

Highlights of the Week

- Prices remained mixed amid firm demand and lower arrivals in the domestic markets.
- Markets also moved higher as exporters, spinners and millers were actively buying in the market.
- Production estimates remain higher which may create higher surplus for 2012-13 season.

Current Market Dynamics

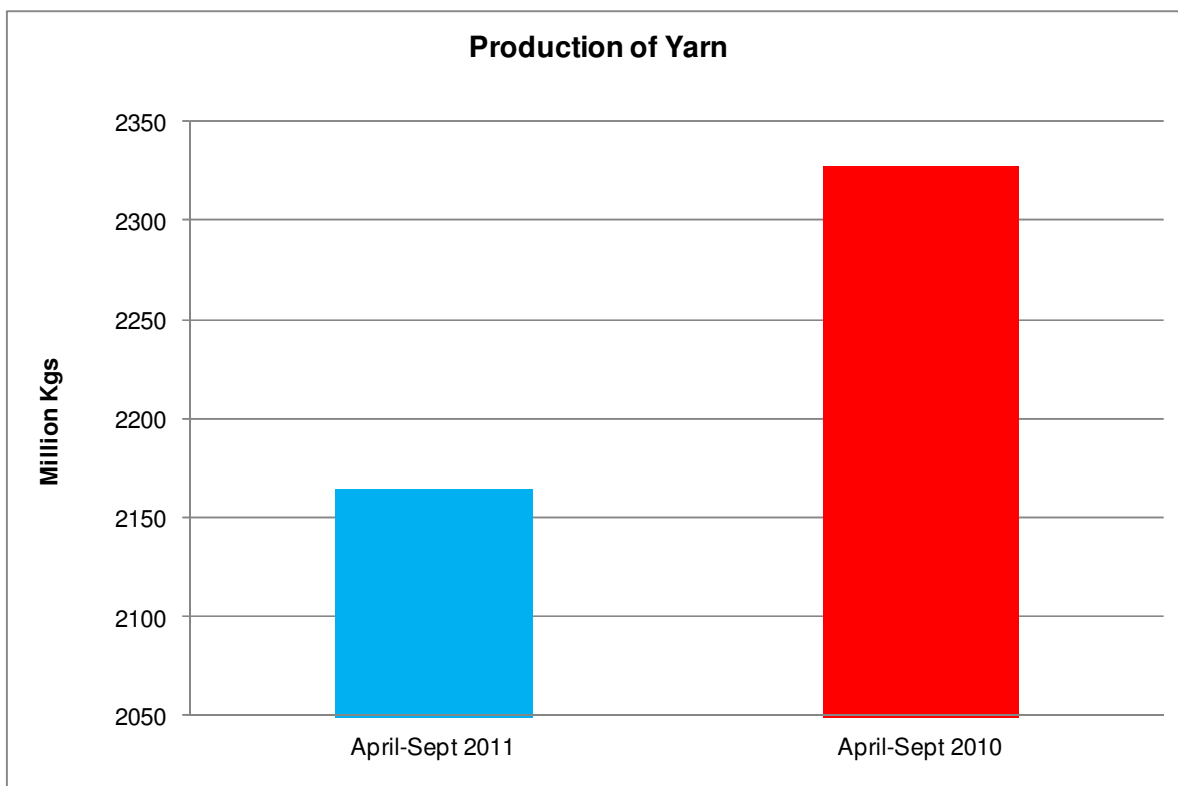
Steady to firm sentiments were seen on Tuesday's trade supported from demand from spinning mills and exporters. Lower cotton prices along with depleting stocks at textile companies is likely to benefit spinning mills. Demand from fabrics and garment makers are also expected to support prices. Arrivals also declined as rains across Punjab, Gujarat, Haryana and Maharashtra delayed the new crop arrivals by about 15-20 days.

Spinners demand remained steady to firm and now may continue to buy for 2 days in advance. Yarn demand is steady to firm as 30 count combed cotton yarn were placed at 3.40 dollar per kg CNF.

Yarn Production and Demand

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. Arrivals remained lower at 13.11 lakh bales (170 Kgs) as on 18th December 2011 compared to 18.84 lakh bales (170 Kgs) as producers are holding onto stocks anticipating better returns. Meanwhile, India cotton yarn export registrations stood at 76.362 million kg in November, 2011 almost 74% higher compared to October. As per latest data of the Directorate General of Foreign Trade cotton yarn export registration during first eight month of the current fiscal year stood at 540.78 million kg.

The textile and clothing production growth index in IIP during first half of 2011-12 has shown a negative growth of 3.32 percent due to fall in demand in the western markets. Confederation of Indian Textile Industry (CITI) said the production of yarn and fabrics started declining at substantial pace since May 2011. The production of yarn in the April-September period has fallen to 2164.7 million kg by -7% against 2,327.3 million kg as compared to the corresponding period previous year. The chart below shows the comparison of yarn production during April-September period over the last 2 years-



Source: Textile Ministry

Weather and Crop Condition

Cotton is at boll opening stages in Karnataka and current weather is favorable. Picking of cotton has started in states like Gujarat and Maharashtra. Cotton is in vegetative to flowering stages in Tamil Nadu and rainfall is forecast over the state and may hinder the flowering stage.

