

Highlights of the Month

- Cotton continued to rule firm on back of strong demand, supported by lower arrivals in the domestic markets.
- Markets also moved higher as exporters, spinners and millers were actively buying in the market.
- Production estimates has been revised down from 356 lakh bales to 345 lakh bales by the Cotton Advisory board due to damaged crop in key Indian states.
- The pace of total arrivals in India as on 31st Jan 2012 is registered down 13.28% to 170.71 lakh bales from 196.87 lakh bales in corresponding period last year 2011.
- Overall sentiment remained steady to firm on rising domestic demand in ongoing month.

Current Market Dynamics

Cotton prices increased due to strong domestic as well as exporters demand, supported by higher offtake from local millers. Pace of arrivals are increasing now however remained lower compared to last year arrivals as farmers are still holding back their stocks in anticipation of better prices.

On other hand, appreciating rupees may curb exporters' demand until they got renewed demand from China. Relatively the current lint prices fell by 13% to 35% in all the varieties against the prices during the corresponding period in 2011. However, lower yield estimate may support cotton prices because domestic millers and spinners demand continue to emerge in the market. 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. Traders are in view of bullish trend for cotton prices during upcoming month due to strong millers demand.

Weather and Crop Condition

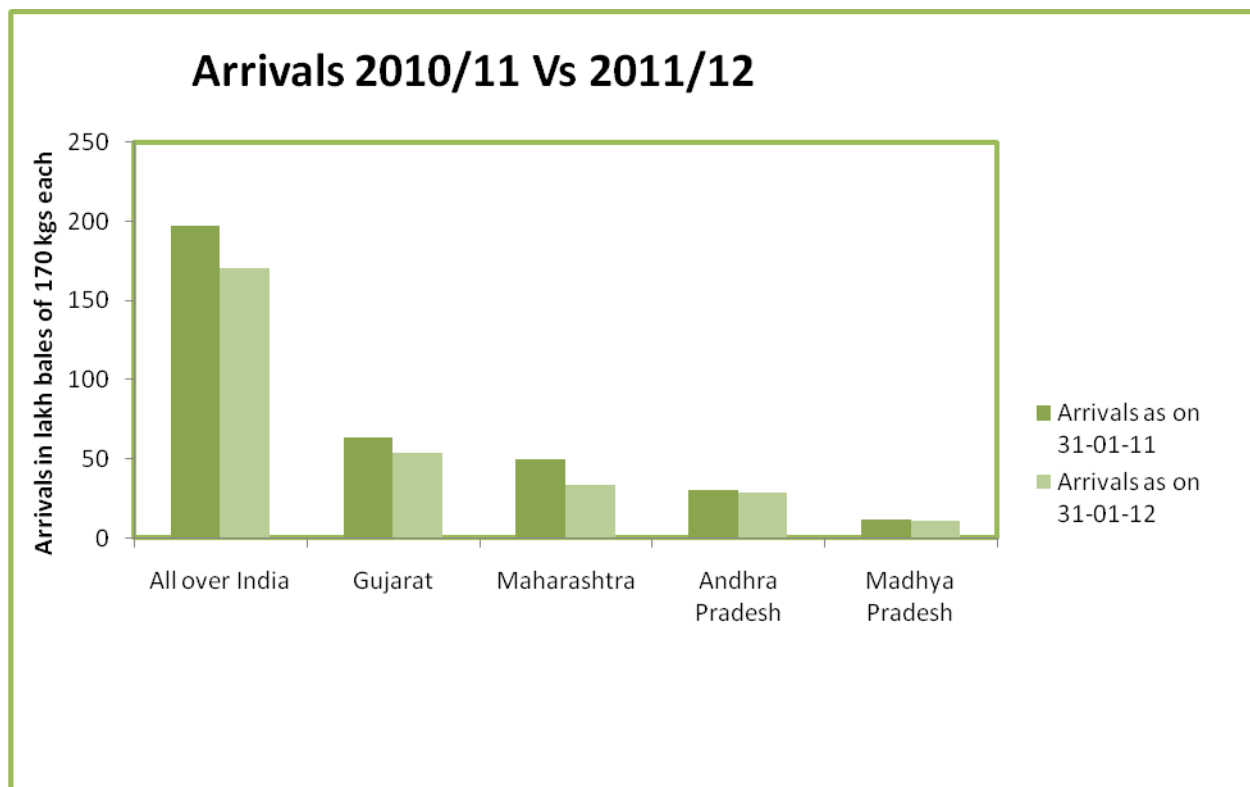
Higher temperature and moisture stress damaged standing crop. The crop of Andhra Pradesh and Maharashtra highly got affected due to which lower yield reported in 2011/12 compared to last year yield record. As of now, 70% harvesting has been completed in Maharashtra where as picking up cotton has been completed in Haryana.

