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Technical Analysis

Price outlook for Gujarat-ICS-105, 29mm and ICE cotton futures for the period 08/12/15 to 22/12/15

(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 above 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.

EXPERT's Column

Shri Gnanasekar Thiagarajan

Some of the recent fundamental drivers for the domestic cotton prices are:

- Cotton futures are higher in line with international prices. Our neighbour Pakistan has also opened its door to India to sell cotton, potentially moving local prices even as harvesting continues.

- India's cotton output is set to fall to 37.05 million bales in 2015-16 from 38.27 million bales last year, according to the Cotton Association's data. Domestic consumption is estimated at 32.5 million bales, while imports would be 1.4 million bales this year. The opening stock was 7.86 million bales. India accounts for about one-third of the global cotton area.

- This year, two-third of India's cotton crop in Punjab got damaged due to whitefly attack, mainly in the Malwa region. Punjab, which grows Bt cotton like any other state, had not seen pest attack on such a scale in the past.

Some of the fundamental drivers for International cotton prices are:

- Cotton Benchmark futures in New York ICE were lower on Tuesday, retreating from Friday's more than three-month highs as a 1.2 per cent gain the prior week prompted farmers to sell physical cotton to merchants, who responded by selling futures.

- As signals mounted that poor harvest weather in top-producing state Texas had harmed crop yield and quality, cotton futures rallied higher sharply.

- A weekly U.S. Department of Agriculture report showed just 56.4 per cent of the crop this season was exchange-grade as of Thursday, a drop from recent weeks.

- Encouraged by mildly bullish USDA's latest reports, speculators raised their net long positions in cotton again as reported by CFTC.

Let us now dwell on some technical factors that influence price movements.

As mentioned earlier, the technical picture has turned lower and now looks vulnerable for a decline. But, prices have bounced off from supports at 9,000 /qtl levels. There are already signs that prices could be reversing the bearish trend and this will be confirmed on a rise above 9,500/qtl. Such a rise will revive our hopes of a rally back towards 9,800-10,000/qtl levels. Any dip to 9,000-100/qtl, now could hold support for prices to move higher again.

Indicators are displaying neutral tendencies, which could see prices moving in a broad range before beginning a new trend which could be on the upside. As mentioned in the previous update, indicators are slightly oversold indicating a possible upward correction. It needs to be seen if this upward move can be sustained. Prices could consolidate in the 9,000-400/qtl levels and then edge higher in the coming months towards targets at 10,500-700/qtl.

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

As mentioned in the previous update, prices are expected to edge lower again, but chances also exist for the pullback to extend higher towards 64-65c. As cautioned earlier, some support is presently seen near 61.75-62.00c now. Only a decline below 60.20c in the March contract now could warn that the bullish picture has been negated and strong decline could begin again. Such a fall could take prices lower towards 57c levels being the next important support followed by 55c. Presently, it looks more likely that prices could consolidate in the 63-65c range and test the important resistance around 67c. Our favoured view expects prices to edge higher, while 61c holds attempts to decline.

CONCLUSION:

As mentioned earlier, weakness is seen in both the domestic and international prices. Both the domestic and international prices have recovered from their recent lows. For Guj ICS support is seen at 9,000-9,100 /qtl and for ICE March cotton futures at 62-63c followed by 61c. Only an unexpected rise above 9,500 /qtl could confirm that the picture has changed to bullish in the domestic markets. The international markets are indicating a bullish trend now, and the indicators have turned friendly, but it still needs to surpass key resistance levels around 67c levels for the trend to turn convincingly bullish again.

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Growth in World Cotton Consumption Slows

World cotton consumption has been revised downward from initial projections to 24.4 million tons, up less than 1% from 2014/15. In its October 2015 report, the International Monetary Fund lowered its forecast for world economic growth in 2015 to 3.1%. The narrowing of the gap between polyester prices and cotton prices at the start of 2014/15 and falling domestic prices in China, was expected to stop the downward trend in mill use since 2010/11. Instead, cotton consumption in China remained unchanged from 2013/14 at 7.5 million tons. After the latest revision, mill use in China is now forecast at 7.3 million tons in 2015/16, down 3% from the previous season. As China's spinning sector continues to decline, mill use in Asia has grown. India, the world's second largest consumer of cotton lint may see mill use rise by 3% to reach 5.5 million tons in 2015/16. However, Pakistan, which had in previous years benefited from the growing demand for cotton yarn in China, is expected to see mill use decrease this season by 10% to 2.2 million tons. In addition to reduced demand from China, an ongoing energy crisis, high energy costs, and high taxes that greatly add to the cost of production have caused many mills to reduce operations, and in some cases to shut down entirely. Turkey's consumption is projected to increase by 5% to 1.4 million tons, due in part to expanding private consumption in the EU and political stability in Turkey after its most recent elections. Lower production costs and favorable government policies for the textile sectors in Bangladesh and Vietnam will encourage consumption growth in these countries. Consumption in Bangladesh is forecast to rise by 10% to just over 1 million tons while in Vietnam, up 20% to 1.1 million tons.

