



Price Drivers

- ❖ Firm demand and lower arrivals.
- ❖ Indian government may not increase cotton export cap.
- ❖ Chinese imports are set to increase due to increasing demand from its textile industry.
- ❖ USDA has cut its global production estimate.
- ❖ Decline in production in India.

Fundamental Analysis

- ✓ Cotton extends gains supported by firm demand and lower arrivals in the market.
- ✓ Cotton markets were also influenced by firm futures counter over the last week.
- ✓ Cotton markets ends higher after Textiles Minister of India, Dayanidhi Maran, revealed that the Union government would not allow the cotton exports to exceed the ceiling of 5.5 million bales.
- ✓ Cotton markets also moved higher after cotton imports by China surged 86% in 2010 from a year earlier as economic growth lifted demand from the textile industry and adverse weather hurt domestic crop quality.
- ✓ Cotton markets also moved higher on news of China expected to buy before the Lunar New Year holidays.
- ✓ Markets also moved higher after USDA cut its global production estimate for the year that began on August 1st 2010.
- ✓ Global output will be 115.46 million bales as compared to 116.58 million bales.
- ✓ USDA also added in their report that Stockpiles for 2010-2011 are forecast at 9.3 million tonnes tightest since the 1995-1996 crop season.
- ✓ Separately, Southern India Mills' Association (SIMA) said that cotton production as 32.9 million bales and consumption as 27.5 million bales.
- ✓ SIMA also added that exportable surplus will be at 5.5 million bales thus reducing the closing stock to 4.45 million bales.
- ✓ The main reason for the decline in production is that production is expected to decline in Maharashtra and Gujarat.

Cotton markets may continue upward trend supported by global demand for Indian cotton and lower arrivals in the markets. In the medium to long term price trend will depend on production estimates in India and demand from China.

Prices (Rs/qtl) and Arrivals (Bales) at Key Markets

Centre	Variety	Prices	Change	Arrivals
Kadi (Gujarat)	BT Cotton	5300-5400	+50	76195
Amravati (Maharashtra)	Vunni Mech1	5300-5500	+100	500
Ahmedabad (Gujarat)	Shankar	5000-5200	+125	40000
Sirsa (Haryana)	J-34	4680	+40	500
Abohar (Punjab)	J-34	4770	+80	600
Muktsar (Punjab)	J-34	4820	+80	300

Scale: 1bale = 170kg;

International Market Analysis

ICE Cotton Futures Prices as on 21st January 2011

Month	Open	High	Low	Close	Change
Mar-11	153.90	156.94	153.72	156.94	+4.00
May-11	147.74	151.27	147.74	151.27	+4.00
Dec-11	106.16	109.69	106.16	108.74	+3.04

*ICE futures remain closed on Saturday

- Cotton futures ends higher on speculation that China will increase purchases from the U.S.
- The March cotton contract on ICE Futures US settled up by the 4-cent limit to trade at \$1.5694 per lb.


Technical Analysis:

- Kapas chart is moving up into new territories.
- Candlestick formation in the chart reveals bullish sentiments.
- Prices have remained above the 9 and 18-day EMAs supporting the firm trend in short term.
- MACD is moving up suggests bullish market.
- 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 in next trading session.


Trade Recommendation

Contract	Call	Entry	T1	T2	SL	S2	S1	PCP	R1	R2
NCDEX-Apr	BUY	835-836	848	850	827.5	807	816	844.9	854	863

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