

Highlights of the Week

- Prices remained firm supported by strong export demand as well as fresh buying interest from domestic mills emerged, against lower supplies in the market.
- Export estimates for 2011/12 is currently projected at 80 lakh bales, higher by 14.28%, from the previous years estimate at 70 lakh bales. Increasing Asian demand and consumption is aiding prospects of higher exports from India.
- However, ending stocks too are likely to increase by 65% to 78.5 million bales in 2011/12 compared to previous year's 47.5 million bales, which is likely to cap abnormal rise in prices, coupled with increased production in the current year.
- With increasing focus on grain production by government to meet the requirements for National Food Security, cotton acreage is expected to decline in the coming years, which could lead to firm cotton prices in the long term.

Current Market Dynamics

Cotton prices ended higher in Gujarat, Maharashtra and North India. Increase in price is attributed mainly to strong export demand and ginners renewed buying interest against lower supplies. Prices may continue to rise even in the next week. Cotton gained on brisk mill and export demand in major trading hubs. Arrival of cotton in terminal markets across Haryana and Gujarat has picked up almost 40% in the past few days. According to Cotton Advisory board, Cotton yield in India is likely to stay at 496 kgs per hectare like last year yield despite increasing area by 9.41% to 121.9 lakh hectares from previous year estimated at 111.42 lakh hectares.

Textile industry and cotton trading executives forecast Cotton production in 2011/12 between 32 million to 34 million bales which is down from CAB's (Cotton Advisory Board) estimate at 356 lakh bales.

Cumulative Cotton arrivals crashed to 11.95 million bales (of 170 kg each), until January 8, 2012 since harvesting began around October, compared with 14.85 million bales during previous marketing year, as per state-run Cotton Corporation of India. On account of low yields in Maharashtra and Gujarat, the Farmers are not releasing their stock in expectation of higher prices in the weeks ahead.

Export and Import Scenario

Global cotton exports estimates remain unchanged at 7.62 million tonnes for 2011/12 as per the latest data released by ICAC. However, exporters are active and continue scheduling cotton shipment. If the rupee continues to appreciate, this will directly impact exports from India. On other hand, cotton trade executives are expecting an increase in export demand from India in 2011/12 driven by increase in Chinese imports. China is continuously buying cotton to boost its national reserves further and likely to end up buying around 3.3 million metric tonnes for the year ending July 31, as projected by International Cotton Advisory Committee.

Weather and Crop Condition

Moisture stress may adversely affect on the standing crop of cotton in Andhra Pradesh and Maharashtra. However, dry weather in southern and central zone may support standing crop and cotton picking activities. Recent winter rains and low temperatures in the Northern India is also causing concern in respect of the standing crop.

Comparison of Cotton Production and Estimated arrivals in India

Arrivals have been reported lower by 19.5% and stood at 119.5 lakh bales as on 8th Jan 2011/12 compared to the total arrivals of 148.5 lakh bales in the corresponding period of last year. All the key states have reported fall in arrivals e as on 8th Jan 2011/12 except Haryana where arrivals stood at 8.53 lakh bales against last year arrivals at 8.08 lakh bales (up 5.57%).

States	Arrivals as on 08-01-12	Arrivals in same period last year	% Change
Gujarat	38.74	49.13	-21.15
Maharashtra	20.82	35.32	-41.05
Andhra Pradesh	19	23.56	-19.35
Punjab	8.98	11.1	-19.10
Haryana	8.53	8.08	5.57
All Over India	119.5	148.51	-19.53

Arrivals in lakh bales

Total daily arrivals are in between 2,20,000 to 2,25,000 lower from the arrivals recorded as 2,35,000 to 2,40,000 lakh bales in corresponding period of last year attributed mainly to holding of stocks by producers in expectation of higher prices.

On other hand, CCI has started to buy Kapas at set Minimum Support Price (MSP) of 28000 and 33000 per quintal. CCI said that they have to procure at least 20 lakh bags of Kapas to replenish its reserve against previous year's total stock of 13 lakh bags. However, Farmers are not much interested to sell their stocks at prevailing MSP to CCI as they are getting better prices in local mandis where spot prices moved up 7.7% in the last 20 days.

