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Cotton Exchange Building, 2nd Floor, Cotton Green, Mumbai - 400 033
Telephone: 8657442944/45/46/47/48 Email: cai@caionline.in
www.caionline.in

Technical Analysis

Price outlook for Gujarat-ICS-105, 29mm and ICE cotton futures for the period 5th October, 2021 to 7th November, 2021

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 Dow Jones, 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

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 in MCX are higher, as demand for quality crop, lower sowing this season and fear of crop damage due to late rains ahead of harvesting, underpinned sentiment driving prices sharply higher. Apart from lower sowing, late rains in key cotton producing states are likely to take a toll on the cotton crop this season.

- Extended rains are now posing a risk to cotton, the main crop of Vidarbha. Harvest in a number of pockets is reported to be delayed by 20 to 25 days as the fields are still wet and has prevented ball formation to the fullest, holding up the harvest. Last year, cotton growers had to face low rates due to the Covid pandemic. Cotton arrivals that begin by around this time, look to be delayed. Lower production could force India, the world's biggest importer of edible oils and pulses, to increase overseas purchases of these commodities, and it could also reduce cotton exports from the world's top producer.

- Against USDA's estimates of 371.5 lakh bales, Ministry of Agriculture pegged Indian Cotton output near 362 lakh bales in the first advance estimates for 2021-22, which is an all-time high level.

Some of the fundamental drivers for international cotton prices are:

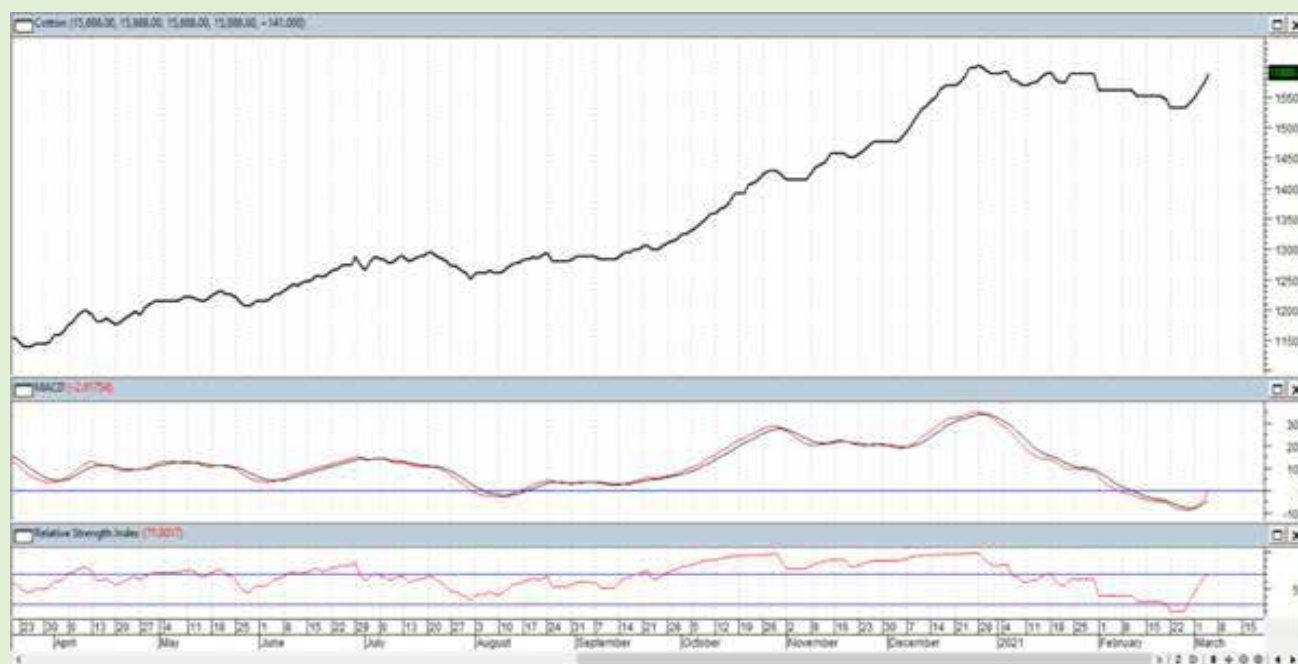
- ICE Cotton futures are trading at their highest price in about a decade, with growing Chinese demand being met in part by rising U.S. exports to China, a curiosity of Trump-era trade-war policies. Most-active U.S. cotton futures trading on the Intercontinental Exchange closed Monday up by 0.4% at \$1.05 a pound, keeping prices at their highest level since September 2011. Prices have risen 18% higher over the past 10 sessions.

