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# COTTON OIL

The first cottonseed oil commercially produced was used primarily as fuel in lamps to replace whale-oil and as a lubricant for machinery. By the mid-1800, cottonseed oil production was increasing. After the American Civil War from 1866 to 1877, cotton acreage had expanded significantly, resulting in an increase in cottonseed oil production.

In the United States, cottonseed oil was developed, and marketed by Procter & Gamble as a creamed shortening-Crisco as early as 1911. Ginning mills were happy to have someone haul away the cotton seeds. (Source: Pennsylvania Center for the book)

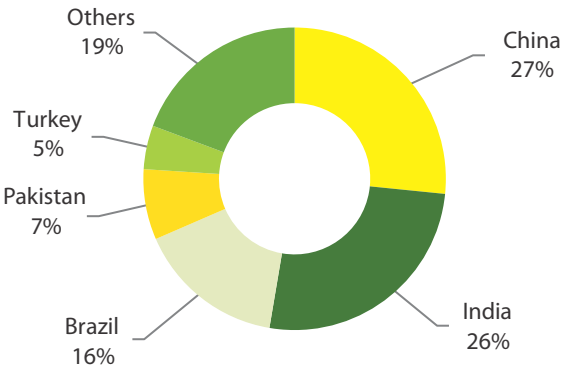
Cotton crops dominated the South during the late 18th and 19th centuries; therefore, it is natural to think that cottonseed oil is the origin in a Southern state such as Mississippi, South Carolina, Georgia. However, the birth of cottonseed oil began in the town of Bethlehem, Northampton Country.

India consumed around 1.34 million metric tons of cottonseed oil in 2023-24. It is commonly used in the production of food products including salad oils and margarines. Cottonseed oil is normally sold refined which is virtually free of gossypol and safe for consumption. Cottonseed oil may be used in some foods such as bakery products and fried snacks. Cottonseed oil has a better nutritional profile with its lower saturated fat content and higher polyunsaturated fat. Other than in food, cottonseed oil had a wide use as an insecticide.

China produced around 1.35 million metric tons of cottonseed oil and consumed around 1.34 million metric tons in 2023-24.

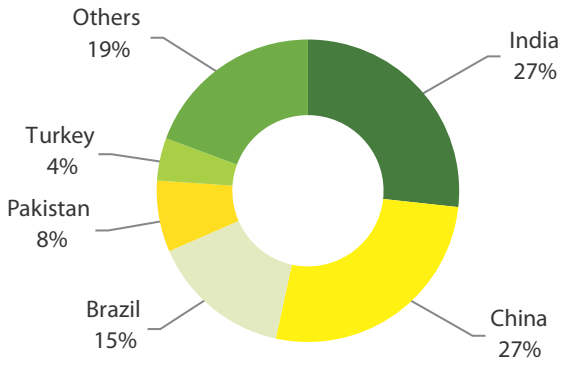
## Global SCENARIO

### COTTONSEED OIL PRODUCING COUNTRIES




Source: USDA (U.S. Department of Agriculture)

### COTTONSEED OIL CONSUMING COUNTRIES




Source: USDA (U.S. Department of Agriculture)

## GLOBAL SCENARIO

### WORLD BALANCE SHEET - COTTONSEED OIL (LAKH MT)

| ITEM | 2020-21 | 2021-22 | 2022-23 | 2023-24 | 2024-25 |
|---|---|---|---|---|---|
| Beginning Stocks | 2.21 | 1.91 | 1.62 | 1.55 | 1.86 |
| Production | 48.57 | 48.18 | 49.08 | 49.70 | 50.87 |
| Imports | 0.98 | 1.19 | 0.83 | 0.78 | 0.77 |
| **Total Supply** | **51.76** | **51.28** | **51.53** | **52.03** | **53.50** |
| Exports | 0.96 | 1.26 | 1.01 | 0.77 | 0.97 |
| Domestic Consumption | 48.89 | 48.40 | 48.97 | 49.40 | 50.51 |
| **Total Demand** | **4.99** | **4.97** | **5.00** | **5.02** | **5.15** |
| Ending Stocks | 1.91 | 1.62 | 1.55 | 1.86 | 2.02 |

