

Highlights of the Month

- Cotton prices fell heavily amid lower arrivals remained higher this month compared to that in October.
- Weak demand from ginners and exporters and higher Production estimates added bearish sentiments in the market.
- Cotton output in the year 2011-12 is expected to go up by 9 per cent to 356 lakh bales in 2011-12 compared to 325 lakh bales in 2010-11.
- According to CAB acreage has increased to 121.91 lakh hectares in 2011-12 compared to 111.41 lakh hectares in 2010-11.

Current Market Dynamics

Prices remained weak and may continue downtrend on weak buying activity. Buyers were in wait and watch situation. Exporters buying were also limited. Yarn demand also remained stagnant and combed cotton yarn were placed were going at an average prices of 3.25-3.30 dollar per kg CNF.

ICAC reported that output from India during 2011-12 may increase to 6 million metric tons from 5.5 million a year earlier and exports may rise to 1.4 million tons from 1.1 million tons. The Planted area is expected to increase to 11 million hectares during 2011-12 compared to 10 million hectares last year. Market participants are in wait and watch state and waiting prices to decline in markets before entering the market.

Farmers may not hold onto stocks much longer as the cotton that is arriving right now contains moisture and the farmer cannot hold back this cotton as it will turn yellow if stocked for long. So this may pressurize markets down. Prices may continue its downtrend as demand for cotton has shifted from India to Pakistan due to lower rates there. Prices may also weaken as pick arrival season will start in another week or so.

Weather and Crop Condition

Harvesting and picking will be facilitated by dry and clear weather in Gujarat, Punjab, Haryana and Maharashtra. Weather is also favorable for crop picking in Karnataka and Andhra Pradesh, however wet and cloudy weather in Tamil Nadu remains a concerns and pickings may slow down.

2011-12 Supply and Demand (CAB Estimates):

The cotton production for the coming marketing season 2011-12 remains at 356 lakh bales. CAB met today reported that crop will be higher compared to last year. Exports will rise to 80 lakh bales. Mill use will decline to 230 lakh bales compared to the previous estimate of 240 lakh bales due to the slowdown in demand from the mills. So this will increase the supply to 78.5 lakh bales compared to the previous estimate of 56.5 lakh bales. Meanwhile Cotton Association of India has projected the cotton production to be 363 lakh bales. However, moisture stress in A.P could see some crop damage in the state and production could be lower from the state.

The following table shows the supply and demand situation for the last 3 marketing seasons –

Cotton Balance sheet	
Quantity in lakh bales of 170 kgs each	

Item	2009-2010	2010-2011	2011-12(P)
SUPPLY			
Opening stock	71.5	40.5	47.5
Crop size	295	312	356
Imports	7	5	5
Total Availability	373.5	357.5	408.5
DEMAND			
Mill Consumption	207	232	210
Small-Mill consumption	23	26	20
Non-Mill Consumption	20	17	20
Total Consumption	250	275	250
Exports	83	55	80
Total Disappearance	333	330	330
Carry-Forward	40.5	27.5	78.5

Source: Cotton Advisory Board

State-wise Production and Yield Estimates for last 2 marketing seasons

The cotton production in Punjab is forecast to be 17 lakh bales an increase by 6.25% from the previous year production at 16 lakh bales. Meanwhile cotton production is expected to increase in Gujarat as well from 103 lakh bales in 2010-11 to 115 lakh bales in 2011-12. The cotton production in Rajasthan is forecast to be 15 lakh bales an increase by 67% from the previous year production at 9 lakh bales. Cotton production is expected to increase in other states like Madhya Pradesh, Tamil Nadu and Orissa.

The following table shows the APY situation for key states for the last 2 marketing seasons –

State-wise Production and Yield Estimates for last 2 marketing seasons						
	2010-11			2011-12*		
State	Area	Production	Yield	Area	Production	Yield
Punjab	5.30	16	513	5.60	17	516
Haryana	4.92	14	484	6.05	16	450
Rajasthan	3.35	9	457	5.30	15	481
North Total	13.57	39	489	16.95	48	481
Gujarat	26.33	103	665	30.23	115	647
Maharashtra	39.32	82	355	40.95	85	353
Madhya Pradesh	6.50	17	445	7.06	18	433
Central Total	72.15	202	476	78.24	218	474
Andhra Pradesh	17.84	53	505	18.54	55	504
Karnataka	5.45	10	312	5.49	14	434
Tamil Nadu	1.22	5	697	1.21	5	702
South Total	24.51	68	472	25.24	74	498
Orissa	0.74	2	459	1.02	2	333
Others	0.45	2	756	0.46	2	739
Grand Total	111.42	325	496	121.91	356	496

*-Latest Estimate

Source: Cotton Advisory Board

Arrivals Comparison of Cotton at key markets

Centre	Arrivals Cumulative (Bales)	
	November	October
Ahmedabad-Shankar-6	5,40,000	3,12,000
Kadi-Bt Cotton	5,575	2,685
Abohar-J34	24,600	16,650
Muktsar-J34	6,350	5,313

Pace of the arrivals of the new crop remained higher compared to last month as farmers could not hold onto socks due to falling prices as farmers fear that prices this year trade close to the MSP at 3,300/quintal.

Fundamental Cotton Price Outlook for Coming Month (December)

Cotton prices are expected to remain range bound with slightly weak tone due to increasing new crop arrival coupled with higher production estimates for 2011-12. Presently exporters and millers were active in the market. However, Eurozone crisis may slowdown demand for cotton and may pull down prices.

