

## DOMESTIC MARKET RECAP

Cotton cash markets remained weak during the period of 13<sup>th</sup> to 20<sup>th</sup> June 2011 on higher supply and anticipation of better acreage during current Kharif season. In Rajkot, arrivals during the week were recorded at 1151 tonnes up by 1.68 per cent as compared corresponding period last year as illustrated in the following table.

### Cotton Arrival Scenario:

Market	% Change during corresponding period last year	Arrivals during the week (13-20 June 2011) in tonnes	Arrivals during last year (13-21 June 2010) in tonnes
Rajkot (Gujarat)	1.687	1151	1131.9

Prices have been moving lower this week due to heavy selling by traders and weak demand in physical market after DGFT announcement of cap on cotton export. Prices also moved lower as yarn manufacturers are not purchasing, owing to the higher carry forward stock and poor demand from the garment manufacturer. The arrivals in the state of Gujarat are expected to stay higher during the period of 21<sup>st</sup> to 28 June, 2011 which is likely keep prices steady to weak. However, buying is expected at subdued price levels.

### Current Market Dynamics

The land under cultivation of cotton this year in Punjab has increased to 5.50 lakh hectares from 4.83 lakh hectares last year and production is expected to touch 22.50 lakh bales as compared to 18.12 lakh bales in the last year. Keeping in view anticipation of higher production during 2011-12 marketing year state government has taken adequate step to set up 25 mandis of cotton to which the farmers may bring their produce.

With onset of monsoon in southern and central region, active planting is reported from almost every region. Government figures show, as on 10<sup>th</sup> June 2011, sown area under cotton has increased by 40.4% compared to last year's area. Cotton has been sown in 21.65 lakh hectare as compared to 15.42 lakh hectare last year during the same period. It represents an increase of 6.23 lakh hectare over the last year's acreage. Congenial weather condition and better crop condition paves the way for better production prospect moving forward.

According to the state officials in Maharashtra, cotton has been sown in 270,293 Ha. The normal area is 2,955,700 Ha. The cotton target for this season is 3,500,300 Ha. We believe that the target set by the government would be achieved provided monsoon helps sowing progress in the coming weeks. According to the state officials in A.P, cotton has been sown in 0.842 lakh hectares. The normal area is 13.51 lakh hectares.

Cotton Sowing progress (Area in Ha.)						
State	Normal Area	Actual Sown Area as on 14-06-11	% To Normal Area	Target Area for (Year) of Season	% To (Year) Target Area	Last Year Sown Area % on 14/6/2010
Maharashtra	2,955,700	270,293	9.10%	3,500,300	7.70%	0.1

**Cotton Crop Sowing Progress: Andhra Pradesh**

Area in Lakh hectares	Normal		During Corresponding Period		Current Year as on 15/06/11	% Sown to	
Crop	Season	As on date	As on 15/06/09	As on 16/06/10		Season	As on date
Cotton	13.51	0.842	0.682	0.28	0.734	5	87

Meanwhile, the Indian Government took a decision to allow exports of an additional 10 lakh bales of cotton during the current season ending September. However, the Directorate General of Foreign Trade (DGFT) would restrict registrations to genuine exporters and cap on maximum application quantity at 100,000 bales.