- China's appetite for cotton imports is, in part, being fulfilled by cotton produced in the U.S. According to the U.S. Department of Agriculture, the pace of U.S. export sales of cotton to China since the start of the new marketing year on August 1, is 83% higher than this time last year.

- The non-commercial traders or speculators have increased their bullish bets, according to the Commodity Futures Trading Commission, as U.S. farmers begin to harvest their crops. The USDA reports that the cotton harvest nationwide is 13% complete, and the crops being harvested are looking good -- with 62% of them in good or excellent condition, versus 40% at this time last year. However, China's robust demand for cotton and other raw materials could wane going forward. Power outages have swept through Chinese provinces, with the government sometimes forcing factories to shut down to save energy.

Guj ICS Price Trend

As mentioned in the previous update, we expected to prices to edge higher again opening the way for 15,000 levels in the coming month or even higher. Prices have moved exactly as per expectations. Prices have the potential to test 16,200-500 levels or could even extend a bit higher from there.



MCX Oct Contract Chart

The MCX benchmark cotton corrected from recent highs around 28,000 and as mentioned in the previous update, found support near 24,500 levels and resumed the rally higher again. The trend is looking strong, but one has to be cautious, as such extreme moves have resulted in strong retracements subsequently. Potential exists for a test of 30,000, a psychological level for domestic cotton futures.



ICE Cotton Futures

As mentioned previously, prices could spend some time in consolidation in the 80-90c zone before preparing to rise higher now. A possible inverse head and shoulder pattern is in the making, which indicates a bullish upside move that indicates a possible break of 97c opening the way for 2011 high of \$1.15 on the upside. An extension even to \$1.20 cannot be ruled out. As per the technical inverse head and shoulder pattern, it could even test \$1.40 on the upside. For now, prices could find strong resistances at \$1.15-1.20, which might be a strong resistance to repulse upside attempts. Supports on the downside are seen at \$1.03 followed by 97c now.



Conclusion

The domestic prices are hinting at more upside in the coming weeks, but with the possibility of a rising sharply higher and retracements lower from time to time. International cotton futures still continue to display bullish tendencies with possibilities of breakout on the upside to 97c immediately and further higher crossing the \$1.15 mark eventually. Important support is at \$1.03 followed by 97c on the downside and in that zone, prices could find a lot of buying interest again. The domestic prices have corrected lower as expected, and started rising exactly as per our expectations. The international price indicates that it is in the process of a strong bullish up move and medium-term also looks quite bullish. There could be strong retracements from time to time and corrective pullbacks look likely going forward.

For Guj ICS supports are seen at 15,300-500/qtl and for ICE Dec cotton futures at \$1.03-05 followed by 97c. The domestic technical picture looks bullish now, and positive fundamental triggers underpinning sentiment. It could grind higher and the international prices are relatively more bullish compared to the domestic prices. We expect domestic prices to continue edging higher slowly from current levels. Therefore, we expect more bullishness ahead with possibilities of sharp corrections from time to time in domestic and international prices.

