

Highlights of the Week

- Cotton prices fell at most centers during the week ending July 19th 2011 due to weak demand from millers.
- However, for current year sowing progress is down by 43% at 58.89 lakh hectares as on 15th July 2011 compared to 84.43 lakh hectares during the corresponding period last year.
- Cotton prices fell at major centers as recent rains may boost cotton output in Gujarat and Maharashtra and A.P.
- Weather conditions in the states of Maharashtra and Gujarat has improved which weakened prices in the short run.
- 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.
- Meanwhile, SIMA appeals Tamil Nadu CM to exempt cotton textiles from VAT as the cotton textile industry has been facing a grave crisis for the last four months due to abnormal drop in cotton and yarn prices, sudden glut in the domestic and international market, huge accumulation of yarn stock, closure of dyeing units.
- According to officials, cotton stocks are only 17 lakh bales against earlier reported 55 lakh bales. So the government may not increase cotton export in the current season.
- Meanwhile, the textile ministry is expecting an exemption of 10 per cent excise duty on garments by the finance ministry.
- Meanwhile, Indian ministerial panel will likely decide in August on whether or not to allow cotton exports beyond the 6.5 million bales that the government had earlier approved for shipments in the marketing year through September.
- Separately, Union Minister for Commerce & Industry and Textiles has recommended to the government a duty draw back on cotton yarn exports.
- The Textiles Ministry will also recommend for restoration of tax refunds on cotton yarn exports as prices have fallen significantly in the last 6 months.

Current Market Dynamics

Markets sentiments remain weak as demand from millers remained weak. Markets also remained weak late but widespread rains have improved prospects for the cotton crop in Gujarat and Maharashtra, the two major commodity producing states. However after the dip markets saw rebound at lows of the as the progress is down by 43% at 58.89 lakh hectares as on 15th July 2011 compared to 84.43 lakh hectares during the corresponding period last year. Markets moved higher after Textiles Ministry said it will pitch for restoration of tax refunds on cotton yarn exports, which were suspended in April 2010 for discouraging overseas shipments in the backdrop of high domestic prices.

The minister indicated that after the expiry of the tax-incentive Duty Entitlement Passbook (DEPB) scheme on September 30, a robust form of the duty drawback would be introduced to compensate losses of the exporters due to withdrawal of DEPB scheme.

Markets moved higher the Indian government may not allow further exports of cotton as carry-out stocks for the current season is expected to be much lower compared to previous estimates. According to the officials cotton carry-out stocks were only 17 lakh bales against earlier estimates of 55 lakh bales. Initially the Indian government had decided to allow exports of extra 10 lakh bales of cotton during the current season ending September 2011. India has already exported 52.5 lakh bales. An inter-ministerial panel will meet next month to take a call on whether to permit cotton exports beyond the ceiling of 65 lakh bales for the current cotton season. Cotton season runs from October to September.

However rains have significantly improved in Gujarat and Maharashtra and Late but widespread rains have improved prospects for the cotton crop in Gujarat and Maharashtra, the two major commodity producing states. A few areas in Maharashtra and Gujarat have received good rains in last 3-4 days and the current crop prospects are as good as last year's. Sowing activity has revived and will finish by July end in both states.

The Directorate General of Foreign Trade (DGFT) has extended the deadline for mandatory documents and the scrutiny and issue of registrations for cotton exports by a week. DGFT had earlier allocated 158,460 tonnes of cotton on a pro-rata basis among 227 applicants.

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 13-07-2011	Andhra Pradesh	% Departure as on 13-07-2011	Gujarat	% Departure as on 13-07-2011
Jalgaon	43%	Guntur	-31%	Ahmedabad	191%
Aurangabad	132%	Krishna	-17%	Bharuch	50%
Jalna	129%	Prakasam	-2%	Sabarkantha	119%
Beed	277%	Kurnool	-48%	Vadodara	75%
Nanded	8%	Rangareddy	-18%	Amreli	190%
Parbhani	104%	Medak	8%	Bhavnagar	225%
Hingoli	-20%	Mahabubnagar	-21%	Jamnagar	271%

Buldhana	253%	Nalgonda	48%	Rajkot	365%
Akola	38%	Warangal	-19%	Surendranagar	542%
Amravati	-21%	Khammam	-10%		
Yavatmal	-31%	Karimnagar	-2%		
		Adilabad	-13%		

As evident from the above table the rainfall is excess 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 increase. However, rainfall has been below the LPA in most of the growing districts in Andhra Pradesh which could decline sowing intentions in the state. The rainfall during the coming days (during 2nd half of the July) should be watched very carefully for the states of Gujarat and Maharashtra and continued increase in rainfall could meet up with government targets in both the states..