Fundamental Cotton Price Outlook for Coming Week

Cotton prices are expected to be firm due to decreasing new crop arrivals 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 under consolidation phase. However, formation of bullish engulfing pattern suggests that prices may move up from these levels. Immediate resistance can be seen at around 4858 level breaching above the same would take prices towards 5700 level. Other indicators like RSI and EMAs further supports for a firm market ahead.

Strategy: Buy on dips or above the immediate resistance level of 4858.

Support and Resistance:

Support 2	Support 1	Resistance 1	Resistance 2
3783	4220	4858	5700

Expected Price range of Cotton Prices for next week

Markets	Expected Trading Band for the coming week	Expected Trend for coming week
Kadi	4858-5500	Up

Prices-Rs/quintal Kadi prices- Bt quality

Cotton Prices at Key Spot Markets:

Commodity	Centre & Variety	% Change Over Previous Week	Current 16/01/12	Week Ago 02/01/12
Cotton	Kadi-Bt Cotton#	10	4300-4750	4125-4325
	Amravati-Vunni Mech-1#	6	4200	3800-3950
	Ahmedabad-Shankar-6#	5	4500-4600	4250-4400
	Abohar-J-34*	11	3950	3570

	Muktsar-J-34*	11	3950	3570
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*-Rs/maund, #-Rs.qtl

Cotton Cumulative Arrivals in Key Centers

Centre	Arrivals		% Change
	Week Ending 16/01/12	Week Ending 02/01/12	
Kadi –Bt Cotton	350	3000	-88
Amravati –Vunni Mech-1	800	6300	-87
Ahmedabad – Shankar-6	60000	285000	-79
Abohar	450	4750	-91
Muktsar	200	2450	-92

Kadi-1 Truck, Amravati- Bags, Ahmedabad, Abohar and Muktsar-Bales

Technical Analysis of Cotton Futures April 2012 contract at NCDEX



Prices-Rs/20kg

As evident from the chart, prices are at new contracts high and 947 level is acting as of good support level. Weekly close above the mentioned support level (947) would further take the prices higher. Other indicators like RSI, EMAs and MACD also suggest for a firm market ahead.

Support 2	Support 1	Resistance 1	Resistance 2
930	947	985	1000

Expected Price range of Cotton Prices for next week

Markets	Expected Trading Band for the coming week	Expected Trend for coming week
NCDEX	947-1000	Up

INTERNATIONAL MARKET

Cotton prices advance amid firm dollar. March had surged up the daily limit and reached a synthetic high of 97.08 cents before giving up a third of the futures gains as a robust dollar and weak commodities took a toll.

Industry participants in U.S. are expecting 8% lower cotton sowing area in 2012 in U.S.A. They estimated 12 million to 13.5 million acres (4.9-5.5million hectares) from the previous year's sowing i.e.14.72 million acres. While cotton production in China and Pakistan are expected to increase to 7.25 million tonnes and 2.27 million tonnes in 2011/12 due to better weather conditions compared to 6.40 and 1.91 million tonnes respectively reported in previous year 2010/2011 as per ICAC.

However, world cotton output is likely to increase around 8 % to 26.8 million tonnes in 2011/12 against total consumption which is expected to decline by 2.9% to 23.9 million tonnes against last year's record at 24.5 million tonnes, as recently estimated by International Cotton Advisory Committee. This view is contradicted by cotton analysts as consumption in Asia is expected to increase both on account of domestic and export demand.

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.

ICE Futures (March 2012 Contract) Technical Analysis



As evident from the chart prices are range bound to firm as prices are above 9 and 18-day EMAs. The RSI at 69.70 and is above the last week's value at 43.63 and is supporting the bullish momentum. The M.A.C.D. at 69.70 is above last week value at -4.36 and hints for an increase in bullish momentum. A weekly close at or above 95.85 in March cotton will continue to send bullish signals. A weekly close at or below USc 93.30 or support 2 in March Cotton will turn the weekly trend down.

Support 2	Support 1	Resistance 1	Resistance 2
93.30	94.91	97.73	98.40

All in US\$/lb

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