

DOMESTIC MARKET RECAP

Cotton prices ended lower this month as arrivals remained higher in this month compared to last year. Cotton area has increased this Kharif 2010-11 on forecast of good monsoons. Meanwhile, CAB (Cotton Advisory Board) estimates that the cotton crop output is 312 lakh bales in 2010-11 as against the earlier year crop of 295 lakh bales supported the downtrend in prices to some extent.

Cotton Advisory Board added that acreage under cotton crop next season, starting August 2011, is expected to increase 7-10 per cent, following high prices and expectations of higher minimum support price (MSP) from the government besides expectation of normal monsoon this year. Acreage may go up from 11.1 million hectares (2010-11) to 12 million hectares.

Markets remained weak as demand from millers in China remained weak and as there's a sense that demand from local mills may be declining, partly due to the substitution of polyester for cotton.

ICAC has forecasted higher production estimates for 2011-12 at 27.6m tonnes a jump by 11.3%. USDA said that Planting in the US was highest thus far in California at 35 %, Arizona at 25% and Louisiana at 28 %.

Chinese farmers may plant 5.5 million hectares (13.59 million acres) and output may reach about 6.5 million metric tons (29.86 million bales). Cotton output last year in China was down 6.3 percent to 5.97 million tons (27.42 million bales). Australia is set to produce a record crop of over 4 million bales due to better weather conditions and higher plantings from farmers due to higher prices.

Current Market Dynamics

Cotton Advisory Board (CAB) in its latest crop estimate has revised upward the acreage under cotton cultivation in 2010-11 at 111.61 lakh hectares from 103.10 lakh hectares while it revised production to 312 lakh bales from the previous estimate of 329 lakh bales as unseasonal rains in December 2010 and extreme cold wave in the month of January 2011 in the Saurashtra region of Gujarat and other sowing areas like Maharashtra and Andhra Pradesh has damaged the crop. Despite of revised lower production, overall supply remained comfortable to meet the total demand.

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. Cotton consumption in 2010-11 is at 275 lakh bales higher compared to last year cotton consumption in 2009-10 was lower 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 have 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 the Indian government said that Cotton has been sown in 9.5 lakh hectares as compared to 8.11 lakh hectares last year and no incidence of insect, pest and disease has been reported by the States. So this may pull markets lower as higher acreage expectations could lead to higher production estimates.

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
SUPPLY		
Opening stock	40.5	71.5
Crop size	312	295
Imports	5	7
TOTAL AVAILABILITY	357.5	373.5
DEMAND		
Mill Consumption	232	207
Small-Mill consumption	26	23
Non-Mill Consumption	17	20
TOTAL CONSUMPTION	275	250
Exports	55	83
TOTAL DISAPPEARANCE	330	333
CARRY FORWARD	27.5	40.5
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
Source: USDA		

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.

State-Wise Area, Production and Yield of Cotton:

State	2009-10			2010-11		
	Area	Prod	Yield	Area	Prod	Yield
Punjab	5.11	14.25	474	5.30	16	513
Haryana	5.07	14.75	495	4.95	14	481
Rajasthan	4.44	11	421	3.34	9	458
North Total	14.62	40	465	13.59	39	488
Gujarat	26.25	98	635	26.33	102	659

Maharashtra	35.03	63	306	39.73	82	351
Madhya Pradesh	6.11	15	417	6.51	17	444
Central Total	67.39	176	444	72.57	201	471
Andhra Pradesh	14.75	52	599	17.76	53	507
Karnataka	4.55	9	336	5.34	10	318
Tamil Nadu	1.04	5	817	1.30	5	654
South Total	20.34	66	552	24.40	68	474
Orissa	0.54	1	315	0.75	2	453
Area in lakh hectares/Production in lakh bales of 170 kgs/Yield kgs per hectare						
Source: Cotton Advisory Board						

Acreage in Gujarat increased marginally by 0.3% with production increasing by 4%. Farmers sowed more in Gujarat due to attractive prices and good monsoon. Production Punjab is improved by 12.28% as acreage increased in the state by 3.7%. Acreage and Production in Maharashtra improved by 13.4% and 30% respectively.