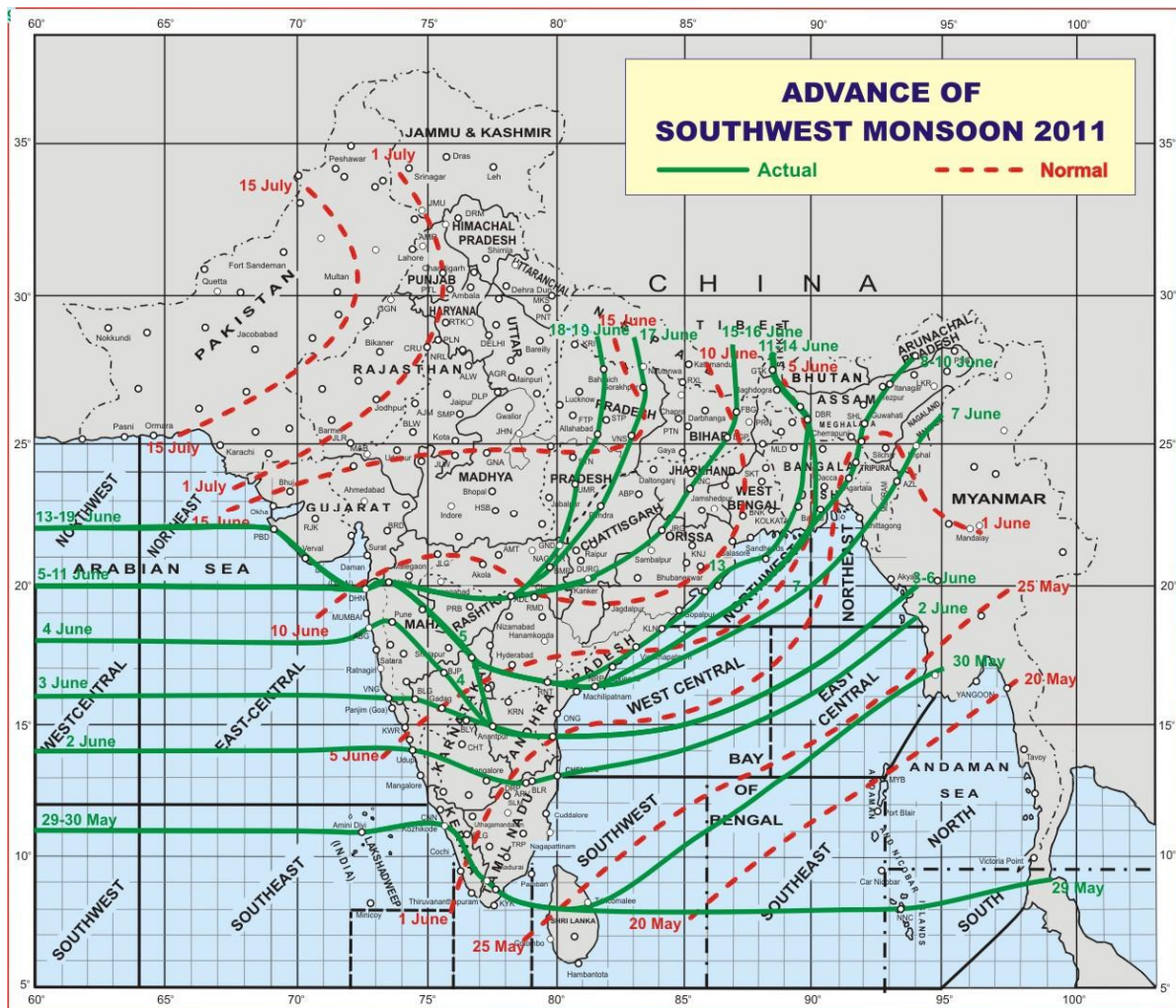
The Indian government has extended the duty entitlement pass book (DEPB) scheme for exporters for three months, till September 30<sup>th</sup> 2011. The DEPB scheme, the popular tax refund scheme for exporters that came in force in June 1997, was due to end on June 30 2011. Under the scheme exporters receive duty-free entitlements, which they can use to pay import duties. The DEPB scheme will help reduce the impact of higher cost of capital, lack of zero-rating for exports, high cost of containerized railway freight and high cost of power. So this will help exporters and may see an increase in exports of all by-products of cotton in the next 3 months. This will also increase the export demand of raw cotton and its by-products. However, the government may think of duty drawback scheme in September 2011 which reimburses the customs duty component, covers 15-20 per cent of exports.

## Cotton Price Outlook

Continuous arrivals in mandis and higher acreage estimates this year will continue to weigh on prices in coming week. We believe that cotton prices will continue its downtrend on higher acreage anticipation this year and expected increase in production supported by the good monsoon progress so far. However, monsoon will play an important role in the coming months in increasing the crop productivity.

## Weather Watch & Monsoon Progress

According to IMD Heavy to very heavy rainfall would occur at isolated places over Chhattisgarh, and East M.P and West Madhya Pradesh. Isolated rainfall would occur over Punjab, Haryana and Rajasthan during next 48 hours. Scattered rain/thundershowers would occur over Madhya Maharashtra and Marathwada. Conditions are favorable for further advance of southwest monsoon over some parts of Maharashtra, Madhya Pradesh during the next 2-3 days which remains supportive for the crop sowing/germination.



