MCX
METAL & ENERGY
Trade with Trust



# KAPAS

## PERFORMANCE REVIEW
## 2021-2022

1. **Background**
    a. **Brief about the commodity such as sample picture, lifecycle and various varieties/grade of the commodity found in India**

Brief about Kapas

Kapas (seed for Cotton) is un-ginned fibrous substance extracted from the cotton boll/plant which covers the seeds. Typically, raw cotton contains 34% Fiber and 63.5% seed by weight and remaining 2.5% wastage. Lint obtained from Kapas is manly used for production of Cotton. The seed extracted from kapas is crushed to extract oil and the by product which is left after crushing is Cotton seed oil cake generally used as cattle feed. Kapas is raw material of lint cotton.

Shankar Kapas is majorly grown in Gujarat. Shankar Kapas has an annual production of about 45 lakh MT against India average Kapas production of 180 lakh MT. Cotton is one of the most important textile fibers. Cotton is a heavily traded agricultural commodity with a number of countries involved in exporting or importing cotton.

In India, a central nodal agency, Cotton Corporation of India (CCI) is the procuring agency for cotton and carries out procurement of Kapas (seed cotton) through open auction in competition with other traders and mills, conducted by the APMCs, in the notified market yards. It has been estimated that about 80 per cent of the marketed surplus of Kapas and lint is handled by the private marketing channels and the remaining 20 per cent by the institutional marketing channels including co-operatives and Cotton Corporation of India.

Sample picture



Life cycle

Cotton is grown in India in three zones with different sowing and harvesting periods during the season from October-September.

In India, farmers generally store Kapas for more than a year. This stored Kapas can deteriorate in color and quality. The marketing season of Kapas is throughout the year in India.

| North zone | Central zone | South zone |
|---|---|---|
| **Punjab, Haryana Rajasthan** | Gujarat, Maharashtra, Madhya Pradesh | Telangana, Andhra Pradesh, Tamil Nadu, Karnataka |
| | **Sowing** | |
| **April, May** | June, July | July, August, September |
| | **Harvesting** | |
| **September, October** | October, November, December | December, January, February |

Various varieties/grades

A few names of local varieties available in India are Shankar 6, V-797, Kalyan, Bengal Deshi etc.

**b. Commodity fundamentals and balance sheet as per the following format (to be prepared based on publicly available information on best effort basis):**

Kapas fundamentals:

- Weather condition in cotton producing areas especially at sowing, flowering and harvesting stage
- Demand of lint from textile industry
- Demand for Cotton seed from crushing industry
- Demand for Cotton Seed Oil Cake from farmers, dairy and feed industry
- Price movement in Cotton bales & Cotton seed
- Tariff & Non-tariff barriers including taxes, quota, etc.
- Production and inventory of Cotton both international and Indian

**Table - Balance sheet**

| Global Scenario (‘000 MT) | 2020-21 | 2021-22 |
|---|---|---|
| | **N.A.** | **N.A** |

| Balance sheet | | |
|---|---|---|
| **Indian Scenario (‘000 MT)** | **2020-21** | **2021-22** |
| | **N.A.** | **N.A** |

| Top 10 Major producing countries (‘000 MT) | 2020-21 | 2021-22 |
|---|---|---|
| | **N.A.** | **N.A** |

| Top 10 Major consuming countries ('000 MT) | 2020-21 | 2021-22 |
|---|---|---|
| | N.A. | N.A |

| Top 10 Major exporting countries ('000 MT) | 2020-21 | 2021-22 |
|---|---|---|
| | N.A. | N.A |

| Top 10 Major importing countries ('000 MT ) | 2020-21 | 2021-22 |
|---|---|---|
| | N.A. | N.A |

| Top 10 Major producing states in ('000 MT | 2020-21 | 2021-22 |
|---|---|---|
| | N.A. | N.A |

N.A.- Not Applicable

Kapas (raw cotton) generally trades in loose form and is delivered in trucks. Physical market of Kapas is unorganised in India. There is no authentic data source of Kapas in India. Based on Cotton production the reverse calculation is as below,

| Kapas (MT) | | |
|---|---|---|
| **2021-22** | Cotton 34% | Kapas 100% |
| **Production** | 5501710 | 16181500 |

### c. Major changes in the polices governing trade in the spot markets of the commodity

The Government of India has decided to exempt all customs duty on import of cotton to lower the price of cotton in the public interest. This exemption would benefit the textile chain- yarn, fabric, garments and made ups and provide relief to textile industry and consumers. Industry has been demanding for removal of 5% Basic Customs Duty (BCD) and 5% Agriculture Infrastructure and Development Cess (AIDC) on raw cotton. The Central Board of Indirect Taxes and Customs (CBIC) notified the exemption from Customs duty and Agriculture Infrastructure development Cess for import of cotton. his notification shall come into effect from 14th April 2022 and will remain in force upto and inclusive of the 30th September 2022. Removal of import duty on raw cotton should have salutary effect on cotton price in India. Source: https://pib.gov.in/PressRelease.