World cotton production is forecast to fall by 12% to 23.1 million tons, which is 1.3 million tons lower than projected demand in 2015/16. Decreases are expected in all five top producing countries. India's production may decrease by 4% to 6.3 million tons due to reduced plantings and pest problems. China is in its fourth consecutive season of declining production, and its volume in 2015/16 is projected down 19% to 5.3 million tons. Reduced plantings, coupled with lower yields in some areas due to unfavorable weather and shortages in irrigation water, contributed to the decline. In the United States, a 13% reduction in harvested area and lower yields, due in part to excessive rains in autumn, are expected to cause production to fall by 18% to 2.9 million tons. Production in Pakistan is forecast to reach around 1.9 million tons in 2015/16, making it the first season since 2010/11 with total production below 2 million tons. Lackluster domestic demand and delays in the soybean planting are likely to lead to a contraction in planted cotton area in Brazil. Production in Brazil is projected to decease by 6% to 1.5 million tons.

World cotton imports are forecast to decline by 3% to 7.4 million tons in 2015/16, which would constitute the fourth consecutive season in which import volume declined after peaking at 9.8 million tons in 2011/12. China's imports are expected to shrink by 33% to 1.2 million tons, as import quotas are limited in 2015 and will likely continue to be in 2016. Imports by Vietnam during the first two months of 2015/16 are up 63% from the same period last season and may reach 1.1 million tons by the end of the season. Imports by Bangladesh are projected up 8% to just over 1 million tons and by Indonesia, up 6% to 782,000 tons. Turkey's imports may reach 809,000 tons, up 1% from 2014/15. Despite declining mill use, Pakistan's imports may increase by 27% to 251,000 tons due to a significantly smaller domestic crop this season.

The reduced volume of production in the United States is likely to be accompanied by a slight increase in consumption, so exports from the United States are forecast to decrease by 9% to 2.2 million tons. India's exports are projected to increase by 10% to just over 1 million tons. Weak domestic demand has led more Brazilian farmers to seek the international market, but exports in 2015/16 are likely to decrease to 750,000 tons due to a smaller crop.

World ending stocks are expected to fall by 6% to 20.7 million tons, which represents about 85% of the volume needed for world mill use in 2015/16. Stocks in China are projected to be just under 12 million tons at the end of 2015/16, while stocks outside of China are forecast down by 4% to 8.7 million tons.

Source: ICAC Cotton This Month, December 1, 2015.

Production of Fibres

(In Mn. Kg)

