

## DOMESTIC MARKET RECAP

Mostly a steady to firm sentiment featured in cotton cash markets during last week as Cotton opening stock for 2010-11 is lower at 27.5 lakh bales and may not be enough for the next 4 months as consumption from millers is very strong.

### Current Market Dynamics

Cotton consumption in 2010-11 is at 275 lakh bales higher compared to last year cotton consumption in 2009-10 at 250 lakh bales. Opening stock were also lower compared to last year as exports last year were higher at 83 lakh bales as India exported more due to ample supply in the domestic markets. However, recently the Indian government has planned to increase exports by another 15 lakh bales which may take exports to 70 lakh bales.

On the other hand, yarn stock this year is expected to be at 500 million kgs compared to the normal 100-150 million kgs. So this may temporarily slow down demand from millers. So the ending stocks of 27.5 lakh bales may be enough till the new crop comes in October.

Currently the cotton season is almost at its end and as a result of the quality of arrivals has gone down which may push markets higher in the short run. Demand from millers has declined due to the deterioration of the quality of arrivals and this may further push the markets higher.

According to IMD this year rainfall in the Northwest may be deficit and further in the Ganganagar belt if irrigation facilities don't improve then farmers may sow other crops like Guar, Pulses which require considerably less water. This might further push the prices higher.

However, stockists might also have stocks with them and seeing higher prices they might want to release some stocks to make profits which may restrict the uptrend.

### Cotton Balance Sheet in the last 2 years

Cotton Balance sheet		
Item	2010-11	2009-10
<b>SUPPLY</b>		
Opening stock	40.5	71.5
Crop size	312	295
Imports	5	7
<b>TOTAL AVAILABILITY</b>	<b>357.5</b>	<b>373.5</b>
<b>DEMAND</b>		
Mill Consumption	232	207
Small-Mill consumption	26	23
Non-Mill Consumption	17	20
<b>TOTAL CONSUMPTION</b>	<b>275</b>	<b>250</b>
Exports	55	83
<b>TOTAL DISAPPEARANCE</b>	<b>330</b>	<b>333</b>
<b>CARRY FORWARD</b>	<b>27.5</b>	<b>40.5</b>
Quantity in lakh bales of 170 kgs each		
Source: Cotton Advisory Board		

### Cotton expectations in India for 2011-12

Attribute	2010-11	2011-12
Area Harvested (1000 HA)	11,160	12,000
Beginning Stocks 1000 480 lb. Bales	6,399	5,049

Production 1000 480 lb. Bales	24,000	27,000
Imports 1000 480 lb. Bales	450	500
Total Supply 1000 480 lb. Bales	30,849	32,549
Exports 1000 480 lb. Bales	4,800	4,800
Total Dom. Cons. 1000 480 lb. Bales	21,000	21,500
Ending Stocks 1000 480 lb. Bales	5,049	6,249
Total Distribution 1000 480 lb. Bales	30,849	32,549
Stock to Use % (PERCENT)	20	24
Yield (KG/HA)	468	490
<b>Source: USDA</b>		

USDA released its estimates for Indian cotton crop for 2011-12. USDA said that acreage is going to increase by 7% as farmers have sowed more due to god returns for the crop. Now this may increase the production by 11%. Beginning stocks is going to be lower by 21% as higher consumption from millers could lower supply in the markets.

**Cotton Arrival Scenario:**

Market	% Change during corresponding period last year	Arrivals during the week (19-30 May 2011) in tonnes	Arrivals during Previous week (11-18 May 2011) in tonnes	Arrivals during last year (19-30 May 2010) in tonnes
Rajkot (Gujarat)	<b>-6.14</b>	142	62.5	151.29
Patan (Gujarat)	-	-	90.15	27.7

Cotton cash markets saw a rebound in this week as arrivals totaling of 142 tonnes in Rajkot, a decline of 6.14% compared to last year arrivals. Given the poor demand from millers some stock may be held by the farmers and stockists as they wait for better returns. So we could some more arrivals next week as prices have risen this week, though the season is coming to an end.

**Cotton Price Outlook**

Cotton was trading in the price band of Rs. 3,600-4,700 per quintal which is expected to move higher on lack of crop arrivals in the next week. We are expecting that prices will remain in this range. Cotton prices are expected to move lower on higher plantings expected in India on the back of normal monsoon predictions and the high returns received this year.

**Expected Price range of Cotton Prices for next week**

Markets	Expected Range of Cotton
Kadi	3600-4700

**Prices-Rs/quintal**
**Kadi prices- Bt quality**
**Technical Analysis of Cotton Prices at Kadi Market**



Technical analysis of cotton prices suggests that prices are in a bearish phase as prices have closed below the 9 and 18-day EMA. MACD is moving down in the negative region and suggest that the bearish sentiments are increasing in the market. Cotton was trading in the price band of Rs. 3,500-4,700 per quintal (indicated by the blue lines) which is expected to remain in this range as farmers are not interested in selling at a lower price range and millers are not ready to buy at the higher range. In the short term, prices are expected to remain within the indicated range as cotton transactions are very limited and mills are watching the situation.