### d. Geo political issues in the commodity and its impact on Indian scenario.

There is no major geo-political issues and its impact on Indian scenario of Kapas.

2. **Trading related parameter**

   a. **Monthly and Annual traded volume (quantity in appropriate units)**

| Month | Traded Quantity (MT) |
|---|---|
| **APR'21** | 536 |
| **MAY'21** | 328 |
| **JUN'21** | 804 |
| **JUL'21** | 1,420 |
| **AUG'21** | 840 |
| **SEPT'21** | 500 |
| **OCT'21** | 1,312 |
| **NOV'21** | 340 |
| **DEC'21** | 568 |
| **JAN'22** | 336 |
| **FEB'22** | 128 |
| **MAR'22** | 72 |
| **2021-22** | 7,184 |

   b. **Annual traded volume as proportion of total deliverable supply (quantity in appropriate units)**

| | Annual traded volume (MT) | Deliverable Supply (MT) |
|---|---|---|
| **2021-22** | 7,184 | 19931500 |
| **Annual traded volume as proportion of deliverable supply** | 0.036% | |

   c. **Annual traded volume as proportion of total annual production (quantity in appropriate units)**

| | Annual traded volume (MT) | Deliverable Supply (MT) |
|---|---|---|
| **2021-22** | 7,184 | 19931500 |
| **Annual traded volume as proportion of deliverable supply** | 0.036% | |

**d. Annual average Open interest as proportion of total production**

| | Annual average OI (MT) | Production (MT) |
|---|---|---|
| **2021-22** | 109.24 | 16181500 |
| **Annual average OI as proportion of production** | 0.0007% | |

**e. Annual average Open interest as proportion of total deliverable supply**

| | Annual average OI (MT) | Production (MT) |
|---|---|---|
| **2021-22** | 109.24 | 16181500 |
| **Annual average OI as proportion of production** | 0.0007% | |

**f. Monthly and Annual value of trade (in Rs. Crores)**

| Month | Volume (Rs.cr) |
|---|---|
| **APR'21** | 3.49 |
| **MAY'21** | 2.07 |
| **JUN'21** | 5.21 |
| **JUL'21** | 9.60 |
| **AUG'21** | 6.11 |
| **SEPT'2** | 3.60 |
| **OCT'21** | 10.85 |
| **NOV'21** | 3.03 |
| **DEC'21** | 5.26 |
| **JAN'22** | 3.36 |
| **FEB'22** | 1.29 |
| **MAR'22** | 0.78 |
| **2021-22** | 54.64 |

**g. Monthly and Annual quantity of delivery (in appropriate units)**

No deliveries took place in Kapas since the launch of the contract.

**h. Monthly and Annual value of delivery (Rs. Crores)**

No deliveries took place in Kapas since the launch of the contract.

**i. Monthly and Annual Average Open Interest (OI) (in appropriate units)**

| Month | Average OI (MT) |
|---|---|
| **APR'21** | 63.24 |
| **MAY'21** | 25.26 |
| **JUN'21** | 39.40 |
| **JUL'21** | 97.75 |
| **AUG'21** | 154.35 |
| **SEPT'21** | 168.00 |
| **OCT'21** | 141.88 |
| **NOV'21** | 117.54 |
| **DEC'21** | 98.46 |
| **JAN'22** | 156.80 |
| **FEB'22** | 150.11 |
| **MAR'22** | 127.48 |
| **2021-22** | **109.24** |

**j. Annual average volume to open interest ratio**

| | Average traded volume (MT) | Average OI (MT) |
|---|---|---|
| **2021-22** | 7,184 | 109.24 |
| **Annual average volume to open interest ratio** | 65.76 | |

**k. Total number of unique members and clients who have traded during the financial year**

| Unique Members | Unique Client |
|---|---|
| 51 | 180 |

**l. Ratio of open interest by FPOs/farmers/Hedge/VCP positions to total open interest (Annual average as well as maximum daily value)**

| Average based weekly data | | | | | | Maximum Open Interest | |
|---|---|---|---|---|---|---|---|
| Avg Open Interest based weekly data | Unit | FPOs/ Farmers/ VCPs/ Hedgers | | % FPOs/ Farmers/ VCPs/ Hedgers | | FPOs/ Farmers/ VCPs/ Hedgers | |
| | | Long | Short | Long | Short | Long | Short |
| **116602.32** | KGS | 880.31 | 3227.80 | 0.77 | 2.87 | 20000.00 | 48000.00 |

