

Highlights of the Week

- Cotton prices ended higher during the week ending August 02nd 2011 as the government announced removal of ban 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.
- According to ministry of agriculture cotton have been sown in 105.56 lakh hectare as against 101.43 lakh hectare same period last year improved rains over the key growing states particularly over Maharashtra, Rajasthan and Haryana added to the acreage.
- Confederation of Indian Textile Industry (CITI) stated that cotton yarn stocks are came down to around 350 million kgs compared to 500 million kgs 2 months ago.
- The government is considering allowing more cotton exports due to surplus cotton in the country. Government added that the surplus is nearly 5.25 million bales so, there is more scope for exports beyond the 6.5 million bales limit.
- Amid higher cotton prices, stockists offloaded stocks due to which supplies/arrivals improved in the markets by 8.26% to 31.99 million till 30th July 2011 during 2010-11 season compared to 29.45 million bales a year ago. 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

Amid improved rains during mid July onwards over the southern states particularly Maharashtra and NW India particularly Rajasthan, Punjab and Haryana, cotton cultivation improved in the states and overall sown area under cotton by July end increased by 4.1% to 105.56 lakh hectare as against 101.43 lakh hectares same period last year.

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

State	Season Target	As on 01-08-2011	Acreage in 2009-10	Same period last year	% Change compared to last year
A.P	13.5	11.39	17.76	15.17	-24.91
Maharashtra	35.0	38.57	39.73	38.24	0.86
Gujarat	27.0	20.21	26.33	21.64	-6.6
Rajasthan	3.8	5.31	3.35	2.54	109

Area= Lakh Hectares
Source: State Agriculture Departments

According to the sources, area is expected to improve further to some extent as the sowing of the commodity is likely to extend upto 1st week of August in the country which may limit the gains to some extent. Meanwhile, sources also revealed that the crop is in the final stages in Haryana and Punjab, Meanwhile sowing activity is still going on in Gujarat and Maharashtra and no reports of any pest/disease. As on 01st August 2011 there had been low to moderate rains in some area of Haryana reported beneficial. Canal/tube water availability is adequate. There are no reports of any pest/disease. Agro-climatic condition is good. As on 01st August 2011 agro-climatic condition is reported good across cotton tract for cotton crop in the most of the central parts of India. However august rains will be crucial for the productivity of cotton and markets participants should keep an eye on the situation for the next month or so.

Cotton has been sown in 20.21 lakh hectares of area till July 18th 2011 as compared to 21.64 lakh hectares in Gujarat 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.

Spinning Mills across the country, which had a stock of more than 500 million kgs of cotton yarn following last year's restrictions on exports, have reported significant easing of the cotton yarn stock position. This was due to cut in the production by the Mills across the country.

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 August 1st-6th 2011:

Widespread rain/thundershowers would occur over central, adjoining north peninsular, east & northeast India and along west coast. Fairly widespread rain/thundershowers would occur over Uttrakhand, Uttar Pradesh and Andaman & Nicobar Islands. Scattered rain/thundershowers would occur over remaining parts of the country except west Rajasthan and Tamilnadu where it may be isolated.

Cotton Price Outlook

Prices may trade firm in the coming week amid withdrawal of ban on exports of cotton for the remaining part of the current cotton season and continuing demand (local and exports). Weather will also remain the key as crop in most of the states are in vegetative stage and requires irrigation. Lack of irrigation/rainfall may affect the growth of the crop and may also cause disease in the crop which may support the prices. So, weather should be watched very carefully over the key growing states..

Cotton Spot Prices (Kadi Market) Technical Analysis



As evident from the above chart, cotton prices are trading in the 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 above the short term EMAs which supports firmness. MACD also suggests for increase in bullish momentum. 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 partially book profit near 4100 and then near 4500.

Support and Resistance:

Support 2	Support 1	Resistance 1	Resistance 2
3475	3825	4350	4525

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 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

Technical Analysis of Cotton Futures April 2012 contract at NCDEX



Prices-Rs/20kg

According to the chart the price trend looks range bound to bullish with supports at 704.16 and 689.59 and if this support is broken then we can prices moving down to 660 levels. Firm resistances are at 750.30 and 768.51. Prices have closed above short-term EMAs and reveals bullish momentum in the market. Market Indicator MACD reveals an increase in bullish momentum in the market. RSI is moving up in the neutral region and supports the bullish momentum.

Support 2	Support 1	Resistance 1	Resistance 2
704.16	689.59	750.30	768.51

Strategy: Buy near 685-690 is advisable and partially book profit near 735 and then near 750.

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

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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