

**Highlights of the Week**

- Cotton prices remained mixed during the week ending July 26<sup>th</sup> 2011. Prices inched up in Amravati market while prices eased in Abohar and Muktsar markets. Kadi market featured a steady tone during the period.
- Textile industries in Andhra Pradesh are unhappy with government's decision of imposition of 4 per cent VAT on textiles.
- According to the latest data of Rajasthan state agriculture department as on July 22<sup>nd</sup> sown area under cotton reached 5.23 lakh hectares as compared to 2.42 lakh hectares same period last year and even up from the targeted area of 3.80 lakh hectares.
- Acreage also increased in Haryana to 6.05 lakh hectares as compared to 5 lakh hectares during the same period last year. It also crossed the target set by the state agriculture department of Haryana at 6 lakh hectares.
- According to the state agriculture department cotton carry-out stocks were only 17 lakh bales against earlier estimates of 55 lakh bales.
- As per the sources, cotton spinning mills have suffered losses substantially in the last two months, owing to fall in prices of raw material by 40%. Escalating yarn supplies signals slowing global demand for textiles.
- Government may consider for allowing an extra 8 lakh bales of cotton export. However the industry demanding that exports should be more 20 lakh bales as surplus yarn with the industry may slow down demand.
- Government in its 4<sup>th</sup> advance estimate revised higher the cotton production estimate for 2010-11 to 33.43 million bales, Last year (2009-10) country has produced 24.23 million bales (1 bale = 170 Kg).
- Confederation of Indian Textile Industry (CITI) said that cotton yarn stocks have now come down to around 350 million kgs compared to 500 million kgs 2 months ago.

**Current Market Dynamics**

India's cotton area so far (as of July 22<sup>nd</sup>) in the country is down by 1.6 lakh hectares to 93.45 lakh hectares as compared to last year. However, area under cotton is expected to increase in coming days as rainfall improved over the key growing areas like Maharashtra, Rajasthan etc which favours sowing. Cotton sowing is likely to extend upto 1<sup>st</sup> week of August in the country.

The cotton advisory board of the country also expects that sown area under cotton would surpass the last year's (2010-11) figure of 111.4 lakh hectares amid recent improvement in monsoon and higher realization to farmer during the MY 2010-11.

The following table shows the key growing district and state wise % departure of rainfall week-on-week basis-

Maharashtra	% Departure		Andhra Pradesh	% Departure		Gujarat	% Departure	
	20-07-11	13-07-11		20-07-11	13-07-11		20-07-11	13-07-11
Jalgaon	24%	43%	Guntur	-54%	-31%	Ahmedabad	38%	191%
Aurangabad	-4%	132%	Krishna	10%	-17%	Bharuch	-48%	50%
Jalna	38%	129%	Prakasam	-78%	-2%	Sabarkantha	-40%	-40%
Beed	224%	277%	Kurnool	-89%	-48%	Vadodara	-26%	75%
Nanded	47%	8%	Rangareddy	-37%	-18%	Amreli	152%	190%
Parbhani	164%	104%	Medak	62%	8%	Bhavnagar	72%	225%
Hingoli	-2%	-20%	Mahabubnagar	-74%	-21%	Jamnagar	-42%	271%
Buldhana	65%	253%	Nalgonda	-43%	48%	Rajkot	72%	365%
Akola	1%	38%	Warangal	43%	-19%	Surendranagar	56%	542%
Amravati	57%	-21%	Khammam	75%	-10%			
Yavatmal	53%	-31%	Karimnagar	47%	-2%			
			Adilabad	19%	-13%			

Following table shows key state wise cotton sowing progress as on July 25<sup>th</sup>, 2011:

State	Season Target	As on 25-07-2011	Acreage in 2009-10	Same period last year	% Change compared to last year
<b>A.P</b>	13.5	9.65	17.76	14.24	<b>-32.33</b>
<b>Maharashtra</b>	35.0	36.78	39.73	37.61	<b>-2.20</b>
<b>Gujarat</b>	27.0	20.21	26.33	21.64	<b>-6.6</b>
<b>Haryana</b>	6.00	6.05	4.92	5.00	<b>21</b>
<b>Area= Lakh Hectares</b>					

As evident from the above table in key states (AP, Maharashtra and Gujarat) sowing is lagging behind due to uneven distribution of rainfall. However, recent improvement in rainfall over the states is favorable for sowing activity and sowing of the commodity is likely to pick up pace. Rainfall this week was better compared to last week in both A.P and Maharashtra which improved sowing in both the states.