*Note: Details are provided based on daily disclosure on the Exchange website for the period Aparil 2021 to March 2022 in line with SEBI circular no SEBI/HO/CDMRD/DNPMP/CIR/P/2019/08 Dated January 04, 2019 Based on the data provided by the members from time to time pertaining to Farmers/ FPOs, VCPs/ Hedgers .*

**m. Number of unique FPOs / farmers and VCPs/hedgers who traded in the financial year 2021-22**

| Farmers/FPOs | Value Chain Participants (VCPs) |
|---|---|
| 1 | 6 |

Based on the classification provided by the members as on March 31, 2022 for clients traded during FY 2021-22.

**n. Algorithmic trading as percentage of total trading**

| 2021-22 | Algorithmic trading as % of total trading |
|---|---|
| Kapas | 11.19% |

**o. Delivery defaults**

o Number of instances – Nil

o Quantity involved – Nil

o Value involved – Nil

**3. Price movements**

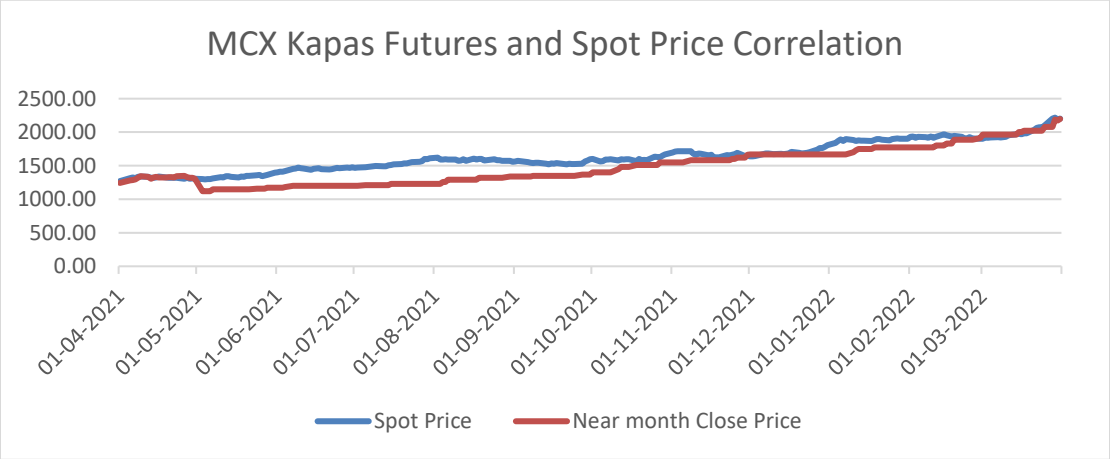
**a. Comparison, correlation and ratio of standard deviation of Exchange futures price vis-à-vis international futures price (wherever relevant comparable are available).**

Kapas futures are only available in India.

**b. Comparison, correlation and ratio of standard deviation of Exchange futures price vis-à-vis international spot price (wherever relevant comparable are available) and domestic spot price (exchange polled price).**

Kapas futures are only available in India.

**c. Correlation between exchange futures & domestic spot prices along with ratio of standard deviation.**




| | |
|---|---|
| **Correlation between MCX Kapas futures prices and spot prices in 2021-22** | **0.92** |
| **Standard deviation of MCX Kapas futures prices in 2021-22** | 1.27 |
| **Standard deviation of MCX Kapas spot prices in 2021-22** | 0.97 |
| **Ratio of Standard deviation of MCX Kapas futures prices to spot prices in 2021-22** | 1.31 |

**d. Correlation between international futures & international spot prices along with ratio of standard deviation (wherever relevant comparable are available).**

Kapas futures are only available in India.

**e. Comparison of Exchange polled price and mandi price (in case of agricultural commodities) / other relevant price (in case non-agricultural commodities) at basis centre.**

Kapas mandi price is not available.

**f. Maximum & Minimum value of daily futures price volatility and spot price volatility along with disclosure of methodology adopted for computing the volatility.**

| | Maximum Daily Volatility | Minimum Daily Volatility |
|---|---|---|
| Future price | 15.44% | 0% |
| Spot price | 4.78% | 0% |

Methodology adopted for computing volatility -
Volatility in any particular trading day is calculated by the formula given below-
Volatility = LN (Price/Previous day's price)*100

**g. Number of times the futures contract was in backwardation/contango by more than 4% for the near month contract in the period under review**

Five (5) times the futures contract was in backwardation/contango by more than 4% for the near month contract.