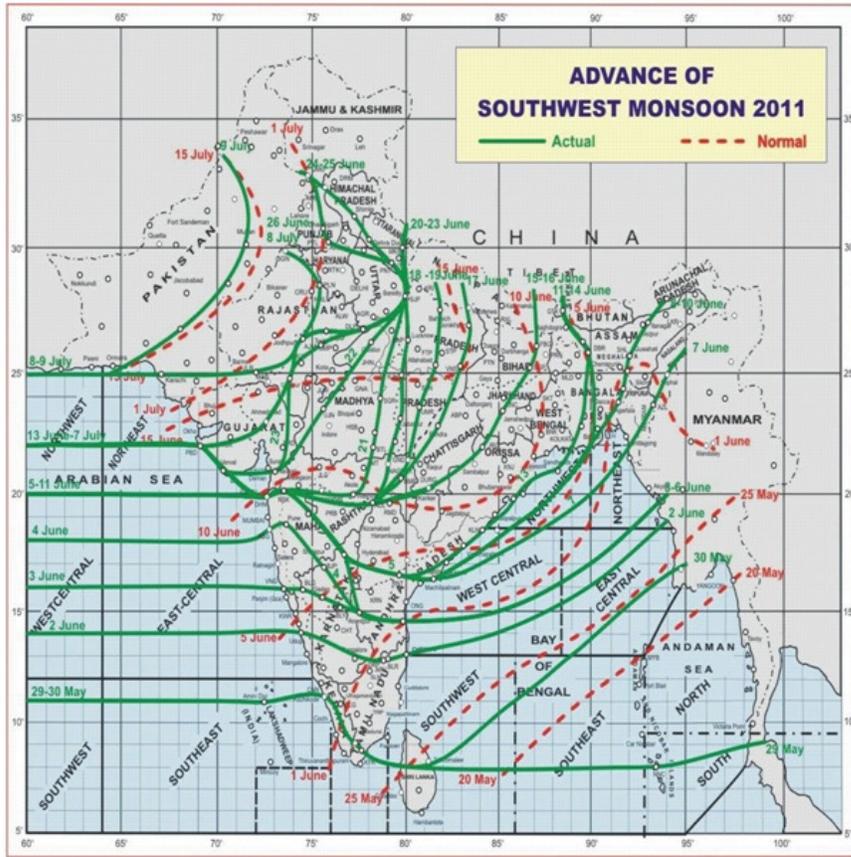
Following table shows the sown area under cotton in A.P. and Maharashtra as on July 15th 2011:

State	Season Target	As on 15-07-2011	Same period last year	% Change
A.P	13.5	8.98	11.8	-23.89
Maharashtra	35.0	30.4	33.8	-10.05
Gujarat	27.0	10.65	15.00	-30.00
Area= Lakh Hectares				

As on 15th July 2011, 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 16th-23rd 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:



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 3400 – 3650/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 firm sentiments. RSI is suggesting a firm market. In coming week we expect prices to move range bound with slight firmness and move upto 4300 levels shown by the red line.

Strategy: Buy near 3400 is advisable and partially book the profit near 4200.

Support and Resistance:

Support 2	Support 1	Resistance 1	Resistance 2
3400	3500	4200	4400

Expected Price range of Cotton Prices for next week

Markets	Expected Trading Band for the coming week	Expected Trend for coming week
Kadi	3800-4200	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 2nd half of July and 1st week of August 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 (18-07-2011)	Week Ago (11-07-2011)	Month Ago (18-06-2011)	Year Ago (17-07-2010)
Cotton	Kadi –Bt Cotton	-0.69	3125-3625	3425-3650	2875-3175	3350-3700
	Amravati – Vunni Mech-1	-	2500-3100	NA	2400-3200	3500-3550
	Ahmedabad – Shankar-6	-6.6	3250-3750	3500-4000	3000-4000	3625
	Abohar – J-34	-7.5	3350	3600-3625	4050-4100	NA
	Muktsar– J-34	-7.5	3350	3600-3625	4050-4100	NA

INTERNATIONAL MARKET HIGHLIGHTS

- The market sentiments remained weak due to ongoing concerns over a slowdown in demand from China.
- However, bad weather conditions still remained a concern in the U.S with little rain in the forecast for major growing areas this week.

- Sentiments also remained weak due to better production estimates in Pakistan.
- Global demand issues, highlighted by unprecedented U.S. old-crop export sales cancellations and dramatic declines in late-season shipments also moved markets lower.
- The Department of Agriculture lowered its outlook for U.S. cotton shipments to 12 million bales for the year that begins August 1st 2011, down from last month's projection of 13 million. Exporters have had more canceled orders than sales in 14 of the past 15 weeks.
- However after the initial dip markets sentiments improved on concerns that production will drop more than forecast in the U.S.

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 (18-07-2011)	Week Ago (11-07-2011)	Month Ago (17-06-2011)	Year Ago (18-07-2010)	% Change over previous year
December	96.84	108.88	123.77	73.62	31.54
March	94.83	103.44	117.71	74.61	27.10
May	94.01	100.38	112.51	75.34	24.78

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 supports at 89.68 and 85.94 and if this support is broken then we can prices moving down to 82 levels. Firm resistances are at 99.95 and 103.99. Prices have closed below the short term EMAs reveals bearish momentum in the market. Market Indicator MACD reveals bearish momentum in the market. However RSI is moving down in the oversold region and may see some rebound in the markets due to oversold nature.

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