

**Highlights of the Week**

- Cotton prices remained steady to firm supported by reports that the union government has lifted export restrictions on cotton and allowed it to be shipped under open general licenses (OGL) for the rest of the cotton season. Government has done this in response to a fall in prices of the commodity and its adequate availability in the country.
- However mills are urging to delay cotton exports to January 01<sup>st</sup> 2012 as it will create speculation in the market.
- Meanwhile, new cotton registration policy, which will be announced by the Directorate General of Foreign Trade (DGFT) this week, may do away with the eligibility criteria like cotton exports quota will be granted only if an entity had exported cotton in either of the previous two cotton years (2008-09 and 2009-10).
- According to Cotton Advisory Board (CAB) after the additional exports of 10 lakh bales the exports are revised to 65 lakh bales and production of raw cotton has been revised from 312 lakh bales to 325 lakh bales. The carry-out stocks will be 52.5 lakh bales and with the textile consumption over 20 lakh bales a month enough stock will be at hand till the fresh arrivals start from October.
- According to trade sources, the decision to put cotton exports under OGL till September 30th 2011 may help the industry to plug the demand-supply gap.
- Finance Ministry is considering restoration of a tax refund benefit for cotton yarn exports, which was suspended in April, 2010, to discourage overseas shipments amid high domestic prices.
- Cotton acreage in Saurashtra has increased in some parts this year as prices remain high. Cotton has been sown over 18 lakh hectares in Gujarat and the total acreage in Saurashtra-Kutch has touched 13 lakh hectares.
- According to state agriculture department of Rajasthan, sown area under cotton has increased by 109% to 5.31 lakh hectares as compared to area in corresponding period last year and also up by 40% from the targeted area of state agriculture department for the current Kharif 2011.
- Overall sown area under Cotton so far in the country is up at 109.92 lakh hectares as against 104.36 lakh hectare same period last year.

**INTERNATIONAL MARKET HIGHLIGHTS**

- US futures ended lower as some investors sold the fiber to take profits.
- Traders remained concerned about weak export from the U.S and reveal that it might pull markets lower from highs.
- Markets sentiments also remained weak as U.S credit ratings were downgraded and weak economy could lead to weaker demand for the commodity.
- On the other hand, the worst drought in Texas has forced farmers to abandon more fields than ever before.
- As on August 07<sup>th</sup>, USDA has said that 61% of the Texas crop was in poor or very poor condition.

## Current Market Dynamics

Overall sown area under cotton earlier which is lagging behind due to poor and uneven distribution of rainfall over the key southern states has now improved after the recent rainfall (mid July onwards) and overall sown area under cotton so far in the country is increased by 5 per cent to 109.92 lakh hectares as against 104.36 lakh hectares same period last year.

Following table shows the key state wise cotton sowing progress as on August 08<sup>th</sup> 2011:

State	Season Target	As on 08-08-2011	Acreage in 2009-10	Same period last year	% Change compared to last year
Punjab	5.50	5.75	5.30	5.59	2.862
Haryana	5.98	6.05	4.92	6.00	0.833
A.P	13.5	15.71	17.76	15.95	-1.505
Maharashtra	35.0	40.50	39.73	39.09	3.607
Gujarat	27.0	27.00	26.33	25.58	5.551
Rajasthan	3.8	5.31	3.35	2.54	109.1
Tamil Nadu	0.79	0.104	1.04	0.085	22.353
Area= Lakh Hectares, Source: State Agriculture Departments					

Sowing of the commodity in the Northern Zone of the country which includes Haryana, Punjab and Rajasthan is reportedly completed and so far the crop is in good condition with no impact of pest and disease in the standing crops. Also in southern states crops are reportedly in good shape as recent rains favoured crops growth while it also supported the sowing activity.

However, in Andhra Pradesh (AP) the sown area under cotton is still lagging behind but as per the the state agriculture department, after the recent rains the area is expected to improve in the state and it may even surpass the last year's area as farmers may cultivate cotton upto August 15th.

