices. Production in the United States is expected to rise by 10% to 4.1 million tons as high prices, sufficient soil moisture in dryland areas and beneficial weather during planting encouraged farmers to expand cotton area by 18% to 4.5 million hectares. After two seasons of contraction, better expected returns for cotton encouraged farmers to expand cotton area in Pakistan by 9% to 2.7 million hectares. Assuming the average yield rises by 8% to 717 kg/ha, Pakistan's production is projected to increase by 17% to 2 million tons, which is similar to its 15-year average. The average yield is expected to improve by 8% to 717 kg/ha as recovery from the significant drop in 2015/16 continues. Cotton production in Brazil is forecast to increase by 5% to 1.6 million tons as high returns in 2016/17, resulting partially from a 17% increase in the average yield, are likely to encourage farmers to expand cotton area.

World cotton consumption in 2017/18 is forecast to rise by 2% to 25 million tons. A modest 1% increase is projected for China, the world's largest cotton consumer, with its mill use reaching 8.1 million tons in 2017/18. After declining by 3% in 2016/17, consumption in India is forecast to increase by 2% to 5.3 million tons in 2017/18 as prices for cotton and yarn are likely to be competitive due to the increase in supply. The government of Pakistan announced an incentive package for its textile industry in January 2017, which includes tax incentives, and mill use is expected to rise by 4% to 2.2 million tons. This follows a 13% decrease in mill use in 2015/16 and stagnation in 2016/17, which brings expected mill use to the same level as in

2012/13. Consumption in Bangladesh is projected to rise by 5% to 1.5 million tons due to strong demand domestically and internationally. Turkey's mill use is expected to remain stable at 1.5 million tons as domestic demand remains weak.

World cotton trade is projected to decline by 1% to 7.8 million tons. A number of cotton-producing countries such as Pakistan and India will likely decrease their imports in 2017/18 due to larger domestic supplies. While the United States is expected to remain the world's largest exporter, its exports are nevertheless forecast to decrease by 8% to 2.9 million tons due to more competition from other countries. India's exports are forecast to rise by 2% to 930,000 tons based on its larger exportable surplus. Australia's exports are projected to increase by 8% to 760,000 tons. 2017/18 will be the second consecutive season of production growth in Australia and a portion of its large crop in 2016/17 will be exported during 2017/18 given the later growing period. Bangladesh, Vietnam and China are expected to remain the world's three largest importers. Bangladesh's imports are projected to increase by 7% to 1.5 million tons, Vietnam's by 5% to 1.3 million tons, and China by 4% to 1.1 million tons. Indonesia will likely be the fourth largest as its imports increase by 1% to 730,000 tons.

World ending stocks are projected to decrease by 1% to 18.8 million tons in 2017/18, with increases outside of China offset by decreases in China's stocks. China's stocks are expected to decline by 16% to 8.9 million tons. Ending stocks outside of China are forecast to grow by 19% to 9.8 million tons. The large increase in ending stocks outside of China may put downward pressure on international cotton prices.

The Secretariat forecasts that the A Index in 2017/18 will range between 54 cts/lb and 87 cts/lb with a midpoint of 69 cts/lb. The midpoint would be 13 cts/lb lower than in 2016/17. This follows the large increase of 12 cts/lb from 2015/16 to 2016/17, which suggests that such a drop is not unreasonable. However, the season-average A Index in 2016/17 ended up being much higher than the Secretariat initially forecast, and market fundamentals do not explain why this occurred. Given what happened in 2016/17, it is difficult to say whether the current forecast for 2017/18 will hold up well over the season.

Source: ICAC Cotton This Month, August 1, 2017



ICAC

Supply and Distribution of Cotton

August 1, 2017

Seasons begin on August 1

Million Metric Tons

	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
		Est.	Est.	Est.	Est.	Proj.
BEGINNING STOCKS						
WORLD TOTAL	15.710	19.428	21.322	23.043	20.23	18.90
China	6.696	10.811	13.280	14.118	12.65	10.62
USA	0.729	0.827	0.512	0.795	0.83	0.70
PRODUCTION						
WORLD TOTAL	27.079	26.225	26.269	21.484	23.03	24.89
India	6.290	6.766	6.562	5.746	5.78	6.13
China	7.600	7.000	6.600	5.200	4.90	5.25
USA	3.770	2.811	3.553	2.806	3.74	4.12
Pakistan	2.002	2.076	2.305	1.537	1.66	1.95
Brazil	1.310	1.734	1.563	1.289	1.48	1.55
Uzbekistan	1.000	0.910	0.885	0.832	0.79	0.80
Others	5.107	4.928	4.801	4.074	4.68	5.09
CONSUMPTION						
WORLD TOTAL	23.448	24.097	24.592	24.183	24.47	25.00
China	7.900	7.600	7.550	7.600	8.00	8.05
India	4.762	5.087	5.377	5.296	5.15	5.27
Pakistan	2.216	2.470	2.467	2.147	2.15	2.23
Europe & Turkey	1.560	1.611	1.692	1.687	1.61	1.60
Bangladesh	1.045	1.129	1.197	1.316	1.41	1.48
Vietnam	0.492	0.673	0.875	1.007	1.17	1.26
USA	0.762	0.773	0.778	0.751	0.72	0.74
Brazil	0.910	0.862	0.797	0.701	0.72	0.74
Others	3.801	3.892	3.860	3.677	3.55	3.63
EXPORTS						
WORLD TOTAL	10.051	9.028	7.698	7.549	7.88	7.80
USA	2.836	2.293	2.449	1.993	3.16	2.89
India	1.690	2.015	0.914	1.258	0.91	0.93
CFA Zone	0.825	0.973	0.892	0.961	1.00	1.09
Brazil	0.938	0.485	0.851	0.939	0.61	0.65
Uzbekistan	0.690	0.615	0.550	0.500	0.36	0.38
Australia	1.343	1.057	0.520	0.616	0.70	0.76
IMPORTS						
WORLD TOTAL	10.214	8.858	7.789	7.571	7.88	7.80
Bangladesh	1.055	1.112	1.183	1.378	1.41	1.51
Vietnam	0.517	0.687	0.934	1.001	1.24	1.31
China	4.426	3.075	1.804	0.959	1.08	1.12
Turkey	0.803	0.924	0.800	0.918	0.70	0.70
Indonesia	0.686	0.651	0.728	0.640	0.72	0.73
TRADE IMBALANCE 1/	0.163	-0.170	0.091	0.023	0.00	0.00
STOCKS ADJUSTMENT 2/	-0.075	-0.063	-0.047	-0.034	0.00	0.00
ENDING STOCKS						
WORLD TOTAL	19.428	21.322	23.043	20.333	18.90	18.80
China	10.811	13.280	14.118	12.650	10.62	8.93
USA	0.827	0.512	0.795	0.827	0.70	1.18
ENDING STOCKS/MILL USE (%)						
WORLD-LESS-CHINA 3/	55	49	52	46	50	58
CHINA 4/	137	175	187	166	133	111
COTLOOK A INDEX 5/	88	91	71	70	83	

