

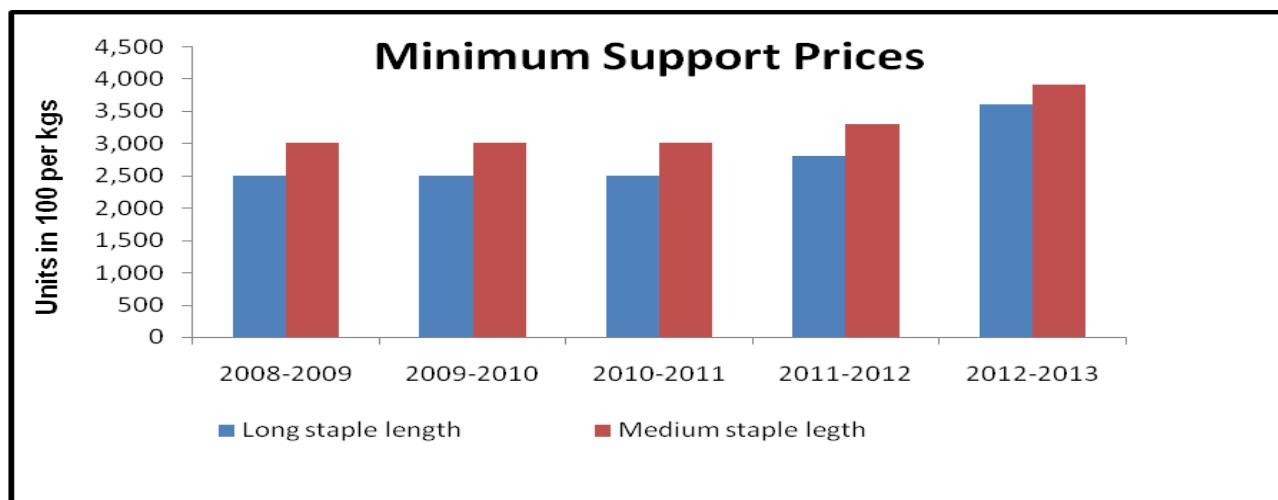
Highlights of the Month

- ❖ The Cotton Prices closed on higher side amid rising local miller demand except Punjab markets due to lower demand.
- ❖ Arrivals have been registered down in all the major markets except Ahmedabad.
- ❖ According to trade sources, acreage under cotton is likely to decline by 15% in North India. Farmers are diverting to other profitable crops like guar, soya bean and groundnut.
- ❖ Minimum support price of Cotton for 2012/13 has been raised by 28.18 to 3600 per quintal for medium staple length and 3900 for long staple length by Indian Government as on 14th June 2012.
- According to ICAC world cotton area may decline by 7% to 33.6 million hectares in 2012/13 on account of poor cotton prices.
- Carded Yarn demand was good which led a support to cotton yarn prices. Cotton Yarn prices are likely to increase in anticipation of textiles millers demand.
- Cotton prices are likely to trade upper side on back of good local demand.

Current Market Dynamics

Ginners are not willing to sell cotton due to delay in monsoon rain and weight loss while spinners are asking for cotton to buy at the prevailing rates which is weighing on the cotton prices. Currently, exporters are also active in the market but asking for lower quantum of cotton for stock purpose as they believe prices will increase in future from the current level .

Indian Government declared cotton minimum support price for 2012/13 up by 28.57% to 3600 per quintal for medium staple length and long staple length by 18.18% to 3900 per quintal against last year MSP i.e. 2800 per quintal and 3300 per quintal respectively to encourage cotton farmers. However, lower cotton prices against dull demand and other lucrative crops like Guar, soybean has compelled cotton farmers to reduce cotton area in 2012/13. Below table show 5 years comparison of minimum support prices:



Source: Government Data

Area, Yield and Production

According to the Union Ministry of Agriculture, cotton production is likely to decline by 7.8% to 32.2 million bales in the fiscal 2012/12.

According to PIB Cotton sowing has been completed about 28% to 3.11 million hectares so far higher 0.65 million hectares than normal area of the week (2.46 million ha).

