

Highlights of the Week

- Cotton prices remained mixed for the week ending September 06th 2011 amid reports of higher production estimates.
- Millers are holding themselves from fresh buying as they see more downside for the prices.
- Cotton output in the year 2011-12 is expected to go up by 9 per cent to 35.5 million bales. An increase in acreage and favorable weather condition will boost the output.
- As of September 02nd 2011, 2011 sown area under cotton increased by 8.8% to 118.05 lakh hectares compared to 108.47 lakh hectares in the previous year.
- Cotton futures remained positive as severe drought conditions in Texas and Hurricane Irene damaged crops.
- Meanwhile, ongoing rains in Pakistan have almost damaged 5 to 7 per cent of the total size of the anticipated cotton crop 2011-12. Around 300,000 bales have been damaged in Sindh belt and 350,000 bales have been damaged in the Punjab belt.
- Meanwhile, USDA added that export sales improved for U.S cotton which continued to support prices at lows.

Current Market Dynamics

Cotton prices remained weak at Kadi, Abohar and Muktsar on reports of higher production estimates due to higher acreage estimates in 2011-12 season. Cotton Advisory Board (CAB) estimated an increase of 9% of production to 355 lakh bales compared to the initial estimate of 325 lakh bales. Consumption is estimated to increase to 264 lakh bales from the initial estimate of 253 lakh bales.

As per the latest data released by Ministry of Agriculture, sown area under cotton as of September 02nd 2011 is up by 9.8 per cent to 118.05 lakh hectares as compared to 108.47 lakh hectares same period last year. The major increase has been reported in Gujarat, Rajasthan, Maharashtra and Haryana.

The following table shows the state wise sown area under cotton as of September 02nd, 2011 –

| State | As on (02/09/11) | Same period last year | % Change over last year |
|--|------------------|-----------------------|-------------------------|
| Punjab* | 5.75 | 5.59 | 2.9 |
| Haryana* | 6.05 | 6.00 | 0.8 |
| Rajasthan* | 5.31 | 3.36 | 58.0 |
| Maharashtra | 40.89 | 39.43 | 3.7 |
| Gujarat# | 29.52 | 26.09 | 13.1 |
| A.P@ | 17.76 | 17.75 | 0.05 |
| India Total | 118.05 | 108.47 | 8.8 |
| Area= Lakh Hectares, Source: State Agriculture Departments, *-Sowing Completed, #as of Aug. 18 th , @ as of Aug. 30 th | | | |

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:

The cotton production for the coming marketing season 2011-12 is forecast to be 355 lakh bales an increase by 9.2% from the previous year production at 325 lakh bales. Agriwatch had projected in the last weekly report that production for 2011-12 to be around 351 lakh bales which is just a decline of 1.1% or 4 lakh bales.

Consumption for 2011-12 season is slated to be 264 lakh bales an increase of 11.86%. Exports will also be higher at 70 lakh bales compared to 65 lakh bales in the previous year. The exports will increase due to surplus stocks in the hand. However according to our projection ending stocks will be higher at 73.5 lakh bales as we expect the Mills & SSI Consumption to be lower this year due to surplus yarn stock of about 350 million kg compared to the normal 100-150 million kg. So we can assume that have surplus yarn stocks and raw ending stocks there is a possibility that exports will touch 80 lakh bales which was seen in 2009-10 marketing year.

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

| <i>All in Lakh Bales</i> | 2010-11 CAB Estimate | 2011-12 CAB Estimate | 2011-12 AW Projection |
|---------------------------|-------------------------------------|-------------------------------------|--------------------------------------|
| Opening Stocks | 40.5 | 52.5 | 52.5 |
| Production | 325 | 355 | 351 |
| Imports | 5 | 5 | 0 |
| Total Availability/Supply | 370.5 | 400.5 | 403.5 |
| Mills & SSI Consumption | 236 | 264 | 243 |
| Export | 65 | 70 | 70 |
| Non Mill Consumption | 17 | 17 | 17 |
| Total Consumption | 318 | 351 | 330 |
| Ending Stocks | 52.5 | 56.5 | 73.5 |

As evident from the above table overall cotton supply is in good shape for 2011-12 marketing year and we expect the prices to remain soft in the country in the next year or so.

Fundamental Cotton Price Outlook for Coming Week

Cotton prices are expected to remain weak on higher production estimates. Favourable weather so far over the key growing regions and weak demand from Millers and Exporters will also pull markets lower.

Cotton Spot Prices (Kadi Market) Technical Analysis



As evident from the above chat, cotton prices are above a crucial support of 4450. Breaching below will take prices near to 4200. Immediate resistance is at 4900 levels. Oscillator RSI moving down in the neutral region hints for a weak market. Indicator MACD is moving down in the positive 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 4775 level and partially book profit near 4550 and then near 4400.

Support and Resistance:

| Support 2 | Support 1 | Resistance 1 | Resistance 2 |
|-----------|-----------|--------------|--------------|
| 4375 | 4450 | 4800 | 4900 |

Expected Price range of Cotton Prices for next week

| Markets | Expected Trading Band for the coming week | Expected Trend for coming week |
|---------|---|--------------------------------|
| Kadi | 4450-4900 | 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 05/09/11 | Week Ago 29/08/11 | Month Ago 05/08/11 |
|-----------|------------------------|-----------------------------|------------------|-------------------|--------------------|
| Cotton | Kadi –Bt Cotton | -2.60 | 4375-4675 | 4375-4800 | 4125-4500 |
| | Amravati –Vunni Mech-1 | 4.76 | 4100-4400 | 3800-4200 | 4000-4500 |
| | Ahmedabad – Shankar-6 | 5.88 | 4000-4500 | 3750-4250 | 3750-4500 |
| | Abohar – J-34 | -2.56 | 3800 | 3900 | 3450-3475 |
| | Muktsar– J-34 | -2.56 | 3800 | 3900 | 3450-3475 |

Technical Analysis of Cotton Futures April 2012 contract at NCDEX



Prices-Rs/20kg

As evident from the above chart, prices have moved above the 23.6% retracement level of 704.1 and if prices remain above this level we could see prices upto the 38.2 retracement level of 750.7 which acts as a good resistance. 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-days) also hints for short term firmness. RSI is moving up in the neutral region, which suggests for a possible further uptrend in prices.

| Support 2 | Support 1 | Resistance 1 | Resistance 2 |
|-----------|-----------|--------------|--------------|
| 657 | 675 | 737 | 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 29th in the US, 23% of crop is in very poor condition compared 22% a week ago. So the crop has deteriorated further due to the drought in Texas and excess rains due to the Hurricane Irene. The crop has been deteriorating since 14th August 2011.

| Cotton Crop Condition in the US (in %) | | | | | |
|--|-----------|------|------|------|-----------|
| | Very Poor | Poor | Fair | Good | Excellent |
| Week Ending Aug. 29 th 2011 | 23 | 18 | 29 | 25 | 5 |
| Week Ending Aug. 21 st 2011 | 22 | 19 | 28 | 25 | 6 |
| Week Ending Aug. 14 th 2011 | 21 | 19 | 29 | 26 | 5 |
| Previous Year August 29 th 2010 | 3 | 9 | 28 | 45 | 15 |

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 could be observed. MACD is moving sideways in the positive region supporting the bullish sentiments. Immediate support can be seen at USc 103/lb. Breaching either side of the mentioned level would give prices new direction.

| Support 2 | Support 1 | Resistance 1 | Resistance 2 |
|-----------|-----------|--------------|--------------|
| 101.7 | 103.3 | 108.6 | 110 |

All in US\$/lb

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