

Highlights of the Week

- Prices remained mixed as Abohar and Muktsar ended marginally lower, Ahmedabad remained higher and Kadi and Amravati remained steady.
- However overall sentiment remained steady to firm on firm domestic and export demand this week.
- Production estimates remain higher which may create higher surplus for 2012-13 season.

Current Market Dynamics

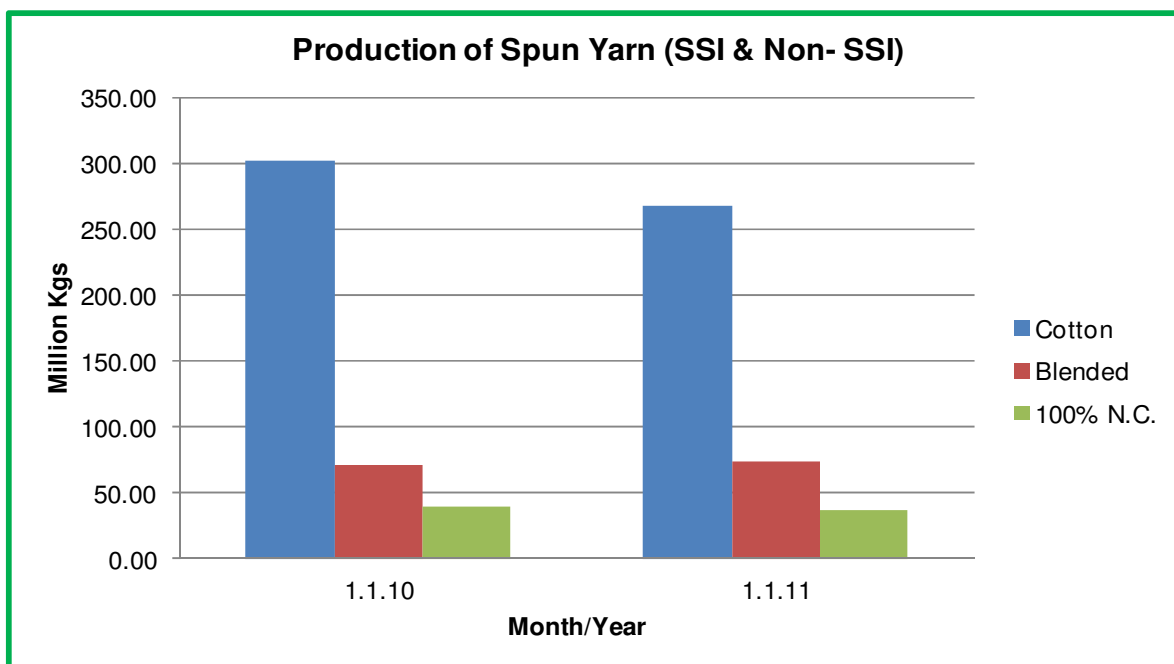
Cotton prices fell initially as millers remained inactive and only buying to cover for their immediate need and exporters remained inactive. Markets also remained weak as USDA says that India's cotton exports are expected to slow by mid-December on demand uncertainty in major consuming countries like 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.

Yarn makers expect a resumption of demand from abroad soon. DGFT data showed that demand remained higher at 97.7 million kg in August, as textile mills continued restocking amid expectation on festival demand. This had declined to 43.7 million kg in October. In November, overall shipment is estimated to remain 45-50 million kg.

Cash market sentiments were also influenced by Kapas futures ending higher on NCDEX. Markets also moved higher as Pakistan may raw cotton (as much as 1 million bales) to support prices and may prompt an increase in imports from Pakistan for Indian Cotton.

Production of Spun Yarn (SSI & Non- SSI)

Production of yarn remained lower in April-October 2011 compared to April-October 2010 as demand from textile mills declined this year. The yarn production declined to 377.84 million kgs in October 2011. The chart below shows the comparison between October 2011 and October 2010 yarn production,



Source: Ministry of Textiles

Weather and Crop Condition

Dry weather is expected over Maharashtra and Gujarat in the next week and going to be beneficial at this harvest stage in the states. However, cloudy conditions are expected over Tamil Nadu in the maturity stage of the crop and may pose problems for diseases and pests.

Cotton Arrivals Comparison State-Wise

The table below shows the cotton arrivals state-wise till 18th December 2011 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 15-20 days.

Cotton Arrivals		
States	2011-12	2010-11
(Quantity in lakh bales of 170 kgs)		
Punjab	6.58	8.63
Haryana	5.73	5.43
Rajasthan	4.72	4.54
North Total	17.03	18.6
Gujarat	24.52	32.59
Maharashtra	11.41	22.24
Madhya Pradesh	5.25	6.28
Central Total	41.18	61.11
Andhra Pradesh	10.67	15.58
Karnataka	2.44	3.26
Tamil Nadu	0	0
South Total	13.11	18.84

Orissa	0.24	0.3
Others	0.73	1.5
Total (Orissa & Others)	0.97	1.8
Plus Loose lint	1.34	0
Grand Total	73.63	100.35

Source: Cotton Advisory Board

Fundamental Cotton Price Outlook for Coming Week

Cotton prices are expected to remain range bound with slightly firm tone due to decreasing new crop arrival as producers are holding on to stocks in anticipation of higher prices. However, higher production may keep prices in check in the long run.

Cotton Spot Prices (Kadi Market) Technical Analysis



As evident from the above chart, cotton prices are range bound but trend remained mixed as prices have closed above 9-day EMA but below 18-day EMA. The M.A.C.D. is at -72.46 up from previous week's value of -96.92 and hints for a decrease in bearish momentum. RSI is moving down in the neutral region and supports bearish momentum. A weekly close at or below 4160 in Kadi Prices will change weekly trend down. A weekly close at or above 4210 in Kadi Prices will change weekly trend up.

