

### Highlights of the Month

- ❖ The Cotton Prices closed on lower side amid excess of supply.
- ❖ There are limited stocks in the market and lack of sufficient rainfall in the growing regions will lend some support to the market in the medium –term.
- ❖ Cotton sowing has so far covered around 4.52 lakh hectares in Rajasthan as on 14th August 2012 as against 5.31 lakh hectares during the same period previous year.
- ❖ According to, Centre for Monitoring Indian Economy (CMIE) yarn production is expected to grow by 6 percent (2012-13) after falling by 5.1 percent in the previous year. Lack of sufficient rainfall in the growing regions is adding to the positive tone of the market but also weak demand is bring down markets.
- ❖ Indian cotton exports are likely to rise by 10 percent to 12.7 million bales for the current year began on 1 October 2011.
- ❖ Cotton production output is likely to be lowered by the Cotton Advisory Board (CAB) from 35.3 million bales to 34.7 million bales for October-September Season (2011-12).
- ❖ The cotton prices are likely to trade with sideways to bearish momentum in coming month in expectation of higher supplies as harvest will reach in market this month's from Gujarat and Punjab.

### Current Market Dynamics

Cotton prices traded amid steady to lower side with less buying by the domestic mills. Cotton sowing has so far covered around 4.52 lakh hectares in Rajasthan as on 14th August 2012 as against 5.31 lakh hectares during the same period previous year.

Cotton acreage has fallen from 12 million hectares in 2011-12 to 11 million hectares. But better yield could compensate that. Millers are expecting good season ahead to sell their produce in international markets on much needed support provided by the RBI on restructuring of loans on case-to-case basis. Also, due to policy regulations, Chinese mills have become uncompetitive. In which India is likely to gain maximum benefit.

After drop in demand for four months of this financial year, exports demand picked up for yarn. Exports have grown 25-30% this year compared to last year in the same period. This is due to good demand from China which comprises of 30-40% of yarn exports from India.

The government has represented total cotton production for 2011/12 at 34.7 million tonnes in its fifth advance estimates.

Government raises the textile export quota to US \$40.5 billion from earlier target of US \$38 billion. Textile ministry is in consideration to regulate the export of cotton.

## Crop Situation: -

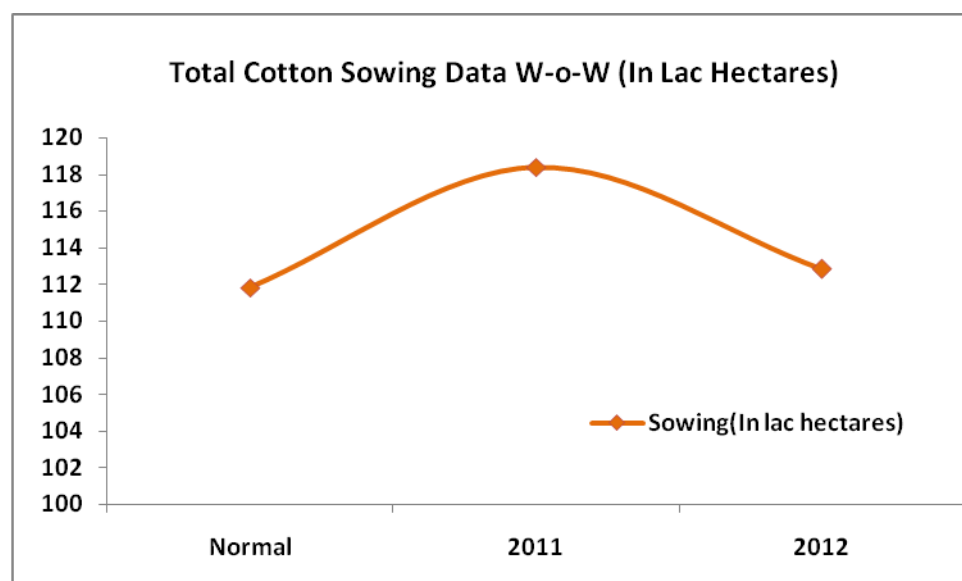
Cotton cultivation in India, the world's second-biggest producer, is likely to fall in 2012/13 from last year, as patchy rains in key growing areas and better returns from competing crops like soybeans, Guar.

