

## DOMESTIC MARKET RECAP

Cotton cash markets remained weak during the week ending 13<sup>th</sup> June 2011 amid increased supply in the markets. In Rajkot arrivals during the week recorded at 309.08 tonnes up by 87.12 per cent as compared corresponding period last year.

### Cotton Arrival Scenario:

Market	% Change during corresponding period last year	Arrivals during the week (06-13 June 2011) in tonnes	Arrivals during last year (06-13 June 2010) in tonnes
Rajkot (Gujarat)	87.12	309.08	165.17

Also increasing cotton acreage this Kharif 2011 further weighed on prices. As per the latest report of Ministry of Agriculture, as on 10<sup>th</sup> June 2011 sown area under cotton is up by 40 per cent to 20.14 lakh hectares against 14.41 lakh hectares same period last year. So far the progress of monsoon over the country also remains favourable for cotton sowing and plant growth which further added pressure on prices.

Meanwhile, Government has increased the cap on cotton exports to 65 lakh bales against 55 lakh bales earlier, which limited the fall in cotton prices to some extent as this will further lower the ending stocks (17.5 lakh bales) which is already at the lower side (27.5 lakh bales) as compared to last year (40.5 lakh bales).

<i>In Lakh Bales (1 bale = 170 Kgs)</i>	2009-10	2010-11	Revised 2010-11
Opening stock	71.5	40.5	40.5
Production	295	312	312
Imports	7	5	5
Total Supply	373.5	357.5	357.5
Export	83	55	65
DoM Consumption	250	275	275
Total Usage	333	330	340

<b>Ending stocks</b>	<b>40.5</b>	<b>27.5</b>	<b>17.5</b>
<b>Estimated Monthly Consumption</b>	<b>27.8</b>	<b>27.5</b>	<b>28.3</b>

**Source: Cotton Advisory Board & AW Research**

As reflected in the above table, revised lower ending stocks for 2010-11 season is insufficient to cater the monthly consumption of 28.3 lakh bales (including exports), which is restricting the fall in prices to some extent.

### **Current Market Dynamics**

90% of the sowing has been completed across Punjab and Haryana and farmers have shifted from paddy to cotton this year owing to better returns this season. In Punjab, the acreage increased by 87,000 hectares, touching 5.70 lakh hectares. Similarly in Haryana, the cotton acreage is expected to increase by 20% at 6 lakh hectares. Farmers will be shifting from Paddy in both Haryana and Punjab. This will pull the prices down. Increase of acreage will also lead to better production estimates and production is expected to touch 25.44 lakh bales, compared to 17.44 lakh bales during the 2010-11 marketing season in Haryana and Punjab.

The trend is going to be similar in Gujarat and Maharashtra. Cotton acreage in Maharashtra is expected to increase to 43.50 lakh hectare with production targeted to increase by 24.5 lakh bales at 95.96 lakh bales (one bale=170 kg). Acreage of cotton in Gujarat is targeted to cover over 26 lakh hectares with a production estimate of over 105 lakh bales. In Rajasthan, the cotton acreage has increased from 3.35 lakh hectares to 3.80 lakh hectares as farmers are shifting from Pulses, Guar and Maize to cotton cultivation. Cotton sowing is progressing in Madhya Pradesh and so far 5.3 lakh hectare sown under cotton. The table below shows the state wise area progress as on 10<sup>th</sup> June 2011.

### **State-Wise Cotton Area Coverage:**

<b>States</b>	<b>% Change y-o-y</b>	<b>2011-12*- As on 10<sup>th</sup> June 2010</b>	<b>2010-11 As on June 2010</b>	<b>2009-10 As on June 2010</b>
<b>Punjab</b>	<b>7.54</b>	<b>5.70</b>	<b>5.30</b>	<b>5.11</b>
<b>Haryana</b>	<b>21.21</b>	<b>6.00</b>	<b>4.95</b>	<b>5.07</b>

