

## Highlights of the Month

- Prices remained mixed amid firm demand and lower arrivals in the domestic markets.
- Markets also moved higher as exporters, spinners and millers were actively buying in the market.
- Production estimates remain higher and with higher surplus expectations due to lower demand this year from textile industries prices may trade lower in the long run.
- Overall sentiment remained steady to firm on firm domestic and export demand this week.

## Current Market Dynamics

Cotton prices remain range bound as millers started to purchase at lower prices as cotton prices is closer to their parity. Pace of arrivals increased this week but remained lower compared to last year as farmers are holding onto stocks in anticipation of better prices. Arrivals were also lower as farmers were waiting for government reaction on issue of minimum support price hike from Rs.3300/quintal to Rs.4000/quintal.

Indian farmers may be holding cotton on farm in the hope that prices will rise as the marketing year progresses. Traders added that arrivals may be lower but the supplies which are coming in of higher quality and may prompt millers and exporters to buy at current levels. Textile mills have refrained from making bulk purchases of cotton for inventory-building in the ongoing crop season despite the rates ruling 20-25 per cent lower than last year on account of a liquidity crunch and sluggish demand for yarn.

Yarn makers expect a resumption of demand from abroad soon. DGFT data showed that demand remained higher at 97.7 million kg in August, as textile mills continued restocking amid expectation on festival demand. This had declined to 43.7 million kg in October. In November, overall shipment is estimated to remain 45-50 million kg.

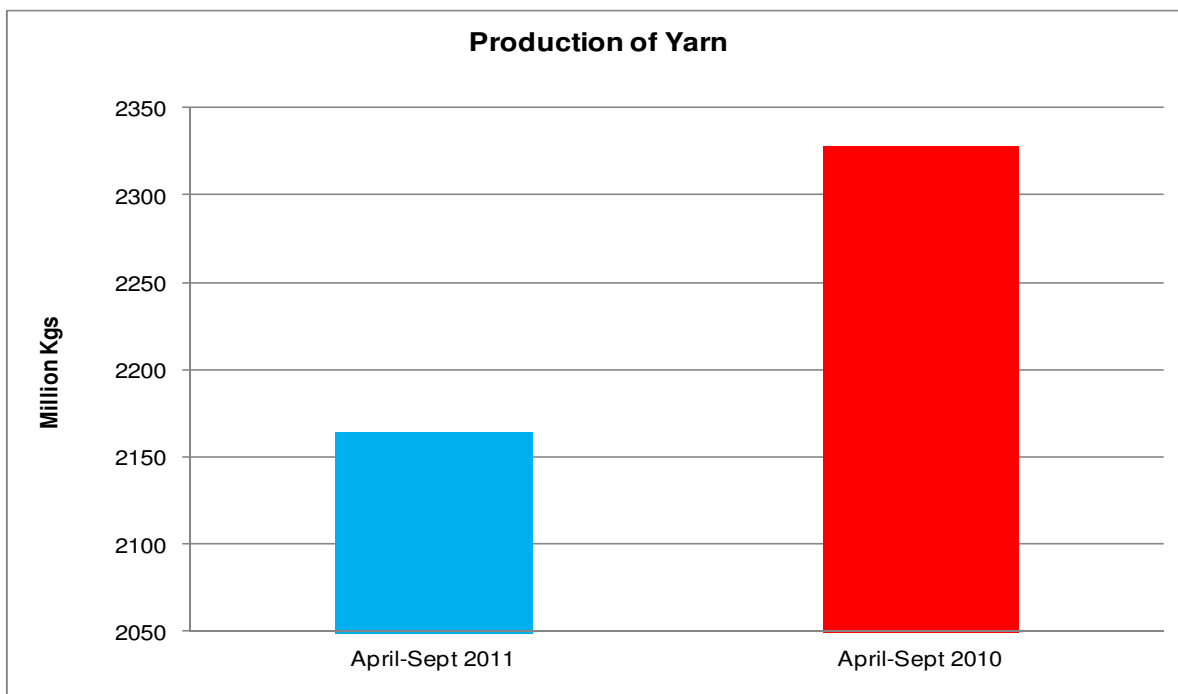
However, India's cotton exports are expected to slow by mid-December on demand uncertainty in major consuming countries like China. The reason for the decline is that as exporters await greater clarity about tariff levels and interest from China. USDA revised downward by 500,000 bales to 7.5 million bales of 170 kg each for the 2011-12. USDA also added that so far Indian exporters have registered about 2 million tonnes as demand has been seen from China and Bangladesh.

