FUNDAMENTAL ANALYSIS

- Markets surged higher this fortnight as arrivals declined in the market.
- Markets also remained firm on global cues as demand is expected to outpace supply.
- The continued rise in cotton prices, driven by supply squeeze of the raw material, are likely to hurt margins of Indian textile manufacturers through the current cotton season (October 2010-September 2011).
- Separately, farmers' organizations are trying to raise the ceiling on cotton exports from the present 5.5 million bales to some 9 million bales (one bale = 170 kg) as they fear that excess supply in the domestic markets could lower prices.
- Government officials say that India's export as of December 15, 2010 is 25-30 lakh bales (2.5-3 million bales). December 15th was the deadline for cotton exporters to physically ship the allowable limit of 5.5 million bales.
- ABARE also added that in the current season the Indian harvest is around 60% complete and cotton production is forecast to increase in 2010-11 by around 10.6 per cent to a record 5.7 million tonnes. However, Chinese production will decline 0.5 million tonnes to 6.5 million tonnes.
- Separately, USDA has said that world cotton mill use is forecast to decrease about 2% as prices continue to be higher amid tight supplies.
- USDA also added that U.S is on course to end 2010-11 at 1.9m bales, their lowest for at least 50 years. USDA also added that The U.S. crop will total 18.27 million bales in the harvest that farmers are now completing, down from the 18.42 million projected in November.
- Separately, government has decided to allow exports of cotton until the allocated quota of 55 lakh bales (of 170 kg) for shipments gets exhausted.
- Sources added that markets globally could continue its upward momentum due to the demand-supply gap which was mainly attributable to the rising demand from China and low production in Pakistan due to heavy rains.
- Sources added that domestically the rise in prices has caused the garment manufacturers and the exporters to suffer the most amongst all the stakeholders of the industry.
- Sources also added that the unprecedented rise in prices has caused the paddy farmers in Punjab to decrease the area under paddy and shift to cotton.
- The Agriculture Department has said that next year the area under cotton in Punjab is likely to increase by around 8% from 5.11 lakh hectares in the current season to 5.5 lakh hectares in the coming season.
- Markets remained positive after SICA said that Output of cotton during 2010-11 is going to touch 30.8 million bales which lower compared to 32.548 million bales of cotton made by the Cotton Advisory Board.
- Punjab, Haryana and Rajasthan will produce 44 lakh bales, Gujarat 105 lakh bales, Maharashtra 70 lakh bales, Madhya Pradesh 16 lakh bales, Andhra Pradesh 55 lakh bales, Karnataka 9 lakh bales, Tamil Nadu 5 lakh bales in the ongoing cotton year.
- Chinese production is expected to be lower in 2010 by 2.8% to 6.2 million tonnes.

OUTLOOK: Short Term (One fortnight)

We believe that markets may start to weaken a bit in the next fortnight due to weak demand at higher prices. However in the longer run price trend may depend on availability and demand from China and India.

AGRIWATCH

COTTON FORTNIGHTLY

January 03rd, 2011

Prices at Key Markets (Rs/Candy)				
State	Centre	Variety	Prices	
			20-12-10	31-12-10
Haryana	Sirsa	J-34	4270	4440
Punjab	Muktsar	J-34	4390	4625
	Abohar	J-34	4350	4500
Gujarat	Kadi	BT	4350-4650	4500-4700
	Ahmedabad	Shankar	4250-4550	4375-4600
Maharashtra	Amravati	Vunni Mech1	4200-4300	4450-4550

Cumulative Arrival (in bales) in Mandis from 20-12-10 to 31-12-10		
State	Center	Arrivals
Haryana	Sirsa	15,400
Punjab	Muktsar	4,600
	Abohar	11,300
Gujarat	Ahmedabad	500,000
	Kadi	620,445
Maharashtra	Amravati	4,200

Technical Analysis:

- ✓ Prices have closed above the 9 and 18-day EMAs supporting the firm trend in short term.
- ✓ MACD is moving up suggests bullish market.
- ✓ RSI is moving down suggests bearish market.
- ✓ Kapas futures are likely to remain range bound with a weak bias for the coming fortnight.

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