## Cotton-Weekly-Research-Report



September 27th, 2011

#### **Highlights of the Week**

- Cotton prices fell heavily this week on higher fresh arrivals and weaker demand from millers and exporters. Sentiments remained weak as stockiest started to offload their stocks in anticipation of new arrivals.
- Cotton prices also declined as Cotton has been sown in 119.69 lakh hectares compared to 109.57 lakh hectares sown last year. Higher area coverage has been reported from Gujarat, Rajasthan, Maharashtra, Haryana, Madhya Pradesh and Andhra Pradesh.
- According to the traders, Indian cotton output is also headed for a record at 36.1 million bales against 33.4 million bales the previous year.
- However, towards the weekend, traders said that fears of crop damage because of heavy rain in Gujarat continue in the market and may restrict downside.
- Also, textile commissionerate under the ministry of textiles recorded renewed interest from yarn exporters and registered 97.7 million kg of orders in August, against 57.2 kg in July.
- India's cotton exports could rise 17%, or 1.4 million tonnes spurred by a record harvest, a weaker domestic currency and a freer trade policy.

#### **Current Market Dynamics**

Cotton prices fell this week and may continue to move lower on higher production estimates for 2011-12. Fresh arrivals, offloading of stocks and weaker demand from millers and exporters may continue to pull markets lower. On the other hand fears persist that there might be of crop damage because of heavy rain in Gujarat, Rajasthan and Punjab. The downside may also be restricted as traders are reporting 13-14% moisture content in the new stock.

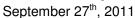
Meanwhile, with the pickup in festival orders, the cotton yarn market is showing significant improvement. Yarn inventory has reached normal levels or even below normal in many spinning mills indicating an increase in demand for yarn. The textile industry faced severe market crunch from the beginning of the current fiscal due to pile up of yarn stock totaling 500 million kg against the normal level of 100 million kg. The spinning sector normally exports 23% of its production ranging from 55 million kg to 70 million kg every month.

Separately, South India Cotton Association, to be known as Indian Cotton Federation from next month, will draft a common cotton contract for domestic and international trade in Indian cotton. This is expected to reduce the large-scale defaults in contracts in domestic and international markets.

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

Cotton prices are expected to remain weak on new crop arrival, offloading of stocks and higher production estimates for 2011-12. However millers and exporters may start to buy at lower levels which may restrict downside.

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



As evident from the above chat, cotton prices are trading in a range from 4700-5000 level and breaching either level would give us further price direction. Oscillator RSI is moving sideways in the neutral region hints for more sideways market. Indicator MACD is moving down in the positive region hints for a decline in bullish mometum. We expect prices to remain range bound in coming week.

**Strategy**: Buy on dips or one can opt to buy near 4700 level and partially book profit near 4950 and then near 5000.

### Support and Resistance:

Support 2	Support 1	Resistance 1	Resistance 2
4300	4500	5100	5200

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

Markets	Expected Trading Band for the coming week	Expected Trend for coming week
Kadi	4700-5000	Range bound

Prices-Rs/quintal Kadi prices- Bt quality



### Cotton Prices at Key Spot Markets: Rs/Quintal

Commodity	Centre & Variety	% Change Over Previous Week	Current 26/09/11	Week Ago 19/09/11	Month Ago 26/08/11
	Kadi –Bt Cotton	-4.08	4500-4700	4700-4900	4375-4625
	Amravati –Vunni Mech-1	-13.04	3500-4000	4200-4600	4000-4400
Cotton	Ahmedabad – Shankar-6	-1.62	4000-4550	4000-4625	4375-4625
	Abohar – J-34	-12.34	3550	4000-4050	4000
	Muktsar- J-34	-12.34	3550	4000-4050	4000

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



### Prices-Rs/20kg

As evident from the above chart, prices remain within 700-750 levels and breaching either level would give us further prices direction. Short term EMAs (9 and 18 days) hints for short term firmness. RSI is moving up in the neutral region hints for more bullish movement in prices. Indicator MACD is suggesting a decline in bearish momentum.



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Support 2	Support 1	Resistance 1	Resistance 2
701.8	709.9	762.9	786.5

Strategy: Wait or buy at the mentioned support levels (701.8 & 709.9).

#### INTERNATIONAL MARKET

Cotton futures ended lower this week due to technical and speculative selling. Meanwhile, about 2.7 million cotton bales were destroyed during recent flash floods in Sindh province. Cotton futures ended lower after absorbing unexpectedly large U.S. export sales cancellations and a confusing welter of revisions in USDA's updated supply-demand estimates. Prices fell after weekly data showing net U.S. all-cotton 2011-12 export sales cancellations of 170,600 running bales spurred new worries about demand. On the crop scene, with the U.S. planted acres estimated up at 995,000 from the indication a month ago to 14.72 million, USDA left its U.S. crop forecast at 16.56 million bales.

U.S. Department of Agriculture's September 25<sup>th</sup> 2011 estimate of U.S. cotton yields as overall U.S. cotton production and the cotton market remained steady to higher this week. Meanwhile Pakistan could import from India as 2011-12 output of the fibre has been tamped down two million bales to 13 million tonnes due to heavy rains. Traders are worried about weak demand in the markets and may continue pull markets lower. Prices also weakened as China has reduced purchases by 13% in the first eight months of the year, compared with the same period in 2010.

Cotton futures continued its weakness due to slow pace of global growth and development. Traders say that the U.S is likely to see reduced economic growth convert to minimized demand for supplies. Meanwhile, Australian Bureau of Agricultural and Resource Economics (ABARE) forecasted in their report 2011-12 world cotton output will likely increase 9.2% on year to a record 27.2 million tons; consumption is expected to rise 2.8% to 25.5 million tons in 2011-12. Separately, the Obama administration is proposing to cut billions of dollars in agriculture subsidies as part of a \$3 trillion deficit-reduction plan rolled out this week. Meanwhile, the textile sector entrepreneurs have asked a visiting US government delegation to provide access to at least apparel products of Pakistan on zero import duty.

ICE Futures (December Contract) Technical Analysis

# AW AGRIWATCH

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#### **New York Futures on ICE**

As evident from the chart prices are moving down and broken the USc 100/lb level. Now it could retest USc 95.76/lb level which is the main support level. Second support is at USc 93.72/lb level. Immediate resistance is at USc 102.38/lb and 104.42/lb levels. MACD is moving down in the negative region supporting the bearish sentiments. RSI is moving down in the neutral region and supports the bearish sentiments.

Support 2	Support 1	Resistance 1	Resistance 2
93.72	95.76	102.38	104.42

All in USc/lb

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