As per ministry of agriculture data, total cotton sowing has been recorded higher to 31.37 lakh hectare as compare to previous week sowing record i.e. 29.29 lakh hectares in irrigated cotton areas. However, delaying monsoon may affect its germination stage and may delay cotton sowing of rain fed areas.

Below table reflects state-wise cotton sowing progress:-

| State | Normal Area * | Area covered on corresponding period of earlier years | | | | Increase/ Decrease over last year | % of last year |
|----------------|---------------|---|-----------------------------|---------|---------|-----------------------------------|----------------|
| | | State Target 2012-13 | Area covered so far 2012-13 | 2011-12 | 2010-11 | | |
| Andhra Pradesh | 17.42 | 18.2 | 6.53 | 4.76 | 3.79 | 1.77 | 137 |
| Gujarat | 26.86 | 27 | 3.82 | 4.55 | 5.5 | -0.73 | 84 |
| Haryana | 5.47 | 5 | 5.15 | 4.91 | 4.44 | 0.24 | 105 |
| Karnataka | 5.19 | 5.7 | 1.06 | 1.98 | 1.26 | -0.92 | 54 |
| Madhya Pradesh | 6.56 | 6.5 | 0.8 | 0.75 | 1.63 | 0.05 | 107 |
| Maharashtra | 38.54 | 40 | 5.46 | 5.31 | 2.03 | 0.15 | 103 |
| Orissa | 0.77 | 1 | 0.24 | 0.32 | 0.012 | -0.08 | 75 |
| Punjab | 5.34 | 6 | 5.16 | 4.9 | 5.59 | 0.26 | 105 |
| Rajasthan | 4.16 | 3.5 | 2.8 | 1.55 | 1.57 | 1.25 | 181 |
| Tamil Nadu | 1.2 | 1.5 | 0.053 | 0.021 | 0.065 | 0.032 | 252 |
| Uttar Pradesh | | 0.3 | 0.3 | 0.24 | - | 0.06 | 125 |
| Others | 0.33 | 0.25 | - | - | 0.23 | - | - |
| Total | 111.82 | 115 | 31.378 | 29.296 | 26.117 | 2.082 | 107 |

