

Highlights of the Week

- Prices remained mixed as Abohar and Muktsar ended marginally higher but the rest of the markets ended weak.
- However overall sentiment remained bearish as arrivals increased this week.
- Production estimates remain higher and with higher surplus expectations due to lower demand from textile industries prices may trade lower in the long run.

Current Market Dynamics

Cotton prices fell this week on higher arrivals and lower demand in the market. Demand may weaken this year due to weak demand from textiles. Sources added that Lower textile shipment to the US and Europe has forced domestic textile industry to cut down production by around 10%. Weak demand from is expected from China as Chinese cotton importers are refraining from booking shipments before April because of uncertainty over the timing and volume of sliding-tariff quotas for 2012. Weak demand in domestic as well as international markets has caused ginneries to run their factories on a limited time and the ginning activity is currently below 40-45% due to slow arrivals and lower sales. However exporters are active in the market and as the Indian rupee is above Rs.50 for the US dollar sources say that exporters will remain active.

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. Spinners in Maharashtra and A.P remained concerned about the quality of stock coming in the markets due to unfavorable weather during sowing.

USDA report of lower output at 25.4 million bales, down from 27.5 million bales during last year. Area harvested is also lower at 11.14 million hectares compare to 12.20 million hectares during last year. USDA added that domestic consumption will be higher at 20.7 million bales compared to 19.5 million bales in 2009-10. USDA added that exports will be lower at 5.1 million bales in 2010-11 compared to 6 million bales in 2009-10. So this may continue to pull markets lower.

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.

Cotton Production State-Wise APY Estimates

Cotton production is expected to increase in major states like Punjab, Haryana Gujarat and Maharashtra in 2011-12. Production in Gujarat is expected to rise by 11.65% in 2011-12. However yield may decline in 2011-12 by 2.7%. Yield is more or less going to be similar in major production states expect for Karnataka where yield is expected to increase by 39% due to higher production in 2011-12.

The following table shows the state-wise cotton APY comparison—

Cotton Balance sheet-State Wise						
	2011-12*			2010-11		
State	Area	Production	Yield	Area	Production	Yield
Punjab	5.60	17	516	5.30	16	513
Haryana	6.05	16	450	4.92	14	484
Rajasthan	5.30	15	481	3.35	9	457
North Total	16.95	48	481	13.57	39	489
Gujarat	30.23	115	647	26.33	103	665
Maharashtra	40.95	85	353	39.32	82	355
Madhya Pradesh	7.06	18	433	6.50	17	445
Central Total	78.24	218	474	72.15	202	476
Andhra Pradesh	18.54	55	504	17.84	53	505
Karnataka	5.49	14	434	5.45	10	312
Tamil Nadu	1.21	5	702	1.22	5	697
South Total	25.24	74	498	24.51	68	472
Orissa	1.02	2	333	0.74	2	459
Others	0.46	2	739	0.45	2	756
Grand Total	121.91	356	496	111.42	325	496
Area in lakh hectare/Production in lakh bales/Yield kgs per hectare						
*-Estimate						

Source: Cotton Advisory Board

Weather and Crop Condition

Dry weather is expected over Maharashtra and Gujarat in the next week and going to be beneficial at this stage and might help harvest. However, thundershowers would occur at a few places over Tamil Nadu and South Andhra Pradesh which effect harvest and may reduce yield.

Cotton Arrivals Comparison State-Wise

The table below shows the cotton arrivals state-wise till 11th December from the start of the season in October on year-on-year basis. Arrivals remained lower as producers are holding onto stocks anticipating better returns. Arrivals also declined as rains across Punjab, Gujarat, Haryana and Maharashtra delayed the new crop arrivals by about 20 days.