Area under cotton is down by 5.54 lakh hectares to 112.83 lakh hectares as on 31<sup>st</sup> August 2012 compared to 118.37 lakh hectares during the same period last year. **Higher acreage** is reported in the states of **Andhra Pradesh** (up by 6.03 lakh ha.), **Haryana** (down by 0.82 lakh ha.), **Maharashtra** (up by 2.8 lakh ha.), **Rajasthan** (up by 0.51 lakh ha.) and **Orissa** (up by 0.42 lakh ha.) as per Ministry of Agriculture.

**Lower area** is reported in the states of **Gujarat** (down by 3.57 lakh ha.), **Madhya Pradesh** (down by 0.56 lakh ha) and **Punjab** (down by 0.31 lakh ha.) and compared to same period during previous year.

Below Figure shows sowing status of Cotton in India as on 31<sup>st</sup> August 2012

	2012-13	2011	Normal (as on date)	Normal (Corrsp. Week)
Area Sown (In Lac hectares)	112.83	118.37	111.81	106.91



Source: Ministry of Agriculture

### Monsoon Impact for Cotton Sowing Progress

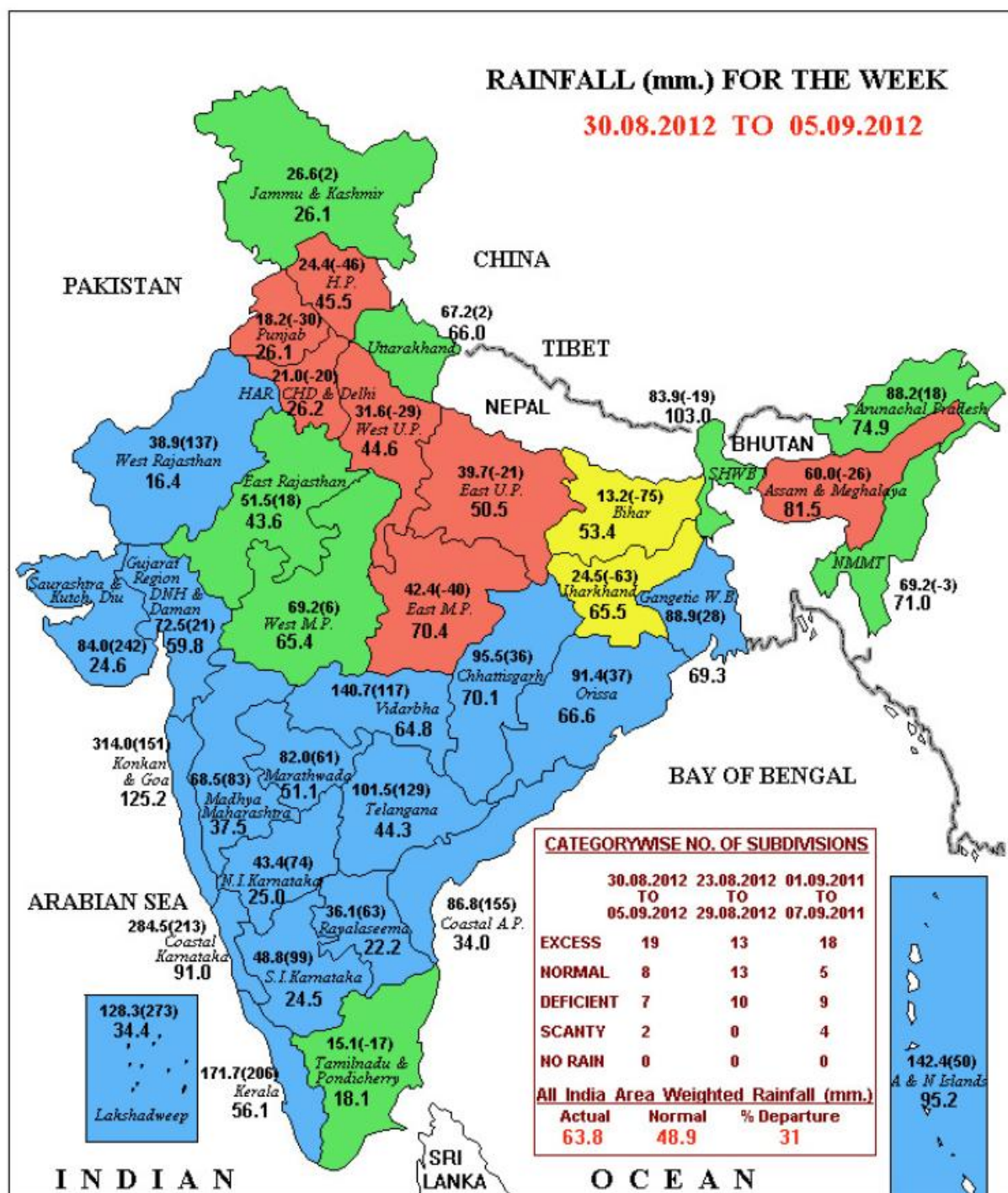
As per IMD, Due to presence of low pressure area and other embedded vortices, the monsoon trough remained active on most days of the last week, which caused active to vigorous monsoon conditions over parts of northwest India and south Peninsula. This week received the highest all India rainfall of this monsoon season so far that is 6% above long period average (LPA). As a result, seasonal rainfall country as a whole further improved by 2% as compared to previous week.

