

## Highlights of the Week

- Cotton prices traded down during the week ending August 30<sup>th</sup> on subdued trading activity.
- Demand from exporters remained subdued in the market, added to the weak tone.
- As of August 26<sup>th</sup>, 2011 sown area under cotton increased by 9.8% to 118.05 lakh hectares (LHa). Sown area in Rajasthan increased significantly by 58% to 5.31 LHa as compared to last year.
- In the US, as of August 28<sup>th</sup>, 96% setting of bolls in cotton crop, 27% opening of bolls reported.
- 59% crop in the US rated between fair to excellent condition and rest as poor to very poor.

## Current Market Dynamics

Cotton prices traded weak during the week in majority of cash markets on reportedly subdued trading activity from processing units (mills) and subdued demand from exporters. Expectation of higher production for the ensuing season 2011-12 amid higher sown area under cotton crop so far this season further weighed on prices.

As per the latest data released by Ministry of Agriculture, sown area under cotton as of August 26<sup>th</sup> is up by 9.8 per cent to 118.05 LHa as compared to 107.53 LHa same period last year. The major increase has been reported in Rajasthan where sown area increased by 58 per cent followed by Gujarat and Maharashtra by 10 and 4 per cent respectively.

The following table shows the state wise sown area under cotton as of August 26<sup>th</sup>, 2011 –

State	As on (26/08/11)	Same period last year	% Change over last year
Punjab*	5.75	5.59	2.9
Haryana*	6.05	6	0.8
Rajasthan*	5.31	3.36	58.0
Maharashtra	40.86	39.43	3.6
Gujarat#	28.84	26.32	9.6
A.P	17.47	17.04	2.5
<b>India Total</b>	<b>118.05</b>	<b>107.53</b>	<b>9.8</b>
Area= Lakh Hectares, Source: State Agriculture Departments, *-Sowing Completed, #as of Aug. 23rd			

So far weather over the key growing regions also remains favourable for better crops growth (cotton crop is in vegetative to flowering stage) and yield which also exerted pressure on prices during the period.

### 2011-12 Crop Estimate & Supply Demand Situation:

Taking in to account the increase in sown area under cotton and favourable weather so far over the key producing regions we expect cotton production for the coming marketing season 2011-12 to increase by 10 per cent to 351 lakh bales (1 bale=170Kg) as against the estimated 325 lakh bales by Cotton Advisory Board (CAB) for 2010-11 season.

Consumption for 2011-12 season is also expected to grow by 2 per cent to 325 lakh bales as against 318 lakh bales in 2010-11 season. The main increase in cotton consumption is expected for mills and small scale units by 3 per cent to 243 lakh bales as compared to 236 lakh bales last year.

The following table shows the supply and demand situation for 2011-12 season –

<i>All in Lakh Bales</i>	<b>2009-10 CAB Estimate</b>	<b>2010-11 CAB Estimate</b>	<b>2011-12 AW Projection</b>
Opening Stocks	71.5	40.5	52.5
Production	295	325	351
Imports	7	5	0
Total Availability/Supply	373.5	370.5	403.5
Mills & SSI Consumption	230	236	243
Export	83	65	65
Non Mill Consumption	20	17	17
Total Consumption	333	318	325
Ending Stocks	40.5	52.5	78.5

As evident from the above table overall cotton supply in the country during 2011-12 season expected to be good following expected higher production and consequently ending stocks for the season is also expected to rise significantly by 49.5 per cent to 78.5 lakh bales as compared to last year, which suggests cotton prices in long term may remain on softer note in country.

### **Fundamental Cotton Price Outlook for Coming Week**

Cotton prices are expected to remain in softer note in coming week on higher sown area under cotton crop, favourable weather so far over the key growing regions as well as lackluster trading activity in the markets.

### **Cotton Spot Prices (Kadi Market) Technical Analysis**



As evident from the above chat, cotton prices tested the 38.2% retracement level and 4767 is acting as a good resistance level. Breaching above will take prices to 50% retracement level near 5169 or else prices may come down to test 23.6% retracement level near 4106 level. Oscillator RSI moving down in the neutral region hints for a weak market. We expect prices to remain range bound with weak bias in coming week.

**Strategy:** Sell on rallies or one can opt to sell near 4767 level and partially book profit near 4478 and then near 4266.

#### Support and Resistance:

Support 2	Support 1	Resistance 1	Resistance 2
4106	4266	4767	5169

#### Expected Price range of Cotton Prices for next week

Markets	Expected Trading Band for the coming week	Expected Trend for coming week
Kadi	4266-4767	Range bound to weak

Prices-Rs/quintal Kadi prices- Bt quality

#### Cotton Prices at Key Spot Markets:

Commodity	Centre & Variety	% Change Over Previous Week	Current 29/08/11	Week Ago 23/08/11	Month Ago 29/07/11
Cotton	Kadi –Bt Cotton	3.8	4375-4800	4250-4625	3650-4900
	Amravati –Vunni Mech-1	-4.5	3800-4200	4000-4400	NA
	Ahmedabad – Shankar-6	-5.6	3750-4250	4000-4500	3250-3750
	Abohar – J-34	-4.9	3900	4100	3300
	Muktsar– J-34	-4.9	3900	4100	3300

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



**Prices-Rs/20kg**

As evident from the above chart, prices are moving range bound and sideways between Rs 673 - 721/20Kg. The same is also acting as a good support and resistance and breaching either side of the mentioned level will give prices further direction. Short term EMAs (9 & 18 days) also hints for short term weakness. RSI is hovering near its oversold region, which suggests for a possible bounce back in prices.

Support 2	Support 1	Resistance 1	Resistance 2
655	673	721	750

**Strategy:** Wait or go for trading after breakout either side of the mentioned level (673 & 721).

**INTERNATIONAL MARKET**

As per the latest pro farmer crop survey, during the week ending August 28<sup>th</sup> in the US, 96% boll setting in cotton crop is reported which is similar to corresponding period last year and up from 5 year's average of 94%. Boll opening is reported as 27% which up from last 5 year's average of 23% while 1% below from same period last year. 59% of cotton crop condition is rated between fair to excellent while rest in poor to very poor.

Cotton Crop Condition in the US (in %)					
	Very Poor	Poor	Fair	Good	Excellent
Week Ending Aug. 28th	23	18	29	25	5
Previous Week	22	19	28	25	6
Previous Year	3	9	28	45	15

Crop Progress/Stage (in %)				
	28-Aug-10	21-Aug-11	28-Aug-11	Average 2006-2010
Boll setting	96	94	96	94
Boll opening	28	16	27	23

**ICE Futures (December Contract) Technical Analysis**


**New York Futures on ICE**

As evident from the chart prices are getting stiff resistance at USc 108/lb level from where some profit booking witnessed. Volume also remains unsupportive for upside movement in prices. Immediate support can be seen at USc 100/lb. Breaching either side of the mentioned level would give prices new direction.

Support 2	Support 1	Resistance 1	Resistance 2
96	100	108	112

All in USc/lb

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