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Technical Analysis

Price outlook for Gujarat-ICS-105, 29mm and ICE cotton futures
for the period 27/02/18 to 31/03/18

(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 continued to rise on MCX supported by rising international prices, as drought worries in Texas propelled prices higher. Besides, rising demand from domestic mills also fuelled the uptrend.

- The Cotton Association of India has lowered its estimate of the cotton crop for the ongoing season by 8 lakh bales due to pink bollworm attack in major producing regions. In accordance with the advice of the scientists, the farmers in several areas particularly in Maharashtra and Telangana states have uprooted their cotton crop without waiting

for further pickings. In its latest estimate, the CAI has estimated cotton crop for the ongoing 2017-18 crop year at 367 lakh bales of 170 kgs. each.

- Indian farmers, battling adversities on farms and off them, have brought glad tidings for the rest of the nation. Food grain production is set to rise to a record 277.5 million tonnes in 2017-18, according to the agriculture ministry. The new MSP policy, assuring 50% returns over cost to farmers, comes into effect in the next crop year beginning July.

- Increasing hedging interest in cotton among millers, ginners and corporates has almost trebled the certified stock of the crop on the MCX to 101, 300 bales as on Feb 15 in the ongoing season. In the previous season beginning October 2016 to July 2017, MCX had a certified stock of 39, 600 cotton bales. Volatility in cotton prices has resulted in increased hedging interest.

Some of the fundamental drivers for International cotton prices are:

- ICE cotton futures edged higher on Tuesday, hovering near a one-month peak hit in the previous session, amid worries of a drought in Texas, the major cotton producing region in the United States. Drought through the southern states highlights a major risk for April/May plantings.

- The U.S. Department of Agriculture (USDA) in its cotton outlook on Friday, said U.S. 2018/19

EXPERT'S Column



Shri Gnanasekar Thiagarajan
Director, Commtrendz Research

cotton production is expected to fall to 19.5 million bales, offset by higher abandonment and lower yields. In its first 2018/19 world cotton projections, the agency said it anticipates that consumption would exceed production, bringing world stocks down by 6 million bales, more than offsetting 2017/18's 900,000-bale increase.

- In cotton, they cut their net long position by 2,458 lots to 64,066 lots, the lowest since late-November, U.S. Commodity Futures Trading Commission (CFTC) data showed on Friday.

As indicated in the previous update, a good bounce from 10,500 levels has revived bullish hopes once again. It still needs to cross 12,100-300 levels to confirm this bullishness. But there are already positive signs hinting at further bullishness ahead. Only an unexpected fall below 11,000 could change the picture to neutral again. Further upside can be seen in the coming weeks, but strong resistance will be seen around 12,300 on the upside.



As mentioned previously, indicators are still in a neutral state despite the recent upside and prices could remain range bound with a bullish bias. Downward corrections are possible but might not be a major one. But, the earlier bearish trend is seen withdrawing. While 11,000 levels hold on the downside, we can expect prices to gradually edge higher from here.



MCX March Contract Chart



The MCX benchmark March cotton chart indicates a strong rally ahead to 21,800 levels in the coming month. Strong supports will be seen at 20,200/300 levels now. Near-term resistance is seen at 21,250 levels in the coming sessions. Potential exists for a push higher even to 23,000 levels now. Only an unexpected fall below 20,100 could postpone the bullishness.

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



As mentioned earlier, our favoured view is bullish. As mentioned earlier, good correction to 76c has materialised so far after testing 85c. Ideally, we see the downside from here being limited and prices to inch higher to 80-81c. A close above there could see prices rising in a sustained manner to 87c levels. Prices have moved perfectly in line with our expectations so far. Prices are expected to edge higher to 87c where strong resistances kick in. There is scope for an extension even to 97c. While 78c holds, prices are expected to edge higher to 87c at least in the coming sessions.

CONCLUSION:

Both the domestic and international prices are edging back towards the multi-month highs made earlier. The technical picture presently is bullish with chances of even a stronger market ahead. But, prices are nearing crucial resistances and only a rise and close above 87c again could revive bullish hopes for the long-term target of 93-97c. The international prices indicate supports to hold on corrective declines in the coming weeks, but the medium-term picture still looks neutral to positive, while the domestic prices also looks stable.