Cotton Arrival Scenario:

State	Quality	% Change during corresponding period last year	Arrivals during the May 2011 in tonnes	Arrivals during the April 2011 in tonnes	Arrivals during May 2010 in tonnes
Gujarat	Shanker 6 (B) 30mm Fine	+82.08	6515.7	29809.5	1167.63

Cotton Shanker 6 (B) 30mm Fine arrivals remained higher this year at 6515.7 tonnes in May 2011 compared to 167.63 tonnes in May 2010. Cotton arrivals improved by 82.08% compared to last year arrivals. Arrivals remained higher this year in May as production was higher at 312 lakh bales compared to 295 lakh bales. However arrivals in May 2011 were lower by 78.14% compared to that in April 2011. Arrivals were lower last week as the arrival season is complete. Given the poor demand from millers some stock may be held by the farmers and stockists as they wait for better returns.

Cotton Price Outlook

Cotton was trading in the price band of Rs. 3,500-4,700 per quintal which is 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 month

Markets	Expected Range of Cotton
Kadi	2500-3300

Prices-Rs/quintal
Kadi-Bt quality

Technical Analysis of Cotton Prices at Kadi Market

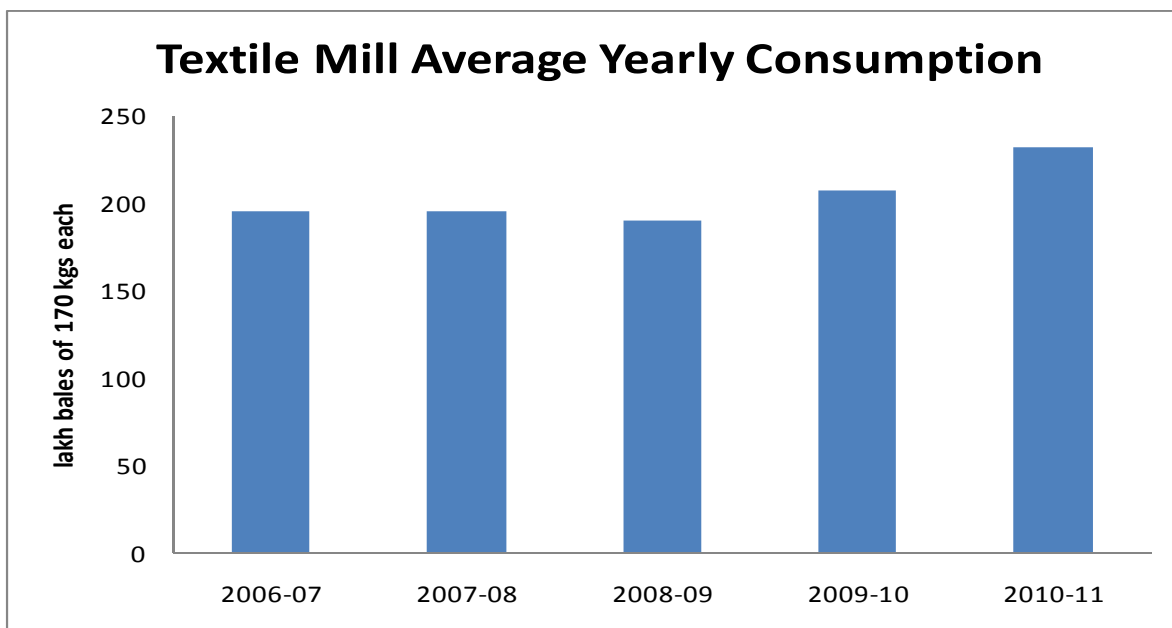


Prices-Rs/quintal

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 up in the negative region and suggest that the bearish sentiments are reducing 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 were not interested to sell at lower price range and millers are not ready to buy at 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.