Cotton Arrivals Comparison State-Wise

The table below shows the cotton arrivals state-wise till 25th December 2011 from the start of the season in October on year-on-year basis. Cotton arrivals in country till December 25th 2011 in the current season started October 1 stood at 8.81 million bales 25.26% less than same period last year. Arrivals declined as rains across Punjab, Gujarat, Haryana and Maharashtra delayed the new crop arrivals by about 10-15 days.

Cotton Arrivals		
States	2011-12	2010-11
(Quantity in lakh bales of 170 kgs)		
Punjab	7.49	9.53
Haryana	6.7	6.69
Rajasthan	5.67	5.24
North Total	19.86	21.46
Gujarat	29.02	37.2
Maharashtra	14.17	27.72
Madhya Pradesh	6.21	7.07

Central Total	49.4	71.99
Andhra Pradesh	13.04	18.51
Karnataka	2.68	3.62
Tamil Nadu	0.55	0.83
South Total	16.27	22.96
Orissa	0.31	0.45
Others	0.8	1.03
Total (Orissa & Others)	0.97	1.48
Plus Loose lint	1.46	0
Grand Total	88.1	117.89

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 -46.08 up from previous week's value of -72.46 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 4325 in Kadi Prices will continue to support bullish momentum. A weekly close at or above 4250 in Kadi Prices will change weekly trend down.

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

Support and Resistance:

Support 2	Support 1	Resistance 1	Resistance 2
4025	4175	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	4250-4500	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 27/12/11	Week Ago 19/12/11
Cotton	Kadi-Bt Cotton#	0.57	4100-4350	4150-4325
	Amravati-Vunni Mech-1#	-2.49	3800-4000	3800-4100
	Ahmedabad-Shankar-6#	-0.57	4200-4350	4150-4375
	Abohar-J-34*	0.87	3455	3425
	Muktsar-J-34*	0.87	3455	3425

*-Rs/maund, #-Rs.qtl

Cotton Cumulative Arrivals in Key Centers

Centre	Arrivals		% Change
	Week Ending 27/12/11	Week Ending 19/12/11	
Kadi -Bt Cotton	2900	2725	6.42
Amravati -Vunni Mech-1	5000	5450	-8.25
Ahmedabad - Shankar-6	275000	220000	25.00
Abohar	4650	5150	-9.70
Muktsar	2400	1775	35.59

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 firm as prices have closed above 9 and 18-day EMAs. The M.A.C.D. is at -2.10 up from previous week's value of -7.86 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 794.96 will continue to send bullish signals, but a weekly close at or below 745 will turn the weekly trend down.

Support 2	Support 1	Resistance 1	Resistance 2
745.3	777.4	827.1	844.7

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

INTERNATIONAL MARKET

Cotton futures ends higher as spillover strength from other grains and short-covering are supporting the market. Markets may continue the bullish tone till the end of the year supported by news that investors may continue to buy at lows. March cotton futures went up 0.80 cent to close at 87.09 cents per lb. However, in the long run market is struggling from weak demand caused by fears the debt and budget crisis in the EU and the United States would continue to deflate cotton demand. USDA reports said that cotton production at 15.8 million bales this year down 3% from November and 13% from a year ago. USDA sharply reduced projected world consumption of cotton in its December World Agricultural Supply and Demand Estimates

(WASDE). Global use is now projected at 111 million bales, down nearly 7 percent from 2009-10 use of 119 million bales. Yield is 771 pounds an acre, down 41 pounds from last year. USDA says extreme drought conditions reduced yields considerably this season. The table below shows the global supply and demand estimates from USDA-

Global Supply and Demand		
Attribute	2010-11	2011-12
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 yarn production in China in November was at 275.3 (000 tons) and increased by 12.4% on a year-on-year basis. Cotton output in China is estimated by the China Cotton Association at 7.28 million tons this year, while China National Cotton Reserves Corp.'s forecast is 7.55 million tons. USDA weekly sales data also supported the small gains as net US upland cotton sales reached 69,500 running bales (RBs, 500-lbs each) while shipments stood at a 2011/12 (august/July) 191,100 RBs.

However prices in China remained firm supported by firm demand. However Chinese cotton mills may suffer from higher cotton prices next year as the government continues to buy cotton from the market and planting acreage declines. The government bought 1.62 million tonnes of cotton from farmers as on 22nd December 2011 but sources say that buying will increase to 2.5 million to 3 million tonnes of the crop. Meanwhile, the crop of Pakistan is revised upwards to 12.598 million bales from 12.22 million bales.

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 38.31 and is above the last week's value at 37.39 and is supporting the bullish momentum. The M.A.C.D. at -2.08 is above last week value at -2.38 and hints for a decline bearish momentum. A weekly close at or below 87.213 in March cotton will continue to send bearish signals. A weekly close at or above USc 92 in March Cotton will turn the weekly trend up.

Support 2	Support 1	Resistance 1	Resistance 2
84.40	85.33	89.09	90.04

All in USc/lb

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