

**Highlights of the Week**

- Prices remained mixed as Abohar and Muktsar remained weak but the rest of the markets ended higher.
- 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.
- However, millers and exporters were buying at lower levels.
- Farmers were not bringing in fresh crop arrivals anticipating higher prices.

**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. Rainfall was seen over Tamil Nadu, South and North Interior Karnataka, south coastal Andhra Pradesh, Rayalaseema, south Madhya Maharashtra and Gujarat in the last week which may not be beneficial at this stage and might slowdown harvest and decrease yield.

Demand for Yan also improved at lower levels. Millers may start to buy as current prices are in line for better margins. Yarn demand however was seen higher and led to rise in yarn prices. The price of the benchmark 40-count is quoted at Rs 200 a kg as against Rs 185 a kg a week ago. Traders say the demand of the textile raw material has gone up after orders flourished from Bangladesh and China. However, higher production and higher carry-out stocks will be a dampener on prices in the long run.

Exporters were also buying as fresh export inquiries were seen at 90 cent per pound. 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, according to Cotton Corporation of India. Cotton advisory Board reported that cotton arrivals declined to 43.10 lakh bales till November 27<sup>th</sup> 2011 compared to 57.17 lakh bales during the same period in the last season.

**Cotton Supply and Demand CAB vs. CAI 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. Cotton Association of India say that production will touch 361 lakh bales compared to 334 lakh bales last year. Traders added that with consumption at 274 lakh bales this year, there is going to be a surplus of stocks and may restrict upside.

The following table shows the supply and demand situation for 2011-12 –

<b>Cotton Balance sheet</b>		
<b>Quantity in lakh bales of 170 kgs each</b>		
<b>Item</b>	<b>2011-12*</b>	<b>2011-12#</b>
<b>SUPPLY</b>		
Opening stock	47.5	56.75
Crop size	356	361
Imports	5	5
<b>Total Availability</b>	<b>408.5</b>	<b>422.75</b>
<b>DEMAND</b>		
Mill Consumption	210	251
Small-Mill consumption	20	17
Non-Mill Consumption	20	20
<b>Total Consumption</b>	<b>250</b>	<b>288</b>
Exports	80	85
<b>Total Disappearance</b>	<b>330</b>	<b>338</b>
<b>Carry-Forward</b>	<b>78.5</b>	<b>84.75</b>
<b>*-Cotton Advisory Board Estimates</b>		
<b>#-Cotton Association of India Estimates</b>		

**Source: Cotton Advisory Board and Cotton Association of India**

#### **Weather and Crop Condition**

Dry weather is expected over Tamil Nadu, South and North Interior Karnataka, south coastal Andhra Pradesh, Rayalaseema, south Madhya Maharashtra and Gujarat in the next week and going to be beneficial at this stage and might help harvest.

#### **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 up trend remained weak as prices have closed below 9 and 18-day EMAs. The M.A.C.D. is at -112.26 down from previous week's value of -101.926 and hints for a increase in bearish momentum. RSI is moving up in the neutral region and supports bullish momentum. A weekly close at or below 4350 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
4225	4275	4425	4475

## 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 05/12/11	Week Ago 28/11/11

<b>Cotton</b>	Kadi-Bt Cotton#	1.74	4125-4375	4150-4300
	Amravati-Vunni Mech-1#	7.69	3900-4200	3800-3900
	Ahmedabad-Shankar-6#	3.03	4150-4250	4050-4125
	Abohar-J-34*	-0.43	3425	3440
	Muktsar-J-34*	-0.43	3425	3440

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

## Cotton Cumulative Arrivals in Key Centers

Centre	Arrivals		% Change
	Week Ending 05/12/11	Week Ending 28/11/11	
Kadi -Bt Cotton	2300	2050	
Amravati -Vunni Mech-1	2700	300	
Ahmedabad - Shankar-6	180000	175000	
Abohar	4250	4900	
Muktsar	1800	1650	

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 are trading in a small range from 700-720 and breaching and close below or above either level would give us further prices direction. Short term trend remain weak as prices have closed below 9 and 18-day EMAs. RSI is moving up in the neutral region and supports the bullish

momentum in the market. A weekly close at or above 710.7 will turn the weekly trend up, but a weekly close at or below 700.1 will turn the weekly trend down.

<b>Support 2</b>	<b>Support 1</b>	<b>Resistance 1</b>	<b>Resistance 2</b>
689.9	698.8	719.6	731.5

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

## 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.

The USDA said in its weekly crop progress report that nearly 92% of the U.S. cotton crop was harvested as of November 27<sup>th</sup> 2011, up from 84% the week before and above the five-year average of 82% for this time of year. Markets fell as USDA is predicting higher global cotton production. USDA also adds that higher supply and lower consumption this year may lead to ample supplies which may continue to be a dampener on prices. USDA also added that Harvests will increase 7.5 percent to 123.89 million 480- pound bales (27 million metric tons) in the 12 months ending in July 2011 and demand drops to a three-year low of 114.27 million bales.

According to government data of China released on November 25<sup>th</sup>, China imported 252,300 tonnes of cotton in October, a 163% jump from the same period last year. Markets also moved higher supported by US Agriculture Department's weekly export sales report. USDA said in its reports that USDA said net upland cotton sales hit 85,000 running bales (RBs, 500-lbs each), of which China accounted for 65,000 RBs.

Meanwhile, ICAC says the surplus in world cotton output, which hit a bumper 2.5m-tonnes this season, will revert nearly to zero in 2012-13 as poor prices prompt growers to cut back on sowings. Sowing of the fibre for next season's harvests will tumble 8% to 33.3 million hectares as a more than halving in cotton prices from a record high as prices are lower and may encourages growers to switch to other crops. Production will decline in 2012-13. This may increase exports given an expectation that production will fall most notably in importing nations.

<b>ICAC forecast for world cotton</b>					
<b>Year</b>	<b>Sowing</b>	<b>Production</b>	<b>Consumption</b>	<b>Exports</b>	<b>Year-end stocks</b>
<b>2011-12</b>	36.20	26.86	24.60	7.77	11.29
<b>2012-13</b>	33.30	25.14	25.02	8.40	11.62
<b>Sowing- Million Hectares, Production, Consumption, Exports and Year-end stocks-Million Tonnes</b>					

## 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 90. Prices trend remains mixed as prices are above 9-day EMA, but below 18-day EMA. The RSI at 42.39 and is above the last week's value at 38.59 and is supporting the bullish momentum. The M.A.C.D. at -1.79 is below last week value at -1.97 and hints for a increase in bullish momentum. The stochastic remains in sell mode. A weekly close at or above 91.46 in March cotton will turn the weekly trend up. However, A weekly close at or below USc 90.50 in March Cotton will turn the weekly trend down.

Support 2	Support 1	Resistance 1	Resistance 2
86.29	89.25	94.42	96.63

All in USc/lb

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