1/ The inclusion of linters and waste, changes in weight during transit, differences in reporting periods and measurement error account for differences between world imports and exports.

2/ Difference between calculated stocks and actual; amounts for forward seasons are anticipated.

3/ World-less-China's ending stocks divided by World-less-China's mill use, multiplied by 100.

4/ China's ending stocks divided by China's mill use, multiplied by 100.

5/ U.S. Cents per pound

Source : ICAC Cotton This Month, August 1, 2017

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) 2016-17 Crop AUGUST 2017					
Sr. No.	Growth	Grade Standard	Grade	Staple	Micronaire	Strength /GPT	21st	22nd	23rd	24th	25th	26th
1	P/H/R	ICS-101	Fine	Below 22mm	5.0-7.0	15	9814 (34900)	9729 (34600)	9589 (34100)	9448 (33600)		9448 (33600)
2	P/H/R	ICS-201	Fine	Below 22mm	5.0-7.0	15	10095 (35900)	10011 (35600)	9870 (35100)	9729 (34600)	H	9729 (34600)
3	GUJ	ICS-102	Fine	22mm	4.0-6.0	20	8042 (28600)	8042 (28600)	8042 (28600)	8042 (28600)		8042 (28600)
4	KAR	ICS-103	Fine	23mm	4.0-5.5	21	9364 (33300)	9364 (33300)	9364 (33300)	9364 (33300)		9364 (33300)
5	M/M	ICS-104	Fine	24mm	4.0-5.0	23	10404 (37000)	10404 (37000)	10404 (37000)	10404 (37000)	O	10404 (37000)
6	P/H/R	ICS-202	Fine	26mm	3.5-4.9	26	11726 (41700)	11754 (41800)	11810 (42000)	11838 (42100)		11838 (42100)
7	M/M/A	ICS-105	Fine	26mm	3.0-3.4	25	9786 (34800)	9926 (35300)	9786 (34800)	9701 (34500)	L	9645 (34300)
8	M/M/A	ICS-105	Fine	26mm	3.5-4.9	25	10348 (36800)	10404 (37000)	10404 (37000)	10404 (37000)		10404 (37000)
9	P/H/R	ICS-105	Fine	27mm	3.5-4.9	26	11895 (42300)	11923 (42400)	11979 (42600)	12007 (42700)		12007 (42700)
10	M/M/A	ICS-105	Fine	27mm	3.0-3.4	26	10404 (37000)	10404 (37000)	10404 (37000)	10404 (37000)	I	10404 (37000)
11	M/M/A	ICS-105	Fine	27mm	3.5-4.9	26	10911 (38800)	10967 (39000)	10967 (39000)	10967 (39000)		10967 (39000)
12	P/H/R	ICS-105	Fine	28mm	3.5-4.9	27	11979 (42600)	12007 (42700)	12063 (42900)	12092 (43000)	D	12092 (43000)
13	M/M/A	ICS-105	Fine	28mm	3.5-4.9	27	11501 (40900)	11501 (40900)	11529 (41000)	11529 (41000)		11529 (41000)
14	GUJ	ICS-105	Fine	28mm	3.5-4.9	27	11529 (41000)	11529 (41000)	11557 (41100)	11557 (41100)		11557 (41100)
15	M/M/A/K	ICS-105	Fine	29mm	3.5-4.9	28	11895 (42300)	11895 (42300)	11923 (42400)	11923 (42400)	A	11923 (42400)
16	GUJ	ICS-105	Fine	29mm	3.5-4.9	28	11867 (42200)	11867 (42200)	11895 (42300)	11895 (42300)		11895 (42300)
17	M/M/A/K	ICS-105	Fine	30mm	3.5-4.9	29	12092 (43000)	12092 (43000)	12120 (43100)	12120 (43100)	Y	12120 (43100)
18	M/M/A/K/T/O	ICS-105	Fine	31mm	3.5-4.9	30	12345 (43900)	12345 (43900)	12373 (44000)	12373 (44000)		12373 (44000)
19	A/K/T/O	ICS-106	Fine	32mm	3.5-4.9	31	12823 (45600)	12823 (45600)	12879 (45800)	12879 (45800)		12879 (45800)
20	M(P)/K/T	ICS-107	Fine	34mm	3.0-3.8	33	14904 (53000)	14904 (53000)	15044 (53500)	15044 (53500)		15044 (53500)

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