

## Highlights of the Month

- Cotton prices remained range bound to firm at most trading centers this month.
- USDA has projected Indian cotton exports for 2011-12 reach 5.6 million bales compared to 5.1 million bales in 2010-11.
- 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.
- 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.
- 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.
- 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, 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.
- According to the latest data of Rajasthan state agriculture department as on July 22nd 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.
- 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

Cotton prices featured a mixed trend during the month ended July 30<sup>th</sup> 2011. Prices in Kadi and Amravati market ended positive while in Abohar and Muktsar prices continue to rule weak on reports of higher cotton area this Kharif 2011 in Punjab and Haryana. The acreage details for the two major producers is shown below on a m-o-m basis,

Date	State	Normal Area	Actual Sown Area 2011	Target Area for the Season 2011-12	Last Year Sown Area 2010
30-07-11	Maharashtra	29.56	36.94	35.00	38.24
30-06-11		29.56	4.73	35.00	2.75
30-07-11	Gujarat	27.00	20.21	27.00	21.64
30-06-11		27.00	10.02	27.00	15.21
Area in Lakh Hectares					

As evident for the table, sowing in Maharashtra improved in the month of July 2011 compared to the month of June 2011 based on the fact that rainfall was better in July 2011 and helped in sowing activity in the state. However area was still lower compared July 2010 as sowing started little late due to the lack of rainfall in the initial period of July 2011. However, area has overrun the target set by the Maharashtra government for Kharif 2011 by 5.5% and may even surpass that area compared to last year at 39.32 lakh hectares. Similarly, acreage in Gujarat has improved in July 2011 due to better rains in the second half of the month of July 2011, but is still lagging behind the figure in July 2010 due to lower rainfall in July 2011. However we believe that the area will touch the target set by the Gujarat government for Kharif 2011.

## Weather Month on Month Basis

Maharashtra	% Departure		Gujarat	% Departure	
	As on 30-07-11	As on 30-06-11		As on 30-07-11	As on 30-06-11
Jalgaon	-51%	-89%	Ahmedabad	-77%	-100%
Aurangabad	-35%	-86%	Bharuch	-92%	-100%
Jalna	4%	-60%	Sabarkantha	-36%	-96%
Beed	32%	-56%	Vadodara	-87%	-100%
Nanded	-73%	-81%	Amreli	41%	-100%
Parbhani	22%	-69%	Bhavnagar	-69%	-100%

Hingoli	-66%	-47%	Jamnagar	-39%	-100%
Buldhana	-58%	-67%	Rajkot	26%	-100%
Akola	-40%	-43%	Surendranagar	-69%	-100%
Amravati	6%	-25%			
Yavatmal	-40%	3%			

According to the trade sources the Indian government may look for increasing exports for the current season as the official expect surplus of stocks in hand. So after the estimated increase in exports for 2010-11 the carry-out stocks will be just 9.5 lakh bales. With the textile consumption over 20 lakh bales a month this will create a shortage of stocks as consumption in hand.

<i>In Lakh Bales (1 bale = 170 Kgs)</i>	<b>2009-10</b>	<b>Revised 2010-11</b>	<b>Estimated 2010-11</b>
<b>Opening stock</b>	<b>71.5</b>	<b>40.5</b>	<b>40.5</b>
<b>Production</b>	<b>295</b>	<b>312</b>	<b>312</b>
<b>Imports</b>	<b>7</b>	<b>5</b>	<b>5</b>
<b>Total Supply</b>	<b>373.5</b>	<b>357.5</b>	<b>357.5</b>
<b>Export</b>	<b>83</b>	<b>65</b>	<b>73</b>
<b>DoM Consumption</b>	<b>250</b>	<b>275</b>	<b>275</b>
<b>Total Usage</b>	<b>333</b>	<b>340</b>	<b>340</b>
<b>Ending stocks</b>	<b>40.5</b>	<b>17.5</b>	<b>9.5</b>
<b>Estimated Monthly Consumption</b>	<b>27.8</b>	<b>28.3</b>	<b>28.3</b>

**Source: Cotton Advisory Board & AW Research**

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.

## Technical Analysis of Cotton Prices at Kadi Market



## Prices-Rs/quintal

As evident from the above chart, cotton prices are moving sideways and range bound between 3350-4125. Momentum indicator MACD hints for firmness in prices while oscillator RSI hints for a sideways trade. Cotton prices are expected to move higher and trade at 4400 levels. However breaching 3300-4200 levels will decide the momentum of the prices. Immediate support can be seen at 3500 and then 3000 level and resistance at 4250 and then 4550 levels.

