



PARADIGM COMMODITIES ADVISORS

Cotton Outlook- 7th October 2022

MCX forward curve goes deep invert again as October rain risk supply disruption

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.

ICE Cotton

Commodity	Strategy	Entry	Target 1	Target 2	Stop loss	Tech Range	Tec. trend
ICE Dec Cotton	Sidelined	NA	NA	NA	NA	81.30-86.60	Mild Bearish

Outlook: ICE Cotton is repeatedly testing key support around 82.50-83.50 area which is roughly an area of 61.8% fib retracement of the prior large move from 55 cent to 135 cent. Current range for Dec cotton is 81.30-86.60. Technical trend is weak. On a broader picture, forward curve has greatly level off amid vanishing tightness. Old crop new crop spread- Means ICE Jul23-Dec 23 spread peaked near 18.50 and now stands at 3.95. There is a high probability that it may turn out to be a contango before moving towards backwardation, some time in Feb-Apr 2023. Narrowing backwardation means there is lot of long liquidation in front end, while far end -means Dec 23 remained outperformer due to sizable on call fixation. We think current Dec 2023 cotton prices at 73-74 is great bargain for Asian end users to lock in price risk. Whoever is shorting Dec 2023 cotton must be sure about a deep recession in 2023 and he must be sure about crop friendly weather and also sure about smooth supply. At current valuations, Dec 2023 cotton is available around 10 cents cheap and there is no weather premium or cost to carry.

Strategy: We are reluctant to buy Dec and March Cotton unless there is some demand revival or China unlock down becomes a reality.

Commodity	Strategy	Entry	Target 1	Target 2	Stop loss	Tech Range	Tec. Trend
ICE Jul23-Dec 23spread	Buy	00- 1	5-6	7.50-8	2.5 cent loss fm entry	2C Contango to 6 c Back	Weak

Outlook: Jul-Dec 23 spread is in a free fall. It means supply tightness may turn out to be supply glut. Mainly this is attributed to Yarn glut in Asia. We expect market may entered into flat basis or mild contango. Current downturn is seen overshooting and largely played out of sheer panic about global recession, war, large new crops in India etc. etc. History indicates that cotton has uncanny ability to cheat market consensus. MAJORITY MUST BE WRONG IS THUMB RULE IN THE WHITE GOLD TRADE. We are damn sure, Jul-Dec spread may revert to the mean and we may see inversion is back-some time in 4Q 2022 or 1Q 2023.

Strategies: We prefer to enter long around flat basis or Invert of 1 cent. Current invert is 3.90. We expect current downward swing from 16 to 3.9 is little overshooting. We expect this spread may revert towards 5-8 in next few weeks.

India Cotton

Commodity	Strategy	Entry	Target 1	Target 2	Stop loss	Tech Range	Tec. Trend
MCX Oct cotton	Buy	32500	34000	34400	31700	32200- 35500	Squeeze-weather risk

Outlook: October contract produced swift rebound amid weather risk. IMD predicted heavy rains for October. Gujarat, Maharashtra, south India witnessed some rains yesterday. We may see some supply disruption. MCX Dmt condition cotton may be in short supply as Delivery period is just 3 weeks away. Oct-Nov spread blasts higher amid supply disruption worries.

Strategies: Illiquid market- paralyzed by policy intervention and negative publicity about futures trading.

Commodity	Strategy	Entry	Target 1	Target 2	Stop loss	Tech Range	Tec. Trend
NCDEX Dec cotton cake	Weak bias	NA	NA	NA	NA	2330-2480	Casino

Outlook: Cotton cake market is distorted. Last year price performance was full of price inefficiency. Random periodic Forensic Audit and random investigation at DMAT goods y surveillance is must to restore credibility. We think NCDEX cocud contract is victim of trust deficit. Volume speaks itself.

Strategies: Trust deficit issue. This product is only for punters or for prop desk having skilled professional arbitragers. Plain vanilla investment or stocking or shorting is short cut to ruin capital.



Ice Jul23-Dec 23 spread peaked around 16 and fell to all time low at 3.90. Current trend is bearish, may be little oversold. We think eventually it may recover towards mean- i.e., 5-8 cents.

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