

Highlights of the Month

- Cotton prices remained firm this month as fresh arrivals were 60% lower compared to last year.
- Activity also remained dull due to the festive season in the latter part of the month.
- Arrivals will improve in the next month and millers and exporters may wait for the prices to come down before buying in the market.
- Cotton output in the year 2011-12 is expected to go up by 9 per cent to 355 lakh bales in 2011-12 compared to 325 lakh bales in 2010-11.
- According to CAB acreage has increased to 121 lakh hectares in 2011-12 compared to 111.41 lakh hectares in 2010-11.

Current Market Dynamics

Cotton prices remained higher this month as pace of new crop arrivals is less as compared to last year. The per day arrivals are in the range of around 40,000 to 45,000. As on 26th October 2011, the progressive arrivals are 6.18 lakh bales as against 7.25 lakh bales in previous year. The new crop arrivals have commenced, however, the same are scanty with high moisture. The new crop arrivals are expected to pick up in the second fortnight of November 2011.

Fresh arrivals are expected to pick up from November and may restrict upside. Traders added that cotton arrival in the market is around 25,000 to 30,000 bales per day, which is expected to double post the festival. The new arrivals will be in addition to old cotton stacked by farmers during the period of ban on exports.

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, sources added that estimates could go down below the forecast of 355 lakh bales due to crop damage in the late September-October period due to heavy rainfall and heat waves. Meanwhile traders association Cotton Association of India has projected the cotton production to be 363 lakh bales.

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

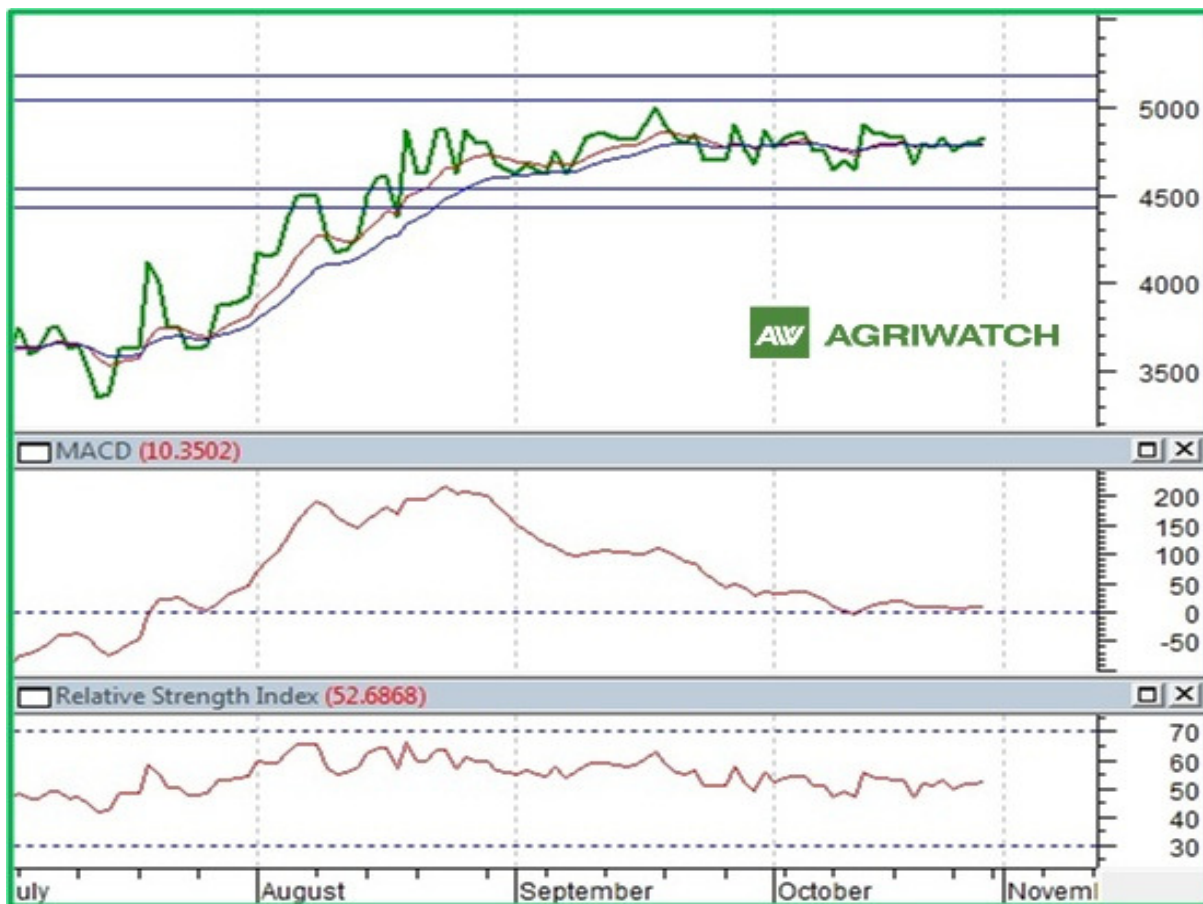
All in Lakh Bales	CAB Estimate	CAI Estimate	AW Projection
SUPPLY			
Opening stock	52.5	56.75	52.5
Crop	355	363	351
Imports	5	5	5
Total	412.5	425.5	408.5
DEMAND			
Mill consumption	264	251	243
Non-mill consumption	17	17	17
Exports	70	70	70
Total demand	351	338	330
Closing stock	56.5	87.5	73.5

