

## Highlights of the Week

- Prices remained lower on weak demand and higher production estimates.
- Cotton Advisory Board says that production will increase to 356 lakh bales from the initial estimate of 355 lakh bales.
- Millers and exporters were waiting for lower prices which continued to add weakness to the prices.
- Farmers were not bringing in fresh crop arrivals anticipating higher prices.

## Current Market Dynamics

Cotton prices remained lower as buyers remained inactive wanting lower levels. Pace of arrivals has also declined 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. India's cotton supplies in the peak arrival months of October and November have dropped as farmers are holding out for higher prices. Cotton arrivals between October 1<sup>st</sup> and November 20<sup>th</sup> fell more than 25% from a year earlier to 3.5 million bales of 170 kilograms (375 pounds) each.

Domestic demand and Yarn demand remained lower. However weaker rupee against the dollar may support exports of Yarn. Prices may also continue to move lower as China may cut orders at a time when domestic supplies are set to peak. Production estimates is expected to be higher at 356 lakh bales from the initial estimate of 355 lakh bales. With a domestic demand of 330 lakh bales (including 80 lakh bales of exports) a surplus of 26 lakh bales could be seen this which could continue to restrict upside.

## Cotton Supply and Demand

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 –

<b>Cotton Balance sheet</b>			
<b>Quantity in lakh bales of 170 kgs each</b>			
<b>Item</b>	<b>2009-2010</b>	<b>2010-2011</b>	<b>2011-12(P)</b>
<b>SUPPLY</b>			
<b>Opening stock</b>	71.5	40.5	47.5
<b>Crop size</b>	295	312	356
<b>Imports</b>	7	5	5
<b>Total Availability</b>	373.5	357.5	408.5
<b>DEMAND</b>			

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

## Weather and Crop Condition

Rainfall is expected over Tamil Nadu, South and North Interior Karnataka, south coastal Andhra Pradesh, Rayalaseema, south Madhya Maharashtra and Gujarat in the next 24-30 hours is not going to be beneficial at this stage and might slowdown harvest and decrease yield.

## Fundamental Cotton Price Outlook for Coming Week

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. However, farmers holding onto stocks due to the lower pricing may restrict further downside.

## Cotton Spot Prices (Kadi Market) Technical Analysis



As evident from the above chat, cotton prices are moving down trend remained weak as prices have closed below 9 and 18-day EMAs. The M.A.C.D. is at -101.926 down from previous week's value of -34.15 and hints for a increase in bearish momentum. RSI is moving down in the neutral region and supports bearish momentum. A weekly close at or below 4342 in Kadi Prices will continue to support the downtrend in prices.

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

## Support and Resistance:

Support 2	Support 1	Resistance 1	Resistance 2
3917	4108	4533	4767

## Expected Price range of Cotton Prices for next week

Markets	Expected Trading Band for the coming week	Expected Trend for coming week
Kadi	3800-4200	Range bound to weak

Prices-Rs/quintal Kadi prices- Bt quality

## Cotton Prices at Key Spot Markets:

Commodity	Centre & Variety	% Change Over Previous Week	Current 28/11/11	Week Ago 21/11/11
Cotton	Kadi-Bt Cotton#	-6.52	4150-4300	4450-4600
	Amravati-Vunni Mech-1#	-	-	4100-4400
	Ahmedabad-Shankar-6#	-7.30	4050-4125	4250-4450
	Abohar-J-34*	-0.57	3440	3460
	Muktsar-J-34*	-15.06	3440	4050

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

## Cotton Cumulative Arrivals in Key Centers

Centre	Arrivals		% Change
	Week Ending 28-11-11	Week Ending 21-11-11	
Kadi -Bt Cotton	2050	1075	90.69
Amravati -Vunni Mech-1	300	4600	-93.47
Ahmedabad - Shankar-6	175000	165000	6.06
Abohar	4900	6500	-24.61
Muktsar	1650	1800	-8.33

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 breached a crucial level of 700 and could move down further down towards 650 levels. Short term trend remain weak as prices have closed below 9 and 18-day EMAs. According to the Fibonacci Retracements prices have closed below an important level of 23.6% 704.2 at and now may towards the lows of the contract at 630 levels. RSI is moving down in the neutral region and supports the bearish momentum in the market. A weekly close at or above 705.2 will turn the weekly trend up, but a weekly close at or below 690 will send bearish signals.

Support 2	Support 1	Resistance 1	Resistance 2
677.8	687.9	715.3	732.6

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

## INTERNATIONAL MARKET

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,

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

**Source: ICAC**

Trader sources also added that China which was buying for some time may reduce their buying activity as they have enough stockpiles for the year. Markets however could be influenced by higher carry-forward for 2011-12 and prices are likely to stay under pressure through the remainder of 2011 and into early 2012. Cotton futures ended lower on renewed fears of global recession. Markets 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. U.S cotton harvesting advanced during the week ended last Sunday to reach 84%. USDA weekly 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.

**ICE Futures (March 2012 Contract) Technical Analysis**



## New York Futures on ICE

As evident from the chart prices are trading range bound after finding support at level of USc 89. Prices are still below 9 and 18-day EMAs supporting the bearish sentiments in the markets. The RSI at 38.59 and is above the last week's value at 36.11 and is supporting the bullish momentum. The M.A.C.D. at -1.97 is below last week value at at -1.22 and hints for a increase in bearish momentum. A weekly close at or below USc 91.46 in March Cotton will continue to send bearish signals and may push prices below the crucial level of USc 90. However, A weekly close at or above USc 93 in March Cotton will turn the weekly trend up.

Support 2	Support 1	Resistance 1	Resistance 2
87.08	89.21	93.59	95.84

All in USc/lb

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