



KAPAS
PERFORMANCE REVIEW
2023-2024

FOREWORD TO THE KAPAS PERFORMANCE REVIEW

The Kapas Performance Report (PR) is the outcome of the SEBI circular SEBI/HO/CDMRD/DNPMP/CIR/P/2020/21 dated February 04, 2020 directing all recognized Stock Exchanges offering commodity derivatives segment to create a 'Performance review of the commodity derivatives contracts'. The PR, based on SEBI directive, has to be uploaded on the Exchange website by June 30, 2024 after consultation with the respective Product Advisory Committee (PAC).

Following the above directive, the Agri - Product Management Team (PMT) at the Exchange has created PRs for all the listed Agri products. These have since been prepared in consultation with the respective Commodity/Commodity Complex PACs.

The Kapas Performance Report highlights the important aspects of the trade like the domestic and international supply, import and export statistics, etc. There is also extensive information on the volume, turnover, open interest, deliveries of Kapas on the Exchange, along with the price correlations with spot markets, international market and hedging efficiency to help the market participants get an empirical understanding of the performance of the Kapas contract on the Exchange.

Acknowledgement

We have been ably guided by the MCX Kapas PAC members in improving the content of the report and we are extremely thankful to them. We hope to keep improvising the report going forward.

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 64% seed by weight and remaining 2% wastage. Lint obtained from Kapas is mainly 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 50 lakh MT against India average Kapas production of 162 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

Major Varieties: Bengal Desi, Assam Camilla, Jaydhar, V797/G-Cot-13/ G-Cot-21, AK/Y-1(MH-MP),MCU-7,SVPR-2(TN), J-34 (RJ), Hybrid, LRA-5166/KC-2(TN), F-414/H-777, H-6/H-7/MECH/RCH-2, Shanker-6/10, Bunny/Brahma, MCU-5/Surabhi, DCH-31 and Suvin.

- 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

Global Balance Sheet

Global Scenario (Lakh MT)	2022-23	2023-24
Opening Stocks	N.A.	N.A.
Production	744.79	727.24
Consumption	715.06	725.91
Closing Stocks	N.A.	N.A.
Source – USDA, Note: Based on Cotton production (conversion factor assumed at 34% lint and 64% seed and 2% wastage)		

Domestic Balance Sheet

Indian Scenario (Lakh MT)	2022-23 (P)*	2023-24 (P)*
Opening Stocks	19.74	30.58
Production	168.30	161.55
Imports	7.30	6.00
Total Supply	195.34	198.14
Exports	7.945	13.50
Domestic Consumption	156.82	158.50
Closing Stocks	30.58	26.135
Source- As estimated by Committee on Cotton Production and Consumption (COCPC), P-Provisional. Note: Based on Cotton production (conversion factor assumed at 34% lint and 64% seed and 2% wastage)		

Top 10 Major Producing Countries (Lakh MT)	2022-23	2023-24
China	196.59	176.09
India	168.41	166.50
Brazil	75.06	93.29
USA	92.65	77.26
Pakistan	24.97	42.91
Australia	37.15	32.03
Turkey	31.38	20.50
Uzbekistan	19.85	18.56
Argentina	8.32	10.24
Mali	8.00	8.32
Source – USDA, Note: Based on Cotton production (conversion factor assumed at 34% lint and 64% seed and 2% wastage)		

Top 10 Major Consuming Countries (Lakh MT)	2022-23	2023-24
China	240.15	246.53
India	153.68	158.18
Pakistan	55.71	59.56
Bangladesh	49.29	49.29
Turkey	48.03	42.91
Vietnam	41.29	43.56
Brazil	19.94	20.50
Uzbekistan	21.12	18.56
Indonesia	14.09	11.85
USA	14.09	11.53
Source – USDA, Note: Based on Cotton production (conversion factor assumed at 34% lint and 64% seed and 2% wastage)		

Top 10 Major exporting countries ('000 MT)	2022-23	2023-24
Not Available		

Top 10 Major importing countries ('000 MT)	2022-23	2023-24
Not Available		

Top 10 Major Producing States in India (Lakh MT)	2022-23 (P)*	2023-24 (P)*
Punjab	2.22	2.45
Haryana	5.01	7.25
Rajasthan	13.87	13.72
Gujarat	43.98	44.83
Maharashtra	41.58	41.22
Madhya Pradesh	7.17	8.99
Telangana	28.73	24.06
Andhra Pradesh	7.71	5.79
Karnataka	12.84	8.47
Odisha	3.53	3.72
Others	1.68	1.09
All India	168.30	161.56
Source- As estimated by Committee on Cotton Production and Consumption (COCPC), P-Provisional. Note: Based on Cotton production (conversion factor assumed at 34% lint and 64% seed and 2% wastage)		

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 (Lakh MT)		
2023-24	Cotton 34%	Kapas 100%
Production	54.93	161.55

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

Government of India has increased the Minimum Support Price (MSP) of kharif crops for the Marketing Year 2023-24. Cotton MSP has increased to Rs 6620 (+8.9%) per quintal for medium staple and Rs 7020 (+10%) per quintal for long staple cotton as compared to price for medium staple at Rs 6080 per quintal and Rs 6380 per quintal for long staple during the marketing year 2022-23. Source: Ministry of Agriculture & Farmers Welfare, pib.gov.in, dated 07 June, 2023. Link: <https://pib.gov.in/PressReleasePage.aspx?PRID=1930443>.