As on	Raw Cotton (Oct.-Sept.)	Synthetic			Cellulosic	Sub Total
		PSF	ASF	PPSF	VSF	
2005-06	4097	628.15	107.81	3.08	228.98	968.02
2006-07	4760	791.99	97.13	3.52	246.83	1139.47
2007-08	5219	879.61	81.23	3.43	279.90	1244.17
2008-09	4930	750.12	79.50	3.44	232.75	1065.81
2009-10	5185	872.13	90.45	3.38	302.09	1268.05
2010-11	5763	896.33	79.48	3.74	305.10	1284.65
2011-12	5899	829.74	77.71	4.08	322.64	1234.17
2012-13	--	848.05	73.59	4.26	337.49	1263.39
2013-14	--	845.95	96.12	3.71	361.02	1306.80
2014-15 (P)	--	881.56	92.54	4.62	365.17	1343.89
2015-16 (Apr-Sept.) (P)	--	435.40	54.88	2.29	157.50	650.07
2013-14 (P)						
April	--	65.66	8.26	0.27	26.39	100.58
May	--	70.67	8.54	0.31	30.80	110.32
Jun	--	71.56	8.08	0.30	30.51	110.45
Jul	--	72.26	7.78	0.34	30.97	111.35
August	--	74.67	8.26	0.32	31.44	114.69
September	--	72.29	8.58	0.22	29.58	110.67
October	--	72.67	8.63	0.28	30.98	112.56
November	--	68.28	8.28	0.31	29.96	106.83
December	--	70.68	8.62	0.31	30.88	110.49
January	--	70.40	6.76	0.32	30.86	108.34
February	--	64.87	7.01	0.33	27.61	99.82
March	--	71.94	7.32	0.40	31.04	110.70
2014-15 (P)						
April	--	70.24	8.52	0.38	29.91	109.05
May	--	70.79	7.48	0.36	31.30	109.93
June	--	70.62	8.32	0.36	28.62	107.92
July	--	81.56	6.26	0.33	30.72	118.87
August	--	74.63	8.67	0.36	30.68	114.34
September	--	68.45	7.82	0.40	30.14	106.81
October	--	72.14	8.35	0.36	31.16	112.01
November	--	70.08	7.57	0.40	30.21	108.26
December	--	75.14	8.46	0.44	31.58	115.62
January	--	79.00	6.04	0.40	31.47	116.91
February	--	73.32	7.29	0.40	28.07	109.08
March	--	75.59	7.76	0.43	31.31	115.09
2015-16 (P)						
April	--	73.62	9.53	0.35	28.62	112.12
May	--	75.55	9.51	0.30	18.42	103.78
June	--	67.17	8.43	0.31	19.50	95.41
July	--	70.75	9.20	0.40	29.70	110.05
August	--	74.07	9.09	0.47	30.63	114.26
September	--	74.24	9.12	0.46	30.63	114.45

(P)= Provisional *Source : Office of the Textile Commissioner*

SUPPLY AND DISTRIBUTION OF COTTON

December 01, 2015

Seasons begin on August 1 — Million Metric Tons

	2010/11	2011/12	2012/13	2013/14 Est.	2014/15 Est.	2015/16 Proj.
BEGINNING STOCKS						
WORLD TOTAL	**9.362**	**10.222**	**15.258**	**18.022**	**20.08**	**21.92**
China (Mainland)	2.688	2.087	6.181	9.607	12.09	12.85
USA	0.642	0.566	0.729	0.903	0.65	0.98
PRODUCTION						
WORLD TOTAL	**25.453**	**27.844**	**26.702**	**26.268**	**26.18**	**23.11**
India	5.865	6.239	6.205	6.770	6.51	6.27
China (Mainland)	6.400	7.400	7.300	6.929	6.48	5.26
USA	3.942	3.391	3.770	2.811	3.55	2.90
Pakistan	1.948	2.311	2.002	2.076	2.31	1.90
Brazil	1.960	1.877	1.310	1.734	1.55	1.46
Uzbekistan	0.910	0.880	1.000	0.940	0.89	0.86
Others	4.429	5.746	5.115	5.009	4.90	4.47
CONSUMPTION						
WORLD TOTAL	**24.611**	**22.782**	**23.559**	**23.884**	**24.24**	**24.37**
China (Mainland)	9.580	8.635	8.290	7.517	7.52	7.33
India	4.472	4.231	4.762	5.186	5.36	5.52
Pakistan	2.170	2.121	2.216	2.476	2.50	2.25
East Asia	1.833	1.780	2.139	2.312	2.53	2.74
Europe & Turkey	1.550	1.498	1.565	1.615	1.58	1.65
Brazil	0.958	0.897	0.910	0.862	0.80	0.80
USA	0.849	0.718	0.762	0.773	0.78	0.81
CIS	0.577	0.545	0.581	0.614	0.60	0.60
Others	2.621	2.357	2.335	2.529	2.57	2.69
EXPORTS						
WORLD TOTAL	**7.690**	**9.828**	**9.986**	**8.993**	**7.71**	**7.35**
USA	3.130	2.526	2.836	2.293	2.45	2.23
India	1.085	2.159	1.685	2.014	0.91	1.01
Australia	0.545	1.010	1.305	1.037	0.52	0.47
Brazil	0.435	1.043	0.938	0.485	0.85	0.75
CFA Zone	0.476	0.597	0.829	0.978	0.87	1.03
Uzbekistan	0.600	0.550	0.653	0.650	0.59	0.53
IMPORTS						
WORLD TOTAL	**7.749**	**9.784**	**9.606**	**8.670**	**7.60**	**7.35**
China	2.609	5.342	4.426	3.075	1.80	1.21
East Asia	1.826	1.997	2.355	2.355	2.63	2.79
Europe & Turkey	0.973	0.725	0.833	1.082	1.01	1.01
Bangladesh	0.843	0.680	0.631	0.967	0.96	1.04
Pakistan	0.314	0.190	0.411	0.247	0.20	0.25
TRADE IMBALANCE 1/	0.058	-0.044	-0.380	-0.323	-0.11	0.00
STOCKS ADJUSTMENT 2/	-0.041	0.018	0.001	0.000	0.00	0.00
ENDING STOCKS						
WORLD TOTAL	**10.222**	**15.258**	**18.022**	**20.083**	**21.92**	**20.65**
China (Mainland)	2.087	6.181	9.607	12.088	12.85	11.98
USA	0.566	0.729	0.903	0.651	0.98	0.85
ENDING STOCKS/MILL USE (%)						
WORLD-LESS-CHINA (M) 3/	**54**	**64**	**55**	**49**	**54**	**51**
CHINA (MAINLAND) 4/	**22**	**72**	**116**	**161**	**171**	**164**
COTLOOK A INDEX 5/	**164**	**100**	**88**	**91**	**71**	

