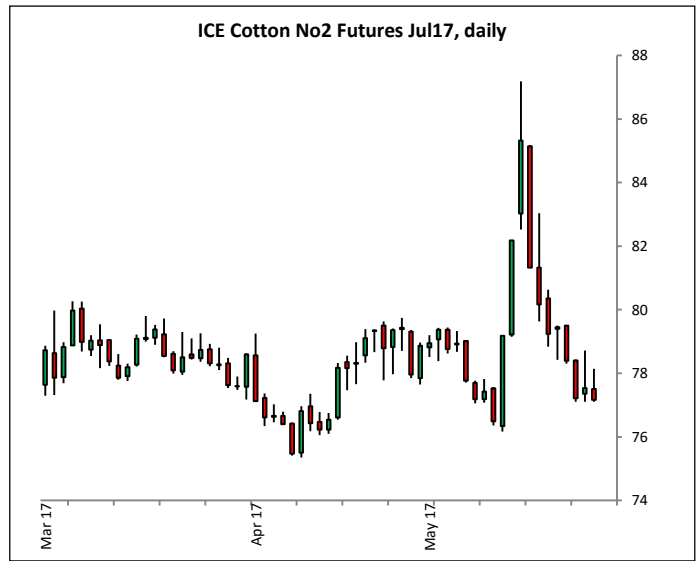


## COTTON MARKET REPORT

	May25	May17	change
ICE No2 Jul17	77.16	80.17	-3.01
ICE No2 Dec17	73.22	74.46	-1.24
ICE No2 Mar18	72.99	73.75	-0.76
ICE WCT Jul17	75.92	76.30	-0.38
ICE No2 Jul17-Dec17	3.94	5.71	-1.77
ICE WCT Jul-No2 Jul	-1.24	-3.87	2.63
ICE No2 futures o.i.	245'931	264'211	-18'280
ICE No2 certified stocks	418'593	384'842	33'751
A-Index	87.25	90.80	-3.55
ZCE Sep17	15'750	15'985	-235
USD Index	97.248	97.575	-0.327



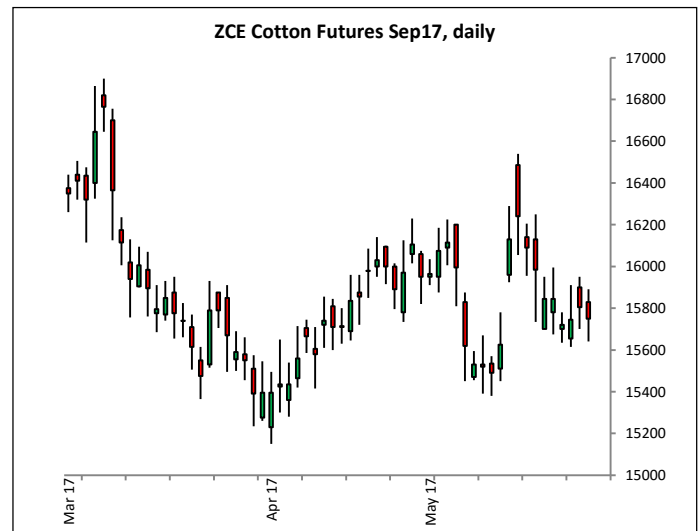
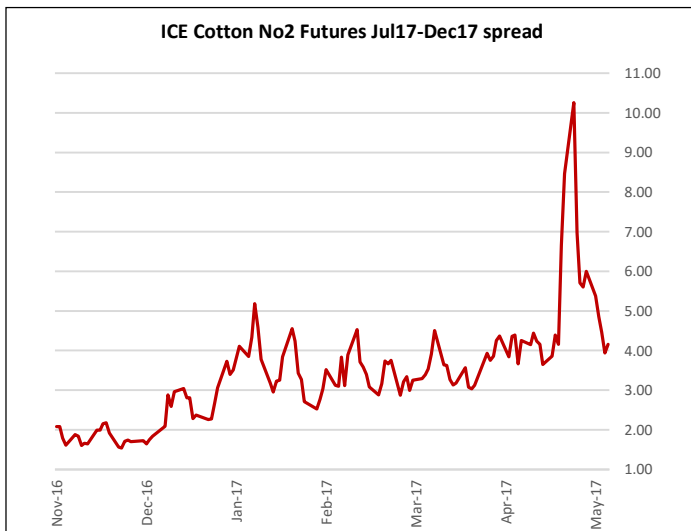
**ICE Cotton** – After last week’s craziness the market was certainly in need to take a breather. Trading volatility and volume have gone back to normality. The market is currently consolidating recent losses and has found decent support at around 77.00 basis Jul17, respectively 72.00 basis Dec17.