For Guj ICS supports are seen at 11,000 /qtl followed by 10,700 /qtl, and for ICE Mar cotton futures at 77-78c. the rise above 11,900 /qtl has once again revived the bullish picture in the domestic markets and in the international markets prices are indicating a pause before it resumes the uptrend. As we have been maintaining, though international markets could potentially change direction and push higher. Price action so far has been in line with our expectations. The technical picture is indicating prices to edge higher to 87c on the upside and the domestic prices to edge higher to 12,300-500 /qtl levels in the coming month. The domestic technical picture has turned friendly as the international one, but it might not be a one-way street and corrections can be expected from time to time. The present support it has taken recently has been a healthy one and supports a rising trend.



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CAI Starts Laboratory in Adilabad

On February 22, 2018, the Cotton Association of India (CAI) inaugurated its Cotton Testing & Research Laboratory in Adilabad, Telangana.

The ribbon cutting was done by Shri. Maheshwar Reddy, Branch Manager of The Cotton Corporation of India Ltd. Adilabad Branch, in the presence of Smt. Mangala Srinivasan, Lab. Officer, CAI.

With the addition of this laboratory, CAI now has a network of 12 Cotton Testing & Research Laboratories, strategically spread across all major cotton growing States in India.



COTTON EXCHANGE MARCHES AHEAD

Madhoo Pavaskar, Rama Pavaskar

Chapter 7 Revival of Futures Trading

(Contd. from Issue No.38....)

On-line Trading

Meanwhile, at the instance of the Forward Markets Commission, the East India Cotton Association also prepared suitable by-laws for developing the screen based on-line trading system for the cotton futures market. After these by-laws were approved by the Commission, the Cotton Exchange switched over to the on-line system with the blessings of Swami Vishwamurti and Swami Gyanpriya of Swaminarayana Temple, Mumbai, on July 11, 2002. It is, however, still too early to foretell whether the switch over from the traditional open out-cry practice to the modern on-line system will boost the trading volumes in the cotton futures market, since the multifarious roadblocks retarding the development of the cotton futures market have as yet not been removed.

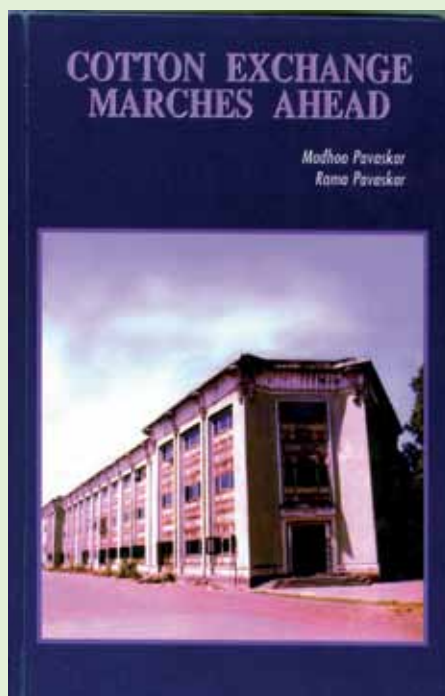
Future of Cotton Futures

Be that as it may, the cottonmen have always been dynamic and have adjusted swiftly their trading practices and operating systems to keep abreast with the changing times. Futures trading in cotton will be no exception. There is therefore no gainsaying the fact that the Cotton Exchange would once again rise to the occasion, once the present impediments to the growth of commodity futures markets are set aside by the authorities. When that happens, it will not be long before it ranks amongst the leading commodity exchanges in the world, and may acquire even the coveted international status, with its futures market attracting the global players from overseas countries after the Indian rupee becomes fully convertible in the near future. Hopefully, that day would not be far away in this New Millennium.

Birth of FICE

The cotton futures market was not unique in facing the problems of lack of hedging interest by the major market functionaries and the absence of liquidity owing to insurmountable official roadblocks. Most other commodity exchanges in the country were also sailing in the same boat as the Cotton Exchange, since the factors impeding the growth of futures markets were almost identical for almost all the agricultural commodities and their products. Sensing these common problems facing nearly all the futures markets in the country, in a meeting of the select commodity exchanges held at the office of the Forward Markets Commission on February 24, 1999, the representatives of the UNCTAD and the World Bank mooted the idea of setting up a Federation of Indian Commodity Exchanges (FICE) so that the Exchanges can formulate a co-ordinated approach to their common needs and problems.