<b>Rajasthan</b>	<b>13.77</b>	<b>3.80</b>	<b>3.34</b>	<b>4.44</b>
<b>Gujarat</b>	<b>2.54</b>	<b>27.00</b>	<b>26.33</b>	<b>26.25</b>
<b>Maharashtra</b>	<b>9.48</b>	<b>43.50</b>	<b>39.73</b>	<b>35.03</b>
<b>Madhya Pradesh</b>	<b>-18.58</b>	<b>5.30</b>	<b>6.51</b>	<b>6.11</b>
<b>Andhra Pradesh</b>	<b>-23.93</b>	<b>13.51</b>	<b>17.76</b>	<b>14.75</b>
<b>*-Latest estimates</b>				
<b>Area in lakh hectare</b>				

**Source: Cotton Advisory Board**

Meanwhile, the Government has taken a decision to allow exports of an additional 10 lakh bales of cotton during the current season ending September. India has already exported 52.5 lakh bales since October and the decision to increase exports was taken during this season to help farmers earn more. The decision was taken after the taking into consideration of production data which is 339 lakh bales according to the agriculture ministry data. However Cotton Advisory Board had revised its estimate from 329 lakh bales to 312 lakh bales.

Now according to Cotton Advisory Board cotton ending 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 about 23 lakh bales of cotton every month. So after the additional 10 lakh bales of exports will create a shortage situation with only 17.5 lakh bales of cotton stocks remaining in the country.

### **Cotton Price Outlook**

Continued offloading of stocks from farmers and stockists and higher acreage estimates this year will continue to weigh on prices in coming week. However, government has increased the cap on cotton exports which may temporarily pause the downtrend besides estimated lower ending stocks.

Overall, we believe that cotton prices will continue its downtrend on higher acreage this year and expected increased production this season supported by the good monsoon progress so far. However, moving forward monsoon will remain the key factor for deciding the crop output. Any deviation from normal (increase/decrease) may lead to lower productivity in turn affect the output.

According to IMD isolated thunderstorm would occur over Punjab, Haryana and Rajasthan during next week and fairly widespread rains/thundershowers would occur over Madhya Maharashtra, Marathwada and South Gujarat which remains supportive for the crop sowing/germination.



**Broad Homogeneous Regions of India actual rainfall and % Departure for the period of 01<sup>st</sup>-08<sup>th</sup> June**

Regions	Actual Rainfall (mm)	Normal Rainfall (mm)	% Departure from LPA
Country as a whole	32.6	27.8	17
Northwest India	11.4	9.5	19

Central India	21.8	19.8	10
South Peninsula	64.5	35.7	81
East & northeast India	57	70.3	-19

Source: IMD

The cumulative seasonal rainfall for the Northwest, South Peninsula and Central region during 01st -08th June 2011 during this year's monsoon has so far been 19%,81% and 10% respectively above the LPA. This suggests that the sowing regions in the Northwest, South Peninsula and Central region has seen good rains which could lend support to the remaining sowing in the region.

## Technical Analysis of Cotton Prices at Kadi Market



Prices-Rs/quintal

As evident from the above chart, cotton prices are moving range bound between 3500-3800 level which is also acting as a good support and resistance and breaching the levels either side will further give the price direction, Prices are well below the short term EMAs which supports weakness. Other indicators like MACD and RSI suggests sideways movement in prices. Overall the trend remains down. In coming week we expect prices to remain range bound within 3500-3800 level or may touch the lows at 3300-3350 level.

**Strategy:** Sell on rallies or sell near the resistance

**Support and Resistance:**

Support 2	Support 1	Resistance 1	Resistance 2
3300	3500	3800	4200

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

Markets	Expected Range of Cotton
Kadi	3500-3800 and 3300-3350

**Prices-Rs/quintal Kadi prices- Bt quality**

**Cotton Prices at Key Spot Markets:**

Commodity	Centre & Variety	% Change Over Previous Week	Prices (Rs/Qtl)			
			Current (13-06-2011)	Week Ago (06-06-2011)	Month Ago (13-05-2011)	Year Ago (12-06-2010)
Cotton	Kadi –Bt Cotton	-3.33	3125-3625	3000-3750	3125-4500	3200-3500
	Amravati – Vunni Mech-1	10	2500-3300	2700-3000	2500-3300	3375-3430
	Abohar – J-34	-4.25	4450-4500	4700	5000	N.A
	Muktsar– J-34	-3.72	4525	4700	5000	N.A

## INTERNATIONAL MARKET HIGHLIGHTS

- U.S prices fell this week due to ample cotton stocks.
- The planting estimate of United States is at 4128 ('000 hectares) and as on 13<sup>th</sup> June 2011, lower by 4.66% compared to last year's planting at 4330 ('000 Hectares).
- According to USDA, the U.S. cotton production could decline to 17 million bales down by 1 million bales compared to last year. Drought in the US mainly attributed to fall in cotton production.
- USDA also limited its cotton exports for 2011-12 to 13 million bales from 15 million bales due to continued cancellations of sales and lower crop projections.

