

**TECHNO FUNDA REPORT ON**

30 September 2015

# **Kapas futures**

**April 2016**



**Presented by:  
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## TECHNO FUNDA REPORT ON KAPAS FUTURES (APR '16) – BUY



**Recommendation:** Investors are advised to take fundamental positional BUY call in Kapas futures (Apr'16) NCDEX at current market price for the target of 880 in long-term, with a closing stop loss below 820 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.

### Estimates of demand & supply

- As per the 1st Advance production estimates of major Kharif crops during 2015-16 given by the Ministry of Agriculture, the production of Cotton estimated at 33.51 million bales (of 170 kg each) is also lower by 1.12 million bales than its production of 34.62 million bales during 2014-15 (1st Advance Estimates).
- The Cotton Association of India (CAI) in its second estimate for the cotton season 2015-16 lowered its estimate for the cotton season 2015-16 and placed the same at 377.00 lakh bales of 170 kgs each.
- The projected Balance Sheet drawn by the CAI estimated total cotton supply for the season 2015-16 at 467.65 lakh bales while the domestic consumption is estimated at 325.00 lakh bales thus leaving an available surplus of 142.65 lakh bales.
- The CAI has also released its August estimate for the ongoing cotton season 2014-15 and retained the crop at 382.75 lakh bales of 170 kgs each.

### Sowing Update

- The total area sown under cotton as on 24th September, 2015 is lower at 115.20 lakh hectares as compared to 125.75 lakh hectare last year at this time.
- As cited by the USDA, for India, cotton area in 2015/16 is projected 7 percent below 2014/15's record of 12.7 million hectares; last season's late monsoon benefited cotton because it had a later planting window than the alternative crops.

- Deficient rains in the latter half of the monsoon season led to slow boll development and maturation.
- The July-September monsoon accounts for about 80 percent of India's total rainfall, and affects both summer and winter sowing. The rain deficit during monsoon 2015 has slipped back to 14%, which is 2% higher than estimated by the India Met Department.
- The cotton yield in MY 2015/16 is estimated at 524 kg per hectare; marginally lower than the five year average of 527 kg per hectare.
- While the pace of planting at the beginning of the season was ahead of last year, the lack of rain during the months of July and August delayed sowing in central and southern cotton growing regions.

### **Crop damage**

- An extensive damage has been caused to the cotton, which is major kharif crop in Haryana and Punjab.
- It is estimated that 40% of the crop has been destroyed by the sap sucking insect, white fly.
- It is projected that the crop size would be of 0.8 million bales for Punjab and about 1.9 million bales for Haryana.
- In Maharashtra, Vidarbha is the least affected by rains, while Marathwada and Khandesh are the most affected regions due to scanty rains. A farmer, who usually gets over 10 quintals an acre of yield under ideal conditions, may get only 8 quintals this year.
- The situation in the state of Gujarat, which has received 28 per cent less than normal rains, is no better. The expected cotton arrivals in Gujarat are in the range of 8.5 to 9 million bales of 170 kg each during 2015-16 season compared to current season's 10.8 million bales.
- The places affected due to weak monsoons in Karnataka are Dharwad, Bijapur, Gulbarga, and Belgaum, because of which the expected arrivals of the crop are likely to drop to almost half as against 3.2 million bales in 2014-15.

### **Trade**

- The currency change has provided exporters an opportunity to ship cotton, albeit in a small quantum of shipments, to new markets such as Turkey, Thailand and Indonesia in July and August. Bangladesh however remains the top export destination for Indian cotton.
- After falling 51% in 2014/15, India's exports may recover by 21% to 1.2 million tons in 2015/16.
- The Textiles Export Promotion Council, popularly known as TEXPROCIL has requested the Government to fast track the negotiations for signing FTA's with Australia, Canada and the EU. They have also requested the Government to negotiate tariff concessions on Fabrics with China & Turkey.

### **World estimates**

- World cotton production in 2015/16 is projected at 108.7 million bales, marginally below last month's projection but nearly 9 percent below 2014/15's crop of 118.9 million bales. Global production is forecast to decrease for the fourth consecutive season and is 15 percent (18.7 million bales) below 2011/12's record.
- Global harvested area in 2015/16 is expected to decrease 7.5 percent—at 31.3 million hectares (77.3 million acres)—largely due to area declines in India, China, and the United States.
- World ending stocks are projected at 106.3 million bales in 2015/16, 4.6 million bales (4 percent) below the beginning level. The stocks-to-use ratio is estimated at 94 percent this season; while lower than 2014/15.

## USDA Estimates - India

Attributes	2014/2015	2015/2016	% Change
Area Harvested (1000 HA)	12,700	11,800	-7.09
Beginning Stocks 1000 480 lb. Bales	11,365	13,565	19.36
Production 1000 480 lb. Bales	29,500	29,000	-1.69
Imports 1000 480 lb. Bales	1,200	950	-20.83
Total Supply 1000 480 lb. Bales	42,065	43,515	3.45
Exports 1000 480 lb. Bales	4,000	4,900	22.50
Use 1000 480 lb. Bales	24,500	25,700	4.90
Total Dom. Cons. 1000 480 lb. Bales	24,500	25,700	4.90
Ending Stocks 1000 480 lb. Bales	13,565	12,915	-4.79
Stock to Use %	47.6	42.21	-11.32
Yield (KG/HA)	506	535	5.73

