

**Highlights of the Week**

- Cotton prices remained weak at most centers during the week ending July 05<sup>th</sup> 2011 on offloading of stocks by stockists and farmers continue to offload stocks.
- Lull in progress of monsoon and uneven distribution of rains over the key growing regions (Gujarat, Maharashtra and Andhra Pradesh) affected the sowing activity.
- Sown area under Cotton as on July 1<sup>st</sup> is down by 22 per cent to 35.17 lakh hectares as against 45 lakh hectares corresponding period last year.
- USDA has projected Indian cotton exports for 2011-12 reach 5.6 million bales compared to 5.1 million bales in 2010-11.
- The government debarred 178 firms from future allocation of cotton for export after they failed to comply with the exports norms.

**Current Market Dynamics**

Mostly steady to firm trend witnessed in cotton prices during the week ended July 05<sup>th</sup> 2011 as compared to last week amid weak demand from millers and other market participants. Lower arrivals from producing centers like Gujarat and Maharashtra further supported the sentiment.

Indian ginners continue to ask the government to increase the export quota of cotton. According to trade sources around 30 lakh cotton bales are lying in excess in the country with the farmers. According Maharashtra state cotton growers' cooperative marketing federation even after an additional export of 10 lakh bales, there would be 75 lakh bales in excess in the country. The reason for surplus of stocks is that total cotton production this year was 330 lakh bales. 45 lakh bales have been carried forward from the last year stock making a total of 375 lakh bales. The government has permitted the import of 5 lakh extra long staple bales from other countries which makes it 380 lakh bales. Reports also suggested that ginner requirements is 240 lakh bales and the permitted export limit is up to 65 lakh bales which makes the total of 305 lakh bales and even then 75 lakh bales are lying with the farmers.

Meanwhile representatives of cotton ginners from Maharashtra, Gujarat, Andhra Pradesh, Haryana, Punjab, Tamil Nadu and Rajasthan have decided to submit a memorandum to the central government for their demand regarding allowing additional cotton exports in the current season and putting cotton exports under the open general licensing (OGL). The ginners have decided to file a memorandum to the prime minister and agriculture minister demanding additional cotton exports to the tune of 2 million bales (a bale= 170 kg). According to ginning industry sources, the cotton demand in the domestic market has gone down since March this year. In March the cotton demand stood at 2.3 million bales per month, which fell to 2.05 million bales in April, 1.8 million in May and 1.6 million bales in June.

**Crop Progress and Weather Condition**

Although the country's cumulative seasonal rainfall during June 1<sup>st</sup> to 29<sup>th</sup> remains 11% above the LPA (Long Period Average), sowing of cotton is lagging behind due to uneven distribution of rainfall over the key growing regions (A.P., Maharashtra and Gujarat). The following table shows the percentage departure of rainfall over the key growing districts of below mentioned states –

| <b>Maharashtra</b> | <b>% Departure as on 29-06-2011</b> | <b>Andhra Pradesh</b> | <b>% Departure as on 29-06-2011</b> | <b>Gujarat</b> | <b>% Departure as on 29-06-2011</b> |
|--------------------|-------------------------------------|-----------------------|-------------------------------------|----------------|-------------------------------------|
| Jalgaon            | -89%                                | Guntur                | -57%                                | Ahmedabad      | -100                                |
| Aurangabad         | -86%                                | Krishna               | -51%                                | Bharuch        | -100                                |
| Jalna              | -89%                                | Prakasam              | -72%                                | Sabarkantha    | -96                                 |
| Beed               | -56%                                | Kurnool               | -46%                                | Vadodara       | -100                                |
| Nanded             | -81%                                | Rangareddy            | -66%                                | Amreli         | -100                                |
| Parbhani           | -69%                                | Medak                 | -71%                                | Bhavnagar      | -100                                |
| Hingoli            | -47%                                | Mahabubnagar          | -17%                                | Jamnagar       | -100                                |
| Buldhana           | -67%                                | Nalgonda              | -61%                                | Rajkot         | -100                                |
| Akola              | -43%                                | Warangal              | -60%                                | Surendranagar  | -100                                |
| Amravati           | -25%                                | Khammam               | -54%                                |                |                                     |
| Yavatmal           | 3%                                  | Karimnagar            | -56%                                |                |                                     |
|                    |                                     | Adilabad              | -29%                                |                |                                     |

As evident from the above table the rainfall is deficient to scanty over the key growing districts in 3 major cotton growing states which accounts for 75% of total sown area of cotton in the country. If the situation persists in coming days then sown area under cotton is expected to be lower by a huge margin which is already down by around 10 lakh hectares and it will also affect the already sown crop. Thus, rainfall during the coming days (during 1<sup>st</sup> half of the July) should be watched very carefully and any deviation will lead to lower sown area and consequently lower production which would boost the prices.