Meanwhile, the Union Government is looking at allowing an export of extra 8 lakh bales of cotton. Out of the 8 lakh bales, 3 lakh bales are expected to be reserved for the Cotton Corporation of India and the rest 5 lakh bales would be lifted from private players. This may push prices higher and reduce the carry-out

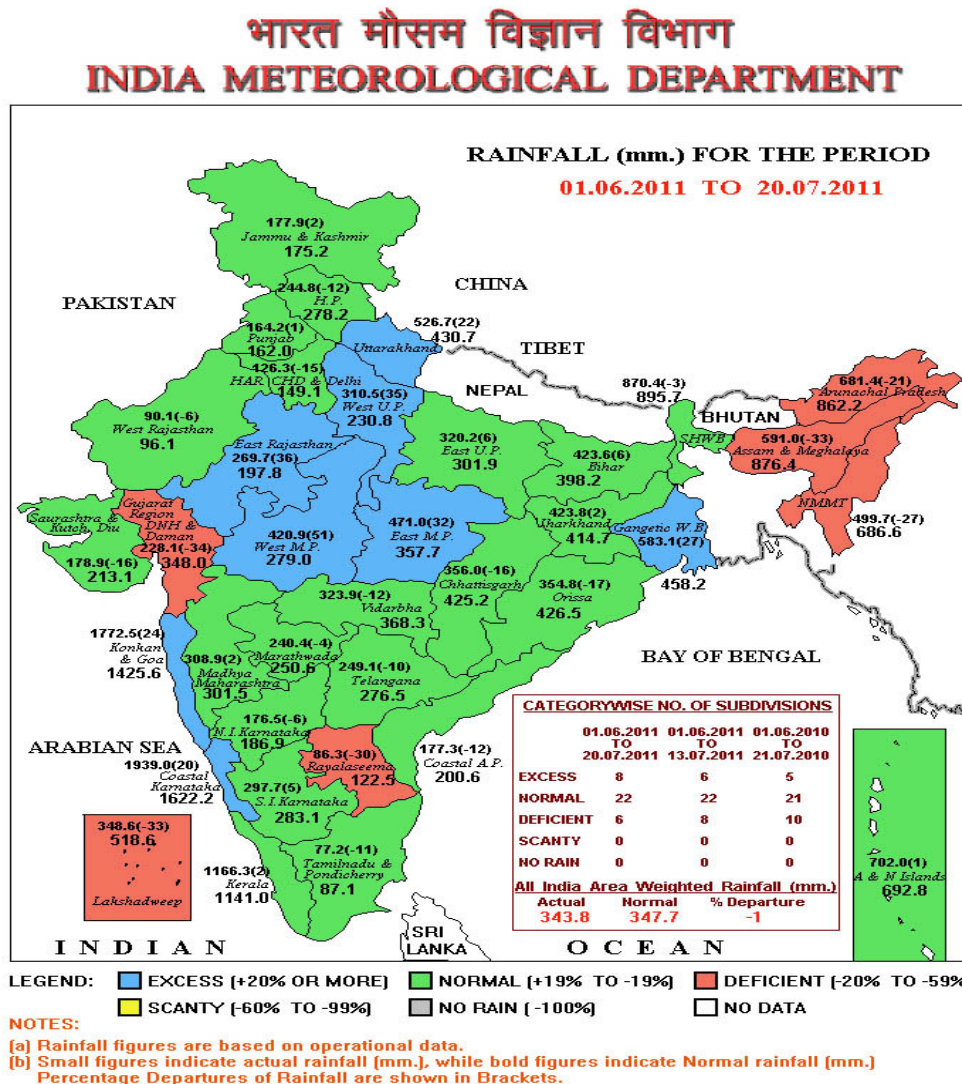
stocks which were 27.50 lakh bales and additional 18 lakh bales of export would reduce the carry-out stock from 27.50 lakh bales to 9.50 lakh bales which would cause shortage and may push prices higher. Earlier on June 8<sup>th</sup> 2011 government has allowed export of 10 lakh bales of 170 kg each beyond the earlier ceiling of 55 lakh bales for the current cotton season (October 2010-September 2011).