Government of India has waved import duty of cotton of staple length exceeding 32.0 mm with notification number 10/2024-Customs Dated 19-February-2024 with effect from 24th February 2024. https://caionline.in/uploads/cards/doc/ELS_Import_Duty.pdf

The Government of India has launched PM Mega Integrated Textile Region and Apparel (PM MITRA) Parks Scheme to develop world class infrastructure including plug and play facility with an outlay of Rs. 4445 crores for a period up-to 2027-28. PM MITRA Parks Scheme are inspired by the 5F vision of Hon'ble Prime Minister - Farm to Fibre to Factory to Fashion to Foreign. Nearly Rs. 70,000 crore investment and 20 lakhs employment generation is envisaged. Parks will offer an opportunity to create an integrated textiles value chain right from spinning, weaving, processing/dyeing and printing to garment manufacturing at a single location. World-class industrial infrastructure would attract cutting edge technology and boost FDI and local investment in the sector. Source: pib.gov.in, 21 December 2023. Link: <https://pib.gov.in/PressReleasePage.aspx?PRID=1989149>

d. Geopolitical 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 parameters

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

Month	Traded Quantity (MT)
APR'23	8
MAY'23	0
JUN'23	4
JUL'23	0
AUG'23	16
SEP'23	0
OCT'23	24
NOV'23	52
DEC'23	44
JAN'24	4
FEB'24	8
MAR'24	4
2023-24	164

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

	Annual traded volume (MT)	Deliverable Supply (MT)
2023-24	164	19813500
Annual traded volume as proportion of deliverable supply	0.0008%	

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

	Annual traded volume (MT)	Production (MT)
2023-24	164	16155500
Annual traded volume as proportion of production	0.001%	

d. Annual average Open interest as proportion of total production

	Annual average OI (MT)	Production (MT)
2023-24	6.15	16155500
Annual average OI as proportion of production	0.00004%	

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

	Annual average OI (MT)	Deliverable Supply (MT)
2023-24	6.15	19813500
Annual average OI as proportion of deliverable supply	0.00003%	

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

Months	Volume (Rs.cr)
APR'23	0.06
MAY'23	-
JUN'23	0.03
JUL'23	-
AUG'23	0.12
SEP'23	-
OCT'23	0.19
NOV'23	0.41
DEC'23	0.35
JAN'24	0.03
FEB'24	0.06
MAR'24	0.03
2023-24	1.29

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'23	22.11
MAY'23	0.00
JUN'23	2.00
JUL'23	4.00
AUG'23	1.09
SEP'23	0.00
OCT'23	7.24
NOV'23	17.39
DEC'23	11.80
JAN'24	4.00
FEB'24	4.00
MAR'24	1.18
2023-24	6.15

j. Annual average volume to open interest ratio

	Average traded volume (MT)	Average OI (MT)
2023-24	0.64	6.15
Annual average volume to open interest ratio	0.10%	

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

Unique Members	Unique Client
7	16

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

Daily Average Open Interest	Unit	Average				Maximum Open Interest	
		FPOs/ Farmers/ VCPs/ Hedgers		% FPOs/ Farmers/ VCPs/ Hedgers		FPOs/ Farmers/ VCPs/ Hedgers	
		Long	Short	Long	Short	Long	Short
9,404.76	KG	-	-	-	-	-	-

Note: Details are provided based on daily disclosure on the Exchange website for the period April 2023 to March 2024 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. Based on the classification provided by the members as on March 31, 2024 for clients traded during FY 2023-24

Farmers/FPOs	Value Chain Participants (VCPs)/Hedgers
-	-

n. Algorithmic trading as percentage of total trading

2023-24	Algorithmic trading as % of total trading
Kapas	0

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 2023-24	NA
Standard deviation of MCX Kapas futures prices in 2023-24	NA
Standard deviation of MCX Kapas spot prices in 2023-24	0.80
Ratio of Standard deviation of MCX Kapas futures prices to spot prices in 2023-24	NA

Note: Negligible trade in kapas futures

- 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	1.47	0.28
Spot price	1.30	0.40

Note: Above details are based on near month contract volatility and for the period 1-Apr-23 to 31-Mar-24. Methodology adopted for computing the volatility is Exponential Weighted Moving Average (EWMA).

- 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**

Not applicable due to negligible trade in kapas futures in the year of 2023-24.

4. Other 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 2023-24	
Commodity	Hedge Ratio
Kapas	0.0571
Note: Hedging efficiency is the value of Coefficient of Determination (R^2) obtained from regressing changes in five-day moving average of daily MCX Spot Prices on changes in five-day moving average of daily MCX Futures Prices during the period.	

Basis Risk for 2023-24		
Commodity	Unit of Basis	Basis Risk
Kapas	Rs/20 Kg	11.497

Note: - Basis Risk is computed as the Standard deviation of daily normal return in Basis, which is excess of Spot over Futures price. 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, Gurgaon	No delivery centre
Telangana	Adilabad, Warangal, Nirmal,	No delivery centre
Andhra Pradesh	Guntur, Khammam	No delivery centre
Karnataka	Bailhagal, 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, Indore	No delivery centre
Rajasthan	Hanumangarh, Pili Banga, Sriganga–nagar, Palampur, Sangriya, Suratgarh, Sri Vijayanagar, Shadulshakar, Rawatsar, Kherthal, Bijaynagar, Rajsighnagar.	No delivery centre
Tamil Nadu	Cuddalore, 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 197 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.

Disclaimer:

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