State wise Arrivals

As of now, the pace of daily arrivals are marginally up and reporting in the range of 2, 20,000 to 2, 25,000 lakh bales compared to last year arrivals i.e. 2, 00,000 to 2, 10,000 lakh bales as on same period of time as farmers have started selling fresh crop on higher realization being received at current level due to increase price of cotton. However, farmers anticipate cotton price to move up further. Meanwhile, farmers in Maharashtra are expecting that government may increase MSP (minimum support price) on account of the lowest yield at 286 per kgs/ha in this season 2011/12 despite higher covered area. However, damaged crop may encourage price further as traders viewed. Farmers in Haryana have sold out 60% of their crop as of now and the remaining quantity is likely to hit the market in coming month.

The progressive arrivals of India as on 31st Jan 2012 have dropped by 13.28% to 170.71 lakh bales from 196.87 lakh bales in corresponding period last year 2010/11.

Following table shows the comparison of state-wise arrivals in 2010/11 Vs 2011/12:-



2011-12 Supply and Demand (CAB Estimates):

The cotton Advisory board has revised down cotton production estimate for the current marketing season 2011-12 from 356 lakh bales to 345 lakh bales due to damage of crop in the key states like Maharashtra and Andhra Pradesh. However, CAB reported that overall crop will be higher compared to last year 2010/2011. They added that exports will rise to 84 lakh bales which is higher from the previous year (2010/11) export figure i.e. 68.8 lakh bales. Total consumption reported down to 260 lakh bales compared to previous year consumption estimate. However, given the current CAB estimation of consumption to 21.6 million bales is up from its earlier estimate i.e. 21 million bales on the basis of renewed demand for cotton by textile mills. Relatively CAB has estimated an increase in small- scale industries from the earlier estimates of 2 million bales to 2.4 million bales in 2011/12.

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

COTTON BALANCE SHEET OF INDIA			
All units in Lakh Bales of 170 kgs each	2009/2010	2010/11 (Provisional)	2011/12 (Projected)
Supply			
Opening Stock	71.5	40.5	48.3
Crop Size	305	339	345
Import	6	5	6
Total Availability	382.5	384.5	399.3
Demand			
Mill consumption	219	220.7	216
Small Mill Consumption	23	24.7	24
Non- Mill Consumption	17	22	20
Total Consumption	259	267.4	260
Exports	83	68.8	84
Total Disappearance	342	336.2	344
Carry Forward	40.5	48.3	55.3

As estimated by CAB in its meeting held on 24-01-12

Cotton Area Production Yield State wise

According to the cotton advisory board, Cotton production in Gujarat, Haryana and Punjab has estimated higher than last year 2010/11 production estimates. Gujarat Production estimate is increased by 10% to 114 lakh bales in 2011/12 while yield is estimated down by 3% to 641kgs/ha from the yield 665kgs/ha in 2010/11 despite increasing area to 30.33 lakh hectares. While, Maharashtra, Andhra Pradesh 's production estimate has reported down by 15% to 69 lakh tonne and down 9% to 48 lakh tonnes respectively from the previous year production estimates. Total cotton production of India is estimated at 345 in 2011/12 up by 1.76 % from the last year production estimate to 339 lakh tonnes. Despite, overall yield is reduced by 6.96% to 481 from last year's yield estimate to 517 kgs/ha after increasing acreage towards 9.43% to 121.91 lakh hectares in 2011/12 from the previous year cotton acreage at 111.42 lakh hectares. Following table shows the details of Area, production and yield of major cotton growing states of India as per CAB report:-

State	2010-2011			2011-2012		
	Area	Production	Yield	Area	Production	Yield
Gujarat	26.33	103	665	30.33	114	641
Maharashtra	39.32	82	355	40.95	69	286
Andhra Pradesh	17.84	53	505	18.54	48	440
Madhya Pradesh	6.5	17	445	7.06	17	409
Punjab	5.3	16	513	5.6	17	516
Haryana	4.92	14	484	6.05	17	478
Total in India	111.42	339	517	121.91	345	481

Area in lakh hectares, Production in Lakh bales, Yield in kgs/ha

Technical Analysis of Cotton Futures April 2012 contract at NCDEX



Prices-Rs/20kg

As evident from the above chart, trend is firm and intact. Short term trend remain firm as prices have closed above 9 and 18-day EMAs. RSI is moving up in the neutral region and supports the bullish momentum in the market. Indicator, A close at or above 900 will continue to send bullish signals, but a weekly close at or below 722 will turn the weekly trend down.