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 Monthly December 2015)

SAGA OF THE COTTON EXCHANGE

By Madhoo Pavaskar

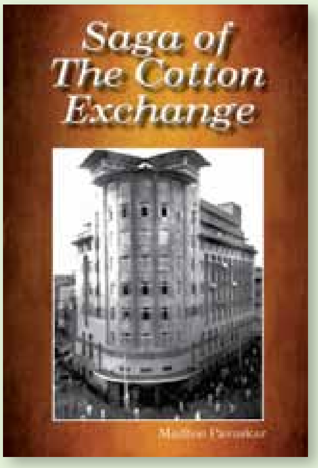
Chapter 6

Hoping Against Hope

(Continued from Issue No.35)

No End to the Woes

As it is, the Government of India began to show its true colours to the cotton trade, no sooner did it assume powers under the Cotton Order,1949. True, on September 17, 1949, the Textile Commissioner allowed futures trading in new crop contracts for the 1949-50 cotton season, subject to the floors and ceiling prices prescribed by him. Trading in the futures market was, however, shortlived as prices soon approached the unrealistically low ceiling. Trading came to a standstill on September 30, 1949, and though it was revived on October 21, 1949, it was once again discontinued from October 25, 1949. On January 4, 1950, the Textile Commissioner issued a Notification preventing sale or delivery of cotton of any description in Greater Bombay, except to such persons and subject to such licensing conditions as specified by him. In the circumstances, no tenders could be made against the outstanding transactions in the Indian Cotton Contract for February 1950 delivery, which had remained dormant since the end of October 1949. As for the May 1950 delivery, the Board of Directors of the East India Cotton Association passed a resolution on May 12, 1950, declaring "that a state of emergency as envisaged by By-law 52A existed which in the opinion of the Board made free trading in forward contracts extremely difficult". In fact, the May delivery was still-born.



On June 16, 1950, the Government of India raised the basic ceiling price of cotton for the 1950-51 cotton crop by Rs. 150 per candy. This rekindled the hope of revival of futures trading. Disappointingly, on August 23, 1950, the government once more threw cold water on the great expectations of the cotton trade. A Press Note issued by the Industry and Supply Ministry on that date announced that "all contracts relating to Indian cotton of the 1950-51 season will remain prohibited under the Cotton Control order, 1949 throughout India." In September 1950, the government clamped restrictions on movement of kapas and cotton from one state to another. Licensing regulations and stringent restraints were imposed on holding of cotton stocks by the trade. The sale of cotton in different zones was also by and large restricted to only government nominees. As a result, there was practically no trading in even specific delivery contracts during the 1950-51 season. Hedge trading continued to remain prohibited altogether.