## Cotton Price Outlook

We expect cotton prices to remain range bound with firm bias in coming month on tight supply in the market amid lower ending stocks as well as export demand. However monsoons have progress into most parts of the country and area have seen an improvement on an m-o-m basis. Progress and distribution of monsoon will remain the key in days to come and the actual price direction will depend on the same.

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

Markets	Expected Range of Cotton
Kadi	3600-4200

**Prices-Rs/quintal**
**Kadi-Bt quality**
**Cotton Prices at Key Spot Markets:**

Commodity	Centre & Variety	Prices (Rs/Qtl)		Change
		30-07-11	30-06-11	
Cotton	Kadi –Bt Cotton	3650-3900	3500-3750	150
	Amravati –Vunni Mech-1	NO TRADE	3200-4250	-
	Abohar – J-34	3300	3800-3850	-550
	Muktsar– J-34	3300	3850	-550

**Downstream industries (Production of Yarn)**

Production of Yarn which includes Cotton Yarn, Blended Yarn and 100% Non-Cotton Yarn increased by 10.84% in 2010-2011 as compared to same period previous year. The increase in yarn production was due to the combined effects of rising demand and production cuts at India's cotton spinning mills are putting the sector on track for a recovery in the second half of the year.

Production of Yarn (Cotton Yarn, Blended Yarn and 100% Non-Cotton Yarn)					
YEAR	Cotton Yarn	Blended Yarn	100% Non-Cotton Yarn	G. TOTAL	Y-o-Y % Change
2008-09 (April-March)	2899	655	361	3914	-2.23%
2009-10 (April-	3079	707	407	4193	7.12%

<b>March)</b>					
<b>2010-11 (April-March)</b>	3442	784	420	4646	10.84%
<b>Source: Ministry Of Textile, Office of the Textile Commissioner</b>					

## INTERNATIONAL MARKET HIGHLIGHTS

- U.S cotton planted area for 2011 is estimated at 13.7 million acres, 25 percent above from last year.
- 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 30<sup>th</sup> 2011.
- The Department of Agriculture lowered its outlook for U.S. cotton shipments to 12 million bales for the year that begins August 1<sup>st</sup> 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.
- 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.
- 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.
- Australia is expected to produce a record crop for the second straight year in 2011/12 at 4.8 million bales.

## World Cotton Supply and Distribution

<b>World Cotton Balance Sheet</b>			
<b>Attribute</b>	<b>2009-10</b>	<b>2010-11</b>	<b>2011-12</b>
<b>Area</b>	29988	33605	36289
<b>Beginning Stocks</b>	11914	8628	8650
<b>Production</b>	22014	25051	27325
<b>Imports</b>	7702	8002	8345
<b>Consumption</b>	25047	25010	25764
<b>Exports</b>	7774	8011	8345
<b>Ending Stocks</b>	8628	8650	10211
<b>Yield</b>	734	745	753
<b>Area-1000 Ha, Yield-Kg/Ha, Beginning Stocks, Production, Imports, Consumption and Ending Stocks-000 Metric Tons</b>			

ICAC states that global cotton area is forecast to be up by 8 per cent to 36289 '000 hectares in 2011-12. Global cotton production could reach 27325 000 Metric Tons, 9 per cent more than in 2010-11. Ending stocks are expected to remain high at 10211 000 Metric Tons. The yield however is not expected increase by much in 2011-12.

Source: International Cotton Advisory Committee (ICAC)

## New York Futures on ICE

The price movement of the New York on ICE for the active December-11 contract in the month of July has been shown below,



In US Cents/lb

## ICE Futures Quotes for Cotton

Contract	Current (28/07/2011)	Month ago (28/06/2011)	Year ago (30/07/2010)	% Change over previous year
October	102.81	102.81	82.36	24.83
December	102.57	102.57	78.76	30.23
March	100.75	100.75	76.29	32.06
May	99.72	99.72	76.80	29.84

In US Cents/lb

ICE December contract have been higher by 30.2% over the last month as approximately 41% of U.S. cotton crops were rated in very poor or poor condition as of July 28th 2011, compared with 8 percent a year earlier. Prices may continue to move higher as crop damage in Texas and Mississippi could decrease the acreage. Sentiments were firm after USDA said that U.S production could decline to 16 million bales compared to 17 million bales estimate a month earlier.

## Technical analysis of ICE Futures (December contract)





## Prices-US Cents/lb

According to the chart the price trend looks weak with firm resistance at 104.54 and 111.35 and if this resistance is broken then we can expect prices to go up to 116-120 levels. Good supports can be seen at 95.96 and 93.18 levels.

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