

## Highlights of the Week

- Cotton prices moved higher supported by good demand by millers and exporters. Rising international prices also lend support to domestic cotton prices.
- According to sources, export demand which was a bit slow during the period is expected to revive following expected improved demand from countries like China, Bangladesh and Taiwan.
- As on August 19<sup>th</sup>, sown area under cotton reached to 116.81 lakh hectares as against 106.80 lakh hectares same period last year. Sown area under Bt Cotton has increased from 66.69 lakh hectares in 2008-09 to 93.36 lakh hectares in 2010-11 and in 2011-12 it is expected to increase to 95.04 lakh hectares.
- Director General of Foreign Trade (DGFT) has allowed the cotton exporters to obtain more than one registration certificates in the running marketing year.

## INTERNATIONAL MARKET HIGHLIGHTS

- US futures surged higher on signs that demand for the fiber is returning after months of slumping sales. USDA added in their cotton production estimate for 2011-12 is adjusted to 16.6 million bales amid severe drought conditions in Texas.
- World cotton production in 2011/12 is forecast at a record high of 122.7 million bales, a 7-percent increase from the preceding year. World cotton trade is forecast at 37.6 million bales, up 7 percent from a year earlier and the largest in 4 years.
- Weak millers demand continue in Pakistan where a large number of cotton ginning factories are shut across the country, threatening to damage crop.
- Rains in the 1st week of August have hit cotton crop in Sindh district in Pakistan and could face losses.
- However, the textile exports of Pakistan during the first month of the current fiscal year (2011-12) were recorded at \$1.121 billion, showing an increase of 14.22 percent over the exports of \$982.007 million of the same month of the last fiscal year.
- USDA said that in the week ended August 19<sup>th</sup> 2011; overseas buyers scrapped orders for 337,000 bales of upland cotton.

## Current Market Dynamics

As per the latest data received from ministry of Agriculture, GoI, sown area under cotton as on August 19<sup>th</sup> 2011 increased by 9.4 per cent to 116.81 lakh hectares as compared to 106.80 lakh hectares corresponding period last year. Sown area under Bt Cotton has increased from 66.69 lakh hectares in 2008-09 to 93.36 lakh hectares in 2010-11 and in 2011-12 it is expected to increase to 95.04 lakh hectares as farmers are more inclined towards Bt Cotton cultivation as farmers income has increased on an average

by Rs 10,000 per hectare following reduction in pesticide use and increase in yield due to cultivation of Bt cotton, Parliament was informed today. .

As per the sources, the sown crop in the Northern, Central and Southern regions is in good shape with no outbreak of any pest and disease in the standing crop. Moderate rains over the next week or so over the key sowing regions will be beneficial for the standing crop.

Following table shows the key state wise cotton sowing progress as on August 23<sup>rd</sup> 2011:

State	Season Target	As on 23-08-2011	Acreage in 2009-10	Same period last year	% Change over last year
<b>Punjab*</b>	5.50	5.75	5.30	5.59	<b>2.862</b>
<b>Haryana*</b>	5.98	6.05	4.92	6.00	<b>0.833</b>
<b>Rajasthan*</b>	3.8	5.31	3.35	2.54	<b>109.1</b>
<b>Maharashtra</b>	35.0	40.86	39.73	39.41	<b>3.679</b>
<b>Gujarat</b>	27.0	28.84	26.33	26.32	<b>9.574</b>
<b>A.P</b>	13.5	16.89	17.76	16.63	<b>1.563</b>
<b>Area= Lakh Hectares, Source: State Agriculture Departments, *-Sowing Complete</b>					

Separately, after lifting restrictions on cotton exports late last month, the government has now eased licensing norms for shipments of the fibre for the rest of the marketing year through September 30<sup>th</sup>. The government has permitted exporters to obtain more than one permit to ship cotton instead of just one allowed earlier for each exporter, in an effort to encourage shipments. The government move would motivate exporters to remain active in the market which in turn may push up the prices domestically. Also rising international prices may further attract exporters for exports.

In the meantime, the lorry owner's strike, which has entered the third day in Tamil Nadu today, has hit the textile and hosiery hub of Erode and Coimbatore with more than Rs 100 crore of knitwear garments lying in factories.

Trade sources added that production this year could surpass previous year production figure of 33.5 million bales as area has significantly improved. However traders feel that if further rains are seen in the Northern

states of Punjab, Haryana and Rajasthan then yield could decline as excess rains would facilitate pests or diseases and may reduce yield.

## Crop Condition:

As of 23<sup>rd</sup> August there have been no reports of pests or diseases over the Northern, Central and Southern regions of the country. So this could be bearish factor on the prices. However if rains are seen over Northern, Central and Southern regions of the country then yield may be effected which in turn may push prices higher.

## Cotton Price Outlook

In anticipation of higher production this season supported by the increase in sown area, stockists/traders having old stocks may liquidate their stocks which may weigh on prices in days to come. However, expected revival in export activity may limit the fall in prices.

## Cotton Spot Prices (Kadi Market) Technical Analysis



As evident from the above chart, cotton prices are trading in the range of Rs 4500-4875/Qtl and are acting as of good support and resistance and 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. However, RSI is moving down in the neutral region which supports the bearish momentum. We expect prices to move lower toward the key support level of 4250.

**Strategy:** Sell on rallies or one can opt to sell near 4850-4875 level and partially book profit near 4500 and then near 4250.

## Support and Resistance:

Support 2	Support 1	Resistance 1	Resistance 2
4250	4515	5015	5150

## Expected Price range of Cotton Prices for next week

Markets	Expected Trading Band for the coming week	Expected Trend for coming week
Kadi	4250-4875	Range bound to weak

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

## Cotton Prices at Key Spot Markets:

Commodity	Centre & Variety	% Change Over Previous Week	Prices (Rs/Qtl)			
			Current (23-08-2011)	Week Ago (16-08-2011)	Month Ago (23-07-2011)	Year Ago (23-08-2010)
Cotton	Kadi –Bt Cotton	2.778	4250-4625	4250-4500	3375-3625	3270-3350
	Amravati – Vunni Mech-1	-2.222	4000-4400	4000-4500	2800-3500	3300-3500
	Ahmedabad – Shankar-6	5.882	4000-4500	3750-4250	3000-3500	3300-3400
	Abohar – J-34	12.329	4100	3650	3280-3300	NA

	Muktsar- J-34	12.329	4100	3650	3300	NA
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## 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 680 - 720/20Kg levels and is also acting as a good support and resistance. Breaching either side of the mentioned level will give prices further direction. RSI and Stochastic Indicator are supporting the bullish sentiments in the market.

Support 2	Support 1	Resistance 1	Resistance 2
650	665	720	735

**Strategy:** Sell on rallies or opt for selling towards the mentioned resistance (720) level for a target for 665 and then 650. Put strict stop loss over 745 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 (22-08-2011)	Week Ago (15-08-2011)	Month Ago (22-07-2011)	Year Ago (23-08-2010)	% Change over previous week
October	106.61	105.03	99.14	87.65	21.63
December	106.45	104.04	98.64	84.09	26.59
March	103.40	100.84	96.83	82.31	25.62
May	101.85	99.52	96.03	82.60	23.30
July	100.40	98.07	95.73	82.65	21.47

In US Cents/lb

## Technical Analysis of Cotton Futures December contract at ICE





## Prices-US Cents/lb

In the above chart there is a double bottom formation and the neck line lies at 108 level. Breaching the neck line prices will move towards 130 level or else prices will take resistance of 108 levels and come down towards 96 level. 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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