

COTTON



News & Development

MCX Cotton Futures traded bullish during the month of May and June month so far due to higher demand from the textile industries in the domestic market and later decline in supplies in the Gujarat & Maharashtra spot markets due to curfews and lockdown imposed strictly state wise. Government has allowed mills to operate but markets are closed so mills are facing cash crunch. Textile mills dealing in exports are still going strong as Indian yarn prices are attractive. So far, prices have not shown any major correction, even in the sowing phase of cotton (June-August), where farmers are forecasted to increase acreage due to favourable prices and monsoon. By 10th June, MCX Cotton futures price closed at Rs.24220/bale, higher by 9.84% compared to Rs.22050/bale reported on 30th April.

Fundamentally for the month ahead, we expect MCX Cotton futures to trade bullish as the global cotton production and stocks has shown decline on a monthly basis, based on recent USDA report. Global Cotton stock for the 2021-22, has been revised lower by 1.7 million bales. In the other estimates for 2021-22, USDA has pegged world cotton output at 118.9 million bales (1bale = 170 kgs) against 119.4 million bales estimated last month. Conversely, half a million reduction in Indian Cotton consumption (driven by lockdown imposed in many states till date to avoid spread of COVID) will be more than offset by sharp increase in consumption from China (demand pegged 1 million bales higher from last month at 41 million bales), Bangladesh & Turkey. World Cotton consumption is forecasted to reach near 122.5 million bales compared to 118 million bales last year. In the case of United States, market was anticipating 0.1 million bales reduction in U.S. Cotton inventories whereas, USDA has cut the same by 0.2 million bales at 2.9 million bales (lowest stocks in last 4 years) in June. In conclusion, with lower world cotton stock estimates and optimism over more rise in demand in future, we expect ICE Cotton futures and MCX Cotton Futures to trade positive with India's sowing corrections during the month ahead.



On a weekly chart, MCX Cotton (June) future has been rising continuously in a bullish channel with **Higher Highs and Higher Lows** formation from the last couple of weeks. However, the price has faced the immediate hurdle of prior supply zone & upper trend line with **Shooting Star** candlesticks pattern, which indicates a reversal in the counter for the medium term. In addition, a momentum indicator RSI (14) is at an overbought zone and witnessed divergences which point out a further reversal in the counter. Moreover, an oscillator Stochastic is also supportive for the short position with negative crossover. **Hence, based on the above-mentioned technical structure, one can initiate a short position in MCX Cotton (June) future at CMP 24180 or a rise in the price till 24400 levels can be used as a selling opportunity for the downside target of 22700. However, the bearish view will be negated if MCX Cotton (June) future closes above the resistance level of 24900.**