*Source: USDA; (E) Estimates*

## INDIAN SCENARIO

### INDIA BALANCE SHEET - COTTONSEED OIL (LAKH MT)

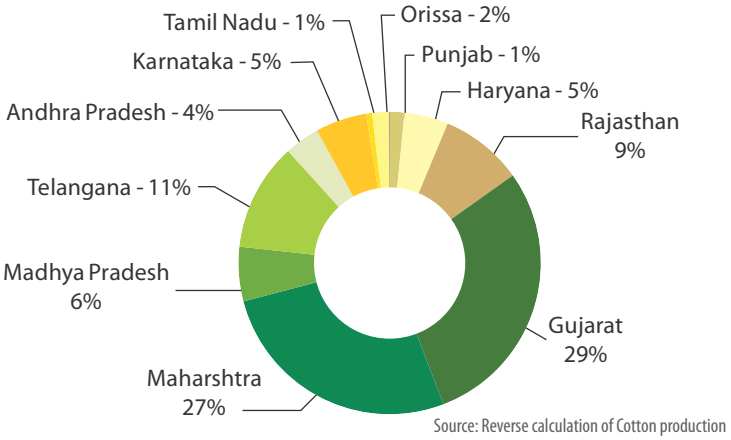
| ITEM | 2020-21 | 2021-22 | 2022-23 | 2023-24 | 2024-25 |
|---|---|---|---|---|---|
| Beginning Stocks | 0.17 | 0.22 | 0.28 | 0.37 | 0.50 |
| Production | 14.05 | 12.97 | 13.69 | 13.55 | 13.26 |
| Imports | 0.08 | 0.04 | 0.01 | 0.03 | 0.05 |
| **Total Supply** | **14.30** | **13.23** | **13.98** | **13.95** | **13.81** |
| Exports | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Domestic Consumption | 14.08 | 12.95 | 13.61 | 13.45 | 13.50 |
| **Total Deamnd** | **14.08** | **12.95** | **13.61** | **13.45** | **13.50** |
| Ending Stocks | 0.22 | 0.28 | 0.37 | 0.50 | 0.31 |

*Source: USDA; (E) Estimates*



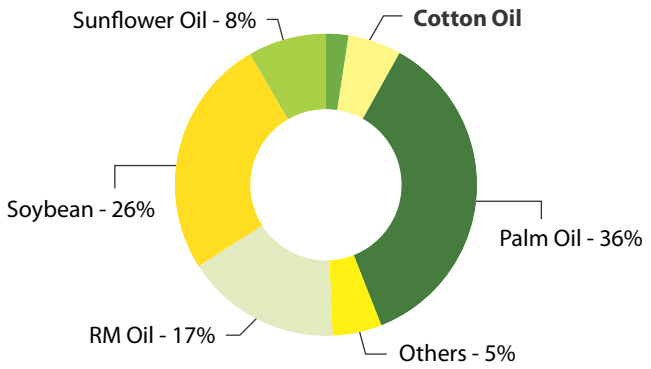
## INDIAN SCENARIO

### COTTONSEED WASH OIL – PRODUCTION




Source: Reverse calculation of Cotton production

### CONSUMPTION MARKET SHARE IN EDIBLE OILS




Source: Reverse calculation of Cotton production

### FACTORS INFLUENCING THE MARKET

**International factors**

- China and India are the major producing and consuming nations. Adverse weather conditions of cotton output influence the prices.
- Since soy oil competes with palm oil in the global vegetable oil market, global production, consumption and ending stocks of soybean and other oilseeds have direct bearing on prices of edible oils including cotton oil .
- Crude oil movement also affects prices, as significant rise in energy prices lead to demand for alternate fuels like biofuel. Vegetable oils are also used in the production of biofuel.

**Domestic factors**

- Domestic oilseed production
- Ending stocks
- Government Policies
- Economy – well-being of final consumer

### FACTS ON HEDGING

- Understand one's risk profile and appetite while formulating clear hedging objectives.
- Hedging can shield the revenue stream, profitability, and balance sheet against adverse price movements.
- Hedging can maximize shareholder value.
- A common avoidable mistake is to book profits on the hedge while leaving the physical leg open to risk.
- Hedging also significantly lowers distress costs in adverse circumstances.
- A well-designed hedging strategy enables corporations to reduce risk. Hedging does not eliminate risk; it merely helps to manage risk.
- To gain the most from hedging, it is essential to identify and understand the objectives behind hedging and get a clear picture of one's risk profile.

### SALIENT CONTRACT SPECIFICATION OF COTTON SEED WASH OIL FUTURES

| | | |
|---|---|---|
| Symbol | **COTTONOIL** | |
| Description | **COTTONOILMMMYY** | |
| Contract Start Day | 1st day of contract launch month | |
| Last Trading Day | Last calendar day of the contract expiry month | |
| Trading Session | Monday to Friday: 9.00 am to 09.00 pm | |
| Trading Unit | 5 MT | |
| Quotation/Base value | Rs/10 kg | |
| Price Quote | Ex-Tank Kadi, exclusive of Sales tax/ GST | |
| Tick Size | 10 paise | |
| Maximum Order Size | 400 MT | |
| Initial Margin | 12% | |
| Extreme Loss Margin | 1% | |
| Daily Price Limits | 6% (4% + 2%) | |
| Maximum Allowable Open Position | **Client level –** Near month 3,000 MT, Aggregate – 12,000 MT<br>**Member Level –** Near month 30,000 MT, Aggregate – 120,000 MT | |
| Quality Specification | Grade Specifications | : AGMARK standard IS 543:2018 |
| | Commodity | : Cottonseed Wash Oil |
| | Moisture and insoluble Impurities, % by wt. Max | : 0.10 |
| | Colour in ¼ in cell on the Lovibond scale, expressed as (Y +10R)-unit not deeper than | : 35 |
| | Bleached oil | : 15 |
| | Refractive index at 40o C | : 1.464 to 1.480 |
| | Specific Gravity at 30o/30o C | : 0.910 to 0.920 |
| | Saponification Value | : 190 to 198 |
| | Iodine Value (Wijs) | : 98 to 115 |
| | Acid Value, Max | : 0.5 |
| | Unsaponifiable Matter, % Max | : 1.5 |
| Delivery Logic | Cash settled | |
| Launch Calender | Monthly contracts, minimum 4 contracts available for trading at any given point of time | |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