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TECHNO FUNDA REPORT ON

Kapas futures

April 2016



**Presented by:
Subhranil Dey**

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TECHNO FUNDA REPORT ON KAPAS FUTURES (APR '16) – BUY



Source: Reuters

Recommendation: Investors are advised to take fundamental positional BUY call in Kapas futures (Apr'16) NCDEX at current market price for the target of 960 in long-term, with a closing stop loss below 885 levels.

Note:

- These long term fundamental calls are for duration of one to three weeks time frame and do not confuse these with intraday calls.
- It is assumed that investor takes position in two lots and square off position in one lot on partial profit booking and trail stop loss to buying/selling price for second lot.

Production estimates

- India's cotton production is expected to decline for the second consecutive year to 37.5 million bales in 2015-16 marketing season, due to a likely fall in yields on account of delayed sowing, weather and low price realisation, according to USDA's latest report.
- The Cotton Association of India (CAI) has reduced its production estimate of cotton for the 2014-15 season to 38.27 million bales (of 170 kg each) from the previous estimate of 39 million bales released in March this year.
- As per the 3rd Advance Estimates stated by Ministry of Agriculture, the total production of cotton estimated at 35.32 million bales (of 170 kgs each) is marginally lower than last year.

Sowing Update

- Cotton acreage in India, the top grower in the world, is likely to drop by the most in over a decade this year, as plunging prices and fears of a drought prompt farmers to switch to cultivating pulses in the hope for better returns.
- The total sown area as on 12th June, 2015 as per reports received from States, stands at 14.30 lakh hectares as compared to 17.34 lakh hectares at this time last year.
- Planting in northern India, albeit slow, continues as prices firm up due to low market yard arrivals.
- This season production is forecast marginally lower on reduced yields stemming from delayed sowing, weather,

and price realization vis-à-vis other crops.

- Low price realization coupled with higher labor costs has prompted farmers to shift away from cotton planting to paddy and pulses (green gram) in Punjab and pigeon pea in Haryana.
- In the central states of Gujarat and Maharashtra, sowing has commenced. but is limited to fields with assured irrigation.
- The Met Department has already forecast that the Southwest Monsoon is expected to be 12 per cent deficient this year.

Consumption

- As cited by the USDA, the Post MY 2015/16 consumption is estimated at 25 million 480 lb. bales.
- While consumption is expected to be higher than last year on account of strong economic growth and preference for cotton over man-made fibers, post expects the average monthly consumption to be just over around 2 million 480 lb. bales (2.6 million 170 kg bales).
- Mill use in India is projected at nearly 25.8 million bales, 5 percent above 2014/15 and a record; India's growth is being supported in part by expanding textile product exports.

Trade

- Bangladesh remains the major export market for Indian cotton.
- Other export destinations include Vietnam, China, and Pakistan.
- The Cotton Corporation of India (CCI) has finally come out with its global tender for export of cotton to Bangladesh.
- The CAB estimates 70 lakh bales will be exported during the current season. So far only around 45 lakh bales have been exported.
- In the current scenario, the farmers seem reluctant to sell their last stocks held by them.

USDA Estimates

Attributes	2014/2015	2015/2016	% Change
Area Harvested (1000 HA)	12,700	12,000	-5.51%
Beginning Stocks 1000 480 lb. Bales	11,615	13,665	17.65%
Production 1000 480 lb. Bales	29,500	29,500	0.00%
Imports 1000 480 lb. Bales	1,150	900	-21.74%
Total Supply 1000 480 lb. Bales	42,265	44,065	4.26%
Exports 1000 480 lb. Bales	4,100	5,000	21.95%
Use 1000 480 lb. Bales	24,500	25,750	5.10%
Total Dom. Cons. 1000 480 lb. Bales	24,500	25,750	5.10%
Ending Stocks 1000 480 lb. Bales	13,665	13,315	-2.56%

Source: Foreign Agricultural Service, Official USDA Estimates

Global Scenario

- The latest U.S. Department of Agriculture (USDA) projections for 2015/16 indicate that global cotton stocks are expected to decrease for the first time since 2009/10 as mill use exceeds production.
- World area harvested in 2015/16 is forecast at 31.8 million hectares, 2 million hectares (6 percent) below the previous season.
- The global cotton yield is forecast at 763 kg/hectare in 2015/16, slightly below 2014/15.
- World ending stocks are projected at 106.1 million bales for 2015/16, 3.5 percent (3.9 million bales) below 2014/15.
- World cotton mill use is forecast at 115.3 million bales, 3 percent higher than the 111.5 million bales expected to be consumed in 2014/15, as lower cotton prices and economic growth stimulate demand.
- China and India remain the largest consuming countries, with a combined cotton mill use of about 62 million bales, or more than 53 percent of the global total.
- China's cotton consumption is projected at 36 million bales in 2015/16, up from 35 million bales but equal to 2012/13.

For further any queries, please contact

Subhranil Dey

Sr. Research Analyst

subhranildey@smcindiaonline.com

Ph.: 011-30111000

Extn.: 674

SMC Global Securities Limited is proposing, subject to receipt of requisite approvals, market conditions and other considerations, a further public issue of its equity shares and has filed a Draft Red Herring Prospectus (DRHP) with the Securities and Exchange Board of India (SEBI). The DRHP is available on the website of the SEBI at www.sebi.gov.in and the website of the Book Running Lead Managers i.e. Tata Securities Limited at www.tatacapital.com and IL&FS Capital Advisors Limited at www.ilfscapital.com. Investors should note that investment in equity shares involves a high degree of risk. For details please refer to the DRHP and particularly the section titled Risk Factors in the Draft Red Herring Prospectus.

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