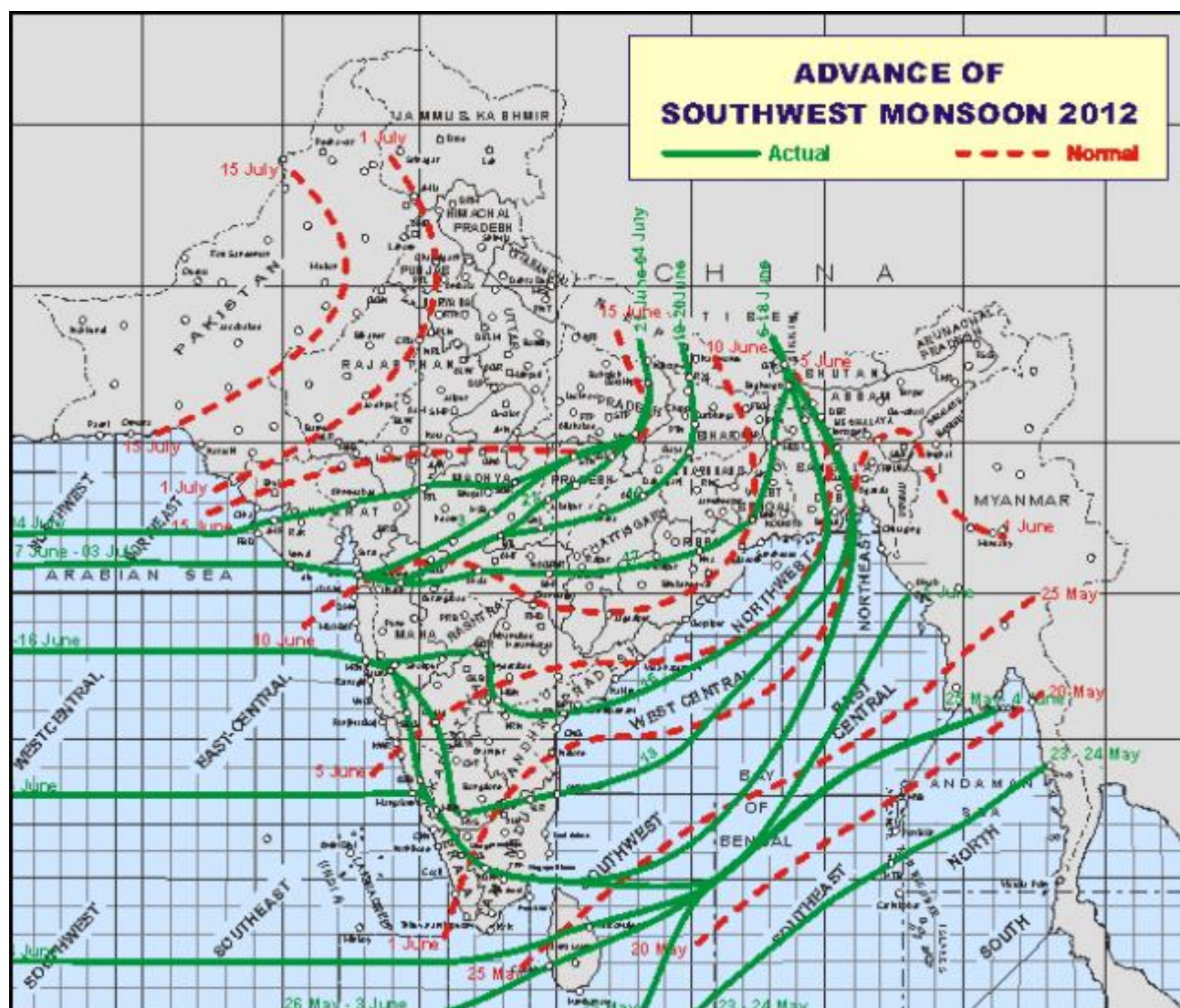
Source: Ministry of Agriculture

Monsoon Impact for Cotton Sowing Progress

According to IMD, south –west monsoon has covered almost all parts of India and is expected to advance in north-west India by next week. Currently the southwest Monsoon has further advanced into some more parts of north Arabian Sea, Gujarat statemaining parts of Maharashtra and some more parts of Madhya Pradesh. Conditions are favorable for further advance of Southwest Monsoon into some more parts of north Arabian Sea, Gujarat, Madhya Pradesh and Uttar Pradesh and some parts of Uttarakhand, Himachal Pradesh, Jammu & Kashmir and east Rajasthan during next 3 days.

Progress of south –west monsoon in north-west India will increase the pace of cotton sowing in this season while cotton sowing has been completed in irrigation parts of the states mainly in Punjab and Rajasthan. Most of the growing regions in Maharashtra, Gujarat and Madhya Pradesh are dependent on rain.

The picture below shows the progress of south-west monsoon as on 05 July, 2012.



Source: IMD

The Projection of Agriwatch for Gujarat's Cotton Area in 2012

Regression was carried out using cotton acreage in Gujarat as the dependent variable which depends on cotton prices in bench mark market of Kadi with annual data sourced from 2006 onwards. Statistical equation and interpretation of the same is as follows:

It is evident from the table below that cotton area in Gujarat and prices are highly correlated. Regression equation R^2 explains for 83% variation in cotton acreage with variation in prices of bench mark market of Kadi.

