

## Highlights of the Month

- Cotton prices remained mixed this month with Abohar and Muktsar ending lower as fresh arrivals and weak demand from millers and exporters.
- Stockiest in Abohar and Muktsar also offloaded stocks in anticipation of fresh arrivals which pulled markets lower
- However prices in Gujarat and Maharashtra ended higher as crop may be delayed due to unfavourable weather conditions during the sowing.
- 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 on 25<sup>th</sup> September 2011, sowing is over in around 120.33 lakh hectares as against around 110.66 lakh hectares corresponding period last year.

## 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.

### 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
<b>SUPPLY</b>			
Opening stock	52.5	56.75	52.5
Crop	355	363.75	351
Imports	5	5	5
Total	412.5	425.5	408.5
<b>DEMAND</b>			
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**

### Sowing Report

As on 25<sup>th</sup> September 2011, sowing is over in around 120.33 lakh hectares as against around 110.66 lakh hectares corresponding period last year. Area increased as farmers sowed more cotton as returns were better compared to complete crops like Paddy, Jowar, Maize, Pulses, etc.

Cotton area in the northern states has been estimated at 15.80 lakh hectares as against 13.57 lakh hectares last year. The acreage under cotton has increased due to switching over of area from other crops like Paddy, Jowar, Maize, Pulses, etc. However, due to continuous rains in the first half of September 2011 there have been reports of crop damage and arrivals will be late by 15 days. This will keep prices from falling very quickly. Going forward, weather conditions are expected to be dry and may help in crop pickings.

Cotton area in central region which includes Gujarat, Maharashtra and Madhya Pradesh is expected to be higher compared to last year. Sowing is over in around 78 lakh hectares. The acreage under cotton has increased compared to last year due to switching over from other competing crops. However new crop arrival is going to be delayed due to unfavourable weather during the final stages of sowing.

In the Southern region, sown area has reached 23.15 lakh hectares. Crop is reported in flowering and square formation stage and crop condition is reported to be good. There have been no reports of pest attacks. In Orissa sowing is reported in around 1 lakh hectares. The acreage has increased by around 35% due to switching over from paddy.

<i>In Lakh Hectares</i>	2010-11	Forecast 2011-12
Haryana	4.92	6.00
Punjab	5.30	6.00
Rajasthan	3.35	4.70
Maharashtra	39.43	41.25
Gujarat	26.32	29.75
Madhya Pradesh	6.50	7.00
Andhra Pradesh	17.76	18.30
Karnataka	5.45	4.00

Tamil Nadu	1.22	0.725
Orissa	0.74	1.00
Total	111.42	121

Source: Cotton Advisory Board

## Technical Analysis of Cotton Prices at Kadi Market



### Prices-Rs/quintal

Prices are trading in a small range from 4650-5000 which acts as major support and resistance and breaching either level would give us further price direction. Chart trend looks range bound. MACD is moving down in the positive region and reveals a decline in bullish momentum. RSI is moving up in the neutral region and supports the bullish 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
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Kadi	4500-5000
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Prices-Rs/quintal, Kadi-Bt quality

### Cotton Prices at Key Spot Markets:

Commodity	Centre & Variety	Prices (Rs/Qtl)		Change
		29-08-11	31-08-11	
Cotton	Kadi –Bt Cotton	4625-4675	4375-4625	50
	Amravati –Vunni Mech-1	3200-3600	4250-4500	-900
	Ahmedabad – Shankar-6	4000-4625	4000-4375	250
	Abohar – J-34	3500-3600	3825	-225
	Muktsar– J-34	3500-3600	3825	-225

### Production of man-made fibre, filament yarn, spun yarn

Man-made fibre production recorded increase by about 5% and filament yarn production recorded a decrease of about 10% during June 2011. Man-made fibre production recorded a decrease of 0.3% and filament yarn a decrease of about 10% during the year April-June 2011. Cotton yarn production has decreased by 17% during June 2011 and by 11% during April-June 2011. Blended and 100% non-cotton yarn production increased by 14% during June 2011 and increased by 9% during the year April-June 2011.

Production of man-made fibre, filament yarn, spun yarn and cloth					
Period	Manmade fibre	Manmade filament yarn	Cotton yarn	Blended & 100% Non-cotton yarn	Total Spun Yarn
2006-07	1139	1370	2824	989	3813
2007-08	1244	1509	2948	1055	4003
2008-09	1066	1418	2899	1015	3914
2009-10	1268	1522	3079	1114	4193
2010-11*	1281	1550	3469	1214	4683
Figure in Million Kg, *-Projected, Source: Ministry Of Textile, Office of the Textile Commissioner					

### 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.

U.S. export sales cancellations and a confusing flurry of revisions in USDA's updated supply-demand estimates kept prices lower. 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.

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. 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.

China's National Development and Reform Commission said in its report that China's 2011 cotton production will likely rise 7.5% to about 7.2 million metric tons. The increase in production has been attributed to a rise in cotton acreage to 5.2 million hectares, up 4.7%.

## New York Futures on ICE

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



## In US Cents/lb

ICE December contract has been trading in a range of USc 98-116. Cotton futures were down due to export sales cancellations from U.S. Futures down as world cotton production is expected to be higher this year compared to last year. The U.S. Department of Agriculture said in its weekly crop-progress report on Monday

that approximately 44% of U.S. cotton crops were rated in 'poor' to 'very poor' condition as of September 25<sup>th</sup> 2011, down significantly from 14% in the same week a year earlier.

## Technical analysis of ICE Futures (December contract)



## Prices-US Cents/lb

According to the chart, crucial support level is at 98.38 and 98.95 breaking this resistance would take prices down to 93.2 which is major support for December futures contract. Immediate support is at 114.83 and 115.59 if breached could take prices upto 124 levels which acts as a major resistance. Chart trend looks range bound to weak. MACD is moving down in the negative region and reveals an increase in bearish momentum. RSI is moving up in the neutral region and supports the bullish momentum in the short term.

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