The total open interest has declined by about 20’000 lots from mid-May with Jul17 losing about 30’000 lots. Dec17 is now the contract with the highest open interest.

The latest Cotton On-Call report per May 19<sup>th</sup> shows unfixed sales vs. Jul17 at 37’413 lots (down 3’842 lots from the previous week). Jul17 open interest per same date stood at 113’412 lots. For comparison purposes: in mid-Jan unfixed sales vs. Mar17 were at 33’277 lots with Mar17 open interest at 164’000 lots, in mid-March unfixed sales vs. May17 stood at 35’453 lots with May17 open interest at 160’000 lots.

Technical picture: Jul17 - Support is at around 77.00, key at 75.00-74.50. Resistance is at 78.50-79.00 (former support), 81.60, 83.75 and 85.00.

Dec17 – Prices have re-tested short-term key support and pivot area which sits at/around the 72.00 level. If convincingly broken, 70.50-69.50 becomes minimum down-side target area. Resistance is at 73.70, 74.60 and key between 75.00-76.00.



COTTON MARKET REPORT

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**USA** - The July contract began the week with a rash of short-covering with a continuation of the slide from the recent high of 87.18. July has now dropped 10 cents per pound in a matter of days which serves as a reminder of the historical volatility of this trading month. It should be noted that old crop price dynamics pulled the Dec17 contract higher but this rally stalled as well. Some issues with the July contract remain; high open interest and substantial on-call sales need to be addressed in the nearby. Going forward, the market will more and more focus on other more fundamental issues - U.S. crop plantings and condition and eventually yield potential; signs that use/demand is or is not showing continuing signs of recovery; and expected higher foreign production in key countries. For the time being, 19.2 million bales of production is the benchmark as per the latest WASDE report. Time will tell whether this figures hold up. If so, ending stocks will almost certainly increase and history shows that an increase in ending stocks and stocks-to-use is typically associated with price weakness, it is certainly possible to still have brief bursts of higher futures prices from weather market situations, driven by speculative buying. Currently U.S. planting continues under fairly normal conditions as borne out by the weekly planting progress report. Overall, 52% of the crop is now in the ground compared to the 5-year average of 50%. Planting progress confirms that producers have been active in their fields across the cotton belt this week under a medley of weather conditions of which they are accustomed to.

**India** – Indian cash prices are reported lower on limited buying and expectation of higher crop in the next season. Kharif/Autumn planting (2017/18) of cotton in the country begins on a good note, as farmers prefer to plant more cotton this year due to better prices. As per reports received from the Ministry of Agriculture (India), total sown area of cotton as per May 18th, 2017, stands at 0.893 million hectares, up 32.7 percent compared to the same period of the last year. The India Meteorological Department (IMD) reported that the conditions look favourable for the onset of monsoon in Kerala and rains may arrive before June 1 (normal date for the start of the seasonal rains over Kerala is June 01). Early rains may support cotton/other crops planting and may lead to early arrivals in the cash market. Cotton 29 mm MCX (June contract) prices couldn't break the important resistance of 21'550-21'600 levels during the week. MCX cotton prices are lower and testing support which sits between 20'700 and 20'500.

**China** – Following the failed attempt to break to the upside last week, the ZCE cotton futures market has been consolidating on low volumes in the middle of the seven months old trading range. The short- and long-term outlook remains neutral with the nearest important support and resistance at 15'200 and 16'500 respectively (basis Sep17 contract).

Demand for import cotton was noted especially for Brazil, USA and West African new crop both from mills as well as from Chinese traders as they seem to think that additional import quota will be released for 2018 and feel the current new crop level is reasonable.

Lately local Chinese merchants apparently holding unhedged positions took advantage of the higher July17 levels to push sales of US consignments.

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