Meanwhile, the Finance Ministry is considering the restoration of a tax refund benefit for cotton yarn exports, which was suspended in April, 2010, to discourage overseas shipments amid high domestic prices. Recently, the Textiles Ministry urged the Finance Ministry to restore the 6% Duty Drawback

Scheme on exports of the natural fibre yarn. In April last year, the government withdrew the 4% incentive on cotton yarn exports with a view to cool prices in the domestic market.

Moreover, the textile ministry added that it would review the cotton availability situation in the country in September, before taking a decision on allowing cotton exports under open general license.

## Monsoon Forecast for August 8<sup>th</sup> -13<sup>th</sup> 2011:

Fairly widespread rain/thundershowers would occur along west coast and over central & east India and over northeastern states during the week. Scattered rain/thundershowers would occur over Gujarat and plains of northwest India during 1st half of the week and would increase thereafter. Rainfall may remain subdued over interior Maharashtra and southeast Peninsula.

## Cotton Price Outlook

In view of higher sown area, stockists/traders may try to liquidate their stocks before the new crop arrivals to take advantage of higher prices currently, which may weigh on prices in coming days.

## Cotton Spot Prices (Kadi Market) Technical Analysis



As evident from the above chart, cotton prices are trading in the range of Rs 4150-4500/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 an overbought market. In coming week we expect prices to trade range bound with slight firmness. We initially expect prices to jump towards the immediate resistance of 4,700 levels from where some profit booking is expected in the market.

**Strategy:** Sell towards resistance level or one can opt to sell near 4675-4700 level and partially book profit near 4375 and then near 4250.

## Support and Resistance:

Support 2	Support 1	Resistance 1	Resistance 2
4035	4200	4725	4750

## Expected Price range of Cotton Prices for next week

Markets	Expected Trading Band for the coming week	Expected Trend for coming week
Kadi	4350-4750	Range Bound

## Prices-Rs/quintal Kadi prices- Bt quality

## Cotton Prices at Key Spot Markets:

Commodity	Centre & Variety	% Change Over Previous Week	Prices (Rs/Qtl)			
			Current (08-07-2011)	Week Ago (01-08-2011)	Month Ago (08-07-2011)	Year Ago (08-07-2010)
Cotton	Kadi –Bt Cotton	7.78	4125-4500	3900-4175	3500-3750	3250-3625
	Amravati – Vunni Mech-1	Unch	4000-4500	4000-4500	3500-4000	3425-3490
	Ahmedabad – Shankar-6	6.25	3750-4250	3000-4000	3250-4125	3500

	Abohar – J-34	10.37	3625-3670	3325	3650-3680	NA
	Muktsar– J-34	10.37	3625-3670	3325	3650-3680	NA

## Technical Analysis of Cotton Futures April 2012 contract at NCDEX



### Prices-Rs/20kg

As evident from the chart, prices are moving range bound and sideways between Rs 650 -719/20Kg levels and are also acting as a good support and resistance. Breaching either side of the mentioned level will give prices further direction.

Support 2	Support 1	Resistance 1	Resistance 2
658.33	676.66	710.66	726.33

**Strategy:** sell on rallies or opt for selling towards the mentioned resistance (719) level for a target for 675 and then 650. Put strict stop loss over 740 level

## INTERNATIONAL MARKET

### 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 (08-07-2011)	Week Ago (01-08-2011)	Month Ago (08-07-2011)	Year Ago (06-08-2010)	% Change over previous year
October	99.01	105.59	116.58	84.40	17.31
December	97.72	105.05	113.88	80.23	21.80
March	95.39	102.83	108.44	78.81	21.03
May	95.21	102.42	105.38	79.05	20.44

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 weak with supports at 93.0856 and 90.0749 and if this support is broken then we can prices moving down to 86 levels. Firm resistances are at 105.84 and 108.464. Prices have closed below the short term (9 and 18-day) EMAs and supports the bearish momentum in the market. Market Indicator MACD reveals a decline in bearish momentum in the market. RSI is moving down in the neutral region and supports the bearish momentum.

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