Support 2	Support 1	Resistance 1	Resistance 2
722	816.2	1010	1110

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

Fundamental Cotton Price Outlook for Coming Month (December)

Cotton prices are expected to trade range bound with firm bias due to decreasing new crop arrivals and restricted releasing of producers' stocks. Secondly, a cut in production estimate to 34.5 lakh tonnes from the earlier estimate 35.6 lakh tonne may support prices in the long run.

Technical Analysis of Cotton Prices at Kadi Market



Prices-Rs/quintal

The candlestick pattern shows bullish momentum during this month even hints continue up trend but slow movement in upcoming month. There is no changes in 9 and 18-day EMAs if compare to previous month. MACD is moving up in the positive region and suggest an increase in bullish momentum. RSI is moving up in the neutral region and supports the bullish momentum is the short term. Immediate resistance 5091 and resistance level -2 expected to touch around 5433 and nearest support level is 3991 and second support level is expected to touch 3783.3

Cotton Price Outlook

We expect cotton prices to stay firm however profit booking at higher level may restrict further gains. Revised lower production estimate may act as a dampener on prices.

Expected Price range of Cotton Prices for next month

Markets	Expected Trading Band for the coming month	Expected Trend for coming month
Kadi	4100-5000	Steady to Firm

Cotton Prices at Key Spot Markets:

Commodity	Centre & Variety	Prices (Rs/Qtl)		% Change
		31-01-12	31-12-11	
Cotton	Kadi –Bt Cotton (Per Qnt)	4675	4325	8
	Amravati –Vunni Mech-1 (Per Qnt)	4125	4100	1
	Ahmedabad – Shankar-6 (Per Qnt)	4525	4350	4
	Abohar – J-34 (Per Maund)	3860	3540	9
	Muktsar– J-34 (Per Maund)	3860	3540	9

INTERNATIONAL MARKET

Cotton futures advanced mainly supported by rising buying interest of Chinese government from both domestic and foreign markets like India, U.S and Pakistan. However, the projection of slow world economy in 2012 will hurdle uptrend of the market further.

Global cotton production estimate of 2011/12 increased by 7% to 26.8 million tonnes. However, production forecast of 2012/13 is down towards 24.9 million tonnes as it is assumed that cotton area could be shifted to grains and soybean.

The International Cotton Advisory Committee projected cotton mill use to 23.73 down by 3% in 2011/12 from previous year (2010/11) to 24.45 million tonnes in front of higher production at 26.78 million tonnes in 2011/12. Higher production estimate will rebound cotton stocks to 12.3 million tonnes in 2011/12 against last year ending stocks at 9.25 million tonnes. However, increasing export demand may boost up global cotton prices. ICAC has given export figure to 7.68 million tonnes in 2011/12 and further projected at 8.24 million tonnes in 2012/13.

International Cotton Advisory board has released World Cotton Supply details as following:-

WORLD COTTON SUPPLY AND DISTRIBUTION			
All in million tons	2010/11	2011/12	2012/13
Production	25.107	26.787	24.94
Consumption	24.454	23.737	24.31
Exports	7.625	7.689	8.24
Ending Stocks	9.252	12.303	12.93

Source: International Cotton Advisory Committee

ICAC projected U.S export down by 25% due to lower supplies in current season as U.S cotton production forecast for 2011/12 dropped by 13% because of crops got damaged due to severe drought. Total cotton Shipment from United States for six month (August- January) in marketing year 2012 stood at 4,179,000 bales down from the last year 2011 in January month recorded at 5,6909,00 bales revealed in latest USDA report. However, Australia production is likely to increase to 5 million bales in 2011/12 said by industry body Cotton Australia. As per a survey conducted by Chinese National Cotton Market Monitoring System (NCMMS) cotton area for 2012 would decline significantly. The agency conducted a survey to know the

planting intentions. Survey results show that planting area to decline by 8.2% compared to previous year. However, actual Chinese cotton planting acreage would be clear after March and any major decline in area may lead to subsequent lower Chinese production.

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Pakistan total textile and clothing exports reported down to US \$ 12 and 13 billion compared to Us \$ 15 billion recorded during June- December of last year majorly impacted by global economy slowdown situation and higher cost of cotton production. Another, cotton crop got damaged in Sindh.