Strategy: Buy on dips or towards the mentioned support levels.

Support and Resistance:

Support 2	Support 1	Resistance 1	Resistance 2
3850	4000	4500	4650

Expected Price range of Cotton Prices for next week

Markets	Expected Trading Band for the coming week	Expected Trend for coming week
Kadi	4200-4600	Range bound to firm

Prices-Rs/quintal Kadi prices- Bt quality

Cotton Prices at Key Spot Markets:

Commodity	Centre & Variety	% Change Over Previous Week	Current 19/12/11	Week Ago 12/12/11
Cotton	Kadi-Bt Cotton#	Unch	4150-4325	4075-4325
	Amravati-Vunni Mech-1#	Unch	3800-4100	3900-4100
	Ahmedabad-Shankar-6#	1.74	4150-4375	4150-4300
	Abohar-J-34*	-0.14	3425	3430
	Muktsar-J-34*	-0.29	3425	3435

*-Rs/maund, #-Rs.qtl

Cotton Cumulative Arrivals in Key Centers

Centre	Arrivals		% Change
	Week Ending 19/12/11	Week Ending 12/12/11	
Kadi -Bt Cotton	2225	2400	-7.29
Amravati -Vunni Mech-1	4250	3000	41.66
Ahmedabad - Shankar-6	180000	175000	2.85
Abohar	4400	4600	-4.34
Muktsar	1525	1550	-1.61

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 range bound to firm. Short term trend remain firm as prices have closed above 9 and 18-day EMAs. The M.A.C.D. is at -7.86 up from previous week's value of 16.74 and hints for a decrease in bearish momentum. RSI is moving up in the neutral region and supports bullish momentum. A weekly close at or above 765.4 will continue to send bullish signals, but a weekly close at or below 751.1 will turn the weekly trend down.

Support 2	Support 1	Resistance 1	Resistance 2
726.6	750.8	789.6	804.2

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

INTERNATIONAL MARKET

Cotton futures remained weak as end lower after 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 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 bales from 54.96 million bales 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.

Global Supply and Demand		
Attribute	2010-2011	2011-2012
Area Harvested (1000 Ha)	33,487	35,768
Beginning Stocks (1000 Bales of 480 lb.)	44,338	45,493
Production (1000 Bales of 480 lb.)	1,15,277	1,23,420
Imports (1000 Bales of 480 lb.)	35,660	36,545
Exports (1000 Bales of 480 lb.)	35,579	36,565
Total Domestic Consumption (1000 Bales of 480 lb.)	1,14,203	1,11,228
Ending Stocks (1000 Bales of 480 lb.)	45,493	57,665
Yield (Kg/Ha)	750	751

Source: USDA

Cotton futures ends lower as growing fears that euro zone's sovereign debt crisis was worsening and caused investors selling. Futures also fell as the dollar index was up 0.31% to trade at 81.22. Cotton prices have declined 6% since the beginning of December as concerns remained high over an economic slowdown in top consumer China which may slowdown exports from the U.S. Meanwhile, cotton production in Pakistan may be more than previously forecast this year as rising yields compensate for crop losses from floods. Cotton output might reach 12.7 million bales of 170 kilograms compared with 12.2 million bales estimated initially.

Cotton arrivals in Pakistan reached 11 million bales by December 15, 2011 up 17.69 percent compared to same period last year. A 17.69 percent increase in the quantum of cotton reaching the ginneries by December 15th 2011, as compared to the 9.37 million bales of cotton that reached the ginneries during the same period last year.

After the drop prices found support at lower levels, as dollar declined renewing demand for the fibre. The greenback dropped as much as 0.6% against a six- currency basket after U.S. economic data showed a quickening recovery. Prices also found support as USDA data showed that U.S. export sales totaled 45,662 bales, rebounding from net cancellations of 33,004 bales the previous week. Sources added that outside markets are providing light support to the prices but fears remain about the global economic slowdown. China has been stockpiling cotton to protect its cotton farmers and support local cotton prices. China National Cotton Reserves Corporation has purchased 1.43 million tonnes of its domestic harvest so far.

ICE Futures (March 2012 Contract) Technical Analysis



As evident from the chart prices are range bound to weak as prices are below 9 and 18-day EMAs. The RSI at 37.39 and is above the last week's value at 34.44 and is supporting the bullish momentum. The M.A.C.D. at -2.38 is below last week value at -1.79 and hints for a bearish momentum. A weekly close at or below 86.576 in March cotton will continue to send bearish signals. A weekly close at or above USc 90 in March Cotton will turn the weekly trend up.

Support 2	Support 1	Resistance 1	Resistance 2
82.63	84.86	88.80	90.51

All in USc/lb

Disclaimer

The information and opinions contained in the document have been compiled from sources believed to be reliable. The company does not warrant its accuracy, completeness and correctness. Use of data and information contained in this report is at your own risk. This document is not, and should not be construed as, an offer to sell or solicitation to buy any commodities. This document may not be reproduced, distributed or published, in whole or in part, by any recipient hereof for any purpose without prior permission from the Company. IASL and its affiliates and/or their officers, directors and employees may have positions in any commodities mentioned in this document (or in any related investment) and may from time to time add to or dispose of any such commodities (or investment). Please see the detailed disclaimer at <http://www.agriwatch.com/Disclaimer.asp>
© 2005 Indian Agribusiness Systems Pvt Ltd.