Source: IMD

**Broad Homogeneous Regions of India actual rainfall and % Departure for the period of 9<sup>th</sup> - 15<sup>th</sup> June**

<b>Regions</b>	<b>Actual Rainfall (mm) 9-15<sup>th</sup> June</b>	<b>Normal Rainfall (mm) 9-15<sup>th</sup> June</b>	<b>% Departure from LPA 9-15<sup>th</sup> June</b>
<b>Country as a whole</b>	<b>30.6</b>	<b>33.6</b>	<b>-9</b>
<b>Northwest India</b>	<b>14.2</b>	<b>13.2</b>	<b>7</b>
<b>Central India</b>	<b>34.7</b>	<b>28.8</b>	<b>20</b>
<b>South Peninsula</b>	<b>39.3</b>	<b>34.9</b>	<b>12</b>
<b>East &amp; northeast India</b>	<b>43.2</b>	<b>81.5</b>	<b>-47</b>

**Source: IMD**

The cumulative seasonal rainfall for the Northwest, South Peninsula and Central region during 09<sup>th</sup>-15<sup>th</sup> June 2011 during this year's monsoon has so far been 7%, 12% and 20% 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 in a tight range of 3000-3500 level which is acting as a good support and resistance and breaching the levels either side will further give the price direction. Prices are above the short term EMA which supports firmness. Other indicators like MACD and RSI suggests steady to firm movement in prices. Overall the trend remains down. In coming week we expect prices to remain range bound within 3000-3600 level.

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

## Support and Resistance:

Support 2	Support 1	Resistance 1	Resistance 2
2900	3200	3700	3900

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

Markets	Expected Range of Cotton
Kadi	3000-3600

Prices-Rs/quintal Kadi prices- Bt quality

**Cotton Prices at Key Spot Markets:**

Commodity	Centre & Variety	% Change Over Previous Week	Prices (Rs/Qtl)			
			Current (20-06-2011)	Week Ago (13-06-2011)	Month Ago (20-05-2011)	Year Ago (19-06-2010)
Cotton	Kadi –Bt Cotton	-3.44	3000-3500	3125-3625	3750-4750	3150-3600
	Amravati – Vunni Mech-1	-6.06	2400-3100	2500-3300	2700-3500	3325-3405
	Abohar – J-34	-5.55	4200-4250	4450-4500	4500-4550	N.A
	Muktsar– J-34	-13.81	3800-3900	4525	4600-4650	N.A

**INTERNATIONAL MARKET HIGHLIGHTS**

- U.S sentiments remained mixed as USDA cuts its 2011-12 cotton production estimate for United States.
- This could lead to greater demand than supply.
- USDA said that the drought conditions in the South West part of the country reduced the outlook for 2011-12 U.S. cotton output to 17 million (480-lb) bales from the 18 million bales forecast last month.
- China cotton imports are likely to be 2.8 million metric tons lower compared to the previous estimate of 3 million metric tons.
- China Cotton Association added that farmers planted 5.4 million hectares of cotton in China in the 2011 marketing season, up 5.2% from a year earlier.
- Production in Pakistan is forecast to reach record cotton production of nearly 15 million bales in the 2011-12 crop year, after farmers completed sowing on an area of over 8 million acres.

U.S. Cotton Supply and Use			
Attribute	2010/011 Est.	2011/012 Proj.	2011/012 Proj.
		May	Jun
Area	Million Acres		
Planted	10.97	12.57 *	12.57 *
Harvested	10.70	10.80 *	10.20 *
Pounds			
Yield per Acre	812	800 *	800 *
Million 480 Pound Bales			
Beginning Stocks	2.95	1.75	2.25
Production	18.10	18.00	17.00
Imports	0.01	0.01	0.01
Supply Total	21.06	19.76	19.26
Domestic Use	3.80	3.80	3.80
Exports Total	15.00	13.50	13.00
Use Total	18.80	17.30	16.80
Ending Stocks	2.25	2.50	2.50
Source: USDA			

Cotton S&D of Main Producing Countries for 2011-12							
Country	Area Harvested	Beginning Stocks	Production	Imports	Exports	Ending Stocks	Yield
China	5,500	11,671	33,000	16,000	50	13,121	1,306



