

Highlights of the Week

- Prices remained firm supported by firm export demand amid higher 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.
- However, production from traders has come down to 340 lakh bales from the initial 350 lakh bales due to losses expected in Tamil Nadu and A.P.

Current Market Dynamics

Cotton prices ended a tad in Gujarat, Maharashtra and North India mainly on export demand. Prices may continue to rise the next week. Cotton gained in North India on brisk mill and export demand and despite higher arrivals in the domestic markets. Arrival of cotton in terminal markets across Punjab and Haryana has picked up by almost 40 per cent in the past few days. Arrival of cotton in terminal markets across Punjab and Haryana has picked up by almost 40 per cent in the past few days.

The arrival of cotton has moved up primarily as off take by mills has improved. With mills exhausting their available stock they have entered market for fresh purchases. Arrivals also improved as producers have started realizing compensation for cotton this year would not be as high as last year, have started bringing the crop to the markets.

In addition to this, the domestic demand has started picking up for yarn. Exports offer of 30 count combed cotton yarn were placed at 3.50 dollar per kg CNF. Enquiries for yarn were seen from Bangladesh. Export demand for garments was also reported from the US, the Gulf countries and Russia. According to DGFT November yarn exports were up by 75% to 76.36 million kgs as compared to 43.69 kgs in October. Markets also improved as China imported 730,000 170 kg bales of cotton from India during November. Exports to China during December will likely be larger.

Cotton production in the 2011-12 is expected to be 340 lakh bales. However, initially traders had estimated the production to be at 356 lakh bales. The reason for the decline is that Maharashtra may produce lower this year due to a decline in yield. Consumption is likely to be below 250 lakh bales.

USDA Estimate

As per recent USDA report India's 2011/12 cotton production is now expected to reach 34.25 million 170 kg bales (26.75 million 480 lb bales), 750,000 bales lower than the previous estimate.

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.

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 chat, cotton prices are range bound but trend remained weak as prices have closed below 9 and 18-day EMAs. The M.A.C.D. is at -78.63 down from previous week's value of -46.08 and hints for an increase in bearish momentum. RSI is sideways in the neutral region and supports steady momentum. A weekly close at or above 4225 in Kadi Prices will continue to support bullish momentum. A weekly close at or above 3900 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
3950	4275	4600	4875

Expected Price range of Cotton Prices for next week

Markets	Expected Trading Band for the coming week	Expected Trend for coming week
Kadi	4350-4800	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 02/01/12	Week Ago 27/12/11
Cotton	Kadi-Bt Cotton#	-0.57	4125-4325	4100-4350
	Amravati-Vunni Mech-1#	-1.25	3800-3950	3800-4000
	Ahmedabad-Shankar-6#	1.14	4250-4400	4200-4350
	Abohar-J-34*	3.32	3570	3455
	Muktsar-J-34*	3.32	3570	3455

*-Rs/maund, #-Rs.qtl

Cotton Cumulative Arrivals in Key Centers

Centre	Arrivals		% Change
	Week Ending 02/01/12	Week Ending 27/12/11	
Kadi -Bt Cotton	3000	2900	3.44
Amravati -Vunni Mech-1	6300	5000	26
Ahmedabad - Shankar-6	285000	275000	3.63
Abohar	4750	4650	2.15
Muktsar	2450	2400	2.08

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 12 and 26-day EMAs. The M.A.C.D. is at 7.78 up from previous week's value of -2.10 and hints for an increase in bullish momentum. RSI is moving up in the neutral region and supports bullish momentum. According to the Fibonacci Retracements firm support is at 824.5 levels and unless markets breach this level, prices may find support at 824.5 levels. A weekly close at or above 851.3 will continue to send bullish signals, but a weekly close at or below 785 will turn the weekly trend down.

Support 2	Support 1	Resistance 1	Resistance 2
804.9	834.2	880.6	897.7

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

INTERNATIONAL MARKET

Cotton futures ended high this week amid talk of reduced prospective plantings in some leading producing countries last week. Cotton prices advance amid firm dollar. March had surged up the daily limit and reached a synthetic high of 92.50 cents before giving up a third of the futures gains as a robust dollar and weak commodities took a toll.

Fundamentally, Chinese prices had remained in the market. The China Cotton Index was quoted earlier in the week at 19,156 Yuan per metric ton or 136.82 cents per pound.

Prices moved higher after China's purchases to rebuild its reserves and a recent Pakistani announcement of a cotton buying program to help growers and ginneries also may have helped to underpin prices. Some domestic mills have expanded downtime for the holidays to reduce finished product inventories, reports have indicated.

Looking ahead, concerns about global economic growth prospects and the potential impact on cotton demand restrained gains in new-crop prices even as talk circulated of lower plantings in the United States, China and some other big producing countries.

Some early estimates on U.S. 2012-13 cotton plantings have ranged from a loss of a million to upwards of 2 million acres from this year, depending heavily upon weather conditions. This would suggest a range of 12.72 million to 13.72 million planted acres.

In its December crop report, USDA estimated a 2011-12 US crop of 15.83 million bales with upland production at 15.09 million bales and extra-long staple production at 737,000 bales. Harvested area was estimated at 9.85 million acres, implying a non-harvested area of 4.87 million acres based on USDA's revised June acreage report. The resulting abandonment rate is roughly 33.1%. The national average yield per harvested acre was estimated to be about 771 pounds, 51 pounds lower than the five-year average.

U.S. Cotton Crop 2011-12			
Planted Acres (000)	Harvested Acres (000)	Yield per Harvested Acre (Pound)	Production (000) of 480 POUND BALES
14,720	9,850	771	15,827

Source: USDA-NASS December Crop Production Report

ICE Futures (March 2012 Contract) Technical Analysis



As evident from the chart prices are range bound to weak as prices are below 12 and 26-day EMAs. The RSI at 43.63 and is above the last week's value at 38.31 and is supporting the bullish momentum. The M.A.C.D. at -4.36 is below last week value at -2.08 and hints for an increase in bearish momentum. A weekly close at or above 90.376 in March cotton will continue to send bullish signals. A weekly close at or below USc 82 in March Cotton will turn the weekly trend down.

Support 2	Support 1	Resistance 1	Resistance 2
85.526	88.663	93.513	95.226

All in USc/lb

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