Rupee Outlook for October 2021

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 traded in a range of 72.920 to 74.3550 and gained around Rs.1.2 higher or 1.65% during the month of September-2021. RBI has protected the rupee from further appreciation at 72.92 to 73 levels and later at 73.60 levels thus effectively absorbing the inflows. Towards the end of the month due to supply constraints of certain commodities, inflation concern (leading to higher US 10 year yields) and the Evergrande Crisis ensured that Rupee fell beyond 74 levels.

India's retail inflation has been falling for the last two months at 5.59% and 5.30%. This is within the MPC mandate of 4-6%. However, with rising oil prices rising overall pick up in demand the inflation is likely to remain at elevated levels. Higher inflation persistently will see that Central bank strives to arrest sharp depreciation in Rupee.

We are of the view that US\$INR is likely to see the range of 73.50 - 74.80 for the month of October 2021 based on the below parameters:

- **RBI Policy meeting:** The RBI Policy meeting will be an important event which is due on 8th October. Higher oil prices near \$80/bbl will be a concern in the backdrop of moderately higher inflation while growth remains in focus.

- **US Employment (NFP) data:** Post the Fed meeting in Sep'21, it is widely estimated that the central bank will begin tapering its \$120 bn monthly bond purchasing program by Nov-21 and complete the tapering exercise by June-2022. So September employment data will be crucial wherein it will give confidence to the central bank in taking firm decision for tapering as well as hike in its interest rates in future.

- **Crude oil prices:** Brent oil has recently jumped beyond \$80/bbl on supply crunch

as well as estimates that global economic recovery will lead to increase in demand for the fuel. On a weekly basis, if oil closes above \$84/bbl then on the upside \$100/bbl can be witnessed.

- **RBI's Forex strategy:** Forex reserves touched a record high of \$642 bn and a total of around \$22.74 bn was added last month of which \$18 bn was due to the additional quota allotted by IMF. Clearly, the central bank has been intervening on both sides. RBI forex strategy remains a key as anticipates pressure on Rupee when Federal reserve starts triggering stimulus pullback.

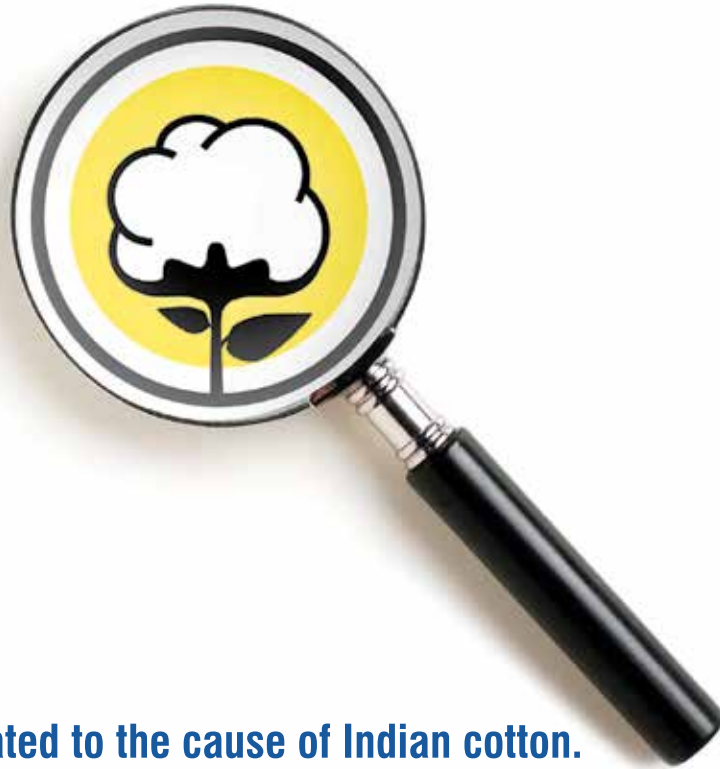
- **Movement in Chinese Yuan:** USDCNY will be a vital factor for Asian currencies as concerns over China's Evergrande Group still lingers; whether the company will be able to pay its interest payments or not in the future especially after Chinese government has ruled out any support to the debt-laden organisation.

