

Highlights of the Month

- Overall Cotton Spot market ended with a mixed tone due to uncertainty of Government's decision on the export status in India.
- India has shipped out 9.4 million bales of cotton so far in 2011/12, higher than the earlier CAB export estimate of 8.4 million bales.
- According to USDA latest report, world ending stocks in 2012 is expected to reach 62.3 million bales, higher than the last year's 60.77 million bales which is fundamentally a bearish factor for ICE Future prices.
- Overall sentiment remained steady to weak on declining domestic demand in ongoing month.

Current Market Dynamics

Sluggish trade activity featured in major cotton cash markets due to uncertainty in the cotton prices followed by partial export ban (elaborated later in the report). Tamilnadu having huge spinning facilities is facing 4 to 5 hrs. power cut on a regular basis due to which has hit 50% production of end products (Yarn or Textiles) have been lowered. Besides, due to power outage 40 to 45% mills have been closed as on date. Consequently, millers demand significantly fell on account of heavier loss in the current season and influenced prevailing cotton prices to downtrend. Millers are not keen on buying despite lower price levels as they have adequate stock with them. Millers have already purchased the cotton at higher prices during the initial phase of harvesting.

The Cotton Corporation of India revealed that farmers in India still hold one crore bales with the value Rs.20,000 crore. Farmers are facing Rs. 2,000 crore losses in cotton as raw cotton prices fell by Rs. 1000-3000 per 100 kg after the unexpected ban.

CCI has started to buy Kapas in the price range of Rs. 3200 to 3800 from Amravati market (Maharashtra) and Rs. 4000 to 4300 from Fajilka market (Gujarat) while at MSP of Rs. 3300 in Andhra Pradesh where prices have declined to MSP. Running buying activity of CCI may prevent cotton prices from any major fall in the medium term.

The Excise duty on Cotton textiles exports has been raised from 4% to 6% in the union budget for 2012-13 and service tax from 10% to 12%, which will increase exporters' cost. Custom duty of 5% has been exempted on importing automatic shuttle less loom which may favor textile industries especially for weaving sectors.

State wise Arrivals

Farmers are holding the remaining 25-30% stocks in hand as of now but could sell off their stocks to CCI due to the uncertainty in the market. Consequently, the pace of arrivals significantly increased in the last week of March. Meanwhile, big farmers seem to be holding their stocks and as they believe that the export will resume shortly.

Cotton Prices at Key Spot Markets:

