

Highlights of the Week

- Cotton prices remained weak at most centers during the week ending July 12th 2011 as weather conditions remained favourable for further sowing.
- For current year sowing progress is down for cotton at 44.62 lakh hectares as on 9th July 2011 compared to 66.09 lakh hectares as on 9th July 2010.
- The acreage has declined by 32.49% due to decline in rainfall in the major growing regions.
- Initially, sentiments remained firm as weather condition is unfavourable for sowing in Gujarat and Maharashtra.
- Cotton has been sown only in 5.76 lakh hectares as compared to 10.74 lakh hectares during the corresponding period last year.
- Sentiments also remained firm as the government has exempted cotton and yarn waste from the additional cap of 10 lakh bales imposed on exports of the natural fibre for 2010-11 season.
- However, higher acreage in Punjab and Haryana might continue weaken prices in the Haryana and Punjab markets.
- Cotton exports have increased to an additional quantity of 170,000 tons of cotton for export allowed in the current marketing year and have shortlisted 227 applicants for an additional one million bales (170,000 million tonnes) of cotton.
- However weak demand millers will continue to persist in the market and may continue to weaken prices.

Current Market Dynamics

Markets sentiments remain weak as cotton exports could take a dip in 2011-12 from the 6.5 million bales approved the previous year as poor rains reduce the amount of land sown with the crop in the world's second-largest producer and exporter. Initially the country's cotton acreage was expected to rise 15 per cent in 2011-12 on record high prices, but scant rainfall in key growing areas may prompt farmers to go for other crops like corn and soybean and even trim per hectare yield of cotton. India's western states of Gujarat and Maharashtra accounted for over 50 per cent of the country's total production in the cotton marketing year that began in October and the two states have received very poor rainfall in June. If rainfall doesn't improve in the next 10-15 days it may impact cotton output severely in all the 3 states.

Meanwhile, cotton yarn sector has estimated a loss of Rs 11,000 crore for the cotton yarn sector due to measures like withdrawal of export incentives, restrictions on exports, and imposition of excise duty. The Confederation of Indian Textile Industry (Citi) added the textile industry is undergoing a rough time due to crash in yarn prices, weak demand in the domestic and international markets, coupled with withdrawal of export incentives and imposition of steep excise duty of 10 per cent on branded garments.

Trade sources also added that yarn prices dropping sharply following the steep decline in cotton prices due to drastic fall of demand in the domestic and international markets textile mills which bought cotton at higher levels have started to feel the heat. Textile mills which currently hold about 65 lakh bales (1 bale = 170 kg) in cotton stock could face losses upto Rs 20,000 per candy (1 candy = 356 kg) due to the steep fall in prices.

The textile industry is going to ask the government to provide them with a relief package soon as the sector is undergoing tough times. Citi is going to ask the Indian government to restore DEPB and drawback on exports of cotton yarn from the dates of their discontinuance. Furthermore, the restoration of interest subvention of 4.5 percent on export of textiles and clothing needs to be done and the government should withdraw excise duty of 10 percent imposed on the branded garments and clothing in order to encourage the consumer demand.

DGFT announced allocation of export quota to 227 applicants for an additional one million bales (170,000 million tonnes) of cotton on July 8th 2011.

Crop Progress and Weather Condition

The country cumulative rainfall from June 1st 2011 to July 11th 2011 remains -1% below the LPA (Long Period Average) which has caused the cotton sowing to lag behind due to uneven distribution of rainfall over the key growing regions (Maharashtra and Gujarat). The following table shows the percentage departure of rainfall over the key growing districts of below mentioned states –

Maharashtra	% Departure as on 12-07-2011	Andhra Pradesh	% Departure as on 12-07-2011	Gujarat	% Departure as on 12-07-2011
Jalgaon	-80%	Guntur	89%	Ahmedabad	-99
Aurangabad	-56%	Krishna	72%	Bharuch	-90
Jalna	-45%	Prakasam	87%	Sabarkantha	-89
Beed	111%	Kurnool	5%	Vadodara	-99
Nanded	-50%	Rangareddy	-46%	Amreli	-88
Parbhani	-56%	Medak	24%	Bhavnagar	-80
Hingoli	-62%	Mahabubnagar	-25%	Jamnagar	-72
Buldhana	-69%	Nalgonda	38%	Rajkot	-85
Akola	-71%	Warangal	123%	Surendranagar	-94
Amravati	-56%	Khammam	16%		
Yavatmal	-12%	Karimnagar	28%		
		Adilabad	1%		

As evident from the above table the rainfall is deficient to scanty over the key growing districts in Maharashtra and Gujarat which accounts for over 50 per cent of the country's total production. If the situation persists in coming days then sown area under cotton is expected to be lower by a huge margin and it will also affect the already sown crop. However, rainfall has been above the LPA in most of the growing districts in Andhra Pradesh which could improve sowing intentions in the state. The rainfall during the coming days (during 1st half of the July) should be watched very carefully for the states of Gujarat and