Of course, the East India Cotton Association was pressing the government year in and year out against their futile policy of preventing Indian cotton from selling on its merits, because of their imaginary fear that if cotton were allowed to find its own level there would be an increased impetus to inflation. In his Presidential address at the Thirtieth Annual General Meeting of the Association held on December 28, 1951, Sir Purshotamdas Thakurdas pointedly asked the government "to calculate the cost of imported foreign cotton, particularly American cotton, at prices ranging from twice to three times the price of Indian cotton." He brought to the notice of the Government that in terms of rupees, the cost of imported cotton then far exceeded the total value of the Indian cotton crop "so that the less cotton we produce in our attempt to check prices and the more cotton we import in an attempt to keep the mills running, the more is inflation developing in India owing to the extraordinary price of Indian cotton." But the government was in no mood to listen and appeared to enjoy their newly acquired powers over the cotton trade, and, like the young Washington, used their axe playfully, though nonetheless carelessly, to destroy all that was patiently built by the cotton trade over more than a century. In the process, there seemed no end to the woes of cotton merchants, cotton growers and consumers of cheap cloth. All of them were left high and dry by the cotton control policy.

The New Hope

In the meanwhile, on January 26, 1950, India became a Sovereign Democratic Republic with the adoption of the Constitution of India. The final link with the British Empire was severed and the last British Governor-General, Lord Mountbatten, who till then formally represented the Crown of England, was replaced by the newly elected President, Dr. Rajendra Prasad, as the head of the Indian Union.

Under the new Constitution, the subject of "Stock Exchanges and Futures Market" was placed in the Union List and the responsibility for regulation of futures markets devolved on the Government of India. As a result, the State governments were no longer competent to enact any fresh legislations with regard to futures markets. At the same time, as the Essential Supplies (Temporary Powers) Act, 1946, did not empower the Union Government to regulate futures trading in any commodity, other than an "essential commodity" within the meaning of that Act, a Bill entitled Futures Markets (Regulation) Bill, 1950, was prepared by the Union Commerce Ministry for the regulation of futures trading, prohibition of options and other purposes. The Bill was modelled by and large on the Bombay Forward Contracts Control Act, 1947.

While commenting on the Bill, the Board of Directors of the East India Cotton Association candidly pointed out that the time was then not opportune to take up the question of regulation of forward trading on a comprehensive all-India basis, in as much as during the immediately preceding ten years there had been almost no free trading at all for various reasons. In this situation, the Board feared that the many sins of omission and commission, both of the government and the mercantile community, would be fresh in the minds of the public and parliamentarians alike, as a consequence of which several restrictions imposed during the War and soon after the partition of the country in a state of emergency prevailing in most commodity markets would find a permanent place in the new legislation. The East India Cotton Association therefore suggested that the consideration of the Bill might be postponed until two years after normal conditions were restored in the world at large, and particularly in India, so that the regulatory provisions of the Bill could be examined by all concerned in a saner and more tranquil atmosphere. As the subsequent events showed, the fears of the East India Cotton Association were not unjustified.

The Government of India was, however, keen to enact its new legislation. In July 1950, they referred the Futures Markets legislation Bill to an eight-member Expert Committee under the Chairmanship of Mr. A.D. Shroff. The Expert Committee submitted its report on August 20, 1950. The Bill was revised in the light of the recommendations of the Committee. The revised bill styled as the Forward Contracts (Regulation) Bill, 1950, was published in the Gazette of India on December 30, 1950. The Bill was later referred to a Select Committee of the Parliament. The Select Committee submitted its report on August 30, 1951, but the Bill lapsed with the dissolution of the Parliament in 1952.

After fresh elections to the Parliament, another Bill was drafted on the lines of that lapsed earlier and, after referring it to yet another Select Committee, was duly passed by the new Parliament. The Bill received the assent of the President on December 26, 1952 and The Forward Contracts (Regulation) Act, 1952, which is still in vogue, entered the Statute Book. The main principle behind the new Central legislation was that futures trading should normally be allowed to be carried on only under the auspices of 'recognised associations', the constitution and the functioning of which would, however, have to conform to various regulations contained in the Act.

The Forward Contracts (Regulation) Act, 1952, is a far more comprehensive piece of legislation on forward markets than all previous legislations passed by the State governments. As its title aptly suggests, the Act is applicable to only 'forward contracts' i.e. contracts for future delivery, as distinguished from 'ready contracts' for spot or immediate delivery. Even among forward contracts, the Act ordinarily covers only 'transferable specific delivery' and 'hedge' contracts, and exempts 'non-transferable specific delivery contracts'. However, the Central Government has the necessary power under the Act to regulate even non-transferable specific delivery contracts, if they consider expedient to do so.