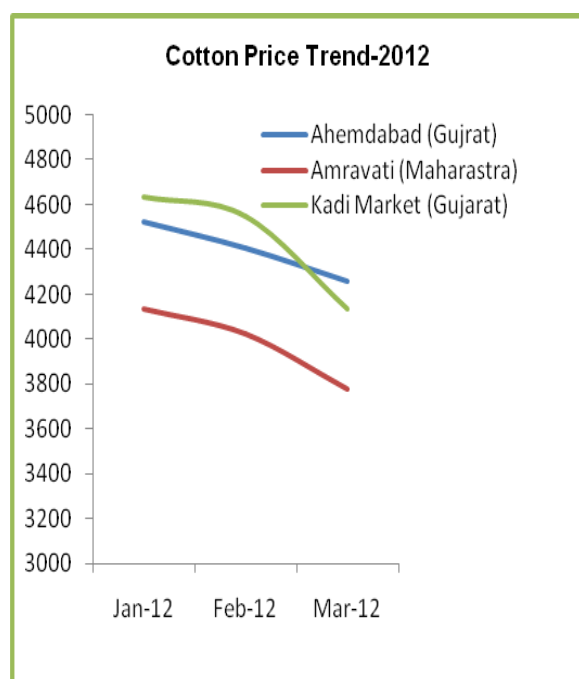
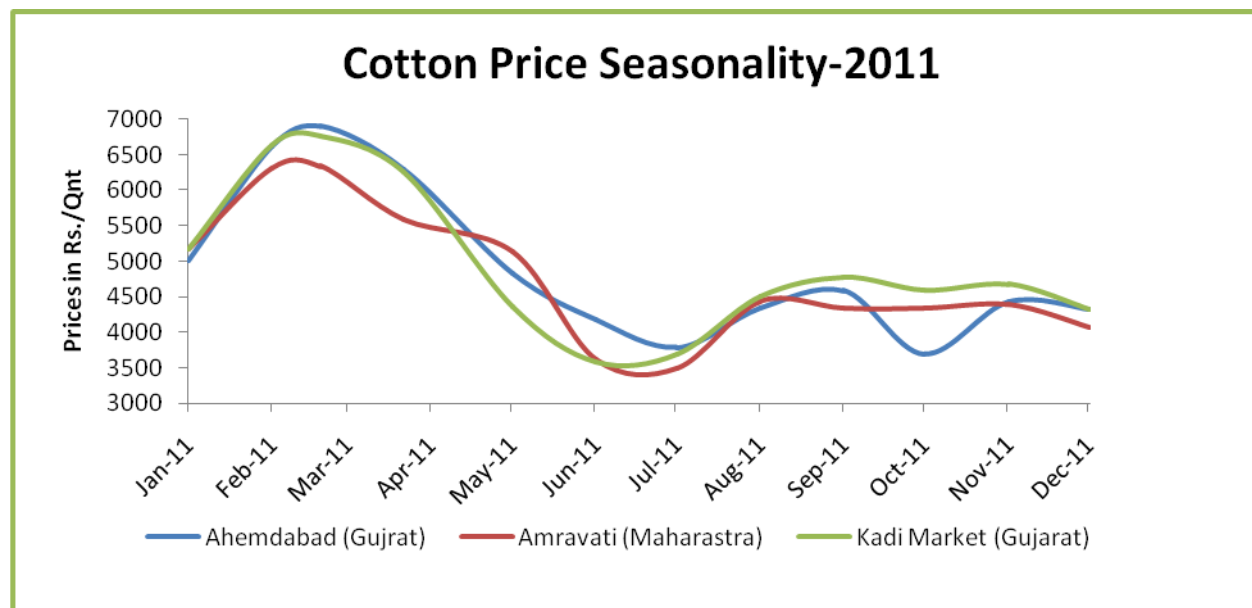
Commodity	Centre & Variety	Prices (Rs/Qtl)		% Change
		24-03-12	24-02-12	
Cotton	Kadi-Bt Cotton#	3900-4300	3925-4425	-3%
	Amravati-Vunni Mech-1#	3850	3900	-1%
	Ahmedabad-Shankar-6#	3750-4250	4000-4250	Unch
	Abohar-J-34*	3530	3525	0.1%
	Muktsar-J-34*	3540	3525	0.4%
	Fajlika#	3700-4225	3600-4190	1%
	Khandwa#	-	-	-

*-Rs/maund, #-Rs.qtl

Cotton Cumulative Arrivals in Key Centers

Centre	Cumulative Weekly Arrivals		% Change
	Current Month 24/03/12	Previous Month 24/02/12	
Kadi -Bt Cotton	2780	6700	-59%
Amravati -Vunni Mech-1	62500	102000	-39%
Ahmedabad - Shankar-6	380000	1150000	-67%
Abohar	13350	14700	-9%
Muktsar	6450	6750	-4%
Fajlika	34900	22600	54%
Khandwa	-	-	-

Khandwa, Kadi, Fajlika-1 Truck-100 Qtls, Amravati-1 Truck-100 kgs, Ahmadabad, Abohar and Muktsar-Bales

