

Highlights of the Week

- Lower arrivals and dull demand in the markets due to festival (Diwali) in last week of October. Arrivals likely to pick up pace soon.
- Chinese demand is expected from early November as China's current year's import quota is scheduled to expire in December.
- Confederation of Indian Textile Industry (CITI) estimated cotton production at 35.0 million bales in 2011-12 season, lower from Cotton Traders Association estimates of 36 million bales and Cotton Advisory Board estimates of 35.5 million bales.
- India's merchandise exports reportedly surged 44.2% in August maintaining the recent trend of expansion. Readymade garments form one of items that led to increased shipments.

Current Market Dynamics

Cotton prices traded range bound between Rs 4550-4900 per quintal in Kadi market during the week ending 31st October. Lower new crop arrivals due to festival (Diwali) in last week of October affected the supply in the markets which supported the sentiment. However, arrivals are likely to pick up pace soon which may exert pressure on prices. Also the market participants (Millers/Exporters) remained on the sideline as they are expecting prices to decline from the current prevailing prices before entering in the markets.

Weather and Crop Condition

Widespread rain would occur over north-eastern states, West Bengal and Sikkim. Isolated thundershowers would occur over parts of northwest India. Scattered thundershower is expected over coastal Karnataka and Kerala during the next 48 hours. Rains may hinder crop picking in these areas while weather remains favourable for cotton picking in rest of the states. The crop progress in a Northern and central states is satisfactory. However, due to excess rains in A.P recently some damage (mainly quality related issue) is expected in the crop besides some delay in picking. Rains in Karnataka region are beneficial for the crop and arrivals are expected to start in the first week of November.

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 in the state of Rajasthan. Meanwhile 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, AW Projection

State-wise Production and Yield Estimates in Key States for 2011-12

The cotton production in Punjab is forecast to be 18 lakh bales an increase by 12.5% 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 110 lakh bales in 2011-12.

The following table shows the APY situation for key states for 2011-12 marketing season –

APY Estimates of Key States for 2011-12			
State	Production	Area	Yield
Punjab	18.0	6.0	3.0
Haryana	16.0	6.0	2.7
Gujarat	110.0	41.3	2.7
Maharashtra	88.0	29.8	3.0
Andhra Pradesh	58.0	18.3	3.2
India Total	355.0	121.0	9.8

Source: Cotton Advisory Board, Production Figures in lakh bales of 170 kgs each, Area in Lakh Hectares, Yield in Kg/Ha

Exports

Cotton exports are expected to gather momentum as Chinese demand may come in December. Cotton exports might also get a boost as cotton crop in Pakistan is damaged many regions, increasing its reliance on overseas purchases for a second successive year to keep its textile mills running. Cotton production were reduced by around 6% to 12.22 million bales for 2011-12 from the previous estimate of 15 million bales after monsoon rains lashed the key growing region of Sindh in August and September. India's cotton shipments may rise to around 9 million bales, of 170 kg each, in the year through September 2012, compared with 6.8 million bales in 2010-11, mainly because of the absence of any restrictions. At present hat an export commitment of 2.5 million bales of cotton has already been made by December.

Arrivals Comparison of Shankar Cotton at Ahmedabad market

Centre	Arrivals (Bales)		
	Week Ending 31-10-11	Week Ending 22-10-11	Week Ending 31-10-10
Ahmedabad – Shankar-6	30,000	112,000	50,000

Arrivals declined this week on the account of Deepavali festival. Arrivals got delayed in the entire Western zone comprising Maharashtra, Madhya Pradesh and Gujarat due to a delayed monsoon which delayed

sowing in the regions. Arrivals are expected to pick in this week and will gather momentum from 2nd week of November.

Fundamental Cotton Price Outlook for Coming Week

Cotton prices are expected to remain range bound to weak due to higher arrival anticipation in November. Higher production estimates for 2011-12 would further keep prices weak in the long run as well.

Cotton Spot Prices (Kadi Market) Technical Analysis



As evident from the above chat, cotton prices are moving up and close above 9 and 18-day EMAs supports the bullish sentiments in the market. The M.A.C.D. at 20.14 up from previous week's value at 10.64 and hints for a increase in bullish momemtum. RSI is moving up in the neutral region and supports bullish momemtum. A weekly close at or above 5000 in Kadi Prices will turn the weekly trend up, but a weekly close at or below 4750 will send bearish signals.

Strategy: Sell on rallies or towards the mentioned resistance level.

Support and Resistance:

Support 2	Support 1	Resistance 1	Resistance 2
4600	4700	5000	5100

Expected Price range of Cotton Prices for next week

Markets	Expected Trading Band for the coming week	Expected Trend for coming week
Kadi	4650-4900	Range bound/Sideways

Prices-Rs/quintal Kadi prices- Bt quality

Cotton Prices at Key Spot Markets:

Commodity	Centre & Variety	% Change Over Previous Week	Current 31/10/11	Week Ago 24/10/11
Cotton	Kadi-Bt Cotton#	0.265	4550-4900	4600-4825
	Amravati-Vunni Mech-1#	5.882	4300-4700	4100-4400
	Ahmedabad-Shankar-6#	7.461	4260-4750	3760-4625
	Abohar-J-34*	-1.585	3725	3780-3790
	Muktsar-J-34*	-1.585	3725	3780-3790

*-Rs/maund, #-Rs.qtl

Cotton Cumulative Arrivals in Key Centers

Centre	Arrivals		Change
	Week Ending 31-10-11	Week Ending 22-10-11	
Kadi -Bt Cotton	630	860	-230
Amravati -Vunni Mech-1	500	200	-300
Ahmedabad - Shankar-6	30000	112000	-82000
Abohar	3750	6200	-2450
Muktsar	910	1950	-1040

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 710-760 levels and breaching either level would give us further prices direction. Short term trend remain firm as prices have closed above 9 and 18-day EMAs. RSI is moving down in the neutral region hints for bearish momentum in the market. Indicator MACD is suggesting a decline in bearish momentum. A weekly close at or above 760 will turn the weekly trend up, but a weekly close at or below 710 will send bearish signals.

Support 2	Support 1	Resistance 1	Resistance 2
687.9	702.9	751.8	766.9

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

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							

The uptrend in cotton futures may continue after the USDA report that 44% crop has been harvested as of October 23rd 2011 below the 49% harvested during the same week a year earlier. USDA also added that nearly 25% of U.S. cotton crops were rated in very poor condition, worsening from 22% a week earlier. Only 5% was rated excellent, unchanged from the previous week.

Exports from US are also gathering momentum as net U.S. export sales rose to 386,000 running bales during the week ended October 28th 2011 from just 60,100 bales the week before. 396,700 bales went to China.

ICE Futures (December Contract) Technical Analysis



New York Futures on ICE

As evident from the chart prices are moving up after breaking a crucial resistance of USc 100. Prices remain below 9 and 18-day EMAs supporting the bearish sentiments in the markets. The RSI at 57.52 and is above the last week's value at 35.98 and is supporting the bullish momentum. The M.A.C.D. -0.55 is above last week's value at -1.56 and hints for an increase in bullish momentum. A weekly close at or above USc 105 in December Cotton will turn the weekly trend up, but a weekly close at or below USc 105 will pull markets lower to USc 95.

Support 2	Support 1	Resistance 1	Resistance 2
96.47	99.2	107.29	110.21

All in USc/lb

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