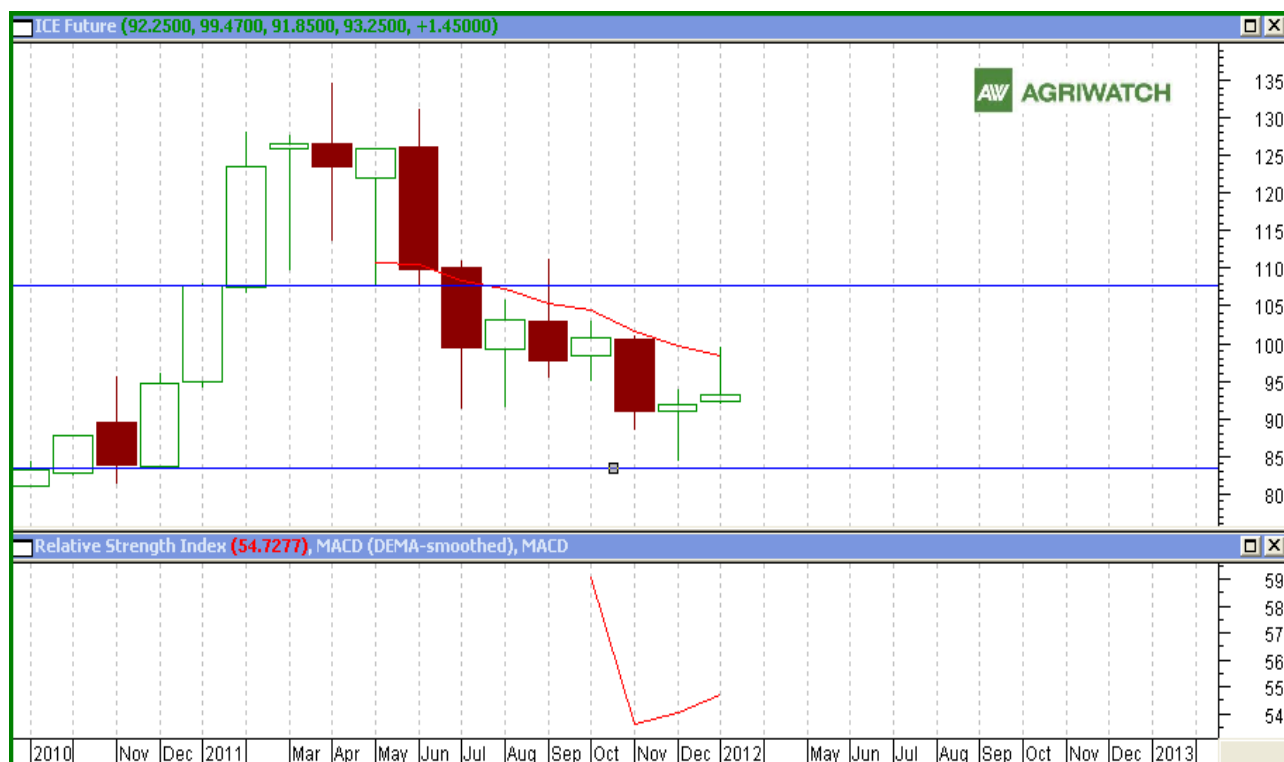
Pakistan Cotton Ginners' Association reported total seed-cotton arrivals up by 19.23% at 12.829 million bales Vs 10.760 million bales same time last season. In Punjab province arrivals are reported higher by 44.44 percent at 10.312 million bales and in Sindh lower by 30.48 percent at 2.517 million bales as the crop in higher quantity got damaged influenced by floods and heavy rains which directly affected quality of the seed hence on cotton prices.

Here, Yearly average prices of Cotlook "A" Index is represented in the flowing table :-

Cotlook" A" Index			
In US \$ Per Pound	2010/11	2011/12	2012/13
Cotlook A Index*	0.78	1.64	1.07**

Source: USDA, Average for the first six months of the season (August 2011 to January 2012).

Technical analysis of ICE Futures (March contract)



Prices-US Cents/lb

As chart depicts price are moving up. Even we can expect further bullish momentum from the current level. However, prices below 9 and 18-day EMAs hint the bearish sentiments. RSI is moving up in the neutral region and supports the bullish momentum in the short term. A close at or above USc 94 will continue to send bullish signals, but a close at or below USc 86 will turn the monthly trend down.

Support 2	Support 1	Resistance 1	Resistance 2
86.87	90.06	97.95	102.65

All in USc

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