Cotton Prices Performance in 2011 & 2012


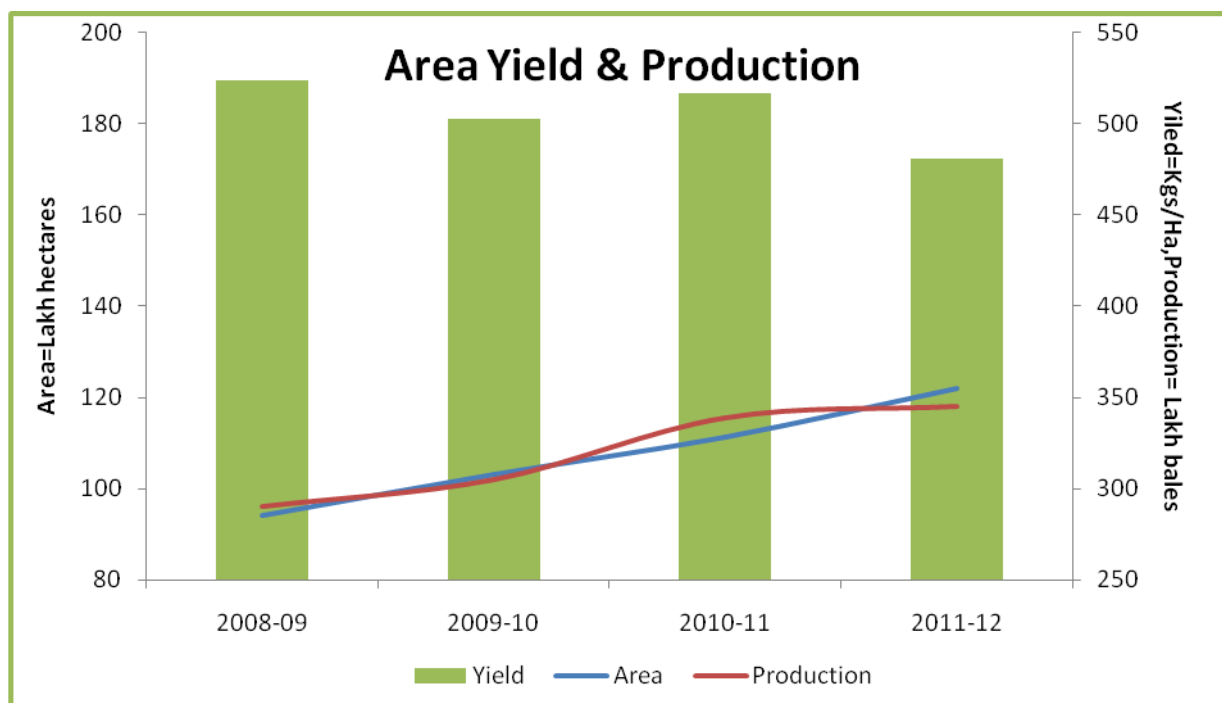
Overall prices have been falling and are much below prices in Feb and March during the previous season when prices started to move downward from the month of May and traded in the range of 3490-4800. During this year, prices moved between the range of 3777 to 4635 and further weak sentiments are expected on back of surplus crop availability amid lower domestic consumptions. As discussed earlier, the millers have 2 to 3 month stocks with them. The higher export demand supported prices mainly in Jan'12 when China started to buy higher quantities of cotton to build its stocks. However, the recent ban on fresh cotton exports and sluggish domestic demand will lead cotton prices under stress.

Area Production & Yield

Farmers are likely to plant cotton for 2012/13 from late April or 1st week of May. However, the performance of cotton during the current season has discouraged farmers. Therefore, it is possible that farmers may shift cotton area to other crops like Guar due to higher profit realization.

The Cotton Advisory Board has estimated total India production of the season 2011/12 at 345 lakh bales while, yield has been reduced to 481 kgs/ha against previous year despite covering higher sowing area of 121.91 lakh hectares in 2011/12. Some crops got damaged mainly in Maharashtra due to high temperatures and moisture stress. Gujarat, Haryana, Punjab and Rajasthan have contributed to surge total India cotton crop size after reporting higher productions in 2011/12 as 117.2 from 106.2, 20, 19.5 from 17, and 17.1 from 10.1 lakh bales last year respectively.

Following table shows the comparison of Area Yield and Production of last four years:-



Source: The Cotton Advisory Board

2011-12 Supply and Demand (CAB Estimates):

The cotton production estimate stayed at 345 lakh bales in the current marketing season 2011-12. Total consumption reported down to 260 lakh bales compared to previous year consumption estimate to 267.4 lakh bales. The following table shows the supply and demand situation for 2011-12 –

Item	2010-11(P)*	2011-12(Proj)*	% Change
SUPPLY			
Opening Stock	40.5	48.3	19.26
Crop size	339	345	1.77
Imports	5	6	20.00
Total Availability	384.5	399.3	3.85
DEMAND			
Mill consumption	220.7	216	-2.13
Small mill consumption	24.7	24	-2.83
Non-Mill consumption	22	20	-9.09
Total consumption	267.4	260	-2.77
Exports	68.8	95	38.08
Total disappearance	336.2	355	5.59
Carry Forward	48.3	44.3	-8.28