The regulatory provisions of the Act are principally contained in section 15. When this Section is applied to a commodity in an area, forward contracts cannot be entered into in that commodity and in that area otherwise than between members of an association recognised under the Act, or through or with any such member. But the Act also empowers the government to prohibit forward contracts in a particular commodity altogether. Moreover, the Act specifically prohibits option trading in all commodities.

It is true that with respect to the recognised associations, the Act provide that the regulation of forward markets should ordinarily take place through their governing bodies. But the Act empowers the Central Government to appoint as many as four members on the governing bodies of recognised associations. This is not all. It even empowers the government to supersede the governing body of a recognised association and to order it to suspend its business.

Last but not the least, “since the governing bodies are in the last resort likely to be activated principally by the interests of the trade, a machinery has been provided in the Act for their supervision and regulation from the point of public interest. This machinery is the Forward Markets Commission, which is the principal operating agency of the Central Government in this sphere”. The Act thus provided a super body over the recognised associations. And following the vast regulatory powers conferred on the Forward Markets Commission, either directly (under the Forward Contracts (Regulation) Act 1952) or indirectly (under the rules of recognised associations made, paradoxically, by the Commission itself), the regulation and administration of forward contracts gradually passed into the hands of the Commission, while recognised associations functioned virtually as executive agencies of the government.

Nevertheless, the Forward Contracts (Regulation) Act, 1952, gave rise to a new hope of revival of commodity futures trading in the country, which had received a serious setback during and after the Second World War. As it is, futures trading in cotton had come to a standstill since October 1949. Hedge trading was not permitted during the 1950-51 and 1951-52 seasons. But on June 4, 1952, the Cotton Advisory Board recommended that the government should urgently consider the question of re-opening the futures market in cotton. Finally, the Government of India relented, and on November 15, 1952 it decided to permit resumption of hedge trading in cotton for the 1952-53 season. Meanwhile, the Hedge Contract Committee of the East India Cotton Association had formulated a new scheme for the Indian Cotton Contract, with M.G. Jarilla 25/32” as the basis variety and February, May and August as months of delivery. And at long last, after a lapse of nearly three years, with the approval of the Government of Bombay, trading in the new crop hedge contract for the season 1952-53 commenced with effect from December 12, 1952.

Trading hall of the Cotton Exchange once again hummed with activity. The first transaction on that day was entered into by Sir Purshotamdas Thakurdas, the President of the East India Cotton Association. Before the inauguration of the trading, Mr. Nemidas Tarachand, President of the Bombay Cotton Brokers’ Staff Union, while garlanding Sir Purshotamdas, suggested that the cotton trade should signify its mark of appreciation of the unique services rendered to it by Sir Purshotamdas by conferring upon him “Honorary Membership” of the Association. This suggestion was hailed with loud applause by the entire audience packed in the Trading Hall on this jubilant occasion. King Cotton was once again beaming with joy and new hope, even though a more fearful legislation, the Forward Contracts (Regulation) Bill, 1952, was at that time on the anvil of the Central Government to enable it to regulate futures trading in the country with an iron hand.

Chapter 7
The Confrontation

Transfer of Power

Although chapter 1 of the Forward Contracts (Regulation) Act, 1952, came into force on the date of its enactment i.e on December 26, 1952, the other chapters became operative only on August 24, 1953, as a result of a notification issued by the Government of India. The Forward Markets Commission was set up on September 2, 1953, with Dr. B.V. Narayanaswamy Naidu as Chairman and Mr. T. Swaminathan as Member. The eminent economist, Mr. W. R. Natu, was appointed Member of the Commission on February 22, 1954. As expected, the first commodity selected by the Commission for a detailed study with a view to assessing its suitability for the application of the Forward Contracts (Regulation) Act, 1952 was cotton. Obviously, “the Commission was guided by the importance of cotton in the national economy, the need for a closely linked up international market in this commodity, and the experience already available to Government in respect of its regulation.”

