

**Highlights of the Week**

- Cotton prices ended higher during the week ending August 02nd 2011.
- Cotton remained steady to firm as the government announced restoration of incentives on export of cotton and cotton yarn following a sharp fall in domestic and international prices. The decision to restore the Duty Entitlement Pass Book (DEPB) scheme on cotton yarn would be on a retrospective effect basis from April 2011 and on cotton from October 2010.
- Cotton has been sown in 20.21 lakh hectares of area till July 18th 2011 as compared to 21.64 lakh hectares during the corresponding period last year.
- Meanwhile area in Haryana has overtaken the target set for cotton at 6.00 lakh hectares by 0.05 lakh hectares to 6.05 lakh hectares. Higher pricing prompted farmers to sow more this year.
- According to state agriculture department of Rajasthan cotton sowing has remained higher at 5.3 lakh hectares compared to 2.45 lakh hectares during the same time in the corresponding year. Government target is 3.80 lakh hectares for this year higher from the corresponding year at 3.35 lakh hectares.
- According to ministry of agriculture cotton have been sown in 105.56 lakh hectare as against 101.43 lakh hectare last year on this date. The area has increased by 4.07%.
- However 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.
- The government is considering a call on allowing more exports due to surplus cotton supplies. Government added that as surplus has been upped to 5.25 million bales there is more scope for exports beyond the 6.5 million bales limit.
- However seeing higher prices stockist's offloaded stocks into the markets and domestic cotton arrivals in Indian spot markets till 30th July 2011 during the season 2010-11 edged up by 8.62% on year.
- Arrivals in Gujarat were up 3.02% on year at 10.04 million bales. While in Maharashtra, arrivals were up 24.62% at 7.85 million bales.

**Current Market Dynamics**

India's cotton area so far in the country is up by 4.1% to 105.56 lakh hectare as against 101.43 lakh hectare last year on this date. Area under cotton is expected to increase in coming days as rainfall improved over the key growing areas like Maharashtra Gujarat, Rajasthan Haryana and Punjab during the 3<sup>rd</sup> week of July. Cotton sowing is likely to continue till the 1<sup>st</sup> week of August 2011. So this may restrict the current upside in prices. However rainfall activity will be the key factor to decide the market trend.

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	
	27-07-11	20-07-11		27-07-11	20-07-11		27-07-11	20-07-11
Jalgaon	-51%	24%	Guntur	26%	-54%	Ahmedabad	-77%	38%
Aurangabad	-35%	-4%	Krishna	-23%	10%	Bharuch	-92%	-48%
Jalna	4%	38%	Prakasam	-25%	-78%	Sabarkantha	-36%	-40%
Beed	32%	224%	Kurnool	71%	-89%	Vadodara	-87%	-26%
Nanded	-73%	47%	Rangareddy	-22%	-37%	Amreli	41%	152%
Parbhani	22%	164%	Medak	-49%	62%	Bhavnagar	-69%	72%
Hingoli	-66%	-2%	Mahabubnagar	27%	-74%	Jamnagar	-39%	-42%
Buldhana	-58%	65%	Nalgonda	29%	-43%	Rajkot	26%	72%
Akola	-40%	1%	Warangal	-59%	43%	Surendranagar	-69%	56%
Amravati	6%	57%	Khammam	-52%	75%			
Yavatmal	-40%	53%	Karimnagar	-43%	47%			
			Adilabad	-67%	19%			

Following table shows key state wise cotton sowing progress as on July 01<sup>st</sup> August, 2011:

State	Season Target	As on 01-08-2011	Acreage in 2009-10	Same period last year	% Change compared to last year
<b>A.P</b>	13.5	11.39	17.76	15.17	<b>-24.91</b>
<b>Maharashtra</b>	35.0	38.57	39.73	38.24	<b>0.86</b>
<b>Gujarat</b>	27.0	20.21	26.33	21.64	<b>-6.6</b>
<b>Area= Lakh Hectares</b>					

As evident from the above table in key states sowing is ahead in Maharashtra due to better distribution of rainfall in the last week of July compared the week before. However, sowing activity will depend on the rainfall in the next week or so before the sowing is completed and market participants will have a keen eye out for the rainfall in the next week or so.

Meanwhile, the Union Government withdrew the ban on exports of cotton for the remaining part of the current cotton season (2010-11) and put it under Open General License (OGL). This may push prices higher. The government took this decision, amid high seasonal cotton inventory and crash in cotton prices. In the remaining two months of the cotton season that runs from October to September exporters will only have to register with the directorate general of foreign trade (DGFT) to send shipments.

## Monsoon Forecast for July 1<sup>st</sup>-6<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.

## 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 3650-4175/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 bullish sentiments. MACD, the momentum indicator is suggesting increase in bullish sentiments in the market. RSI is suggesting a firm market. In coming week we expect prices to move higher and trade near 4500 levels.

**Strategy:** Buy near 3800-3825 is advisable and book the profit near 4500.

## Support and Resistance:

Support 2	Support 1	Resistance 1	Resistance 2

3475	3825	4350	4525
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**Expected Price range of Cotton Prices for next week**

Markets	Expected Trading Band for the coming week	Expected Trend for coming week
Kadi	4300-4500	Firm

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

Prices may trade firm in the coming week as ban on exports of cotton for the remaining part of the current cotton season. However, weather will also remain important feature in the coming week; so, it should be watched very carefully. However, continued good domestic demand and export demand ahead of festivities would support the current uptrend in prices.

**Cotton Prices at Key Spot Markets:**

Commodity	Centre & Variety	% Change Over Previous Week	Prices (Rs/Qtl)			
			Current (01-07-2011)	Week Ago (26-07-2011)	Month Ago (01-07-2011)	Year Ago (02-07-2010)
Cotton	Kadi –Bt Cotton	14.39	3900-4175	3500-3650	3000-3400	NA
	Amravati – Vunni Mech-1	-	4000-4500	NA	NA	NA
	Ahmedabad – Shankar-6	14.30	3000-4000	3000-3500	NA	3625
	Abohar – J-34	0.76	3325	3300	3725-3730	NA
	Muktsar– J-34	0.76	3325	3300	3700-3800	NA

## INTERNATIONAL MARKET HIGHLIGHTS

- U.S futures remained firm on concerns that dry weather may reduce output in the U.S. USDA said that 41 percent of the cotton crop was in very poor or poor condition on July 24th 2011, compared with 8 percent a year earlier.
- Bad weather in the US is still around, with little rain in the forecast for major growing areas this week. A tropical storm could bring very unwelcome and damaging rains to southern Texas growing areas in several days.
- USDA cut its domestic production to 16 million bales from 17 million bales in June.
- However there has been little export demand reported by USDA in recent weeks and uncertainty on the outcome of debt ceiling negotiations in Washington and profit-taking as the end of the month pulled prices lower.

## 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 (01-07-2011)	Week Ago (25-07-2011)	Month Ago (01-07-2011)	Year Ago (02-08-2010)	% Change over previous year
October	105.59	97.09	121.81	83.85	25.92
December	105.05	96.76	117.81	79.34	32.40
March	102.83	95.23	109.41	77.33	32.97

May	102.42	94.73	106.18	77.49	32.17
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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 range bound to bullish with supports at 93.08 and 97.06 and if this support is broken then we can prices moving down to 85 levels. Firm resistances are at 109.18 and 113.31. Prices have closed above the 9-day EMA and reveals bullish momentum in the market. Market Indicator MACD reveals a decline in bearish momentum in the market. RSI is moving up in the neutral region and supports the bullish momentum.

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