<b>India</b>	<b>12,000</b>	<b>5,349</b>	<b>27,000</b>	<b>500</b>	<b>4,800</b>	<b>6,549</b>	<b>490</b>
<b>Pakistan</b>	<b>3,300</b>	<b>2,657</b>	<b>10,300</b>	<b>1,300</b>	<b>400</b>	<b>3,082</b>	<b>680</b>
<b>United States</b>	<b>4,128</b>	<b>2,250</b>	<b>17,000</b>	<b>5</b>	<b>13,000</b>	<b>2,500</b>	<b>897</b>
<b>Source: USDA</b>							

**Area Harvested-(1000 HA), Beginning Stocks, Production, Imports, Exports and Ending stocks- 1000 480 lb. Bales, Yield-Kg/HA**

### **Pakistan cotton crop**

Cotton prices in Pakistan are expected to drop it is forecast that cotton production will be nearly 10 million bales in the 2011/12 crop year, after farmers completed sowing on an area of over 330,000 hectares. According to USDA, Cotton acreage in Pakistan is stated 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.

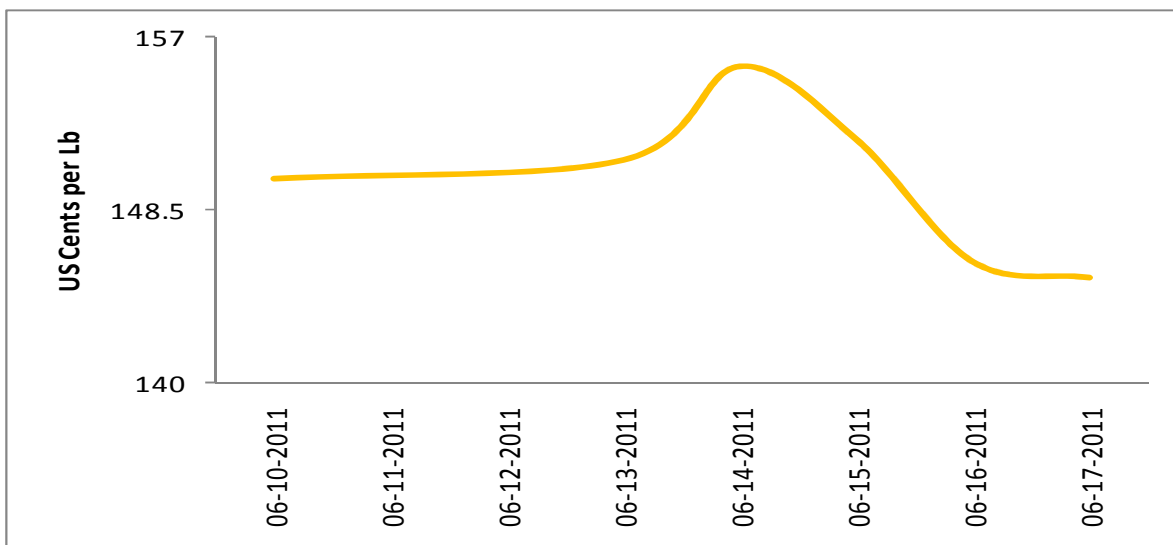
### **International Cotton Prices**

As on 17<sup>th</sup> June 2011 the Cotlook 'A' Index is ruling at 137.75 US Cents/lb lower by 43.46% 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 (17/06/2011)	Week ago (10/06/2011)	Month ago (17/05/2011)	Year ago (17/06/2010)	% Change over previous year
July	145.18	150.03	155.04	80.80	79.67
December	123.77	133.65	121.13	79.42	55.84
March	117.71	126.86	113.90	80.53	46.16
May	112.51	118.52	109.70	80.85	39.15

In US Cents/lb

ICE futures have been lower by 3.23% over this week amid reports of lower U.S crop due to drought conditions in the major growing state of Texas. However fell from at 155 levels based on reports of higher production estimates from China and Pakistan.



## Prices-US Cents/lb

According to the chart the price trend looks sideways with firm resistance at 156.21 and 158.36 and if this resistance is broken then we can prices moving up to 168 levels. Firm supports are at 144.16 and 142.

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