Following table shows the sown area under cotton in A.P. and Maharashtra as on July 1<sup>st</sup> 2011:

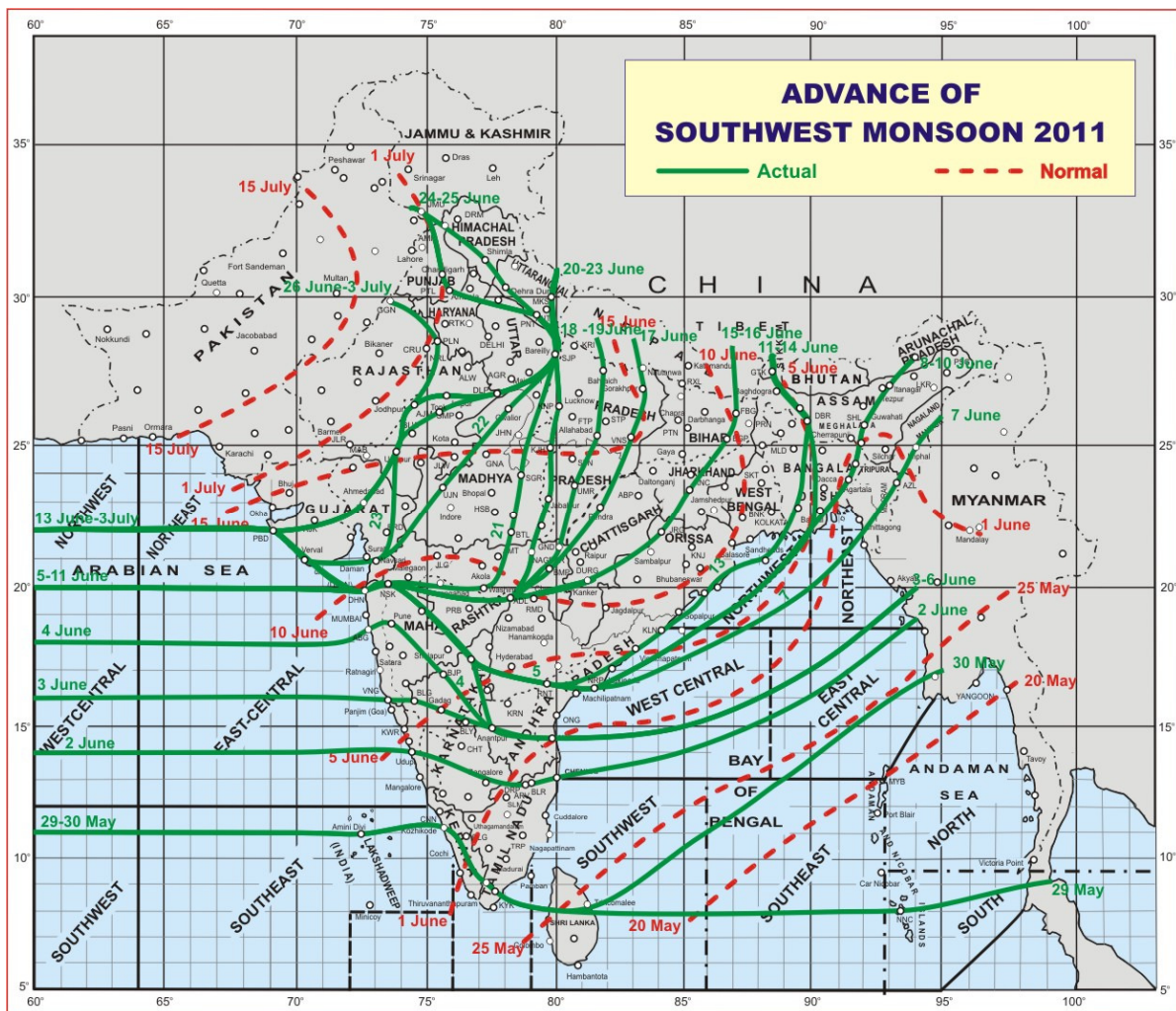
| <b>State</b>               | <b>Season Target</b> | <b>As on 01-07-2011</b> | <b>Same period last year</b> | <b>% Change</b> |
|----------------------------|----------------------|-------------------------|------------------------------|-----------------|
| <b>A.P</b>                 | 13.51                | 4.437                   | 5.378                        | <b>-17</b>      |
| <b>Maharashtra</b>         | 35.03                | 9.386                   | 19.251                       | <b>-51</b>      |
| <b>Area= Lakh Hectares</b> |                      |                         |                              |                 |

As on 01<sup>st</sup> July, cotton acreage in the main 2 states is given in above table. Acreage of Maharashtra has declined during the same period in the previous year. Rainfall remained lower in all major districts of

Maharashtra and which reduced the acreage. A.P acreage has declined during the same period in the previous year. According to IMD rainfall has been deficient in all major sowing areas which reduced the acreage in all districts.