As per IMD has forecasted for first week of September month that, Wide spread rainfall would occur over west coast, Andaman & Nicobar Islands and Lakshadweep. Fairly wide spread rainfall would occur over northeastern states on many days of the week. Fairly wide spread rainfall would also occur over central India, Gujarat and Rajasthan during next two days and decrease in the middle of the week. However, the rainfall activity would again increase over Central India towards the end of the week. Scattered rainfall would occur over east India and northwest India during first half of the week which will increase in the second half. Scattered rainfall would also occur over southeast Peninsula on many days.

### Weather Watch (Weather Outlook Up to 16th September, 2012):

Rain/thundershowers would occur at many places over west coast, east & northeastern states and Andaman & Nicobar Islands. Rain/thundershowers would occur at a few places over northwest India.

Seasonal Rainfall (in mm) from 1 June-8 September, 2012			
Region	Actual	Normal	% Departure from Long Period Average
All India	700.8	768.3	-9
East & Northeast India	1034	1223	-15
Northwest India	477.6	544.4	-12
Central India	829.6	858.6	-3
South Peninsula	558.9	594.8	-6



**LEGEND:** ■ EXCESS (+20% OR MORE) ■ NORMAL (+19% TO -19%) ■ DEFICIENT (-20% TO -59%)  
■ SCANTY (-60% TO -99%) ■ NO RAIN (-100%)  NO DATA

**NOTES:**

(a) Rainfall figures are based on operational data.

(b) Small figures indicate actual rainfall (mm.), while bold figures indicate Normal rainfall (mm.)  
 Percentage Departures of Rainfall are shown in Brackets.

## Raw cotton-Import & Export Scenario

India had been actively exporting cotton, mainly to China during the first nine months of the cotton year (2011-12), but its exports have nearly halted from the end of June. Since May, Indian exports have remained almost stagnant. During October-May, 11 million bales were exported. However, since then, only one million bales were exported.