Downstream industries (Consumption of Mills)

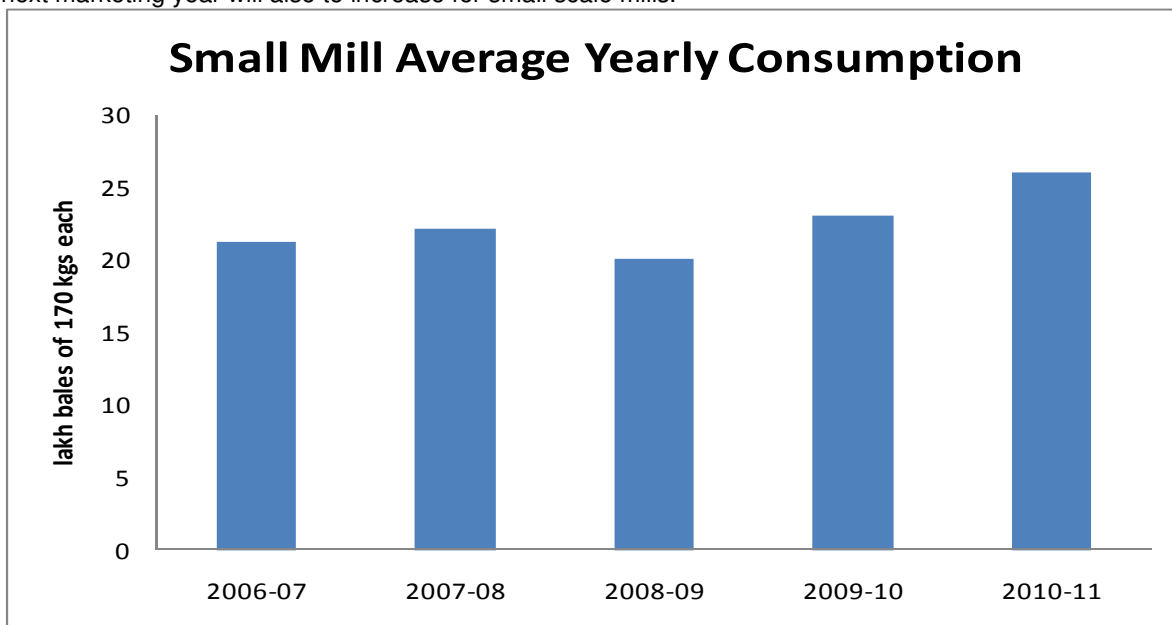
The chart below gives an overall idea of textile mill consumption over the last 5 years. The consumption has been mixed over the last 5 years. The consumption has been higher in the last 2 years. The year on year % change for 2009-10 is 8.9% and 2010-11 is 12%. The growth in the economy and demand suggests that the consumption in the next marketing year will also will increase in textile mills.



Source: Cotton Advisory Board (CAB)

Consumption of Small scale mills

The chart below gives an overall idea of small mill consumption over the last 5 years. The consumption has been mixed over the last 5 years. The consumption has been higher over the last 2 years. The year on year % change for 2009-10 is 15% and 2010-11 is 13%. Again the momentum suggests that consumption in the next marketing year will also to increase for small scale mills.



Source: Cotton Advisory Board (CAB)

Cotton Prices at Key Spot Markets:

Commodity	Centre & Variety	Prices (Rs/Qtl)		Change
		30-05-11	02-05-11	
Cotton	Kadi –Bt Cotton	3000-3750	3500-4500	-750
	Amravati –Vunni Mech-1	3200-3900	3800-4200	-300

	Ahmedabad-Shankar	3000-5000	4200-5000	-
	Abohar – J-34	4700	5400-5600	-900
	Muktsar– J-34	4750	5400-5600	-850

INTERNATIONAL MARKET HIGHLIGHTS

- U.S prices ended higher on concern that flooding in important sowing areas will hurt crops in U.S. State officials said that at least 130,000 acres were flooded in Missouri, and even more land may be under water in Tennessee and Mississippi.
- USDA said that planting in Texas was estimated at 6.12 million acres this year, followed by Georgia at 1.45 million acres.
- Chinese farmers may plant 5.5 million hectares (13.59 million acres) and output may reach about 6.5 million metric tons (29.86 million bales). Cotton output in China last year was down 6.3 percent to 5.97 million tons (27.42 million bales).
- ICAC has forecasted higher acreage estimates for 2010-11 at 33.81 million acres a jump of 13% compared to 29.98 million acres during 2009-10. The world cotton production during 2010-11 is expected to be higher by 13% at 24.79 million tonnes as against 22.01 million tonnes.