## Advance of Monsoon and Forecast for July 2<sup>nd</sup> – 8<sup>th</sup> 2011:

As per IMD, rainfall activity would remain isolated / scattered over interior peninsula and Gujarat during many days of the week. However, rainfall activity may increase over interior Maharashtra and Gujarat towards end of the week leading to advance of monsoon over Gujarat and some more parts of Rajasthan. The delay in progress of monsoon may affect the sowing activity in Gujarat and Rajasthan as well as affect the already sown crop in the country. The chart below shows the progress of monsoon over the country:



Source: IMD

## Cotton Spot Prices (Kadi Market) Technical Analysis



### Prices-Rs/quintal

As evident from the above chart, cotton prices are trading in a narrow range of Rs 3500 – 3800/Qtl. Both the levels are acting as of good support and resistance, breaching either side will decide the further trend. Prices are above the short term EMAs which supports firmness. RSI also suggests for firm market. In coming week we expect prices to move range bound with slight firmness.

**Strategy:** Buy near 3500 is advisable and partially book the profit near 3800.

### Support and Resistance:

| Support 2 | Support 1 | Resistance 1 | Resistance 2 |
|-----------|-----------|--------------|--------------|
| 3200      | 3500      | 3800         | 4000         |

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

| Markets | Expected Trading Band for the coming week | Expected Trend for coming week |
|---------|---|--------------------------------|
| Kadi    | 3500-4000                                 | Sideways                       |

**Prices-Rs/quintal Kadi prices- Bt quality**
**Cotton Price Outlook**

Lower arrivals in mandis and reportedly regular domestic demand may push the markets higher in the coming week besides lower area coverage due to slow progress of monsoon and uneven distribution over the key growing regions. However, subdued export activity currently in the market may cap the gains to some extent. Moreover, progress of monsoon in coming days would remain the key for deciding the price movement.

**Cotton Prices at Key Spot Markets:**

| Commodity | Centre & Variety        | % Change Over Previous Week | Prices (Rs/Qtl)      |                       |                        |                       |
|-----------|-------------------------|-----------------------------|----------------------|-----------------------|------------------------|-----------------------|
|           |                         |                             | Current (04-07-2011) | Week Ago (27-06-2011) | Month Ago (04-06-2011) | Year Ago (05-07-2010) |
| Cotton    | Kadi –Bt Cotton         | Unch                        | 3250-3750            | 2750-3750             | 3250-3625              | 3200-3650             |
|           | Amravati – Vunni Mech-1 | NA                          | NA                   | 3300-4200             | 2700-3500              | 3425-3490             |
|           | Ahmedabad – Shankar-6   | NA                          | NA                   | 3250-4250             | NA                     | 3475-3500             |
|           | Abohar – J-34           | -3.84                       | 3725-3750            | 3850-3900             | 4625                   | NA                    |
|           | Muktsar– J-34           | -3.84                       | 3725-3750            | 3850-3900             | 4700                   | NA                    |

**INTERNATIONAL MARKET HIGHLIGHTS**

- U.S cotton planted area for 2011 is estimated at 13.7 million acres, 25 percent above from last year.
- Demand from China may improve as imports from China is likely to increase as domestic supplies decline as Beijing gives top priority to grain production.
- Reports of high moisture in Pakistan after the rains may cause quality problem and on other it could move prices higher the prices despite the new crop.
- Australian harvest ended in June and the country is likely to produce a record crop of over 4 million bales due to better weather conditions and higher plantings.

| 2011 Acreage Projections (In million acres) |                 |                           |
|---|-----------------|---------------------------|
| U.S   | USDA Final 2010 | USDA Planted Acreage 2011 |
| Total                                       | 10.66           | 13.43                     |
| Source: USDA                                |                 |                           |

Acreage of cotton increased as higher prices prompted farmers to sow more cotton in place of sorghum and corn.

#### **New York Futures on ICE**

The chart below shows the price movement of the New York Futures on ICE for the active December contract-





In US Cents/lb

## ICE Futures Quotes for Cotton

| Contract | Current<br>(04/07/2011) | Week ago<br>(27/06/2011) | Month ago<br>(03/06/2011) | Year ago<br>(05/07/2010) | % Change<br>over previous<br>year |
|----------|-------------------------|--------------------------|---------------------------|--------------------------|-----------------------------------|
| July     | 161.41                  | 162.00                   | 161.63                    | 81.64                    | 97.70                             |
| December | 117.81                  | 121.99                   | 138.70                    | 75.53                    | 55.97                             |
| March    | 109.41                  | 113.18                   | 128.99                    | 76.73                    | 42.59                             |
| May      | 106.18                  | 107.88                   | 120.24                    | 77.06                    | 37.78                             |

In US Cents/lb

## Technical Analysis of Cotton Futures December contract at ICE



## Prices-US Cents/lb

According to the chart the price trend looks bearish with firm support at 113.016 and 116.287 and if this support is broken then we can prices moving down to 108 levels. Firm resistances are at 123.28 and 126.099. Prices have closed below the short term EMAs reveals bearish momentum in the market. Market Indicators like MACD and RSI reveals bearish momentum in the market.

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