The Central Government was moving slowly and cautiously so as not to disturb the existing arrangements far too quickly. They desired to bring about a smooth transfer of power from the State to the Centre. However, the Essential Supplies (Temporary Powers) Act, 1946, under which the Cotton Control Order of 1950 and the various notifications of the Textile Commissioner had been issued, was due to lapse on January 26, 1955. The only alternative legislative basis on which the existing order regarding the regulation or prohibition of forward, futures and option contracts could be continued subsequently was the Forward Contracts (Regulation) Act. Therefore, on July 30, 1954 the Government of India applied Section 15 of the Forward Contracts (Regulation) Act to cotton, but simultaneously saved the recognition granted to the East India Cotton Association under the Bombay Forward Contracts Control Act, 1947, which would have otherwise stood repealed.

Thus, the regulation and control of cotton transactions administered through the East India Cotton Association for a long span of 32 years under the various legislations of the Government of Bombay came to an end. The Cotton Exchange was itself placed under the authority of the Forward Markets Commission. The ready transactions in cotton were already under the price and licensing controls as well as the movement restrictions exercised by the Textile Commissioner. Now, the forward contracts were also brought under the purview of the Government of India with the necessary regulatory powers conferred on the Forward Markets Commission. No doubt, the cotton trade continued to function under the auspices of the East India Cotton Association, but the real regulating authority was vested with the Forward Markets Commission and the Textile Commissioner- the two agencies of the Government of India. King Cotton was no longer the master. He was reduced to merely a titular head of the cotton trade in Bombay.

Permanent Recognition

In the meantime, at the instance of the Forward Markets Commission, the East India Cotton Association applied on January 29, 1954 for recognition under the Forward Contracts (Regulation) Act. No sooner was the Act applied to cotton on July 30, 1954, the Commission directed the Association to carry out various changes in its Articles of Association and Bye-laws.

The Articles were amended mainly to provide for the nomination of four representative of the Central Government on the Board of Directors of the Association. The major amendments to the bye-laws included a provision for submission of weekly returns by the members showing their transactions during each day of the week and the resultant net open position, and another one requiring members to pay margins on such net open position. Yet one more amendment prohibited partners of members from transacting business in the futures market in their personal capacities. These amendments were made not so much to restrict the speculative activity as to empower the Commission to monitor and regulate trading in the cotton futures market more effectively.

The amendments were carried out in October 1954. On June 14, 1955, the East India Cotton Association was formally granted recognition under the Forward Contracts (Regulation) Act,1952, on a permanent basis for organising trading in forward contracts in Indian cotton grown in the whole of India. In other words, unlike the regional markets established at some centres in the country some years later, the East India Cotton Association was recognised even by the Government of India as a national market for cotton.

Earlier, at the instance of the Forward Markets Commission, the bye-law relating to tendering differences was also amended to ensure a more realistic relationship between the futures and the ready price. In a futures market, the tendering differences for the different tenderable varieties are ordinarily fixed with reference to the difference between the ready price of the basis variety and the ready price of the variety tendered. But to render the Indian Cotton Contract 'bearish' under the scarcity conditions prevailing in cotton since the end of the Second World War, the bye-law of the East India Cotton Association had provided that while fixing the rendering differences the price of the futures contract should also be taken into account. This provision tended to perpetuate the disparity between the futures price and the ready price even during the delivery period, if such disparity had arisen for any reason before the fixing of the tendering differences. As a result, the Indian Cotton Contract was more often than not at a heavy discount below the ready price of its basis variety.

Such a relationship obviously impaired the utility of the Indian Cotton Contract for the purpose of hedging. For, hedging pre- supposes that ready price of the basis variety and the futures price must converge with one another during the delivery period. Therefore, to enhance the utility of the Indian Cotton Contract, the Forward Markets Commission suggested in early 1955 that the tendering differences might be fixed with reference to the ready prices of the concerned varieties only. The East India Cotton Association accordingly amended its Bye-law 55 on March 29, 1955, to give effect to this very thoughtful recommendation of the Commission.

Soon after its recognition, the hedge contract bye-laws of the East India Cotton Association too were amended, in consultation with the Forward Markets Commission, on July 23, 1955. The staple length of the basic cotton Jarilla of the Indian Cotton Contract was raised from 25/32" to 13/16" in view of the improvement in the average staple length of most varieties of cotton in the country. On July 25, 1955, trading in the 1955-56 crop contract commenced in accordance with the revised hedge contract bye-laws. The era of the Forward Markets Commission began. The East India Cotton Association received the permanent recogintion, but lost its autonomy. King Cotton was no longer sovereign in his own kingdom.