**4. Others parameters**

**a. Qualitative and quantitative measure for Hedge effectiveness ratio and basis Risk (Volatility of Basis) along with disclosure of methodology adopted for such calculations**

| Hedge Ratio for 2021-22 | |
|---|---|
| **Commodity** | **Hedge Ratio** |
| **Kapas** | 0.06 |
| - Hedge ratio is the value of slope between returns of near-month futures and returns of MCX spot during the financial year. | |

| Basis Risk for 2021-22 | | | |
|---|---|---|---|
| **Commodity** | **Unit of Basis** | **Avg Return of Basis** | **Basis Risk** |
| **Kapas** | Rs/20 Kg | 0.34 | 7.76 |
| - Basis Risk is computed as the Standard deviation of daily normal return in Basis, which is excess of Spot over Futures price.<br>- In case Basis is zero for any day , next day's Basis return has been ignored for computing the standard deviation. | | | |

**b. Details about major physical markets of the commodity vis-à-vis market reach in terms of availability of delivery centers (information to be provided state-wise and UT-wise).**

| Name of State | Name of the physical markets | Market Reach of basis delivery center |
|---|---|---|
| **Gujarat** | Keshod, Bardoli, JetpurPavi, Gondal, Balasienor, Rajkot, Babra, Amreli, Sabarkantha, Visnagar, Vijapur, Halvad, Unai, Manavadar, Bevla, Mansa, Mandvi, Kutch. | Rajkot |
| **Maharashtra** | Nagpur, Narkhed, Nanded, Yavatmal, Hinganghat, Wardha, Pulgaon, Akola, Amaravati, Murtizapur, Aurangabad, Jalna, Sillod, Dhule, Jalgaon | No delivery centre |
| **Punjab** | Bhatinda, Ferojpur, Sangur, Muktsar, Faridkot, Mansa | No delivery centre |
| **Haryana** | Hisar, Fatehabad, Sirsa, Bhiwani, Rohtak, Panipat, Jind, Kaithal, Gurgoan | No delivery centre |
| **Telangana** | Adilabad, Warangal, Nirmal, | No delivery centre |
| **Andhra Pradesh** | Guntur, Khammam | No delivery centre |
| **Karnataka** | Bailhogal, Bellary, Bijapur, Gadaj, Haliyal, Hubli, Kottur, Jamkhand, Raichur, Ranebennur, Savadatti, Shimoga, Yellapur | No delivery centre |
| **Madhya Pradesh** | Badwani, Betul, Chindwara, Dhar, Dewas, Harda, Jhabua, Khandwa, Khargone, Ratlam, Shajapur | No delivery centre |
| **Rajasthan** | Hanumangarh, Pili Banga, Sriganga– nagar, Palampur, Sangriya, Suratgarh, Sri Vijayanagar, Shadulshakar, Rawatsar, Kherthal, Bijaynagar, Rajsighnagar. | No delivery centre |
| **Tamil Nadu** | Cuddallore, Villupuram, Vellore, Thiruvannamalai, Salem, Dharamapuri, Coimbatore, Erode, Tiruchilapalli, Thanjavur, Pudukottai, Dindigul, Madurai, Theni, Virudhanagar, Tirunelveli | No delivery centre |
| **Orissa** | Ganjam, Roygoda, Karaput, Kalahandi, Navaranpur, Bolangir, Dhenkenal, | No delivery centre |

*Source: Trade estimate.*

**c. Details about major physical markets of the commodity and average Open Interest for each month generated from those regions.**

Physical markets of Kapas are already mentioned above. Region-wise open interest is not available.

**d. Details, such as number and target audience, of stakeholders' awareness programs carried out by the exchange.**

Overall, the PMT – Agri team conducted 111 programs in the Agri segment and the target participants were primarily the physical participants, especially, the Farmers and Farmer Producing Organisations (FPOs) associated with the commodities listed on the MCX platform.

**e. Steps taken / to be undertaken to improve hedging effectiveness of the contracts as well as to improve the performance of illiquid contracts.**

The exchange strives to ensure that the contract remains a healthy replica of the physical market. We do one-on-one meetings and Product Advisory Committee (PAC) meetings with the physical market participants to make modifications in the contract to make it more lucrative for physical participants to participate in the contract.

**5. Any other information to be disclosed as deemed important by the exchange or as suggested by the PAC.**

No other information to be disclosed.

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