Cotton Arrivals		
States	2011-12	2010-11
(Quantity in lakh bales of 170 kgs)		
Punjab	6.01	7.62
Haryana	4.90	4.56
Rajasthan	3.72	3.87

North Total	14.63	16.05
Gujarat	21.02	27.94
Maharashtra	9.52	18.58
Madhya Pradesh	4.52	5.47
Central Total	35.06	51.99
Andhra Pradesh	8.80	11.65
Karnataka	1.99	2.72
Tamil Nadu	0.00	0.00
South Total	10.79	14.37
Orissa	0.15	0.22
Others	0.66	1.28
Total (Orissa & Others)	0.81	1.50
Plus Loose lint	1.18	0.00
Grand Total	62.47	83.91

Source: Cotton Advisory Board

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 range bound but trend remained weak as prices have closed below 9 and 18-day EMAs. The M.A.C.D. is at -96.92 up from previous week's value of -112.26 and hints for a decrease in bearish momentum. RSI is flat in the neutral region and supports sideways momentum. A weekly close at or below 4250 in Kadi Prices will change weekly trend down.

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

Support and Resistance:

Support 2	Support 1	Resistance 1	Resistance 2
4150	4250	4450	4550

Expected Price range of Cotton Prices for next week

Markets	Expected Trading Band for the coming week	Expected Trend for coming week
Kadi	4000-4400	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 12/12/11	Week Ago 05/12/11

Cotton	Kadi-Bt Cotton#	-1.14	4075-4325	4125-4375
	Amravati-Vunni Mech-1#	-2.38	3900-4100	3900-4200
	Ahmedabad-Shankar-6#	1.17	4150-4300	4150-4250
	Abohar-J-34*	0.14	3430	3425
	Muktsar-J-34*	0.14	3435	3425

*-Rs/maund, #-Rs.qtl

Cotton Cumulative Arrivals in Key Centers

Centre	Arrivals		% Change
	Week Ending 12/12/11	Week Ending 05/12/11	
Kadi -Bt Cotton	2400	2300	4.34
Amravati -Vunni Mech-1	3000	2700	11.11
Ahmedabad - Shankar-6	175000	180000	-2.77
Abohar	4600	4250	8.23
Muktsar	1550	1800	-13.88

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. The M.A.C.D. is at -16.74 up from previous week's value of -16.84 and hints for a decrease in bearish momentum. RSI is flat in the neutral region and supports sideways momentum. A weekly close at or above 704.8 will turn the weekly trend up, but a weekly close at or below 700 will turn the weekly trend down.

Support 2	Support 1	Resistance 1	Resistance 2
685.8	692.9	723.8	730.9

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

INTERNATIONAL MARKET

Cotton futures end lower this week as improving U.S. cotton crop conditions and concerns over a slowdown in demand from top consumer China continued to weigh on prices. markets fell as USDA said in its final crop progress report for the season published last week, that nearly 92% of the U.S. cotton crop was harvested as of November 27, up from 84% the week before and above the five-year average of 82% for this time of year. In Texas, approximately 93% of the cotton crop was harvested, compared to 82% a week earlier. Cotton prices also moved lower as Chinese cotton importers were refraining from booking shipments before April because of uncertainty over the timing and volume of sliding-tariff quotas for 2012. Meanwhile, USDA estimates production in Brazil to be 9.5 million bales in 2011-12. This may also increase exports to 4.1 million bales. Australia's cotton output will be 1.07 million metric tons, up 19% from actual output of 898,000 tons from the previous crop.

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 10th 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.

U.S. Cotton Supply and Use		
	2010-11	2011-12*
Area in Million Acres		
Planted	10.97	14.72
Harvested	10.70	9.85
Pounds		
Yield per Harvested Acre	812	771
Million Bales		
Beginning Stocks	2.95	2.60
Production	18.10	15.83

Imports	0.01	0.01
Supply	21.06	18.44
Domestic Use	3.90	3.60
Exports	14.38	11.30
Total Use	18.28	14.90
Unaccounted	0.18	0.04
Ending Stocks	2.60	3.50

Source: USDA

ICE Futures (March 2012 Contract) Technical Analysis



New York Futures on ICE

As evident from the chart prices are trading weak after 2 bearish candlesticks. Prices trend remains weak as prices are below 9 and 18-day EMAs. The RSI at 34.44 and is below the last week's value at 42.39 and is supporting the bearish momentum. The M.A.C.D. at -1.79 is at last week value at -1.79 and hints for a sideways momentum. A weekly close at or below 89.38 in March cotton will continue to send bearish signals. A weekly close at or above USc 91 in March Cotton will turn the weekly trend up.

Support 2	Support 1	Resistance 1	Resistance 2
82.51	84.83	91.7	96.25

All in US\$/lb

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