



PARADIGM COMMODITIES ADVISORS

Cotton Outlook- 24th May 2022

Texas rains, Mills call to production cutback and demand rationing weigh on cotton

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 were part pro fit 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	Entry	Target 1	Target 2	Stop loss	Tech Range	Tec. trend
MCX Jun cotton	No call	NA	NA	NA	NA	47000-48500	Nervous market

Outlook: Cotton rally getting stalled and prices are retracing amid demand rationing, aggressive calls by mill for production cutback, Modest weakness in ICE cotton after recent rains. Sentiment is fragile. Domestic cotton prices are in correction mode; however, it is too early to call for a bear market. Forward curve is seen tight. Market moved into backwardation. During Feb-March, front-next month spread traded around 500-550 carry which is now traded around 300-350 backwardation. There is negligible open interest and volume in July contract. It is also quoted in backwardation. New crop Oct contract came into bold but so far, no trade reported. Trade quotations -LTP was 39400 which hints possible market may open in sizable backwardation. Physical market looks dislocated due to nervous sentiment. Price discovery seriously hampered amid lot of trade lobbying from various stakeholders.

Strategy: No call. Market has lost its natural price discovery capability amid lot of counter balancing influences.

Commodity	Strategy	Entry	Target 1	Target 2	Stop loss	Tech Range	Tec. Trend
NCDX Jun cocud	Sell	2900	2830	2805	2988	2800-2950	Over sold

Outlook: Cotton cake futures produced mild recovery bounce as market is oversold.

Strategies: Recent bear turn seems overdone; a corrective bounce is underway.

ICE Cotton

Commodity	Strategy	Entry	Target 1	Target 2	Stop loss	Tech Range	Tec. Trend
ICE Dec cotton	No call	NA	NA	NA	NA	123-129	Mild toppish

Outlook: ICE cotton looks in a consolidation mode. Risks seems to be balanced for short term. Sentiment turns little calm after recent rains in Texas, some correction in July contract, reduction in on call fixation. Stagflation risk, monetary tightening fear in USA and fear of sharp fall in discretionary spending has calm don euphoria. Main trigger for this mood shift is recent earning calls from Target and Walmart. Now market awaits earning calls from Cosco, and other retailers. Top producer India is awaiting monsoon. On a broader scale, Heatwave, power crunch, and fertilizer cost and likely rationing in fertilizer rationing may produce yield surprise on various crops. There are super charged expectations of bumper kharif crops in India, subject to good and timely monsoon. We tend to ignore such noise and as a market neutral market practitioner we always adopt situational and data dependent strategies. We are in a big govt era where govt intervention will be above normal active- worldwide-and almost in every sector. Policy actions and reversals- recent India ban on wheat, palm oil ban by Indonesia, Wheat export ban by Serbia. This is just an indicative list. We are sensing more and more policy risk, reversals, protectionism, sabar rattling in geopolitics. Houston power prices jut hit 5000 per in Houston. Few weeks ago, power prices traded negative. PowerGrid across the globe, ranging from US to India to South Africa are suffering from high stress due to record high heatwave, soaring energy cost and skyrocketing demand for cooling. Power, fertilizer and climate volatility may be wild card for several crops for rest of 2022.

Strategy: Time to stay sidelined. Short term risks are fairly priced in, however medium-term risks are still not factored in. A pause or mid slow easing and weather shock cud produce bounce in Dec cotton. Alternatively- an aggressive rate hikes worldwide and favorable weather in China, India, USA could deflate fear premium. There is lot of talk about stagflation, recession, however huge cash hoarding in China and record household wealth seen as a great cushion for consumers. In summing up- Bad news first- Recession may be coming. Now the good news- It will be shallow and short lived. So, we are too cautious to be too pessimistic. Animal spirits are still alive. Optimal hedges are suggested. Some time- No strategy or being view free is best strategy.

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