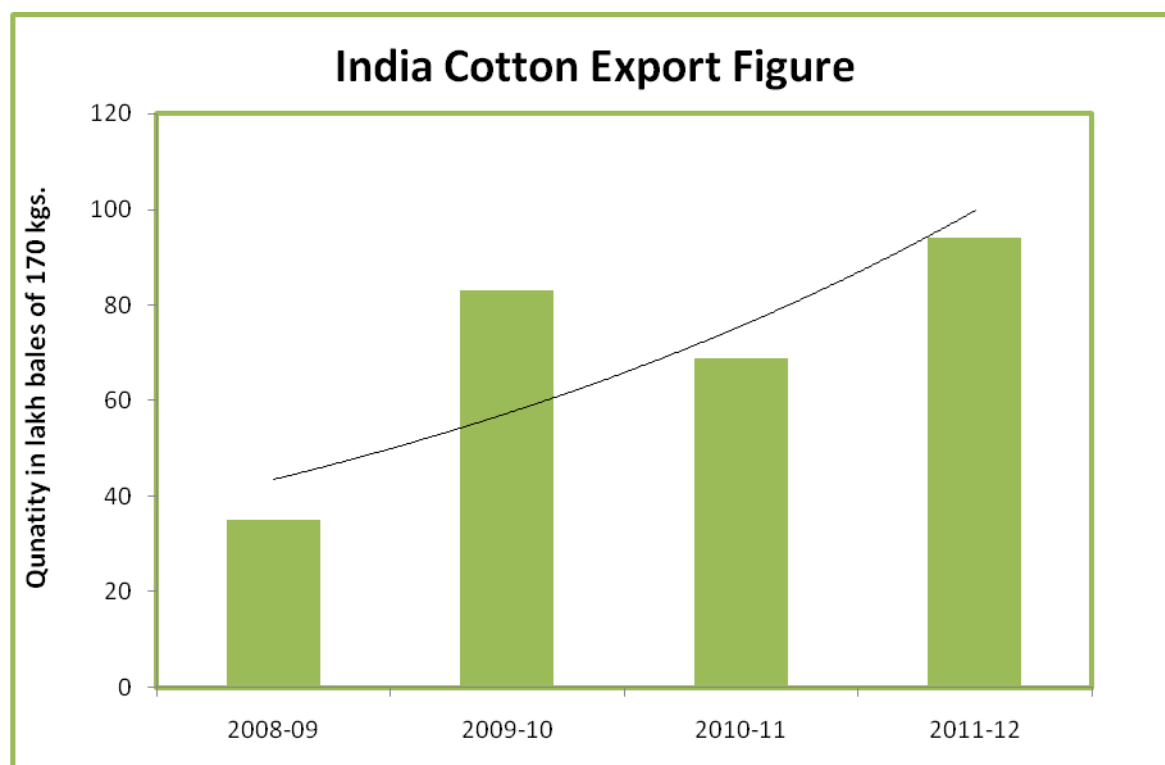
As estimated by CAB in its meeting held on 24-01-12

Domestic Export Scenario

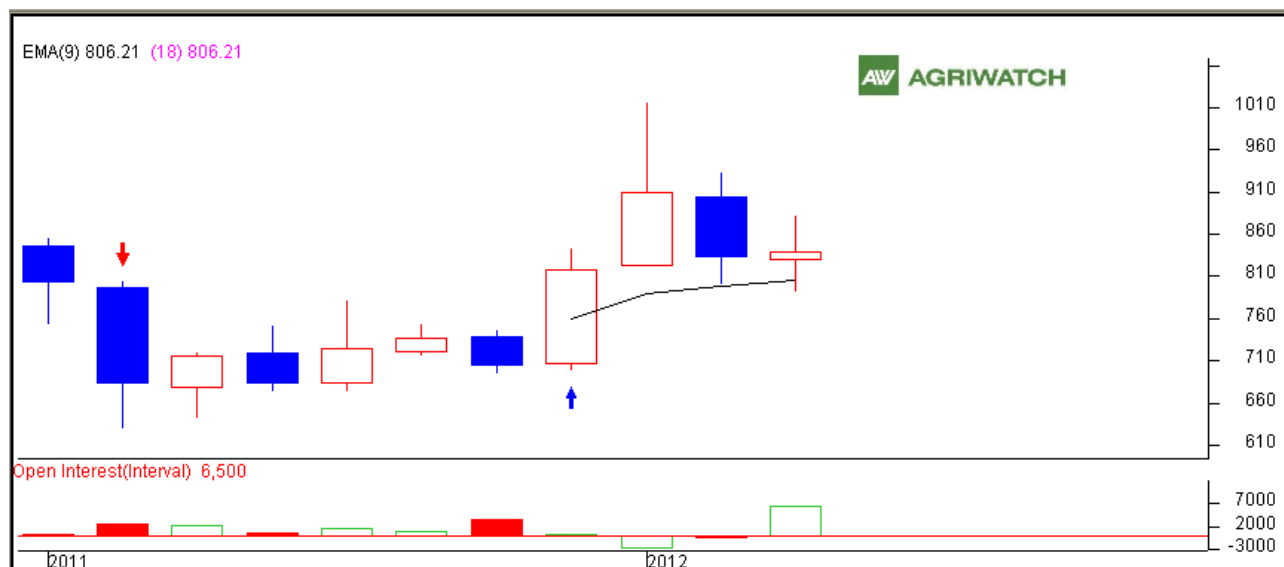
The export ban is the main price determining factor as on date. The Commerce Ministry had banned cotton exports on the evening of Monday March 5, 2012 on the grounds of increasing domestic market availability. However, the ban immediately ran into strong opposition from the Agriculture Minister who said that farmers would be adversely affected. Cotton ginners in Gujarat have declared indefinite strike following Centre's decision of ban in cotton exports. Nearly 1000 mills have joined the strike. The decision was referred to a Group of Ministers for a resolution. The Prime Minister called for an urgent review of the ban in the afternoon of March 7th 2012. Given the strong opposition to the ban, Government has allowed only those shipments, which were already issued before 5th March 2012 on the condition that DGFT would revalidate all RCs and issue separate application for each valid RC, which should be submitted till 22nd March considering as a last submit date. Total export contracts of about 120 lakh bales were signed to ship out before 5th March.