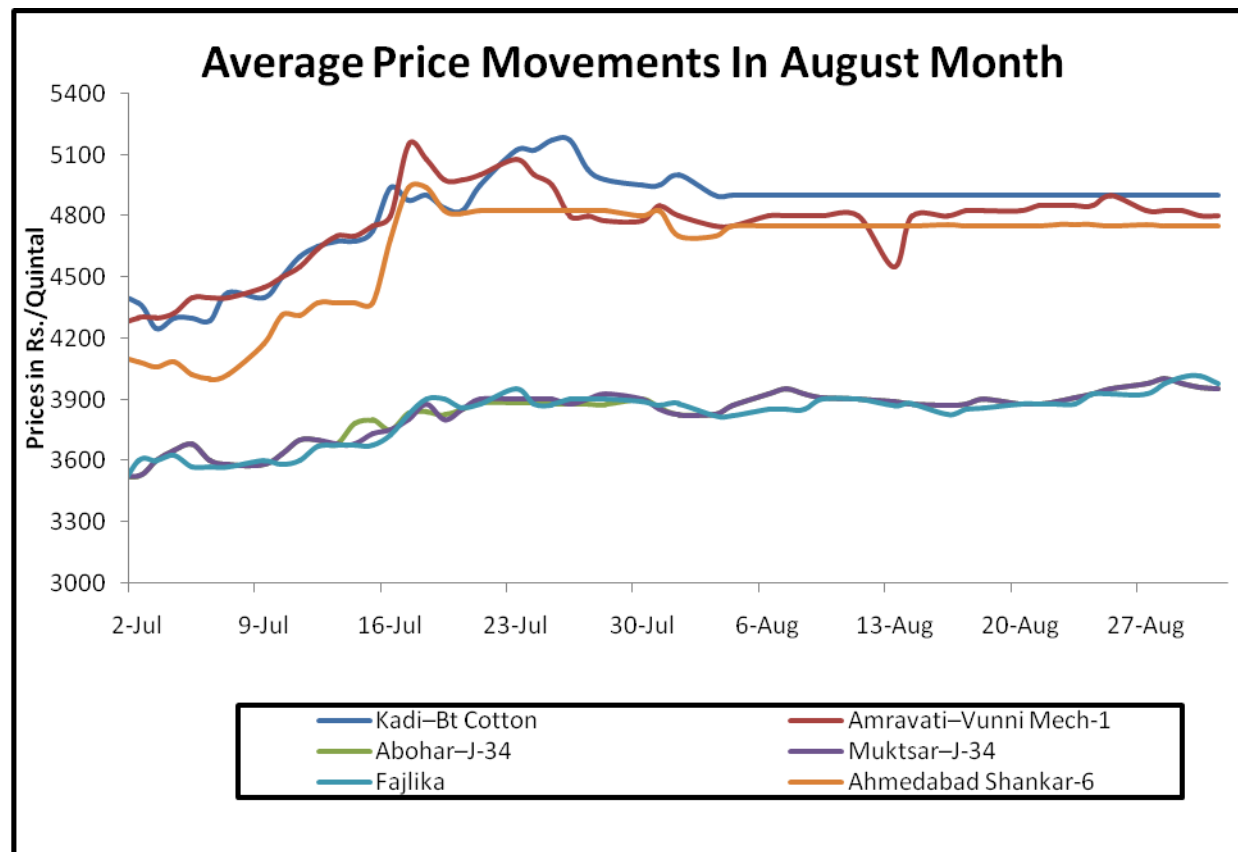
According to the Confederation of Indian Textile Industry, so far, 500,000 bales have been imported and another 100,000 bales are expected to come in from Africa by the end of September.

This season, cotton imports are expected to cross two million bales higher than previous year i. e 700,000 bales of cotton. Landed cost of imported cotton is Rs 35,000 a candy (a candy = 356 kg) of average quality, while the benchmark local variety, Shankar 6, is quoted at Rs 37,000 a candy.

