

Highlights of the Week

- Cotton prices remained steady to weak during the week ending August 16th, 2011 on weak demand and increased area under cotton this Kharif 2011.
- Cotton has been sown in 109.92 lakh hectare as of August 12th 2011 as against 104.36 lakh hectare during the corresponding period last year.
- Weakness in prices is also attributed to lower demand from cattle-feed and textile industries as well as expectation of higher carry-out stocks.
- According to the Directorate General of Foreign Trade (DGFT) the Duty Entitlement Pass Book (DEPB) scheme on cotton has been put into effect on a retrospective basis from October 2010, while on cotton yarn from April 2011.
- Exporters will not be penalized if the weight of cotton yarn they ship is lower by up to 5% in weight than committed in their contracts - government.
- The Bombay High Court on 10th August 2011 stayed a recent Central government circular which directed them to obtain a bank guarantee while registering for exports.
- Separately, Indian Credit Rating Agency (ICRA) said that the cotton spinning industry is facing a challenging environment yet again due to the steep fall in cotton prices since April 2011 along with rising interest rates.
- Sources said exporters are finding it difficult to get Registration Certificate for their fresh exports contract as Directorate General of Foreign Trade (DGFT) is asking to submit all required documents like Registration Certificate, proof of completing the exports within 10 days of last shipment etc.

INTERNATIONAL MARKET HIGHLIGHTS

- US sentiments remained firm amid concerns over lower export demand from the U.S.
- Supply will be the problem as drought conditions in Texas will bring the U.S production down.
- Traders however feel that demand remained weak and exports from the country is also expected to be weak this year and this may keep prices at check for the US markets.
- The market is waiting for the USDA's monthly supply-demand report due on Thursday i.e. on August 12th 2011, the first for the 2011/12 marketing year (August/July). Traders are anticipating bullish production data from USDA near 15.29 million bales. USDA increased the cotton production estimate for 2011-13 by 3.4% to 16.6 million bales.
- Weak demand and higher output has depressed world cotton prices and will cost Pakistan more than \$1 billion in key textile exports for the fiscal year 2011/12, despite an expected bumper crop. This year's textile exports will be between \$12.0 billion and \$12.5 billion compared to \$13.80 billion in the previous year.
- Global outlook remains upbeat as production is expected to remain higher this year due to good production in India and Pakistan.

Current Market Dynamics

Overall sowing is ahead for India at 109.92 lakh hectares till date August 12th 2011 as against 104.36 lakh hectares same period last year. Sowing has been completed in North Indian States (Haryana, Punjab and Rajasthan) and cotton acreage in these states is estimated at 17.11 lakh hectares as against 14.13 lakh hectares corresponding period last year. Reportedly in these states farmers have switched from Paddy, Jowar, Maize, Pulses etc to Cotton cultivation. As per the sources, the sown crop is in good shape with no outbreak of any pest and disease in the standing crop and so far the weather also remains congenial for crops growth/development.

Meanwhile, sowing is in its last stages in Maharashtra and Gujarat where sowing area has increased by 3.54% and 5.55% respectively compared to last year's area. Cotton acreage is estimated at 74.75 lakh hectares as against 72.56 lakh hectares last year. There are no reports of pest or diseases and agro-climatic conditions are good to satisfactory.

Sowing is also in its final stages in the Southern sowing regions in India. Sowing in A.P and Tamil Nadu has increased 0.121% and 22.449% respectively compared to last year's area. Cotton acreage is estimated at 20.08 lakh hectares as against 14.32 lakh hectares last year.

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

State	Season Target	As on 16-08-2011	Acreage in 2009-10	Same period last year	% Change over last year
Punjab	5.50	5.75	5.30	5.59	2.862
Haryana	5.98	6.05	4.92	6.00	0.833
Rajasthan	3.8	5.31	3.35	2.54	109.1
Maharashtra	35.0	40.75	39.73	39.34	3.54
Gujarat	27.0	27.00	26.33	25.58	5.551
A.P	13.5	16.49	17.76	16.47	0.121
Tamil Nadu	0.79	0.12	1.04	0.098	22.449
Area= Lakh Hectares, Source: State Agriculture Departments					

Meanwhile, ICRA has come out with its report on Cotton spinning industry. According to the research firm the industry is facing a challenging environment yet again due to the steep fall in cotton prices since April 2011 along with rising interest rates.

Separately, the government said exporters will not be fined/penalized if the weight of cotton yarn they ship is lower by 5% than committed in their contracts. DGFT decided that a variation of -5% in weight against Registration Certificates issued for export of cotton yarn shall be allowed.

Meanwhile, the spinners have cut their production capacity by 30-40 percent as the stockpiling of unsold yarn is spiraling everyday at the factories. The spinners are counting loss as they are now forced to sell yarn at \$3 - \$3.40 per kilogram, which was sold at \$7 per kg during March–April 2011.

Monsoon Forecast for August 15th - 20th 2011:

Widespread rain/thundershowers would occur over Uttarakhand, U.P, Bihar, West-Bengal, and North-Eastern States. Fairly widespread rain/thundershowers would occur over central, rest northwest & rest east India. Scattered rain/thundershowers would occur over the remaining parts of the country. The expected weather is going to help the crop condition in the central regions. However excess rains in the Northern regions could cause crop losses.

Cotton Price Outlook

In anticipation of higher production this season amid increased area, stockists/traders having old stocks may liquidate their stocks which may weigh on prices in days to come.

Cotton Spot Prices (Kadi Market) Technical Analysis



As evident from the above chart, cotton prices are trading in the range of Rs 4175-4500/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 and RSI also suggests for increase in bullish momentum. We initially expect prices to jump towards the immediate resistance of 4,750 levels (Indicated by the red Line) from where some correction is expected on selling pressure.

Strategy: Sell towards resistance level or one can opt to sell near 4725-4750 level and partially book profit near 4275 and then near 4250.

Support and Resistance:

Support 2	Support 1	Resistance 1	Resistance 2
4067	4240	4760	4930

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
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Prices-Rs/quintal Kadi prices- Bt quality

Cotton Prices at Key Spot Markets:

Commodity	Centre & Variety	% Change Over Previous Week	Prices (Rs/Qtl)			
			Current (16-08-2011)	Week Ago (08-08-2011)	Month Ago (16-07-2011)	Year Ago (16-08-2010)
Cotton	Kadi –Bt Cotton	Unch	4250-4500	4125-4500	3000-3375	NA
	Amravati – Vunni Mech-1	Unch	4000-4500	4000-4500	NA	NA
	Ahmedabad – Shankar-6	Unch	3750-4250	3750-4250	NA	3750
	Abohar – J-34	-20	3650	3625-3670	4403	NA
	Muktsar– J-34	-20	3650	3625-3670	4428	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 675 -750/20Kg 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
672.1	682.1	719.7	728.4

Strategy: Sell on rallies or opt for selling towards the mentioned resistance (719) level for a target for 685 and then 670. Put strict stop loss over 735 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 (15-08-2011)	Week Ago (08-08-2011)	Month Ago (15-07-2011)	Year Ago (16-08-2010)	% Change over previous year
October	105.03	99.01	101.46	87.43	20.13
December	104.04	97.72	99.46	84.02	23.82
March	100.84	95.39	96.25	82.51	22.21
May	99.52	95.21	95.89	82.25	20.99

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 with firm resistances at 106.93 and 108.46 and price will only move up if these resistances are broken. Firm supports are at 93.17 and 94.92 and if these supports are broken then we could prices down at 86 levels. Prices have closed above the short term (9 and 18-day) EMAs and supports the 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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