The cotton yarn stock has come down from 500 million kgs to 350 million kgs amid improved domestic demand for cotton yarn. Cotton yarn stock is expected to decline further in the coming months as festive demand is expected to start from September onwards which may trigger improved demand for all textile products and this would also help the spinning sector to dispose of their accumulated stocks of cotton yarn. The usual cotton yarn stock in hand is about 150 million kgs and currently millers have about 350 million kg and taking exports into consideration India would still have surplus of cotton yarn which may continue weaken yarn prices lower.

**Monsoon Forecast for July 23<sup>rd</sup> - 30<sup>th</sup> 2011:**

As per IMD, widespread thundershowers would occur over north-eastern states, Gujarat and South Rajasthan. However dry weather conditions could be seen in the state of Maharashtra and Southern Peninsula of the country over the 3-4 days.

The following chart shows the state wise rainfall over the country from June 1<sup>st</sup> to July 20<sup>th</sup>, 2011:



Source: IMD

Cotton Spot Prices (Kadi Market) Technical Analysis



## Prices-Rs/quintal

As evident from the above chart, cotton prices are trading in a range of Rs 3625 – 4125/Qtl and 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 bearish sentiments. RSI is suggesting a weak market. In coming week we expect prices to move sideways and range bound between Rs 3625 – 4125/Qtl range.

**Strategy:** Buy near 3600-3625 is advisable and book the profit near 4100.

## Support and Resistance:

Support 2	Support 1	Resistance 1	Resistance 2
3450	3625	4125	4300

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

Markets	Expected Trading Band for the coming week	Expected Trend for coming week
Kadi	3600-4100	Sideways

Prices-Rs/quintal Kadi prices- Bt quality

### Cotton Price Outlook

Prices may remain range in the coming week and cotton sowing progress would further give prices direction. Weather will also remain important feature in the coming days, so, it should be watched very carefully. However, expected good domestic demand ahead of festivities would remain supportive for prices.

### Cotton Prices at Key Spot Markets:

Commodity	Centre & Variety	% Change Over Previous Week	Prices (Rs/Qtl)			
			Current (25-07-2011)	Week Ago (18-07-2011)	Month Ago (25-06-2011)	Year Ago (24-07-2010)
Cotton	Kadi –Bt Cotton	-	3000-3625	3125-3625	3250-3750	NA
	Amravati – Vunni Mech-1	12.90	2800-3500	2500-3100	3300-4200	NA
	Ahmedabad – Shankar-6	-6.67	3000-3500	3250-3750	3260-4250	3625
	Abohar – J-34	-1.49	3300	3350	3850-3900	NA
	Muktsar– J-34	-1.49	3300	3350	3920	NA

### INTERNATIONAL MARKET HIGHLIGHTS

- U.S sentiments remained weak on cancellations of exports and no export demand, reported by USDA.

- U.S futures were down due to ongoing concerns over a slowdown in demand for U.S. supplies and cotton for export at U.S. ports in the week ended July 7th fell by a net 91,200 bales due to cancellations.
- Sentiments remained weak as cotton imports by China fell 27% in May 2011 from a year earlier. China's customs data showed today that cotton imports slid 17 percent to 119,997 metric tons in June from May.
- Sentiments also remained weak as global cotton demand is lower by 1.7 percent than estimated in June at 23.864 million metric tons.

## 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 (25-07-2011)	Week Ago (18-07-2011)	Month Ago (24-06-2011)	Year Ago (23-07-2010)	% Change over previous year
October	97.09	97.95	126.92	80.32	20.87
December	96.76	96.84	121.92	75.34	28.43
March	95.23	94.83	113.82	74.14	28.44
May	94.73	94.01	108.95	74.91	26.45

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 90.21 and 92.70 and if this support is broken then we can prices moving down to 86.90 levels. Firm resistances are at 101.74 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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