## Cotton Price Performance during the June Month 2012

Average cotton prices were steady in cotton spot markets on back of lower arrivals against during August' 2012. Prices mainly remained stable in August as arrivals dried up in local markets.

Below Chart reflects July month average price movements of various markets:-



**Cotton Prices at Key Spot Markets:**

Commodity	Centre & Variety	Prices (Rs/Qtl)		% Change
		31-08-12	31-07-12	
23300Cotton	Kadi-Bt Cotton#	4800	4900-5000	-4%
	Amravati-Vunni Mech-1#	4375-4625	4850	-5%
	Ahmedabad-Shankar-6#	4750-4850	4750-4900	-1%
	Abohar-J-34*	3950	3850	3%
	Muktsar-J-34*	3950	3850	3%
	Fajlika#	3980	3870	3%

\*-Rs/maund, #-Rs.qtl

**Cotton Cumulative Arrivals in Key Centers**

Centre	Cumulative Weekly Arrivals		% Change
	Current Month 31/08/12	Previous Month 31/07/12	
Kadi -Bt Cotton	-	866	-
Amravati -Vunni Mech-1	12000	26200	-54%
Ahmedabad - Shankar-6	51000	233000	-78%
Abohar	-	1120	-
Muktsar	-	-	-
Fajlika	-	-	-
Khandwa			-

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

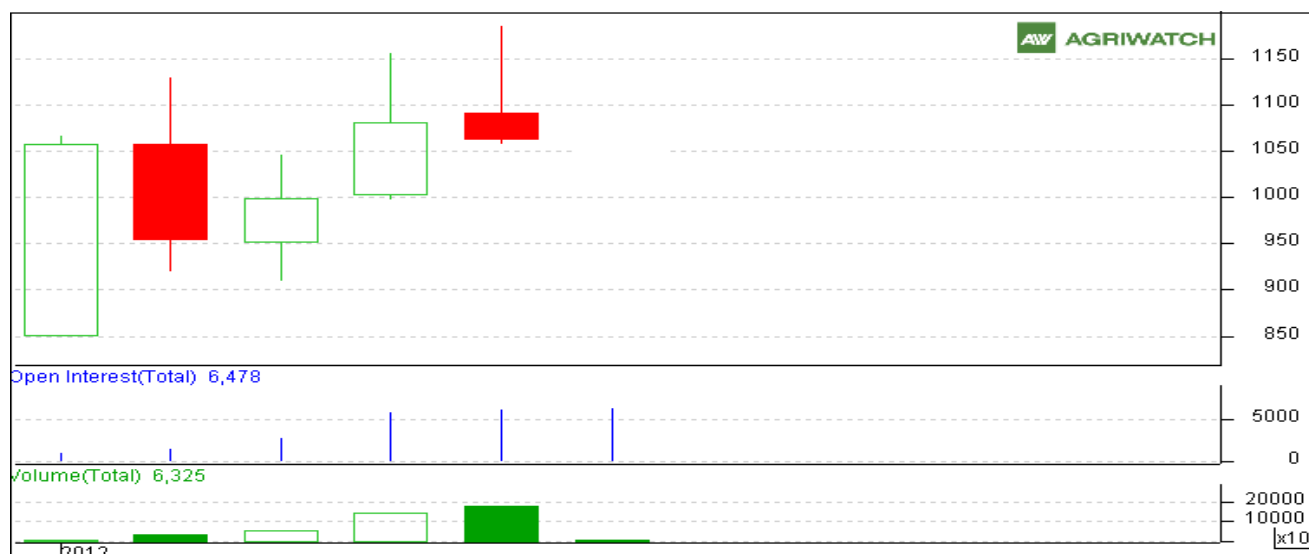
**Cotton Association of India Spot Rates:**