## Yarn Production and Demand

Production of yarn remained lower in April-October 2011 compared to April-October 2010 as demand from textile mills declined this year. The yarn production declined to 377.84 million kgs in October 2011. Arrivals remained lower at 13.11 lakh bales (170 Kgs) as on 18<sup>th</sup> December 2011 compared to 18.84 lakh bales (170 Kgs) as producers are holding onto stocks anticipating better returns. Meanwhile, India cotton yarn export registrations stood at 76.362 million kg in November, 2011 almost 74% higher compared to October. As per latest data of the Directorate General of Foreign Trade cotton yarn export registration during first eight month of the current fiscal year stood at 540.78 million kg.

The textile and clothing production growth index in IIP during first half of 2011-12 has shown a negative growth of 3.32 percent due to fall in demand in the western markets. Confederation of Indian Textile Industry (CITI) said the production of yarn and fabrics started declining at substantial pace since May 2011. The

production of yarn in the April-September period has fallen to 2164.7 million kg by -7% against 2,327.3 million kg as compared to the corresponding period previous year. The chart below shows the comparison of yarn production during April-September period over the last 2 years-



**Source: Textile Ministry**

## Weather and Crop Condition

Cotton is at boll opening stages in Karnataka and current weather is favorable. Picking of cotton has started in states like Gujarat and Maharashtra. Cotton is in vegetative to flowering stages in Tamil Nadu and rainfall is forecast over the state and may hinder the flowering stage.

## 2011-12 Supply and Demand (CAB Estimates):

The cotton production for the coming marketing season 2011-12 remains at 356 lakh bales. CAB 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 2011-12 –

Cotton Balance sheet		
Quantity in lakh bales of 170 kgs each		
Item	2011-12*	2011-12#
SUPPLY		

Opening stock	47.5	40.5
Crop size	356	325
Imports	5	5
Total Availability	408.5	370.5
<b>DEMAND</b>		
Mill Consumption	210	215
Small-Mill consumption	20	21
Non-Mill Consumption	20	17
Total Consumption	250	253
Exports	80	70
Total Disappearance	330	323
Carry-Forward	78.5	47.5
*-Latest Estimates, #-Initial Estimates		

Source: Cotton Advisory Board

#### Cotton Arrivals Comparison State-Wise

The table below shows the cotton arrivals state-wise till 25<sup>th</sup> December 2011 from the start of the season in October on year-on-year basis. Cotton arrivals in country till December 25<sup>th</sup> 2011 in the current season started October 1 stood at 8.81 million bales 25.26% less than same period last year. Arrivals declined as rains across Punjab, Gujarat, Haryana and Maharashtra delayed the new crop arrivals by about 10-15 days.

<b>Cotton Arrivals</b>		
States	2011-12	2010-11
(Quantity in lakh bales of 170 kgs)		
Punjab	7.49	9.53
Haryana	6.7	6.69
Rajasthan	5.67	5.24
North Total	19.86	21.46
Gujarat	29.02	37.2
Maharashtra	14.17	27.72
Madhya Pradesh	6.21	7.07
Central Total	49.4	71.99
Andhra Pradesh	13.04	18.51
Karnataka	2.68	3.62
Tamil Nadu	0.55	0.83
South Total	16.27	22.96
Orissa	0.31	0.45
Others	0.8	1.03
Total (Orissa & Others)	0.97	1.48
Plus Loose lint	1.46	0
Grand Total	88.1	117.89

Source: Cotton Advisory Board

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



## Prices-Rs/20kg

As evident from the above chart, trend is firm and intact. Short term trend remain firm as prices have closed above 9 and 18-day EMAs. RSI is moving up in the neutral region and supports the bullish momentum in the market. Indicator, MACD is moving up in the negative region revealing a decline in bearish momentum. A weekly close at or above 807.3 will continue to send bullish signals, but a weekly close at or below 799.6 will turn the weekly trend down.

Support 2	Support 1	Resistance 1	Resistance 2
741.4	778.2	836.4	857.8

**Strategy:** Buy near the mentioned support levels and book profits at mentioned resistance levels.

## Fundamental Cotton Price Outlook for Coming Month (December)

Cotton prices are expected to remain range bound with slightly firm tone due to decreasing new crop arrival as producers are holding on to stocks in anticipation of higher prices. However, higher production may keep prices in check in the long run.