### Cotton Prices at Key Spot Markets:

Commodity	Centre & Variety	Prices (Rs/Qtl)		Change
		30-05-11	19-05-11	
Cotton	Kadi –Bt Cotton	3000-3750	3625-4750	-1000
	Amravati –Vunni Mech-1	3200-3900	2700-3500	+400
	Ahmedabad-Shankar	3000-5000	3000-5000	-
	Abohar – J-34	4700	4450	+350
	Muktsar– J-34	4750	4500	+250

### INTERNATIONAL MARKET HIGHLIGHTS

- U.S prices traded low initially as demand from China has decreased. Markets also slipped as USDA reported that China canceled 30,500 bales of cotton sales for delivery before July 31<sup>st</sup> 2011.
- Prices also fell as mill demand remained weak in this week.
- Prices also fell after USDA reported area could rise to a record 12.5 million hectares (30.89 million acres) from 11.16 million hectares (27.58 million acres).
- However, after the initial drop prices moved higher on concern that flooding in 3 key sowing areas will hurt crops in U.S.

**International Cotton Prices**

**Cotlook 'A' Index**

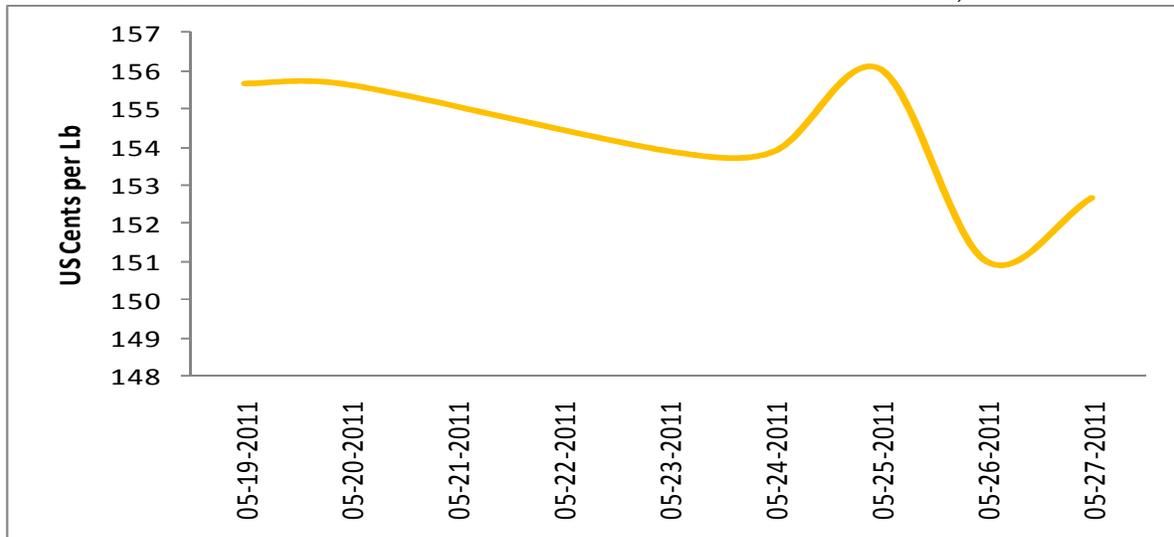
2007-08	2008-09	2009-10
72.9	64.8	77.54

**In US Cents/lb**

Currently on 27<sup>th</sup> May 2011 the Cotlook 'A' Index is ruling at 163.35 US Cents/lb lower by 33% from the peak level of 243.65 US Cents/lb recorded on 8th March 2011.

**New York Futures on ICE**

The movement of the New York on ICE over the last week has been as follows,



**In US Cents/lb**

**ICE Futures Quotes for Cotton**

Contract	Current (27/05/2011)	Week ago (20/05/2011)	Month ago (27/04/2011)	Year ago (27/05/2010)	% Change over previous year
<b>July</b>	152.67	155.61	153.39	81.28	<b>87.83</b>
<b>December</b>	129.50	119.76	124.60	79.08	<b>63.75</b>
<b>March</b>	120.47	111.77	116.82	80.24	<b>50.13</b>
<b>May</b>	115.17	108.38	110.29	80.73	<b>42.66</b>

**In US Cents/lb**

ICE futures have been lower by 1.88% over this week as demand from China has decreased. Markets also slipped as USDA reported that China canceled 30,500 bales of cotton sales for delivery before July 31st 2011. Prices also fell as mill demand remained weak in this week.



According to the chart the price trend looks sideways with firm resistance at 162 and 168.25 and if this resistance is broken then we can prices moving up to 180 levels. Firm supports are at 143.07 and 136.2.

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