Source: Cotton Advisory Board, Cotton Association of India

Crop Condition

As on 28th October crop is in harvest stage and harvest will pick up in the next week. Favourable weather conditions in the Northern region will support crop pickings. However, thundershowers in Tamil Nadu, coastal Andhra Pradesh and coastal and south interior Karnataka may hinder harvest activities.

Technical Analysis of Cotton Prices at Kadi Market



Prices-Rs/quintal

Prices are trading in a small range from 4650-4900 which acts as major support and resistance and breaching either level would give us further price direction. Chart trend looks sideways. 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.

Expected Price range of Cotton Prices for next month

Markets	Expected Range of Cotton
Kadi	4600-4900

Prices-Rs/quintal, Kadi-Bt quality

Cotton Prices at Key Spot Markets:

Commodity	Centre & Variety	Prices (Rs/Qtl)		Change
		25-10-11	29-09-11	
Cotton	Kadi –Bt Cotton	4625-4800	4625-4675	62.5
	Amravati –Vunni Mech-1	4200-4500	3200-3600	950
	Ahmedabad – Shankar-6	3760-4550	4000-4625	-157.5
	Abohar – J-34	3710	3500-3600	160
	Muktsar– J-34	3710	3500-3600	160

INTERNATIONAL MARKET

USDA said in its report that India's production will be around 27.5 million bales (480 pound bales) in October compared to 27 million bales a month ago. Ending stocks could rise from 7.75 million bales estimate in September to 8.45 million bales in October. Meanwhile, exports could decline from 5.5 million bales estimate in September to 5.25 million bales in October.

U.S production will be around 16.61 million bales (480 pound bales) in October compared to 16.56 million bales a month ago. Ending stocks could rise from 3.4 million bales estimate in September to 3.9 million bales in October. Meanwhile, exports could decline from 12 million bales estimate in September to 11.5 million bales in October.

Chinese production is estimated to decline to 33.5 million bales compared to 34 million bales estimate in September. This has lead to a decline in ending stocks which is estimated at 13.55 million bales compared to the September estimate 14.05 million bales.

The Table shows the USDA estimates comparison from September 2011 and October 2011,

World Cotton Supply and Use in million bales (480 pound bales)							
2011/12 Proj.		Beginning Stocks	Production	Imports	Domestic Use	Exports	Ending Stocks
World	Sep	43.97	122.96	37.31	115.22	37.30	51.91
	Oct	44.87	124.19	36.53	114.38	36.51	54.83
US	Sep	2.60	16.56	0.01	3.80	12.00	3.40
	Oct	2.60	16.61	0.01	3.80	11.50	3.90

Australia	Sep	2.55	4.50	3.00	0.04	4.20	2.96
	Oct	2.55	5.00	3.00	0.04	4.30	3.36
Brazil	Sep	7.31	8.70	0.10	4.60	3.60	8.06
	Oct	7.81	9.00	0.10	4.40	3.80	8.86
India	Sep	6.25	27.00	0.50	20.50	5.50	7.75
	Oct	6.25	27.50	0.45	20.50	5.25	8.45
China	Sep	11.60	34.00	14.50	46.00	0.05	14.05
	Oct	11.60	33.50	14.00	45.50	0.05	13.55
Pakistan	Sep	2.56	9.80	1.45	10.30	0.45	3.03
	Oct	2.56	10.00	1.50	10.30	0.45	3.28
Source: USDA							
All estimates are for 2011-12							

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 96-104. Cotton futures were down due as world cotton production is expected to be higher this year compared to last year. U.S futures were also influenced by China's CA estimate that China's cotton output this year will increase to 7.38 MMT, up 10.9% on y-o-y basis. Markets also slipped as China cotton imports fell for a seventh month on an annual basis by 14% y/y to 207,028 MT. Weakness were also influenced by USDA's unexpected hike Sep 12 in its U.S. cotton production estimate to 16.556 million bales from 16.554 million in August and higher U.S. carry-over estimate to 3.4 million bales.

Technical analysis of ICE Futures (December contract)



Prices-US Cents/lb

According to the chart, crucial support level is at 93.853 and 99.086 breaking this support would take prices down to 91.236 which is major support for December futures contract. Immediate support is at 106.93 and 109.55 if breached could take prices upto 114.78 levels which acts as a major resistance. Chart trend looks range bound to firm as prices have closed above 9 and 18-day EMAs. MACD is moving up in the negative region and reveals a decrease in bearish momentum. RSI is moving up in the neutral region and supports the bullish momentum is the short term.

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