On other hand, the major importers China and Bangladesh have strongly criticized the Indian government decision and stated that the ban is against "rule and regulations". Bangladesh has started to procure cotton from other countries like Australia, USA and Uzbekistan, though it was sourcing its entire cotton requirement from India before announcement of ban according to the Vice President of Bangladesh Textiles Mills Association.

Export status in 2011/12 has been registered higher from last three years as in record of the Cotton Advisory Board. From 1st Oct 2011, India has shipped out a record around 9.5 million bales of cotton higher than the Government estimates i.e. 8.4 million bales for this year recently stated by CCI. China has been the dominant buyer of Indian cotton. Below table shows the export details of four years:-



Technical Analysis of Cotton Futures April 2012 contract at NCDEX



Prices-Rs/20kg

Sideways momentum could be seen during this month besides rising open interest. However, 9 days EMA is up and indicating a bullish signals in the long run. RSI is slight up in neutral region and further signals possible bullish trend of the market. We can see volatility in the market during upcoming month.

Strategy: Sell at higher price level 870 or towards resistance level.

Support 2	Support 1	Resistance 1	Resistance 2
702	746	882	926

Strategy:

Fundamental Cotton Price Outlook for Coming Month (April)

Cotton prices are expected to be volatile due to uncertainty in the market. However, prevailing dull domestic demand and partial ban on raw cotton export are the bearish clue for the market in long run. At some extent, CCI buying may support cotton prices in the medium term.

Technical Analysis of Cotton Prices at Kadi Market



Prices-Rs/quintal

Sideways price movement featured during the month. Prices remained within the price range of 3402-4757 during this month. On the other hand, RSI is also moving sideways and hints that the same trend may continue. The 9 and 18 days- EMAs are also indicating a sideways momentum in the upcoming days.

Strategy: Sell Kapas (Kadi Market) at price level of 4600-4700.

Expected Price range of Cotton Prices for next month

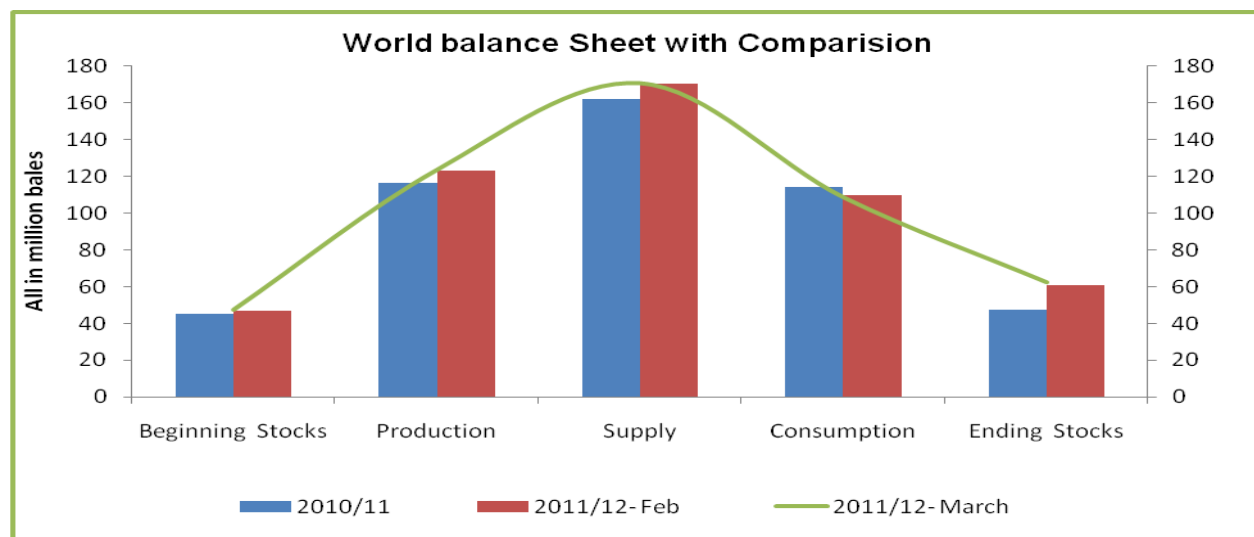
Markets	Expected Trading Band for the coming month	Expected Trend for coming month
Kadi	3402-4757	Steady to bearish

