

## **FUNDAMENTAL ANALYSIS**

- ✓ Cotton prices remained firm this fortnight as the global cotton output was marginally reduced by the USDA report.
- ✓ Cotton prices also moved higher after reports of crop damage in Australia.
- ✓ National Australia Bank yesterday cut its cotton production estimate for Australia by about 10%.
- ✓ Output might drop by 400,000 bales due to the flooding.
- ✓ Sources also added that markets moved higher after reports of decline in the cotton production estimates in India and internationally according to the USDA'S World Agriculture Supply Demand estimates.
- ✓ Markets also moved higher after sources added that there are more buyers than sellers in the local market.
- ✓ Sources added that demand from ginners remain firm as they are taking full advantage of the short supply and asking for higher prices for quality produce.
- ✓ Markets were also supported by firm export demand after India has resumed the remaining 2.5 lakh bales of cotton shipment remaining.
- ✓ However, USDA said that U.S production will total 18.32 million bales higher compared to 18.27 million bales.
- ✓ This might prompt U.S to ship out more this year at 15.75 million bales compared to 12 million bales last year.
- ✓ Furthermore, USDA estimates of the following are as follows- World output will be 115.46 million bales, down from last month's forecast of 115.53 million bales.
- ✓ Global use will be 116.58 million bales, up from the December projection of 116.25 million bales.
- ✓ Markets saw firm sentiments after government started fresh registrations for export of 2.5 million cotton bales within the overall limit of 5.5 million bales. The last date for exports is February 25th 2011.
- ✓ 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)**

***Cotton markets may continue to move higher on lower output expectations. The longer trend will depend on the production estimates in U.S and India and the demand from China.***

Prices at Key Markets (Rs/Candy)				
State	Centre	Variety	Prices	
			31-12-10	15-01-11
Haryana	Sirsa	J-34	4440	4500-4710
Punjab	Muktsar	J-34	4625	4600
	Abohar	J-34	4500	4640
Gujarat	Kadi	BT	4500-4700	4700-5050
	Ahmedabad	Shankar	4375-4600	4500-4850
Maharashtra	Amravati	Vunni Mech1	4450-4550	5000-5200

Cumulative Arrival (in bales) in Mandis from 31-12-10 to 15-01-11		
State	Center	Arrivals
Haryana	Sirsa	8,200
Punjab	Muktsar	3,325
	Abohar	7,900
Gujarat	Ahmedabad	500,000
	Kadi	631,330
Maharashtra	Amravati	7,650

### Technical Analysis:

- ✓ Prices have closed above the 9 and 18-day EMAs supporting the firm trend in short term.
- ✓ MACD is moving up supports the bullish sentiments.
- ✓ RSI is moving up in the overbought region and is warranting caution to the bulls.
- ✓ Kapas futures are likely to remain range bound with a firm bias for the coming fortnight.
- ✓ Key supports are at 714 and 749.
- ✓ Key resistances are at 802 and 821.
- ✓ So buy on any dip in the market.



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