- **FII inflows:** FII flows remained muted in July but returned with a bang in August and September and together they witnessed flows of around \$5.8 bn. Further, going ahead the sustenance of the flows will continue as series of more than 30 IPOs are lined up between October and November worth almost 40-45k. However, outflows may be possible if China's situation worsens and hits the risk sentiment globally.

- **Rising US10y yields:** Recently, during the end of September yields have spiked up on inflation worries as well as Republicans blocking the debt ceiling bills to paralyse the government.

Going forward, we expect USDINR to trade in a tight range of 73.50-74.80 as it is widely anticipated that the RBI will not be comfortable to see USDINR trading at higher levels. The RBI will ensure that it remains in a range for some time more.

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



Since 1921,
we are dedicated to the cause of Indian cotton.
 Just one of the reasons, you should use our Laboratory Testing Services.

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



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COTTON ASSOCIATION OF INDIA

Cotton Exchange Building, 2nd Floor, Opposite Cotton Green Railway Station, Cotton Green (East), Mumbai - 400 033, Maharashtra, INDIA
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Revision in Testing Charges at CAI Laboratories

The following are the charges for cotton testing in the laboratories of the Cotton Association of India with effect from 1st October 2020.

Particulars	Per Sample Testing Fees in Rs.		
	Testing Fees	GST	Total
HVI Test	145	26	171
Micronaire Test	85	15	100
Colour Grade on HVI	85	15	100
Gravimetric Trash Test on HVI	85	15	100
Moisture	85	15	100
Grading (Manual Classing)	235	42	277

VOLUME BASED DISCOUNTS

Particulars	Per Sample Testing Fees in Rs.		
	Testing Fees	GST	Total
For 250 samples and above but less than 500 samples	140	25	165
For 500 samples and above but less than 750 samples	135	24	159
For 750 samples and above but less than 1000 samples	130	23	153
For 1000 samples and above but less than 2000 samples	125	23	148
For 2000 samples and above but less than 5000 samples	120	22	142
For 5000 samples and above but less than 10,000 samples	115	21	136
For 10,000 samples and above	100	18	118

The fees under the above volume based discount scheme is payable within 15 days from the receipt of the invoices to be raised on monthly basis.

We would also like to inform that the parties can avail the benefit of testing of cotton at multiple laboratories of the Associations against the CAI Credits made by them.

We earnestly request you to avail the facility of testing at the Association's laboratories.



