

Highlights of the Month

- Cotton prices ended higher this month supported by firm domestic demand and possible increase in exports of raw cotton.
- Markets moved higher trades sources say that the uptrend is expected to continue as delay in crop arrivals could be expected due to rains in the northern part of the country.
- Government has restored incentives on export of cotton and cotton yarn which helped to push the prices up.
- However Confederation of Indian Textile Industry (CITI) has represented regarding a slowdown in the Textiles industry due to demand contraction in cotton yarn resulting in increased yarn stocks in the country.
- Cotton exports have been placed on Open General License (OGL) category without any export cap with effect from August 2nd, 2011. Government has restored DEPB benefits on cotton from October 1, 2010 and cotton yarn from April 1, 2011 to incentivize cotton and yarn exports addressing the slowdown in the industry.
- Meanwhile, the share and rank of India in textiles and clothing exports globally were 4.32%.
- As per data from the Ministry of Agriculture, Cotton has been sown in 118.05 lakh hectares as against 107.53 lakh hectares last year on this date representing an increase of 10.52 lakh hectares or an increase of 9.783%.
- 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.

Current Market Dynamics

India's cotton output is likely to rise nine per cent this year, to set a new record, on an increase in sowing following the late revival in monsoon rainfall in major producing zones. Total production is forecast at 35.5 million bales (170 kg each) for the cotton year 2011-12 (October-September), as compared to 32.5 million bales in the comparative period last year. The total cotton supply including imports of 5 lakh bales and opening stock of 47.50 lakh bales is expected to touch 407.50 lakh bales against the total demand of 351 lakh bales.

<i>In Lakh Bales (1 bale = 170 Kgs)</i>	2009-10	Revised 2010-11	Forecast 2011-12
Supply			
Opening Stock	71.50	40.50	47.50
Production	305	325	355
Imports	6	5	5

Total	382.5	370.5	407.5
Demand			
Mill Consumption	219	215	240
Small Scale Units	23	21	24
Non-Mill Consumption	17	17	17
Exports	83	70	70
Total	342	323	351
Closing Stock	40.50	47.50	56.50

Source: Cotton Advisory Board

Cotton sowing in the Northern region of the country has been completed and according to trade sources Mandi's are gearing up for fresh arrivals in the next month or so. Cotton acreage is estimated to be 17.34 lakh hectares as against 13.57 lakh hectares last year, an increase of 22% due to switching over from crops like Paddy, Jowar, Maize, Pulses etc. As of 2nd September there have been no reports of any pests or diseases.

Cotton sowing in Gujarat and Maharashtra and Madhya Pradesh has increased this year. Area in Maharashtra has reached 40.86 lakh hectares compared to 39.43 lakh hectares. According to trade sources area sown may reach a record 42 lakh hectares. Gujarat area has also increased this year and acreage under cotton this Kharif season has reached 28.84 lakh hectares so far in Gujarat, up by nearly 2.52 lakh hectares as compared to 26.32 lakh hectares sown in last season. In Madhya Pradesh, area has reached 7 lakh hectares crossing the last year area of 6.5 lakh hectares. So the total area covered in the central region is around 77 lakh hectares higher compared to 72.15 lakh hectares last year.

In the Southern region, sown area has reached 21.75 lakh hectares still lower compared to 24.51 lakh hectares last year. However area has increased in A.P to 17.75 lakh hectares however still lower compared to 17.76 lakh hectares last year.

<i>In Lakh Hectares</i>	2010-11	Forecast 2011-12
Haryana	4.92	6.00
Punjab	5.30	6.00
Rajasthan	3.36	5.31
Maharashtra	39.43	40.86
Gujarat	26.32	28.84
Madhya Pradesh	6.50	7.00
Andhra Pradesh	17.76	17.75
Karnataka	5.45	4.00
Tamil Nadu	1.22	1.14
Orissa	0.74	0.95
Total	111.42	121

Source: Cotton Advisory Board

Technical Analysis of Cotton Prices at Kadi Market



Prices-Rs/quintal

According to the trend line drawn, crucial support level is at 4666 and breaking this support would take prices upto 4500 and 4372 which are major supports for Kapas prices. Immediate resistance is at 4875 and if breached could take prices down to 5000 levels which acts as a major resistance. Chart trend looks range bound. MACD is flat in the positive region and reveals a decline in bullish momentum. RSI is moving down in the neutral region and supports the bearish momentum in the short term.