Pakistan Cotton Scenario

Cotton prices in Pakistan are expected to drop as acreage is expected to increase in the Sindh province (a major producing area). According to USDA, Cotton acreage in Pakistan is slated to rise by 13.79% at 330,000 hectares for 2011-12 as against 290,000 hectares for 2010-11. The reason for increase in acreage is mainly due to global cotton prices touching record high levels, which has inspired farmers to take up cotton production. According to USDA cotton production in Pakistan is also slated to increase 18.39% at 10,300 of 480 lb. Bales for 2011-12 as against 8,700 of 480 lb. Bales for 2010-11. However, imports are on the decline by 6.6% 1,400 of 480 lb. Bales for 2011-12 as against 1,500 of 480 lb. Bales for 2010-11.

International Cotton Prices

Cotlook 'A' Index

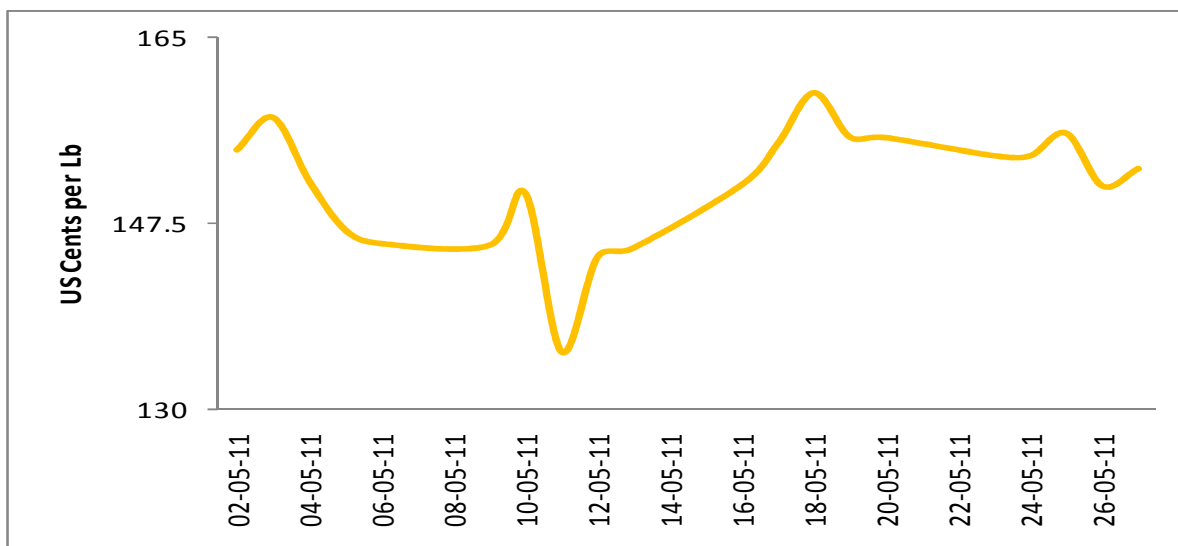
2007-08	2008-09	2009-10
72.9	64.8	77.54

In US Cents/lb

Currently on 27th 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 for the active July-11 contract in the month of May has been shown below,



In US Cents/lb

ICE Futures Quotes for Cotton

Contract	Current (27/05/2011)	Month ago (19/04/2011)	Year ago (27/05/2010)	% Change over previous year
July	152.67	153.39	81.28	+87.83
December	129.5	124.6	79.08	+63.75
March	120.47	116.82	80.24	+50.13
May	115.17	110.29	80.73	+42.66

In US Cents/lb

ICE futures have been lower by 0.469% over the last month as US has planted more this year compared to last year. However after the initial dip markets rebounded on concerns about the flooding Mississippi River damaging the cotton crop in the area. Markets fell over the last half of the week as China, Vietnam and Bangladesh canceled orders for 44,000 bales, 4,400 bales and 2,200 bales respectively from the U.S.

ICE Futures



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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