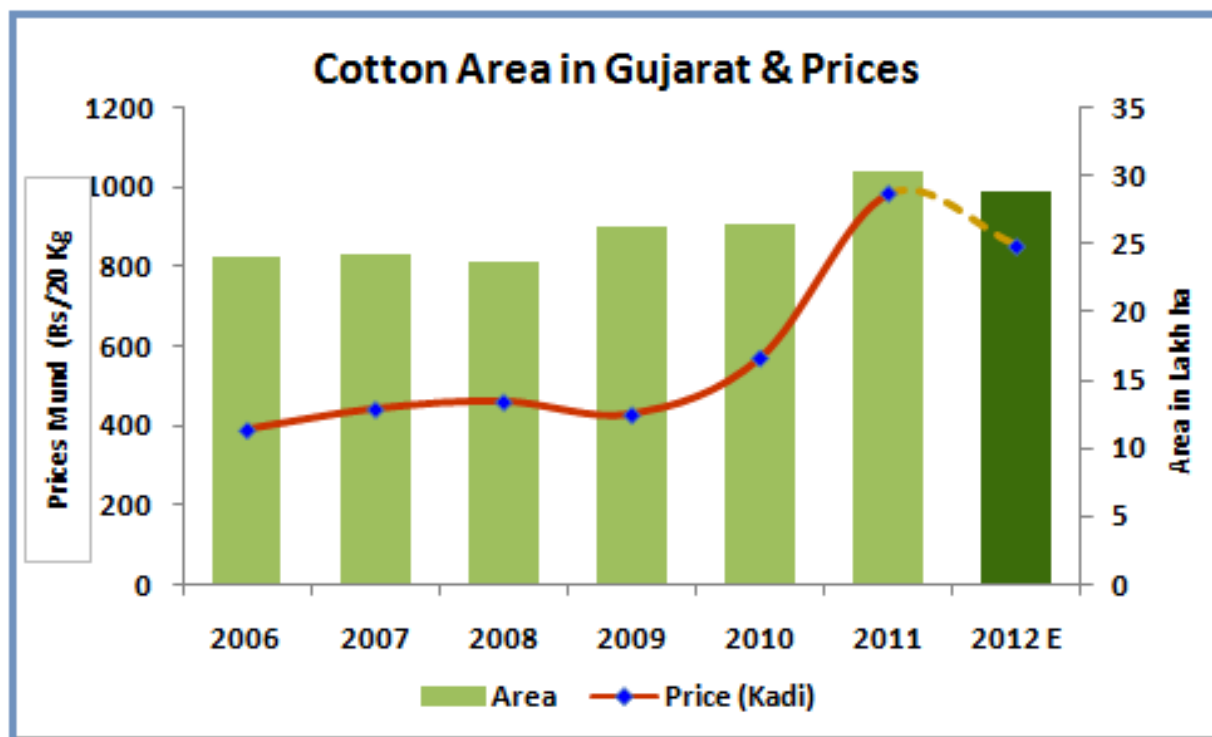
| Regression Statistics | |
|-----------------------|-------------|
| Multiple F | 0.915393114 |
| R Square | 0.837944552 |

P-value indicates the relation between cotton acreage in Gujarat and cotton prices at bench mark Kadi market is highly significant. It shows confidence interval is around 99% which is higher than its standard 95%.

| Constants | Coefficients | Standard Error | P-value |
|--------------|--------------|----------------|-------------|
| Intercept | 20.13694006 | 1.31604357 | 0.000106412 |
| X Variable 1 | 0.010284433 | 0.002261385 | 0.010434666 |

Considering highly significant relation between cotton area in Gujarat and fitting the coefficients in linear regression equation cotton area in Gujarat should decline nearly by 4.5% (min) during 2012. We expect cotton area in Gujarat is to stay near to 28.88 lakh hectare during 2012 compared to 30.23 lakh hectare during 2011.

The following chart shows expected area and average cotton prices for 2012:

