

**Highlights of the Week**

- Increased cotton arrivals weighed on prices
- India's production will be around 27.5 million bales (480 pound bales) in October as compared to 27 million bales a month ago and up by 8% from the previous year - USDA
- Harvested area in 2011/12 for India is expected to rise 12% from a year earlier to 12.5 million hectares -USDA
- Market participant expects production to touch 36 million bales (170 kgs) in 2011-12. Consumption from millers likely to decline due to uncertainty about the global economy.
- The open general license (OGL) for exports in force is in the range of 7-10 million bales this year.
- Cotton exports will see an increase with the new crop coming into the markets. The Industry expects about 2.5 million bales would be exported by December.
- Indian traders have signed contracts to export up to 1.5 million bales of cotton from the new season's crop.
- Demand is expected from countries like China, Bangladesh, Pakistan, Indonesia and Thailand.

**Current Market Dynamics**

Cotton prices are traded in a ranged manner (between Rs 4625-4825) during the week ending 24<sup>th</sup> October amid increasing new crop arrival in the markets. New crop arrivals are further expected to increase after Deepavali which may exert pressure on prices. However, cotton exports are expected to gain momentum with increasing new crop arrivals in the market, supporting the sentiment. Industry is expecting 2.5 million bales (1 bale=170 kg) would be exported by December. As arrivals will increase after the festival of Deepavali, prices could fall and exporters are likely to take advantage of the lower prices to remain competitive before competitors like Pakistan etc enters the market. Demand is also expected from China, Brazil, Bangladesh and other countries.

Meanwhile, as per trade sources, production is expected to be 36 million bales (170 kgs) while the Cotton Advisory Board of India expects cotton production to be 35.5 million bales (170 kgs).

Meanwhile, with the expectation of a bumper cotton crop which may pull down the domestic prices in the coming months, the National Agricultural Cooperative Marketing Federation of India (Nafed) is preparing to take up market intervention programme after two years in anticipation of prices falling below the minimum support price offered by the government. The government has declared a minimum support price of Rs.2800 per quintal for medium staple variety and Rs.3300 per quintal for the long staple type of cotton for farmers for the year 2011-12.

Cotton prices may start to fall as fresh arrivals start to come post Diwali festival. The main reasons for the expected fall of prices would an increase in cotton production and only a marginal increase global consumption this season. Domestic demand continues to be weak as Textile mills have suffered about Rs.10000 crore loss because of ample cotton and yarn stocks and attrition of value of these stocks this financial year.

According to the government data textile and garment exports may miss the \$33-billion target for this fiscal year amid weak rupee and export incentives announced in the foreign trade policy. The main reason for the miss of the export target would be the financial crisis in the US and Europe which are the top consumers of Indian cotton. India shipped out textile products and garments worth \$28 billion in 2010-11.

## Fundamental Cotton Price Outlook for Coming Week

Cotton prices are expected to remain weak on new crop arrival. Higher production estimates for 2011-12 would further keep prices weak in the long run as well. Domestic demand is also expected to be weak which may also support the downtrend. However, some support can be seen at lower price level amid expected demand from exporters.

## Cotton Spot Prices (Kadi Market) Technical Analysis



As evident from the above chart, cotton prices are moving in a ranged manner between the levels 4500 and 5000 which also act as a crucial support and resistance. Breaching either side would give prices a new direction. The M.A.C.D. histogram at 10.64 hints for an increase in bullish momentum. RSI is moving up in the neutral region and supports bullish momentum. A weekly close at or above 4900-5000 in Kadi Prices will turn the weekly trend up, but a weekly close at or below 4500 will continue send bearish signals.

**Strategy:** Sell at resistance and book profits at supports.

**Support and Resistance:**

Support 2	Support 1	Resistance 1	Resistance 2
4525	4625	4925	5025

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

Markets	Expected Trading Band for the coming week	Expected Trend for coming week
Kadi	4650-4850	Range bound

Prices-Rs/quintal Kadi prices- Bt quality

**Cotton Prices at Key Spot Markets:**

Commodity	Centre & Variety	% Change Over Previous Week	Current 22/10/11	Week Ago 17/10/11
Cotton	Kadi-Bt Cotton#	Unch	4600-4825	4550-4825
	Amravati-Vunni Mech-1#	Unch	4100-4400	4100-4400
	Ahmedabad-Shankar-6#	-0.53	3760-4625	4000-4650
	Abohar-J-34*	Unch	3780-3790	3790
	Muktsar-J-34*	-0.26	3780-3790	3800

\*-Rs/maund, #-Rs.qtl

**Cotton Cumulative Arrivals in Key Centers**

Centre	Arrivals		Change
	Week Ending 22-10-11	Week Ending 17-10-11	
Kadi -Bt Cotton	860	825	35
Amravati -Vunni Mech-1	200	-	-
Ahmedabad - Shankar-6	112000	104000	8000
Abohar	6200	4800	1400
Muktsar	1950	1700	250

Kadi-1 Truck-100 Qtls, Amravati-1 Truck-100 kgs, Ahmedabad, Abohar and Muktsar-Bales

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



## Prices-Rs/20kg

As evident from the above chart, prices remain within 720-740 levels and breaching either level would give us further prices direction. Short term trend remain mixed as prices have closed below 18-day EMA (and above 9-day EMA). RSI is flat in the neutral region hints for sideways movement. Indicator MACD is suggesting a decline in bearish momentum. A weekly close at or above 732 will turn the weekly trend up, but a weekly close at or below 730 will continue send bearish signals.

Support 2	Support 1	Resistance 1	Resistance 2
704.2	710.7	745.2	754.2

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

## INTERNATIONAL MARKET

According to Cotlook global consumption is also expected to be weak at 23.92 million tonnes compared to 23.52 million tonnes in the last season against a production of 26.93 million tonnes compared to 24.19 million tonnes in the last season. This will lead to surplus which will bring prices down. Markets started falling as the dollar rebound on Monday. Markets also fell on increased world cotton stock projections and outside market uncertainty is weighing on futures trade. Meanwhile Australian cotton harvest is underway which will also weigh on prices. USDA weekly report showed that approximately 34% of the U.S. cotton crop was harvested as of October 17, up from 26% in the previous week. On the other hand, USDA weekly report also showed that almost 41% of U.S. cotton crops were rated in very poor to poor condition. USDA

weekly sales poor report which was 59,300 running bales compared with close to 500,000 bales at the same point last year may be a signal of more reductions yet to come from the USDA. Meanwhile, US regulators have voted in favour of new trading rules designed to curb speculation in a range of commodities including cotton. The rules, approved by the US Commodity Futures Trading Commission (CFTC), impose position limits on speculative trading in commodity futures and commodity swaps.

## ICE Futures (December Contract) Technical Analysis



## New York Futures on ICE

As evident from the chart prices are moving down after breaking a crucial support of USc 100.1. Prices remain below 9 and 18-day EMAs supporting the bearish sentiments in the markets. The RSI at 35.98 and is supporting the bullish momentum. The M.A.C.D. histogram at -1.56 and hints for a increase in bearish momentum. A weekly close at or above USc 98.683 in December Cotton will turn the weekly trend up, but a weekly close at or below USc 90 will continue send bearish signals.

Support 2	Support 1	Resistance 1	Resistance 2
92.673	94.886	100.89	104.69

All in USc/lb

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