ICE Cotton No.2 – The market found continued strength following last week’s unsuccessful attempt to break below the important short-term support around 86.00 (basis Dec18 contract). However, after a renewed failure to push above the 90.00 c/lb resistance, prices gave back much of the gains accumulated since the end of last week in yesterday’s session. Traded volumes have improved, but on average remain quite moderate.

Overall, there have not been any substantial changes to the broader picture. Technically, the market remains short- and mid-term within bullish parameters.

Resistance is at around 90.00, followed by 91.40 and 93.50-94.00. Support is at 88.00-87.70, key1 at 86.00 and key2 at 84.20-83.80.
India – Better demand was witnessed for local cotton from domestic mills for prompt delivery. The Reserve Bank of India hiked the repo rate by 25 basis points to 6.5% in its bi-monthly monetary policy review of 2018/19.

Some import business was reported for Tanzanian cotton for nearby delivery. Such business was mainly booked by mills from South of India.

The cotton 29 mm at MCX Oct contract (new crop) has been testing contract highs at 24’200. A break and building value above 24’200 sets 24’500 as the next minimum upside target. The Short- and mid-term outlook remains neutral.

China – The ZCE cotton market broke out of a consolidation range between 16’500 and 17’000 on Tuesday and tested the nearby key resistance at 17’240 (basis Jan19 contract). A confirmed break above would set the next minimum upside target at 17’650. Nearby support sits at 16’500, then 16’000 and 15’500.

Import business was very slow for the past week. Main reasons include:

- Strong ICE combined with weak RMB/USD exchange rate makes import cotton relatively unattractive
- Supply of domestic cotton is already ample; and it’s confirmed that the Reserve auction will continue until end September
- The announced distribution of 800’000 tons sliding scale quota has been delayed and will probably not take place before September
- General worries about negative repercussions of the trade dispute on the general economy

In the longer term however, the outlook is more positive. With domestic cotton now at prices close to international levels, spinning mills are more competitive; at the same time, yarn imports suffer from the weaker exchange rate. Furthermore, prices for polyester and its raw materials have been rising strongly in RMB terms. While the ongoing Reserve sales are depressing import demand now, they also mean a continued reduction of excess stocks and therefore increased import demand for 2019.