Cotton Price Outlook

We expect cotton prices to remain range bound with weak bias in coming month as fresh arrivals may initially pull markets lower. Higher acreage may lead to higher production which may act as a dampener on prices. However firm demand at lows and higher exports this year may continue to support prices at lows.

Expected Price range of Cotton Prices for next month

Markets	Expected Range of Cotton
Kadi	4000-4800

Prices-Rs/quintal

Kadi-Bt quality

Cotton Prices at Key Spot Markets:

Commodity	Centre & Variety	Prices (Rs/Qtl)		Change
		31-08-11	30-07-11	
Cotton	Kadi –Bt Cotton	4375-4625	3650-3900	725
	Amravati –Vunni Mech-1	4250-4500	3000-4000	500
	Ahmedabad – Shankar-6	4000-4375	3300-3750	625
	Abohar – J-34	3825	3300	525
	Muktsar– J-34	3825	3300	525

Downstream industries (Production of Man-Made Fibre)

Production of Man-made fibres like Viscose, Polyester and Acrylic declined over the last year due to slow down of demand of the man-made fibres in the international markets. However, production is forecast to increase slightly by 0.192% due to improving demand amid weak global economy. However in the longer run, the global economy expected to continue on a strong growth path, the demand for textile fibres is also likely to remain strong. The global demand for manmade fibres is expected grow at rates slower than the growth rates achieved in 2009-10. This is because the capacity additions in polyester are expected to outpace the increase in demand till 2012, resulting in decline in operating rates.

Data of Man-Made Fibres (Million Kg)						
Year	Installed Capacity	Opening Stock	Production	Import	Export	Availability
2009-10	1754.4	19.75	1264.67	43.88	226.05	1102.25
2010-11 [#]	1754.41	21.33	213.57	10.34	35.43	209.81
2011-12 [*]	1754.41	20.13	213.98	8.87	43.86	199.12

Source: Ministry Of Textile, Office of the Textile Commissioner, #-Revised, *-Forecast

INTERNATIONAL MARKET HIGHLIGHTS

- Cotton futures remained firm as bad weather in the US also threatens the Texas crop and may continue support prices at lows.
- Sentiments also remained firm after the International Cotton Advisory Committee cut its 2011-12 forecasts for global cotton production to 26.9 million tonnes.
- Sentiments also remained firm as USDA said that US is forecast to produce about 16.6 million bales in 2011/12, down 12% from the previous year as severe drought conditions caused high abandonment in Texas. USDA said that in the week ended August 28th 2011, overseas buyers scrapped orders for 337,000 bales of upland cotton
- However, traders also remain concerned about demand, and there has been little export demand reported by USDA in recent weeks.
- On the other hand, weak investor sales sparked by the weak global macroeconomic environment may restrict upside movement.
- Meanwhile, 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.

New York Futures on ICE

The price movement of the New York on ICE for the active December-11 contract in the month of August has been shown below,



In US Cents/lb

ICE Futures Quotes for Cotton

Contract	Current (31/08/2011)	Month ago (29/07/2011)	Year ago (31/08/2010)	% Change over previous Month
October	105.88	98.81	89.08	7.155
December	105.81	98.57	86.20	7.345
March	103.26	96.75	84.74	6.729
May	101.77	95.72	85.03	6.321
July	100.47	94.57	85.60	6.239

In US Cents/lb

ICE December contract have been higher by 7.1% over the last month as worst Texas drought since the 1950s continues to damage crop in the State. Cotton futures were also up due to fears over tightening U.S. supplies. Weather will be dry and hot and will probably persist through the end of September. The U.S. Department of Agriculture said in its weekly crop-progress report on Monday that approximately 41% of U.S. cotton crops were rated in 'poor' to 'very poor' condition as of August 28, up significantly from 12% in the same week a year earlier.

Technical analysis of ICE Futures (December contract)



Prices-US Cents/lb

According to the trend line drawn, crucial resistance level is at 106.098 and breaking this resistance would take prices upto 109 which is major resistance for December futures contract. Immediate support is at 104.445 and if breached could take prices down to 101.74 levels which acts as a major support. Chart trend looks range bound. MACD is moving up in the negative region and reveals a decline in bearish momentum. RSI is moving up in the neutral region and supports the bullish momentum in the short term.

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