

Highlights of the Week

- Cotton prices surged higher for the week ending September 13th 2011 as trade sources say that losses could be expected in the Northern Region of India due to excessive rains.
- Continuous rains in the North may delay crops which has pushed the prices higher. Sources added that the extended monsoon showers are set to damage a part about 87,200 hectares crop in Punjab of the crop.
- Trade sources also revealed that the extended monsoon has also affected cotton crop in Gujarat, the largest producer and in Rajasthan.
- USDA said in its report that India's cotton exports are projected to jump by 21% to 8 million bales in the 2011-12 marketing year August-July supported by a record output and a possibly less restrictive government policy. USDA added that India is expected in 2011-12 at 27.3 million 480 lb bales.
- Meanwhile unrestricted export permission by government has been granted under OGL for 2011-12 season.
- Cotton Association of India (CAI) released its first estimate for cotton output for the season 2011-12. It said in its report that cotton output could reach 363.75 lakh bales due to an increase in the acreage under cotton by 10% to a record high over 120 lakh hectares.

Current Market Dynamics

Cotton prices remained higher at all markets as prolonged spells of unfavorably wet weather prevailing in the North Indian states of Haryana and Punjab look set to impact the cotton-picking operation, delaying it by 10 to 15 days. The North India Cotton Association say that the untimely rains in the two neighboring states may even damage some of the crop. The two states were eyeing a production of around 50 lakh bales of cotton this season as against 39 lakh bales cotton.

Over the last few days crop losses have been reported in Haryana, Punjab, Gujarat and Rajasthan. According to the state agriculture department of Rajasthan, the first advance estimate for area and production in 2011-12 is 4.70 Lakh Hectares and 11.07 Lakh Tonnes respectively.

So far weather over the key growing regions has not remained favorable in the Northern sowing areas including Haryana, Punjab, Gujarat and Rajasthan and yield could be lower this year from the Northern sector.

2011-12 Crop Estimate Comparison between CAB and CAI Estimates:

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. However Cotton Association of India has projected the cotton production to be 363 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 from the government's report but 11 lakh bales lower compared to Cotton Association of India report.

Consumption for 2011-12 season is slated to be 264 lakh bales as per CAB, but consumption will be lower as per Cotton Association of India at 251 lakh bales. However according to Cotton Association of India projection ending stocks will be higher at 87.5 lakh bales as Cotton Association of India expects 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 –

All in Lakh Bales	CAB Estimate	CAI Estimate	AW Projection
SUPPLY			
Opening stock	52.5	56.75	52.5
Crop	355	363.75	351
Imports	5	5	5
Total	412.5	425.5	408.5
DEMAND			
Mill consumption	264	251	243
Non-mill consumption	17	17	17
Exports	70	70	70
Total demand	351	338	330
Closing stock	56.5	87.5	73.5

Source: Cotton Advisory Board, Cotton Association of India

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. Weak demand from Millers and Exporters will also pull markets lower. However, crop losses report from Punjab due to unfavourable weather may push up the prices in the short term.

Cotton Spot Prices (Kadi Market) Technical Analysis



As evident from the above chat, cotton prices are moving in a range from 4375-4960 level and breaching either level would give us further price direction. If 4960 level is broken then we could see the prices moving up to 5515 level indicated by a Red Line. If 4375 level is broken then we could see the prices moving down to 3834 level indicated by a Green Line. Oscillator RSI is flat in the neutral region hints for a sideways market. Indicator MACD is moving up in the positive region hints for a firm market. We expect prices to remain range bound with firm bias in coming week.

Strategy: Buy on dips or one can opt to buy near 4375 level and partially book profit near 4550 and then near 4600.

Support and Resistance:

Support 2	Support 1	Resistance 1	Resistance 2
4275	4350	5025	5200

Expected Price range of Cotton Prices for next week

Markets	Expected Trading Band for the coming week	Expected Trend for coming week

Kadi	4500-5000	Range bound to firm
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Prices-Rs/quintal Kadi prices- Bt quality

Cotton Prices at Key Spot Markets: Rs/Quintal

Commodity	Centre & Variety	% Change Over Previous Week	Current 12/09/11	Week Ago 05/09/11	Month Ago 12/08/11
Cotton	Kadi –Bt Cotton	3.74	4625-4850	4375-4675	4100-4275
	Amravati –Vunni Mech-1	4.54	4200-4600	4100-4400	4000-4400
	Ahmedabad – Shankar-6	2.77	4125-4625	4000-4500	3625-4250
	Abohar – J-34	6.57	4050	3800	3520
	Muktsar– J-34	6.57	4050	3800	3520

Technical Analysis of Cotton Futures April 2012 contract at NCDEX



Prices-Rs/20kg

As evident from the above chart, prices have moved below the 38.2% retracement level of 750.5 and if prices remain below this level we could see prices down to the 23.6% retracement level of 704.5 which acts

as a good support. Short term EMAs (9-days) also hints for short term firmness. RSI is flat in the neutral region, which suggests for a possible sideways movement in prices.

Support 2	Support 1	Resistance 1	Resistance 2
681	713	768	792

Strategy: Wait or buy at the mentioned support levels (681 & 713).

INTERNATIONAL MARKET

The latest U.S. Department of Agriculture (USDA) estimates for 2011/12 project global cotton consumption at approximately 115.2 million bales. After August reductions in both 2010/11 and 2011/12, cotton consumption for the current season is now forecast to grow about 1 percent after a decline of nearly 4 percent in 2010/11. The limited growth expectations are the result of the weak world economy and the recent high cotton prices that have reduced demand for cotton products and resulted in fiber substitution at mills.

According to USDA's, the 2011 U.S. cotton crop is projected at 16.55 million bales, 554,000 bales above July's estimate but nearly 1.6 million bales below last season's output. The 2011 production decline is largely attributable to the drought in Texas that has reduced the harvested acreage estimate below the 2010 level.

US Supply and Demand		
Year	2010-11	2011-12*
<i>Million Acres</i>		
Area	10.77	13.43
<i>Million 480-lb. bales</i>		
Beginning Stock	2.92	2.83
Production	17.6	15.81
Total supply	20.53	18.66
Mill use	3.77	3.77
Exports	13.9	11.65
Total use	17.67	15.42
Ending stocks	2.83	3.23
<i>Pounds</i>		
Yield/Acre	805	809
Source: USDA, *-Projected		

ICE Futures (December Contract) Technical Analysis



New York Futures on ICE

As evident from the chart prices have broken above the US\$ 108/lb level. Now prices can move upto US\$ 125/lb level from. MACD is moving up in the positive region supporting the bullish sentiments. Immediate support can be seen at US\$ 108/lb. Breaching either side of the mentioned level would give prices new direction.

Support 2	Support 1	Resistance 1	Resistance 2
104.9	106.2	116.1	117.9

All in US\$/lb

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