The Federation was conceived keeping in mind the pro-active, promotional and self regulatory role played successfully in the U.S.A. by a similar apex body, namely, the National Futures Association of the contract markets (i.e. commodity exchanges) designated under the U.S. Commodity Exchange Act. Mr. Lamon Rutten of the UNCTAD opined that like its American counterpart, the FICE would also inculcate the habit of self governance and self regulation among the Indian recognised exchanges, since it could negotiate effectively with the government on all matters pertaining to their requirements, and in the process reduce the role of the government in the governance and regulation of the exchanges.



The commodity exchanges present at the meeting welcomed the suggestion and decided on the spot to set up the Federation. Mr. Suresh Kotak, President of the East India Cotton Association, was unanimously appointed as the Convenor and a committee of the Presidents of all the exchanges then present was constituted to initiate the necessary follow-up action. It was also agreed spontaneously that all the recognised exchanges should make an initial contribution of Rs. 10,000/- to meet the promotional expenses for the formation of the Federation. Soon, eleven exchanges readily signified their confirmation to constitute the FICE, and remitted their initial contribution to the East India Cotton Association.

The first meeting of the proposed FICE was held on July 15, 2000 at the Coffee Futures Exchange India Ltd. in Bangalore. The meeting unanimously finalised the Memorandum and Articles of Association of the proposed Federation. The major issue of concern to the members of the proposed Federation at the outset was the likely establishment of a National Commodities Exchange which was being then considered seriously by the government, since the existing commodity exchanges appeared to have failed to generate adequate trading volumes and serve efficiently the economic functions of risk management and price discovery.

The meeting of the members of the proposed FICE at Bangalore felt that in view of the long absence of futures trading for more than three decades and a half, the resurrection and revival of commodity futures markets needed more time. Moreover, since the existing exchanges had already been recognised by the government and had spent large financial and manpower resources to organise futures trading in a well secured manner and on modern lines, the creation of a separate National Commodities Exchange to provide the facilities for futures trading in the same commodities would be counter-productive and necessarily amount to needless waste of scarce national resources. The FICE members were therefore of the firm view that the government should first remove the statutory and regulatory roadblocks impeding the development of commodity exchanges, before it could evaluate properly their performance objectively.

The FICE was formally launched on October 14, 2000 at Mumbai. Dr. Kewal Ram, Member of the Forward Markets Commission, inaugurated the function at the Cotton Exchange Building in Cotton Green. After the inaugural function, the Memorandum and Articles of Association were duly adopted by the members of the FICE. The members also appointed Mr. Suresh A. Kotak as the first President of the Federation. Thus was born the FICE. Since then, the Federation applied for registration under the Indian Companies Act.

If FICE were to grow strong and healthy, and serve effectively the cause of futures trading in the country, it should be accorded a statutory status under the Forward Contracts (Regulation) Act, 1952, by a suitable amendment to the said Act. The Act must also empower the Federation to register with it all non-member trading clients of the members of the recognized exchanges, members of international exchanges and clearing associations. It should also enjoin on the regulatory authorities to consult the FICE before introducing new policies and systems concerning commodity exchanges and futures trading. The FICE should have powers to arbitrate on disputes between the members of the exchanges and the non-members, including appropriate appellate powers, as also the authority to audit the records of the member exchanges to prevent irregularities in trading.

The government should also give adequate financial grant to the Federation to enable it to undertake research and training programmes on a regular basis for the benefit of both the trade and non-trade related interests in commodities. The FICE should also act as a store house of information on commodities permitted for futures trading. Without adequate financial support and statutory status, it may be difficult for the FICE to function effectively in the cause of futures trading at large. Of course, the Cotton Exchange, in view of its long experience and expertise, may have to play a leading role in the successful development and functioning of the FICE. That would be yet another milestone on the long march of The Cotton Exchange.