Trade Name	Staple	Micronaire	Strengt h/ GPT	Rs. Per Candy (31/08/2012)	Rs. Per Candy (31/07/2012)	Change
Bengal Deshi (RG)/ Assam Comilla(101)	Below 22mm	5.0 - 7.0	15	41400	42600	-3%
Bengal Deshi (SG)(201)	Below 22mm	5.0 - 7.0	15	42000	43700	-4%
J-34(202)	26mm	3.5 - 4.9	23	35200	34700	1%
H-4/ MECH- 1(105)	28mm	3.5 - 4.9	27	37100	36300	2%
Shankar- 6(105)	29mm	3.5 - 4.9	28	37800	36800	3%
Bunny/ Brahma(105)	31mm	3.5 - 4.9	30	40200	39300	2%
MCU-5/ Surabhi(106)	32mm	3.3 - 4.9	31	N.Q.	N.Q.	-
DCH-32(107)	34mm	3.0 - 3.8	33	53500	54000	-1%

**Fundamental Cotton Price Outlook for Coming Week**

We expect sideways to bearish momentum in upcoming month on back of rising arrivals expected in the market. However, cheaper international prices against domestic cotton prices of cotton have influenced spinners' mills to import more quantity of cotton from foreign markets which may cap cotton prices upper level.



**Technical Analysis of Kapas Futures April 2013 contract at NCDEX**

**Prices-Rs/20kg**

- April contract in NCDEX closed down due to dried up arrivals.
- Rising open interest & falling prices depicts market under short build up phase.
- Immediate support could be seen at 1062 crossing such level price would test second support level at 950.

Our short term outlook on the contract is bearish. We advise to go for long positions price at current price level.

**Strategy:** We advise traders to make sell call as prices are likely to fall based on fundamentals.

Support 2	Support 1	Resistance 1	Resistance 2
950	1062	1181	1190



## International Markets

### The United States

ICE futures are advancing on worries that ISSAC, storm in the US could damage crops.

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

	Fri	Mon	Tue	Wed	Thu
Market	24-Aug	27-Aug	28-Aug	29-Aug	30-Aug
SE	71.95	72.83	72.79	73.83	74.15
ND	71.70	72.58	72.04	73.08	73.40
SD	71.70	72.58	72.04	73.08	73.40
ETX	69.00	70.00	69.75	70.75	71.00
WTX	68.50	69.50	69.25	70.25	70.50
DSW	69.70	70.58	70.04	71.08	71.40
SJV	70.45	71.33	70.79	71.83	72.15
7-Mkt Avg	<b>70.43</b>	<b>71.34</b>	<b>70.96</b>	<b>71.99</b>	<b>72.29</b>

Source: USDA

- Egypt has agreed to export 2,455 metric tonne of cotton in this week. India is the largest importer of cotton from Egypt
- According to Cotton China Association, Country output is likely to fall by 4.2 percent to 6.97 million tonnes in 2012.
- There has been severe drought in Georgia which has badly affected cotton crops.
- Increase production of cotton crop in China is affecting the prices in International Markets. Prices are declining in markets internationally
- Declining demand of cotton in China is putting pressure on inventories.
- China will start selling cotton in next week to tame down the prices in domestic market.
- Damage due to hurricane Isaac in USA has drenched main cotton producing regions, which will possibly lead to decline in stockpiles. Also, cotton farmers are switching to soybean to benefit from rising grain prices.
- US markets are also taking note of likely sale of reserve stocks by China which will put downward pressure on global prices As per USDA, Us Net Upland sales of 77,800 running bales for the 2012/2013 marketing year were primarily for South Korea (24,800 RB), Taiwan (10,900 RB), China (10,800 RB), and Turkey (8,300 RB).

## 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, falling open Interest & rising depict market under short covering phase. Prices ranged between 68.86 to 76.48 during the month. RSI is also moving up however in neutral region. Immediate support level is at 70.1 breaching this may touch 65.34 during upcoming days.

Recommendation: - Buy on dips towards 70 price level and book profit towards resistance level.

Support 2	Support 1	Resistance 1	Resistance 2
63.34	70.1	77.61	81.58

All in USc

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