Source: Foreign Agricultural Service, Official USDA Estimates

## Cotton Prices 30th Sep 2015

### Indian Cotton Standards

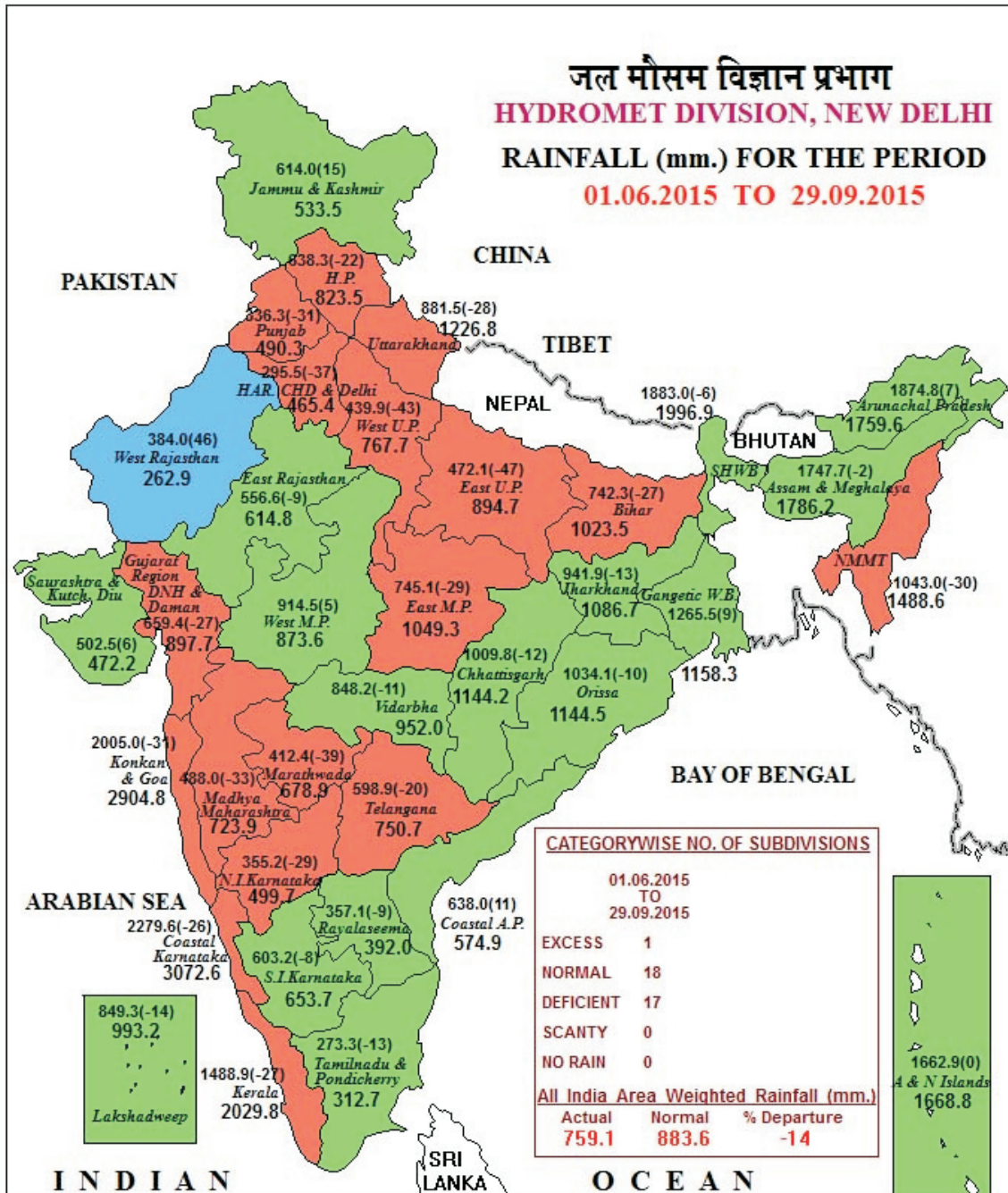
GUJ ICS-105 (29mm)	34200
P/H/RICS-202 (26mm)	32900
M/M/AICS-105 (28mm)	31800
<b>New York Futures</b>	
ICE Prices (Dec.'15)	60.00 (-0.79)
<b>Cotlook Index</b>	
Cotlook 'A' Index	67.35 (+0.05)

Source: Cotton Association of India

# MONSOON 2015 - CUMULATIVE RAINFALL

## भारत मौसम विज्ञान विभाग

### INDIA METEOROLOGICAL DEPARTMENT



**LEGEND:** ■ EXCESS (+20% OR MORE) ■ NORMAL (+19% TO -19%) ■ DEFICIENT [-20% TO -59%]  
■ SCANTY [-60% TO -99%] ■ NO RAIN [-100%]  NO DATA

**NOTES:**

- [a] Rainfall figures are based on operational data.
- [b] Small figures indicate actual rainfall (mm.), while bold figures indicate Normal rainfall (mm.)  
 Percentage Departures of Rainfall are shown in Brackets.

Source: IMD

*For further any queries, please contact*

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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](http://www.sebi.gov.in) and the website of the Book Running Lead Managers i.e. Tata Securities Limited at [www.tatacapital.com](http://www.tatacapital.com) and IL&FS Capital Advisors Limited at [www.ilfscapital.com](http://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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