(to be continued)

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) 2015-16 Crop NOVEMBER - DECEMBER 2015					
Sr. No.	Growth	Grade Standard	Grade	Staple	Micronaire	Strength /GPT	30th	1st	2nd	3rd	4th	5th
1	P/H/R	ICS-101	Fine	Below 22mm	5.0-7.0	15	8436 (30000)	8436 (30000)	8408 (29900)	8408 (29900)	8323 (29600)	8323 (29600)
2	P/H/R	ICS-201	Fine	Below 22mm	5.0-7.0	15	8577 (30500)	8577 (30500)	8548 (30400)	8548 (30400)	8464 (30100)	8464 (30100)
3	GUJ	ICS-102	Fine	22mm	4.0-6.0	20	6749 (24000)	6749 (24000)	6749 (24000)	6749 (24000)	6749 (24000)	6777 (24100)
4	KAR	ICS-103	Fine	23mm	4.0-5.5	21	7339 (26100)	7339 (26100)	7339 (26100)	7339 (26100)	7396 (26300)	7424 (26400)
5	M/M	ICS-104	Fine	24mm	4.0-5.0	23	8548 (30400)	8548 (30400)	8548 (30400)	8548 (30400)	8548 (30400)	8577 (30500)
6	P/H/R	ICS-202	Fine	26mm	3.5-4.9	26	8914 (31700)	8830 (31400)	8858 (31500)	8858 (31500)	8886 (31600)	8914 (31700)
7	M/M/A	ICS-105	Fine	26mm	3.0-3.4	25	8042 (28600)	8042 (28600)	8042 (28600)	8014 (28500)	8042 (28600)	8070 (28700)
8	M/M/A	ICS-105	Fine	26mm	3.5-4.9	25	8408 (29900)	8408 (29900)	8408 (29900)	8380 (29800)	8408 (29900)	8436 (30000)
9	P/H/R	ICS-105	Fine	27mm	3.5.4.9	26	9111 (32400)	9026 (32100)	9055 (32200)	9055 (32200)	9083 (32300)	9111 (32400)
10	M/M/A	ICS-105	Fine	27mm	3.0-3.4	26	8267 (29400)	8267 (29400)	8267 (29400)	8239 (29300)	8295 (29500)	8323 (29600)
11	M/M/A	ICS-105	Fine	27mm	3.5-4.9	26	8717 (31000)	8717 (31000)	8717 (31000)	8689 (30900)	8745 (31100)	8773 (31200)
12	P/H/R	ICS-105	Fine	28mm	3.5-4.9	27	9251 (32900)	9167 (32600)	9195 (32700)	9195 (32700)	9223 (32800)	9251 (32900)
13	M/M/A	ICS-105	Fine	28mm	3.5-4.9	27	8942 (31800)	8942 (31800)	8942 (31800)	8886 (31600)	8942 (31800)	8998 (32000)
14	GUJ	ICS-105	Fine	28mm	3.5-4.9	27	9055 (32200)	9055 (32200)	9026 (32100)	9026 (32100)	9083 (32300)	9139 (32500)
15	M/M/A/K	ICS-105	Fine	29mm	3.5-4.9	28	9026 (32100)	9026 (32100)	9026 (32100)	8970 (31900)	9026 (32100)	9083 (32300)
16	GUJ	ICS-105	Fine	29mm	3.5-4.9	28	9139 (32500)	9139 (32500)	9111 (32400)	9111 (32400)	9167 (32600)	9223 (32800)
17	M/M/A/K	ICS-105	Fine	30mm	3.5-4.9	29	9111 (32400)	9111 (32400)	9083 (32300)	9026 (32100)	9055 (32200)	9111 (32400)
18	M/M/A/K/T/O	ICS-105	Fine	31mm	3.5-4.9	30	9223 (32800)	9223 (32800)	9195 (32700)	9139 (32500)	9167 (32600)	9223 (32800)
19	A/K/T/O	ICS-106	Fine	32mm	3.5-4.9	31	9364 (33300)	9364 (33300)	9364 (33300)	9364 (33300)	9392 (33400)	9448 (33600)
20	M(P)/K/T	ICS-107	Fine	34mm	3.0-3.8	33	12598 (44800)	12598 (44800)	12654 (45000)	12654 (45000)	12654 (45000)	12654 (45000)

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