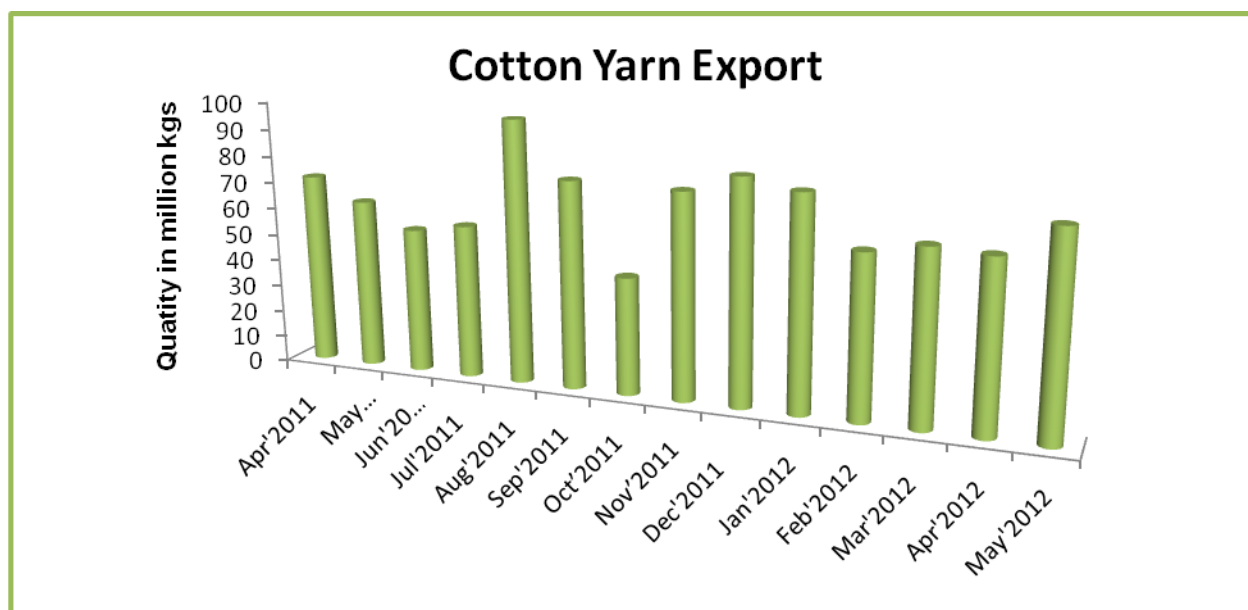


Yarn & Textile

Indian government has set textile export target to US \$ 40.5 billion against earlier set target of US \$ 38 billion in 2012/13 as textile segments such as garments, carpets and handicrafts are likely to perform well in EU, US market in this year which may weigh on cotton prices in long run.

According to CMIE, production of cotton yarn and synthetic yarn would increase by 10% and 3.5% respectively amid good fabric demand. In a recently released report of DGFT (Directorate General of Foreign Trade) cotton yarn export registrations have increased sharply by 18.53% to 74.45 million kgs in May'2012 as compared to 62.81 million kgs of April'12 followed by good demand from Yarn makers and textiles millers.

Below table shows the Cotton Yarn export registrations since April 2011 to May 2012:-