## Technical Analysis of Cotton Prices at Kadi Market



## Prices-Rs/quintal

Prices are trading in a small range from 4000-5000 which acts as major support and resistance and breaching either level would give us further price direction. Chart trend looks range bound to weak as prices are below 9 and 18-day EMAs. MACD is moving down in the negative region and suggest an increase in bearish 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 pull markets lower. Higher production 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	3850-4450	Range bound to weak

Prices-Rs/quintal Kadi prices- Bt quality

### Cotton Prices at Key Spot Markets:

Commodity	Centre & Variety	Prices (Rs/Qtl)		% Change
		27-10-11	26-10-11	
Cotton	Kadi –Bt Cotton		4300-4500	
	Amravati –Vunni Mech-1		4000-4250	
	Ahmedabad – Shankar-6		4150-4250	

	<b>Abohar – J-34</b>		3490	
	<b>Muktsar– J-34</b>		3490	

## INTERNATIONAL MARKET

Cotton futures remained range bound to weak on renewed fears of global recession. Markets also fell after report showing Chinese manufacturing activity slumping to a 32-month low and a weak German bond sale intensified worries about faltering global growth. Meanwhile, USDA projected China's 2011-12 cotton imports at 14 million bales and as of 2nd week of November China had booked 4.671 million bales of U.S. cotton for delivery this season. However data showed that US weekly export sales report said China has bought over 2.3 million running bales (a bale=500 lbs). Meanwhile, Pakistan cotton production could be estimated around 13.5 million bales in 2011-12 against 11.6 million bales produced last season.

USDA say that consumption will be 2.6 percent lower than forecast last month due to weak global economic conditions. USDA released its Supply and Demand estimate on 10<sup>th</sup> December 2011 in which its say that global cotton use will total 111.34 million bales in the year ending July 31, compared with 114.27 million bales projected in November. It adds that that ending stocks will be higher at 57.67 million from 54.96 million projected a month ago. World output will be 123.42 million bales, down from 123.89 million forecast, on lower U.S. production. Markets also fell as demand remained weak from textile manufacturers. Domestic mill use was reduced by 200,000 bales due to weak demand. USDA also added in its report that U.S production will be lowered to 15.8 million bales from the harvest that started in August, down from the November projection of 16.3 million bales. Last year's cotton crop was 18.1 million bales.

<b>U.S. Cotton Supply and Use</b>		
	2010-11	2011-12*
<b>Area in Million Acres</b>		
<b>Planted</b>	10.97	14.72
<b>Harvested</b>	10.70	9.85
<b>Pounds</b>		
<b>Yield per Harvested Acre</b>	812	771
<b>Million Bales</b>		
<b>Beginning Stocks</b>	2.95	2.60
<b>Production</b>	18.10	15.83
<b>Imports</b>	0.01	0.01
<b>Supply</b>	21.06	18.44
<b>Domestic Use</b>	3.90	3.60
<b>Exports</b>	14.38	11.30
<b>Total Use</b>	18.28	14.90
<b>Unaccounted</b>	0.18	0.04
<b>Ending Stocks</b>	2.60	3.50

**Source: USDA**

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<b>Global Supply and Demand</b>		
<b>Attribute</b>	<b>2010-2011</b>	<b>2011-2012</b>
<b>Area Harvested (1000 Ha)</b>	33,487	35,768
<b>Beginning Stocks (1000 Bales of 480 lb.)</b>	44,338	45,493
<b>Production (1000 Bales of 480 lb.)</b>	1,15,277	1,23,420
<b>Imports (1000 Bales of 480 lb.)</b>	35,660	36,545
<b>Exports (1000 Bales of 480 lb.)</b>	35,579	36,565
<b>Total Domestic Consumption (1000 Bales of 480 lb.)</b>	1,14,203	1,11,228
<b>Ending Stocks (1000 Bales of 480 lb.)</b>	45,493	57,665
<b>Yield (Kg/Ha)</b>	750	751

**Source: USDA**

Cotton yarn production in China in November was at 275.3 (000 tons) and increased by 12.4% on a year-on-year basis. Cotton output in China is estimated by the China Cotton Association at 7.28 million tons this year, while China National Cotton Reserves Corp.'s forecast is 7.55 million tons. USDA weekly sales data also supported the small gains as net US upland cotton sales reached 69,500 running bales (RBs, 500-lbs each) while shipments stood at a 2011/12 (august/July) 191,100 RBs.

However prices in China remained firm supported by firm demand. However Chinese cotton mills may suffer from higher cotton prices next year as the government continues to buy cotton from the market and planting acreage declines. The government bought 1.62 million tonnes of cotton from farmers as on 22<sup>nd</sup> December 2011 but sources say that buying will increase to 2.5 million to 3 million tonnes of the crop. Meanwhile, the crop of Pakistan is revised upwards to 12.598 million bales from 12.22 million bales.

**Technical analysis of ICE Futures (March contract)**



## Prices-US Cents/lb

According to the chart, prices trend remains weak. Prices have closed below 9 and 18-day EMAs supporting the bearish sentiments. MACD is moving down in the negative region and suggest an increase in bearish momentum. RSI is moving up in the neutral region and supports the bullish momentum in the short term. A weekly close at or above USc 88.73 will continue to send bearish signals, but a weekly close at or below USc 95 will turn the weekly trend down.

Support 2	Support 1	Resistance 1	Resistance 2
79.15	83.53	93.11	98.31

All in USc

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