



PARADIGM COMMODITIES ADVISORS
Cotton Outlook-10th May 2022

Stark price divergence between ICE and MCX cotton: INR hits 77.55: Global risk off move sets in

Please Read this before you trade: We strongly recommend traders to use own discretion on entry and exit points based on product volatility and multiplier. For the gold, flexibility in entry or exit could be marginally 0.025-0.05% of suggest level. Target 1 is conservative objective where part profit may be booked. Target 2 is best case profit objective and full profit may be taken. Entry is valid usually for same day and SL is valid until that level triggered.

India Cotton

Commodity	Strategy	Setup	Target 1	Target 2	Stop loss	Tech Range	Tec. trend
MCX May cotton HIGH risk call	Buy	46700-900	47500-600	48000- 48100	Closing basis sl is 44900.	45200- 48200	Terminal bull mkt

Outlook: Indian cotton futures fresh record high amid acute scarcity of cotton. Mills are seen active buyers in middle and FAQ cotton. Super cotton is in extreme shprt supply and it's a sellers' market. Quality variations are very wide amid thin trade. MCX cotton curve turning flat to mild inversion since last few weeks. During Feb-Mar near month carry was around 500-550 a bale but now a days its oscillating between mild carry to mild backwardation. Going forward we may see acute backwardation around July-Aug. Amid unprecedented supply crunch and talks of sharp acreage expansion in cotton, it would be interesting to see how old crop new crop cotton spreads- i.e., Aug-Oct cotton spread opens. We think new cotton may opened in sharp discount given ICE and ZCE inversion. Meanwhile short-term range is seen at 46200-48400. Preferred bias is to be on long side. There is stark divergence between ICE and MCX cotton. ICE cotton is on correction mode, however domestic prices hitting new high almost every day.

Strategy: Buy on dips.

Commodity	Strategy	Entry	Target 1	Target 2	Stop loss	Tech Range	Tec. Trend
NCDX Jun cocud	Buy	2960-65	3030-40	3070-80	Class basis 2900	2930-3090	Distressed

Outlook: Cotton cake prices remained laggard amid cattle feed chain. Retail traders, long side traders are too distressed and loathed. There is widespread talk about sub-par quality dmat stock in NCDEX select locations. AN insider says sept FED stock is said to be inferior materials and may not find buyer even after 10% discount. Trust deficit is serios challenge for this contract. Volume and OI are seen 70%- 80% down from its peak in 2010-2012. Cattle feed materials in general have shot up to dizzying heights during last few days, however cotton cake remained dirt cheap. It looks like a suppressed commodity, where bear camp/ cash carry arb desks are decisively dominant. Cash carry gross return is around 24% annualized. Too lucrative for arb desks.

Strategies: Buy on dips. (Only for speculative traders- chancy trade. For serious traders, we still prefer cash-carry)

ICE Cotton

Commodity	Strategy	Entry	Target 1	Target 2	Stop loss	Tech Range	Tec. Trend
ICE July cotton	Buy	140-140.20	144.50- 144.70	148.20- 148.80	136.80*	140-146 (137-162)*	Top heavy

Outlook: ICE cotton posted sharp correction amid global risk off move. Stocks, and all non-USD assets tanked as Dollar was the only safe heaven amid Fed tightening. ICE cotton lost nearly 13 cents from the peak. China lockdown, Dollar rally, elevated risk aversion, and broader capital outflows from risky assets are main triggers. Yesterday, it was a stampede!. May be unwinding of some crowdad trades- especially in energy and vegoil- grains space. Cotton market is still a "tight market." Market may stabilize as fear of faster hikes may calm down for a while. Current short-term range is seen at 140-146. Broad range is seen at 137-162. If July contract close below 136 .80 and stayed below that level for minimum 2 days- We may consider a price reversal. If prices recovered towards 146.60 and close above 147.70- and hold this level for 2 sessions- path to retest 155-162 would open up. During this stealth bull market, cotton tend to produced 10-15 cents corrections and subsequent 20-30 cents bounces. Truly a bipolar bull market. Eye of hurricane is July on call exposure.

Strategy: Cotton rally stalled amid broader risk off move in various assets. Blistering rally in dollar index sparked capital outflows from metals, emerging FX, commodities, cryptos- All non \$ assets. Cotton is still having positive fundamentals and may avert full blown sell off subject to 2 conditions- Jul-Dec backsread must hold above 15. No2. ICE July must hold above key support 137.

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