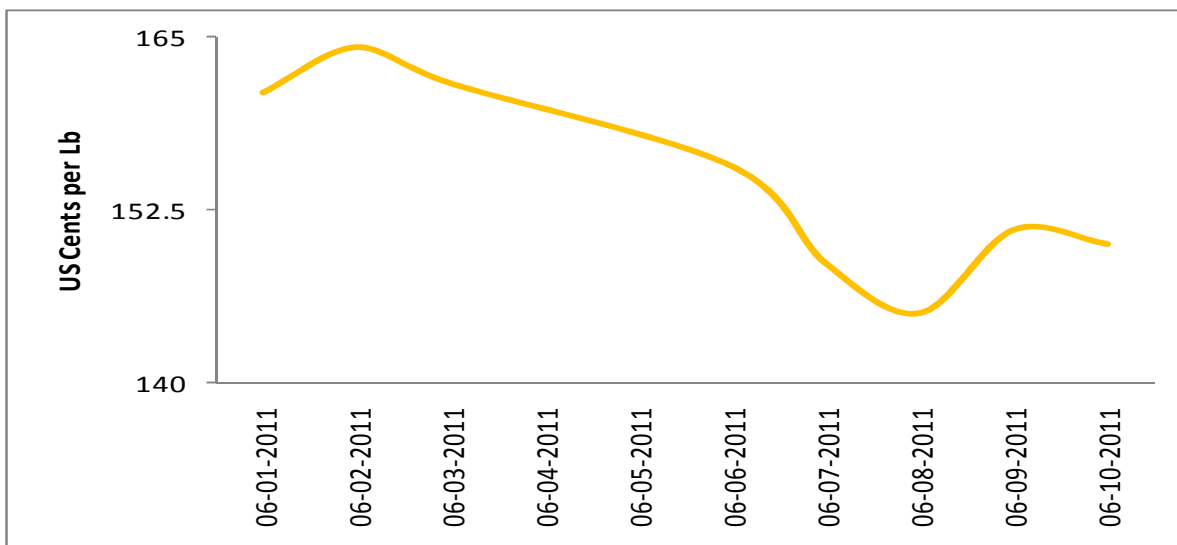
<b>Cotton Area, Production and Exports of U.S</b>		
<b>Attribute</b>	<b>2010-11</b>	<b>2011-12*</b>
<b>Area Harvested</b>	4,330	4,128
<b>Production</b>	18.1	17.0
<b>Exports</b>	15.0	13.0
<b>Area- '000 HA, Production and Export-Million bales</b>		
<b>*-Estimates</b>		<b>Source: USDA</b>

## International Cotton Prices

As on 10<sup>th</sup> June 2011 the Cotlook 'A' Index is ruling at 149.25 US Cents/lb lower by 38.74% 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 (10/06/2011)	Week ago (03/06/2011)	Month ago (10/05/2011)	Year ago (10/06/2010)	% Change over previous year
July	150.03	161.63	151.40	82.51	81.83
December	133.65	138.70	125.92	79.07	69.02
March	126.86	128.99	118.82	80.52	57.55
May	118.52	120.24	112.56	80.82	46.64

In US Cents/lb

ICE futures have been lower by 7.17% over this week due to the initial ICAC report of ample carry-out stocks for 2011-12. However markets saw a rebound at 140 levels based on USDA reports a cut in acreage and production estimates due to the severe drought conditions in the U.S.





## Prices-US Cents/lb

According to the chart the price trend looks sideways with firm resistance at 159.23 and 162.71 and if this resistance is broken then we can prices moving up to 170 levels. Firm supports are at 144.70 and 142.

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