Source: DGFT

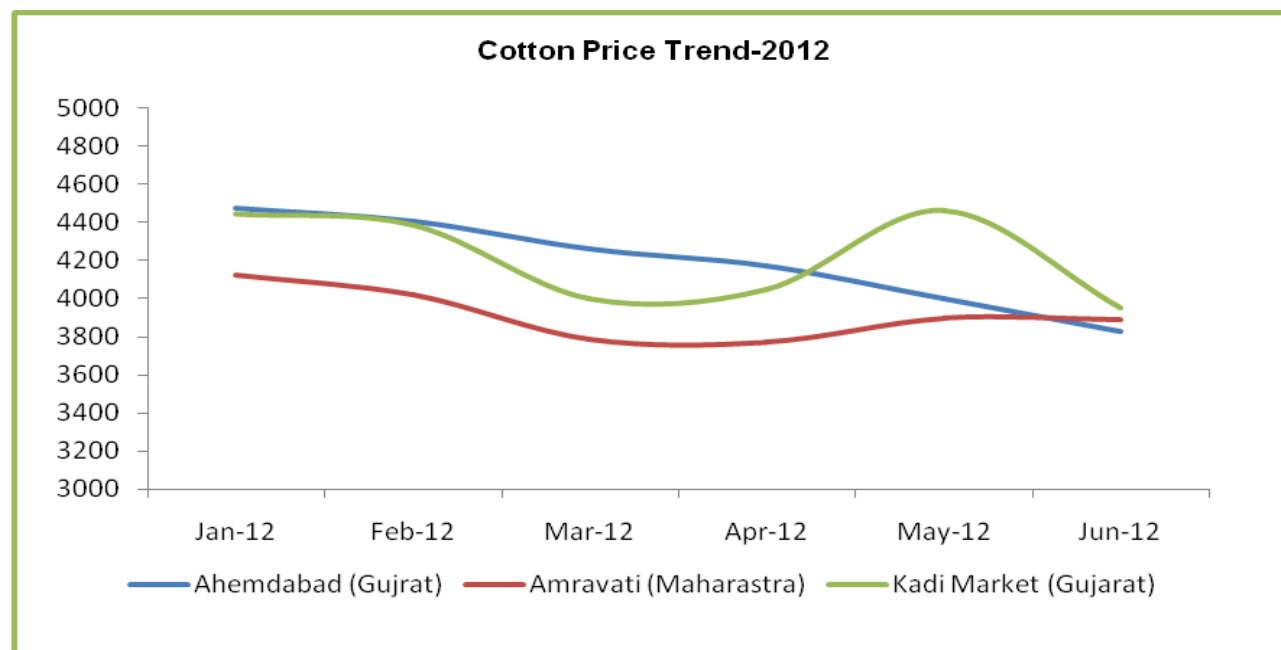
Raw cotton-Import & Export Scenario

Bangladesh and China are asking very limited quantum of cotton from India due to which May month exports stood near 1 million bales only. On the other hand, cheaper international rate against Indian cotton prices making an opportunity for Indian spinners to import cotton from foreign market at cheaper prices where they can pay amount within six month without paying interest rate.

Cotton Price Performance during the June Month 2012

Average cotton spot rates came down in Ahmadabad markets however other major markets like Kadi Market and Amravati markets show ups & down momentum till June in 2012 amid patchy local demand. We expected cotton prices to trade firm due on improving local spinners demand. Exporters may also get active in next month to stock cotton for further delivery.

Below Chart reflects May month average price movements of different markets:-



Source: Agriwatch, Prices in Rs./Quintal

Cotton Prices at Key Spot Markets:

| Commodity | Centre & Variety | Prices (Rs/Qtl) | | % Change |
|-----------|------------------------|-----------------|-----------|----------|
| | | 30-06-12 | 30-05-12 | |
| Cotton | Kadi-Bt Cotton# | 4250-4500 | 3750-4250 | 6% |
| | Amravati-Vunni Mech-1# | 4250 | 3350-3800 | 12% |
| | Ahmedabad-Shankar-6# | 3875-4375 | 3750-4000 | 9% |
| | Abohar-J-34* | 3540 | 3540-3560 | -1% |
| | Muktsar-J-34* | 3540 | 3540-3560 | -1% |
| | Fajlika# | 3325 | 3650-4050 | -18% |

*-Rs/maund, #-Rs.qtl

Cotton Cumulative Arrivals in Key Centers

| Centre | Cumulative Weekly Arrivals | | % Change |
|------------------------|----------------------------|----------------------------|----------|
| | Current Month 30/06/12 | Previous Month 30/05/12 | |
| Kadi -Bt Cotton | 1295 | 2585 | -50% |
| Amravati -Vunni Mech-1 | 59500 | 85500 | -30% |
| Ahmedabad - Shankar-6 | 318000 | 53800 | 491% |
| Abohar | 2770 | 5480 | -49% |
| Muktsar | 160 | 910 | -82% |
| Fajlika | 4000 | 12580 | -68% |
| Khandwa | 1070 | 30600 | -97% |

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

Cotton Association of India Spot Rates:

| Trade Name | Staple | Trade Name Staple Microaire | Strength/ GPT | Rs. Per Candy (29/6/2012) | Rs. Per Candy (29/5/2012) | %Change |
|---------------------------------------|------------|-----------------------------------|------------------|---------------------------------|---------------------------------|---------|
| Bengal Deshi (RG)/ Assam Comilla(101) | Below 22mm | 5.0 - 7.0 | 15 | 37700 | 33900 | 11% |
| Bengal Deshi (SG)(201) | Below 22mm | 5.0 (29/6/2012) | 15 | 39000 | 34900 | 12% |
| J-34(202) | 26mm | 3.5 - 4.9 | 23 | 32200 | 30200 | 7% |
| H-4/ MECH-1(105) | Below 22mm | 3.5 - 4.9 | 27 | 33700 | 32100 | 5% |
| Shankar-6(105) | 29mm | 3.5 - 4.9 | 28 | 34500 | 33500 | 3% |
| Bunny/ Brahma(105) | 31mm | 3.5 - 4.9 | 30 | 36100 | 35300 | 2% |
| MCU-5/ Surabhi(106) | 32mm | 3.3 - 4.9 | 31 | 37500 | 36100 | 4% |
| DCH-32(107) | 34mm | 3.0 - 3.8 | 32 | 47200 | 46700 | 1% |