Technical Analysis of Cotton Prices at Kadi Market



Prices-Rs/quintal

Prices are trading in a small range from 4500-5000 which acts as major support and resistance and breaching either level would give us further price direction. Chart trend looks range bound to weak. MACD is moving down in the negative region and suggest an increase in bearish momentum. RSI is moving down in the neutral region and supports the bearish 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 week

Markets	Expected Trading Band for the coming week	Expected Trend for coming week
Kadi	3800-4300	Range bound to weak

Prices-Rs/quintal Kadi prices- Bt quality

Cotton Prices at Key Spot Markets:

Commodity	Centre & Variety	Prices (Rs/Qtl)		% Change
		26-10-11	25-10-11	
Cotton	Kadi –Bt Cotton	4300-4500	4625-4800	-6.25
	Amravati –Vunni Mech-1	4000-4250	4200-4500	-5.55
	Ahmedabad – Shankar-6	4150-4250	3760-4550	-6.59
	Abohar – J-34	3490	3710	-5.93
	Muktsar– J-34	3490	3710	-5.93

INTERNATIONAL MARKET

US futures fell heavily this week after Cotlook said in its report that world long-staple cotton production will outpace consumption by 130,000 metric tons in the 2011-12 marketing year. Global output of long-staple varieties is expected to total 639,000 tons in the period. Long-staple cottons account for about 2.5 percent of total world production of the fiber and are used to make luxury items. Cotlook also added that supply will be surplus and prices will stay under downward pressure in the immediate future.

Prices were also weakened after Pakistan's cotton arrivals increased to 7.969 million bales till date for this season against 7.453 million bales received last year thus an increase of 6.92% compared to last year.

However, China may need to import 700,000 to 800,000 tonnes of cotton to restock state reserves in the crop year that began in September. However, stronger harvest this in the world may stop them from buying in the near future which may continue to pull markets lower. Currently, stockpiles in China is estimated to be around 1 million tonnes much lower compared to the usual of 2-3 million tonnes. China has already imported 200,000-300,000 tonnes of cotton in calendar 2011 to refill its reserves. Purchases may decline as already 70% of US new crop has already been booked.

USDA released its weekly crop report and the report showed 84 percent of the U.S. cotton crop had been harvested as of November 22nd. That's up from 79 percent the previous week.

US Department of Agriculture (USDA) has lowered its forecast for the US cotton harvest by 2% to 16.3 million bales (480 pound bales) in the 2011/12 season. Higher output in China, India and Pakistan is set to put world production at an estimated 123.9 million bales. USDA cut US production estimates by 308,000 bales due to falls in Texas and the south east of the country. Argentinean harvest expectations were down by 150,000 bales, but Turkey is seen rising by 200,000 bales.

In terms of world consumption, lower demand from both Mexico and Thailand is likely to result in a drop of 102,000 bales, from 114.4 million bales to 114.3 million bales. World ending stocks are put at 54.8 million bales, marginally higher than earlier estimates of 55.0 million bales. Global trade, meanwhile, is virtually unchanged at 36.5m bales.

The Table shows the USDA World Supply & Demand for 2011-12,

World Supply & Demand in Million 480 pound bales								
	Beginning Stock	Production	Imports	Supply	Mill ratio	Exports	Ending Stock	Stock-to Use
World	45.2	123.9	36.3	169.1	114.3	36.3	55.0	48.10%
U.S	2.6	16.3	0.0	18.9	3.8	11.3	3.8	25.20%
China	11.6	33.5	14.0	59.1	45.5	0.1	13.6	29.70%
Pakistan	2.6	10.0	1.5	14.1	10.3	0.5	3.3	30.50%
India	6.3	27.5	0.5	34.2	20.5	5.3	8.5	32.80%
Central Asia	2.3	6.7	0.0	9.0	1.9	4.6	2.4	37.40%
Australia	2.6	5.0	0.0	7.6	0.0	4.2	3.5	81.60%
Brazil	7.8	9.0	0.1	16.9	4.4	3.8	8.9	108.00%
Indonesia	0.4	0.0	2.3	2.7	2.2	0.0	0.5	20.30%
Mexico	0.5	1.2	1.1	2.7	1.8	0.3	0.6	32.00%
Turkey	1.7	3.1	3.1	7.9	5.8	0.2	2.0	33.80%

Source: USDA.

ICAC Estimates

ICAC report says that world production is projected to be higher by 7.98% in 2011-12 as higher production can be seen in India, Australia, China, Pakistan, Turkey and a marginal increase in U.S. World consumption is projected increase only by 0.44% as global slowdown due to the Eurozone crisis will slowdown demand for the fiber. The global slowdown in economic growth will also affect the cotton consumption from textile mills in 2012 and slowdown demand for the fiber. Global exports will increase as imports from China will increase in 2011-12.

The Table shows the ICAC cotton balance sheet,

World Cotton Balance Sheet (in Million Metric Tonnes)			
Attribute	2009-10	2010-11	2011-12
Beginning Stocks	11.89	8.67	9.02
Production	22.17	24.88	26.86
Imports	7.75	7.62	7.77
Consumption	25.24	24.49	24.60
Exports	7.77	7.62	7.77
Ending Stocks	8.67	9.02	11.29

Source: ICAC

Technical analysis of ICE Futures (March contract)



Prices-US Cents/lb

According to the chart, crucial support level is at 82.01 and 86.44 breaking this support would take prices down to 81 which is low for March 2012 futures contract. Immediate resistance is at 98.18 and 102.61 if breached could take prices upto 105 levels which acts as a major resistance. Chart trend looks range bound to weak as prices have closed above 9 and 18-day EMAs. MACD is moving down in the negative region and suggest an increase in bearish momentum. RSI is flat in the neutral region and supports the bullish sideways momentum in the short term.

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