Maharashtra 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 12th 2011:

State	Season Target	As on 11-07-2011	Same period last year	% Change
A.P	13.51	7.066	9.450	-25.22
Maharashtra	35.03	14.51	19.251	-24.62
Gujarat	27.00	5.76	10.74	-46.36
Area= Lakh Hectares				

As on 11th July, cotton acreage in the main 3 states is given in above table. Acreage of Maharashtra, Gujarat and A.P has declined during the same period in the previous year. Rainfall remained lower in all major districts of Maharashtra, Gujarat and A.P which reduced the acreage. However in the last few days good amounts of rainfall has been seen in all the 3 states

Advance of Monsoon and Forecast for July 9th-16th 2011:

As per IMD, Fairly widespread thundershowers would occur over north-eastern states, Gujarat, A.P Interior Karnataka Marathwada and Vidarbha. The chart below shows the progress of monsoon over the country:





Prices-Rs/quintal

As evident from the above chart, cotton prices are trading in a narrow range of Rs 3400 – 3750/Qtl. Both the levels are acting as of good support and resistance, breaching either side will decide the further trend. Prices are below the short term EMAs which supports weakness. RSI is suggesting a firm market. In coming week we expect prices to move range bound with slight firmness and move upto 4250 levels shown by the red line.

Strategy: Buy near 3400 is advisable and partially book the profit near 4000.

Support and Resistance:

Support 2	Support 1	Resistance 1	Resistance 2
3400	3500	4000	4250

Expected Price range of Cotton Prices for next week

Markets	Expected Trading Band for	Expected Trend for coming
---------	---------------------------	---------------------------

	the coming week	week
Kadi	3500-4250	Bullish

Prices-Rs/quintal Kadi prices- Bt quality

Cotton Price Outlook

Prices may start to move higher due to lower acreage in the country. However monsoon progress in the month of July will remain the key for deciding the price movement in the coming weeks. However weaker export demand may restrict the upside due to weak international demand for the commodity.

Cotton Prices at Key Spot Markets:

Commodity	Centre & Variety	% Change Over Previous Week	Prices (Rs/Qtl)			
			Current (11-07-2011)	Week Ago (04-07-2011)	Month Ago (11-06-2011)	Year Ago (10-07-2010)
Cotton	Kadi –Bt Cotton	-2.66	3425-3650	3250-3750	2875-3500	3200-3500
	Amravati – Vunni Mech-1	-	NA	NA	2500-3300	3470-3510
	Ahmedabad – Shankar-6	-	3500-4000	NA	NA	3500
	Abohar – J-34	-3.33	3600-3625	3725-3750	4500-4550	NA
	Muktsar– J-34	-3.33	3600-3625	3725-3750	4550	NA

INTERNATIONAL MARKET HIGHLIGHTS

- National Agricultural Statistics Service (NASS); Agricultural Statistics Board said that area planted to cotton in 2011 is estimated at 13.7 million acres, up 25 percent from last year.
- According to the USDA data, approximately 41% of U.S. cotton crops were in poor to very poor conditions as of July 3rd 2011.
- Sentiments remained weak amid adverse weather conditions in the U.S. and India added to concerns over deteriorating crop conditions.

- Sentiments remained weak after cotton demand from China may weaken as high costs encourage consumers to switch to cheaper synthetic fibers.
- Sentiments remained weak after cotton demand from China may weaken after the People's Republic of China announced another increase in the Yuan benchmark interest rate as of July 7th 2011.
- ICE cotton futures make a run higher, but rally unraveled on little buying interest, with another consecutive week of poor US cotton sales data for the current crop, a sign of weak demand.

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 (11/07/2011)	Week ago (04/07/2011)	Month ago (10/06/2011)	Year ago (09/07/2010)	% Change over previous year
December	108.88	117.81	133.65	74.99	45.19
March	103.44	109.41	126.86	76.11	35.90
May	100.38	106.18	118.52	76.56	31.13

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 103.652 and 104.993 and if this support is broken then we can prices moving down to 99.3712 levels. Firm resistances are at 113.932 and 114.826. Prices have closed below the short term EMAs reveals bearish momentum in the market. Market Indicator like MACD and RSI reveals bearish momentum in the market.

Disclaimer

The information and opinions contained in the document have been compiled from sources believed to be reliable. The company does not warrant its accuracy, completeness and correctness. Use of data and information contained in this report is at your own risk. This document is not, and should not be construed as, an offer to sell or solicitation to buy any commodities. This document may not be reproduced, distributed or published, in whole or in part, by any recipient hereof for any purpose without prior permission from the Company. IASL and its affiliates and/or their officers, directors and employees may have positions in any commodities mentioned in this document (or in any related investment) and may from time to time add to or dispose of any such commodities (or investment). Please see the detailed disclaimer at <http://www.agriwatch.com/Disclaimer.asp>

© 2005 Indian Agribusiness Systems Pvt Ltd.