5.0 - 7.0

15

39000

34900

12%

J-34(202)

26mm

Technical Analysis of Kapas Prices at Kadi Market



Prices-Rs/quintal

- The candlestick patterns reveals bullish trend in the market.
- We can see a range bound trading between 3352 to 4744.5 in upcoming month.
- On the other hand, rising 9 & 18 days EMA hints the market upper zone in the near and long term.
- RSI is moving up in neutral territory implying upward momentum.
- Immediate resistance could be seen near 4744.5 and breaching this may touch 4869.6.

Strategy: Buy Kapas (Kadi Market) at resistance level and book profit towards support level.

Expected Price range of Cotton Prices for next month

| Markets | Expected Trading Band for the coming month | Expected Trend for coming month |
|---------|--|---------------------------------|
| Kadi | 3595-4869.6 | Range-bound to Bearish |

| Support 2 | Support 1 | Resistance 1 | Resistance 2 |
|-----------|-----------|--------------|--------------|
| 3272 | 3352 | 4744.5 | 4869.6 |

Prices-Rs/quintal

Technical Analysis of Kapas Futures April 2013 contract at NCDEX



Prices-Rs/20kg

- Doji formation reflects indecisive indication about the market. We can expect a range bound trading in between 990 to 1041.9.
- RSI is moving up indicating bullish trend of the market.
- Prices are hovering above 50% fibbonanci retracement level which signals bulish momentum of the market.
- Cotton price is likely to test its key immediate resistance 1041.9 breaching the same might instigae a fresh bull run.

Strategy: We can see range bound trading in between 990 to 1041.9. in upcmoing month.

| Support 2 | Support 1 | Resistance 1 | Resistance 2 |
|-----------|-----------|--------------|--------------|
| 966.5 | 990 | 1041.9 | 1086.4 |

International Markets

The United States

ICE futures are advancing on worries that sweltering weather across the US could damage crops.

Spot market rate for Color 41, Leaf 4, and Staple 34

| Date | Southeast | North Delta | South Delta | East TX/OK | West Texas | Desert SW | SJ Valley | Average |
|--------|-----------|-------------|-------------|------------|------------|-----------|-----------|---------|
| 22-Jun | 72.3 | 70.8 | 70.8 | 62.25 | 62.5 | 66.55 | 67.3 | 67.5 |
| 25-Jun | 73.51 | 72.01 | 72.01 | 63.5 | 63.75 | 67.76 | 68.51 | 68.72 |
| 26-Jun | 69.35 | 67.85 | 67.85 | 61.5 | 61.75 | 65.6 | 66.35 | 65.75 |
| 27-Jun | 68.81 | 67.31 | 67.31 | 61 | 61.25 | 65.06 | 65.81 | 65.22 |
| 28-Jun | 69.51 | 68.01 | 68.01 | 61.75 | 62 | 65.76 | 66.51 | 65.94 |