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Established 1921
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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) 2020-21 Crop September - October 2021					
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	11585 (41200)	11585 (41200)	11585 (41200)	11585 (41200)	11614 (41300)	
2	P/H/R (SG)	ICS-201	Fine	Below 22mm	5.0 - 7.0	4.5%	15	11754 (41800)	11754 (41800)	11754 (41800)	11754 (41800)	11782 (41900)	H
3	GUJ	ICS-102	Fine	22mm	4.0 - 6.0	13%	20	9533 (33900)	9617 (34200)	9617 (34200)	9701 (34500)	9758 (34700)	
4	KAR	ICS-103	Fine	23mm	4.0 - 5.5	4.5%	21	10939 (38900)	11023 (39200)	11023 (39200)	11107 (39500)	11164 (39700)	
5	M/M (P)	ICS-104	Fine	24mm	4.0 - 5.5	4%	23	11838 (42100)	11923 (42400)	12007 (42700)	12092 (43000)	12148 (43200)	
6	P/H/R(U) (SG)	ICS-202	Fine	27mm	3.5 - 4.9	4.5%	26	13919 (49500)	14032 (49900)	14172 (50400)	14313 (50900)	14454 (51400)	O
7	M/M(P)/SA/TL	ICS-105	Fine	26mm	3.0 - 3.4	4%	25	12232 (43500)	12317 (43800)	12401 (44100)	12541 (44600)	12541 (44600)	
8	P/H/R(U)	ICS-105	Fine	27mm	3.5 - 4.9	4%	26	14088 (50100)	14201 (50500)	14341 (51000)	14482 (51500)	14622 (52000)	
9	M/M(P)/SA/TL/G	ICS-105	Fine	27mm	3.0 - 3.4	4%	25	12401 (44100)	12485 (44400)	12570 (44700)	12710 (45200)	12851 (45700)	
10	M/M(P)/SA/TL	ICS-105	Fine	27mm	3.5 - 4.9	3.5%	26	13244 (47100)	13329 (47400)	13413 (47700)	13554 (48200)	13694 (48700)	L
11	P/H/R(U)	ICS-105	Fine	28mm	3.5 - 4.9	4%	27	14257 (50700)	14369 (51100)	14510 (51600)	14650 (52100)	14735 (52400)	
12	M/M(P)	ICS-105	Fine	28mm	3.7 - 4.5	3.5%	27	14397 (51200)	14482 (51500)	14566 (51800)	14707 (52300)	14847 (52800)	
13	SA/TL/K	ICS-105	Fine	28mm	3.7 - 4.5	3.5%	27	14426 (51300)	14510 (51600)	14594 (51900)	14735 (52400)	14875 (52900)	
14	GUJ	ICS-105	Fine	28mm	3.7 - 4.5	3%	27	14707 (52300)	14819 (52700)	14960 (53200)	15100 (53700)	15241 (54200)	I
15	R(L)	ICS-105	Fine	29mm	3.7 - 4.5	3.5%	28	14791 (52600)	14904 (53000)	15044 (53500)	15185 (54000)	15325 (54500)	
16	M/M(P)	ICS-105	Fine	29mm	3.7 - 4.5	3.5%	28	14960 (53200)	15072 (53600)	15157 (53900)	15297 (54400)	15438 (54900)	
17	SA/TL/K	ICS-105	Fine	29mm	3.7 - 4.5	3%	28	14988 (53300)	15100 (53700)	15185 (54000)	15325 (54500)	15466 (55000)	
18	GUJ	ICS-105	Fine	29mm	3.7 - 4.5	3%	28	15494 (55100)	15607 (55500)	15747 (56000)	15888 (56500)	16028 (57000)	D
19	M/M(P)	ICS-105	Fine	30mm	3.7 - 4.5	3.5%	29	15522 (55200)	15635 (55600)	15719 (55900)	15860 (56400)	16000 (56900)	
20	SA/TL/K/O	ICS-105	Fine	30mm	3.7 - 4.5	3%	29	15578 (55400)	15691 (55800)	15775 (56100)	15916 (56600)	16056 (57100)	
21	M/M(P)	ICS-105	Fine	31mm	3.7 - 4.5	3%	30	15691 (55800)	15803 (56200)	15888 (56500)	16028 (57000)	16169 (57500)	
22	SA/TL/K / TN/O	ICS-105	Fine	31mm	3.7 - 4.5	3%	30	15747 (56000)	15860 (56400)	15944 (56700)	16085 (57200)	16225 (57700)	A
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.)	
24	M/M(P)	ICS-107	Fine	34mm	2.8 - 3.7	4%	33	26152 (93000)	26152 (93000)	26292 (93500)	26292 (93500)	26292 (93500)	
25	K/TN	ICS-107	Fine	34mm	2.8 - 3.7	3.5%	34	27276 (97000)	27276 (97000)	27417 (97500)	27417 (97500)	27417 (97500)	
26	M/M(P)	ICS-107	Fine	35mm	2.8 - 3.7	4%	35	27276 (97000)	27276 (97000)	27558 (98000)	27558 (98000)	27558 (98000)	Y
27	K/TN	ICS-107	Fine	35mm	2.8 - 3.7	3.5%	35	N.A. (N.A.)	N.A. (N.A.)	N.A. (N.A.)	N.A. (N.A.)	N.A. (N.A.)	

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