INTERNATIONAL MARKET

Cotton prices trended up after an announcement of ban imposed in India in expectation of higher demand from overseas demand especially Bangladesh and China. However, we expect prices to go down amid increasing ending stocks and overall moderate mills demand in long run.

In the latest report of USDA, World production estimate has been revised and increased to 123.6 million bales from its earlier estimate given in Feb to 123.3 million bales on account of higher production estimate in Pakistan and Brazil to 10.6 and 9.3 million bales respectively in March against 10.4 million bales and 9.0 million bales respectively estimate of Feb. However, consumption has reduced in March from Feb from 109.7 million bales to 108.7 million bales on account of poor mills demand due to which ending stocks is estimated higher in March to 62.3 million bales from 60.8 million bales of Feb month estimate, which may restrict ICE future prices.

Here, following charts and tables reveal the details of current World cotton scenario:-



Source: USDA

World Cotton Exports				
Ranked	Millions of 480 lb. Bales	2010/11	2011/12- Feb	2011/12- March
1	United States	14.4	11	11
2	India	5.1	6.3	7.8
3	Australia	2.5	4	4
4	Brazil	2	3.9	3.9
5	Uzbekistan	2.7	2.7	2.6
6	EU-27	1	1.3	1.3
7	African Franc Zone	1.3	1.2	1.2
8	Greece	0.8	1	1
9	Turkmenistan	1.1	0.9	0.9
10	Pakistan	0.6	0.6	0.7
	World Total	35.7	37.4	38.8

Source: USDA

World Cotton Imports				
Ranked	Millions of 480 lb. Bales	2010/11	2011/12- Feb	2011/12 -March
1	China	12	17	18.5
2	Bangladesh	3.7	3.3	3.3
3	Turkey	3.4	2.5	2.5
4	Indonesia	2.1	2	2
5	Vietnam	1.6	1.5	1.4
6	Thailand	1.8	1.3	1.3
7	South Korea	1	1.1	1.2
8	Mexico	1.2	1	1.1
9	Pakistan	1.5	1.2	1
10	Taiwan	0.8	0.9	0.9
11	India	0.5	0.5	0.6
	World Total	35.7	37.4	38.8

Source: USDA

Cotlook index performance is showing a downtrend as domestic mills consumption is slow while China Government is buying fibres from foreign markets due to cheaper price compared to domestic market price. Farmers in China are offering comparatively higher prices due to higher cost of planting according to the Reuter. However, China Government planned to buy fibre to rebuild its stock reserve. As a result, China has imported total 18.5 million bales of cotton so far. The following table shows the comparison of monthly average prices of Cotlook "A" Index: **Cotlook"A"Index**

Month	2010-11	2011-12	% Change
January	178.93	101.11	-43.49
February	213.18	100.75	-52.74

Source: The Cotton Advisory Board, Monthly Average Price, Unit in US Cents per lb.

Technical analysis of ICE Futures (May contract)



The chart shows bullish momentum during the week. However, the trend is expected to be down in next week on bearish fundamental outlook. Even, prices below 9 and 18-day EMAs hint the bearish sentiments. RSI is also moving down in the neutral region and hints the sideways to weak tone in the long term. Sell towards resistance level 94.03 and book the profit towards 86 or at the support level.

Support 2	Support 1	Resistance 1	Resistance 2
84.80	86.11	94.03	98.5

All in USc

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