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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) 2017-18 Crop FEBRUARY 2018					
Sr. No.	Growth	Grade Standard	Grade	Staple	Micronaire	Strength /GPT	19th	20th	21st	22nd	23rd	24th
1	P/H/R	ICS-101	Fine	Below 22mm	5.0-7.0	15	11614 (41300)	11670 (41500)	11782 (41900)	11782 (41900)	11782 (41900)	11810 (42000)
2	P/H/R	ICS-201	Fine	Below 22mm	5.0-7.0	15	11754 (41800)	11810 (42000)	11923 (42400)	11923 (42400)	11923 (42400)	11951 (42500)
3	GUJ	ICS-102	Fine	22mm	4.0-6.0	20	8323 (29600)	8183 (29100)	8183 (29100)	8183 (29100)	8183 (29100)	8211 (29200)
4	KAR	ICS-103	Fine	23mm	4.0-5.5	21	9336 (33200)	9336 (33200)	9364 (33300)	9364 (33300)	9364 (33300)	9392 (33400)
5	M/M	ICS-104	Fine	24mm	4.0-5.0	23	10208 (36300)	10208 (36300)	10264 (36500)	10264 (36500)	10264 (36500)	10292 (36600)
6	P/H/R	ICS-202	Fine	26mm	3.5-4.9	26	10939 (38900)	10882 (38700)	10995 (39100)	11051 (39300)	10995 (39100)	11023 (39200)
7	M/M/A	ICS-105	Fine	26mm	3.0-3.4	25	9758 (34700)	9758 (34700)	9842 (35000)	9842 (35000)	9842 (35000)	9870 (35100)
8	M/M/A	ICS-105	Fine	26mm	3.5-4.9	25	10208 (36300)	10208 (36300)	10292 (36600)	10292 (36600)	10292 (36600)	10320 (36700)
9	P/H/R	ICS-105	Fine	27mm	3.5-4.9	26	11107 (39500)	11051 (39300)	11164 (39700)	11220 (39900)	11164 (39700)	11192 (39800)
10	M/M/A	ICS-105	Fine	27mm	3.0-3.4	26	9898 (35200)	9898 (35200)	10039 (35700)	10039 (35700)	10039 (35700)	10067 (35800)
11	M/M/A	ICS-105	Fine	27mm	3.5-4.9	26	10404 (37000)	10404 (37000)	10489 (37300)	10489 (37300)	10432 (37100)	10461 (37200)
12	P/H/R	ICS-105	Fine	28mm	3.5-4.9	27	11276 (40100)	11220 (39900)	11332 (40300)	11389 (40500)	11332 (40300)	11360 (40400)
13	M/M/A	ICS-105	Fine	28mm	3.5-4.9	27	10714 (38100)	10657 (37900)	10742 (38200)	10742 (38200)	10686 (38000)	10714 (38100)
14	GUJ	ICS-105	Fine	28mm	3.5-4.9	27	10939 (38900)	10882 (38700)	10967 (39000)	11023 (39200)	10967 (39000)	10995 (39100)
15	M/M/A/K	ICS-105	Fine	29mm	3.5-4.9	28	10967 (39000)	10967 (39000)	11051 (39300)	11051 (39300)	10939 (38900)	10967 (39000)
16	GUJ	ICS-105	Fine	29mm	3.5-4.9	28	11135 (39600)	11079 (39400)	11164 (39700)	11220 (39900)	11164 (39700)	11192 (39800)
17	M/M/A/K	ICS-105	Fine	30mm	3.5-4.9	29	11360 (40400)	11360 (40400)	11445 (40700)	11389 (40500)	11304 (40200)	11332 (40300)
18	M/M/A/K/T/O	ICS-105	Fine	31mm	3.5-4.9	30	11810 (42000)	11810 (42000)	11895 (42300)	11838 (42100)	11754 (41800)	11782 (41900)
19	A/K/T/O	ICS-106	Fine	32mm	3.5-4.9	31	12007 (42700)	12007 (42700)	12092 (43000)	12035 (42800)	11950 (42500)	11979 (42600)
20	M(P)/K/T	ICS-107	Fine	34mm	3.0-3.8	33	15719 (55900)	15578 (55400)	15578 (55400)	15578 (55400)	15466 (55000)	15494 (55100)

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