Source: USDA

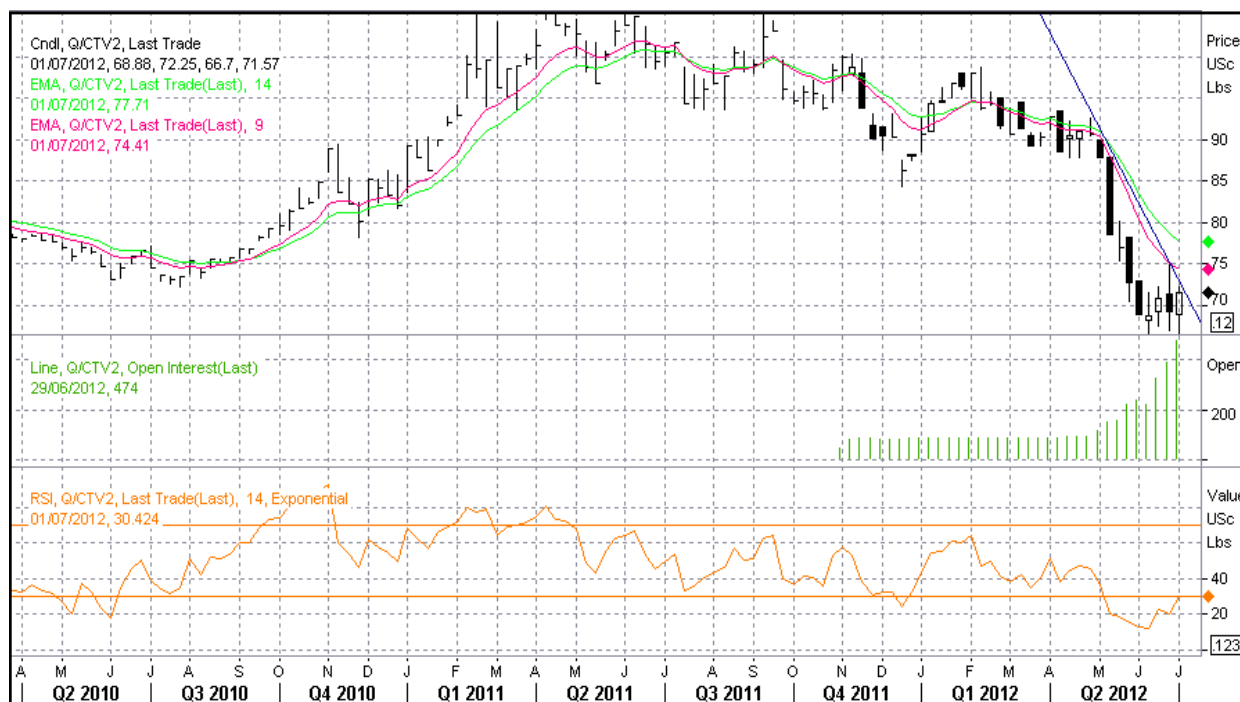
Others:-

- Cotton farmers in Tanzania are likely to suffer more losses following price fluctuations resulting from by surplus production of the crop in the world market.
- As per the market source, Pakistan's cotton production is likely to decline by 15% or around 2.2 million bales in 2012/13 after major reduction in cotton area due to water shortage and low cotton prices.
- China may reduce its cotton import almost half to 2.7 million tons in 2012/13 against a record import i.e. 5.1 million tons in 2011/12.

WASDE Report:

According to WASDE report, World ending stocks has been revised and increased by 1% to 74.5 million bales as compared to previous month as China is projected to hold 45% of the total. However, world cotton production has been forecasted down by 1.4 million bales as major growing countries like Brazil, Argentina and Australia are likely to reduce cotton area in 2012/13. Due to fall in cotton prices in 2011/12. World consumption is also declined by 1.0 million bales after a projection to decrease import by China, Thailand. The export figure of US for 2011/12 has been increased by 200,000 bales following recent strong sales and shipments however; the export for 2012/13 is forecasted lower by 200,000 bales in expectation of poor foreign demand.

Technical analysis of ICE Futures (July contract)



Oct Contract of ICE futures closed on higher side supported by buyer's activities. However, below 9 and 14 Days EMAs signify further down momentum. On the other hand, rising open Interest & prices depict market under long build up phase. Prices ranged between 66.7 to 72.2 during the week. RSI is also moving up however in oversold region hints a recovery in the market. Immediate resistance level is at 78.39 breaching this may touch 81.58 during upcoming days.

Recommendation: - Buy on dips towards 67.7 price level and book profit towards resistance level.

| Support 2 | Support 1 | Resistance 1 | Resistance 2 |
|-----------|-----------|--------------|--------------|
| 62.56 | 64.06 | 78.39 | 81.58 |

All in USc

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