

Highlights of the Week

- Mostly weak sentiments featured in the key cash markets of cotton during this week due to sluggish buying activities of domestic users and exporters as they are expecting a correction in the cotton spot market.
- The Cotton Board of Advisory has estimated India export at 84 lakh bales as on 24th Jan 2011/12 higher by 23.52% from the previous year export registered at 68 lakh bales, which may help cotton price to firm up in the long run.
- As per CAB report, carryover stocks has increased by 14.49% to 55.3 lakh bales in 2011/12 compared to last year recorded at 48.3 lakh bales, which may restrict firmness in the market.

Current Market Dynamics

Lack luster trade could be seen as local traders seem to be waiting for correction in the spot market on account of recent fall in cotton prices. Cotton arrivals in India which were lower during Jan first week are now starts picking up. As on 24th Jan 2012 cumulative arrivals from different states were 155.09 lakh bales which are down by 15.27% compared to the total arrivals of 183.06 lakh bales in the corresponding period last year. Lower arrivals y-o-y should keep domestic cotton prices on an encouraging note moving forward. However, weekly arrivals in all the key markets have been reported up compared to the previous week.

Exporters/mills who were seen active in buying cotton last week are now taking cautious approach at these price levels. This resulted in marginal decline in demand due to lack of aggressive buying. Moving forward we expect cotton demand to stay stable as exporters need to adhere with their shipments during Jan end and Feb.

At the current stage the International Cotton Advisory Committee had cut global production estimates by nearly seven per cent to 24.9 million tonnes (MT) for the 12 months ending July from 26.8 MT a year earlier. Following this, the US agriculture department had also cut world cotton output estimates and said India would also produce less this season. It had said India's output will be lower to 34.25 million bales from the earlier estimate of 35 million bales.

At a meeting on 24th Jan, the Cotton Advisory Board (CAB) has estimated mill consumption lower to 216 lakh bales compared to previous year 220 lakh bales; however they are in view that mill consumption may rise and expected to touch 240 lakh bales this year against the earlier estimate of 230 lakh bales. In concern of total consumption of India is estimated slightly down by 2.62% to 260 lakh bales from the previous year domestic consumption at 267 lakh bales. On other hand, CAB has estimated 84 lakh bales of total India Export as on 24th Jan 2012 which is higher from last year export i.e. 68 lakh bales. On other hand carry forward stocks has been reported higher to 55.30 lakh bales from the previous year record i.e. 48.30 lakh bales.

Quantity in lakh bales of 170 kgs each

Item	2011-2012 (Provisional)*	2010-2011
Opening Stock	48.30	40.50
Crop Size	345	339
Imports	6.00	5.00
Total Availability	399.30	384.50
Mill Consumption	216.00	220.70
Small Mill Consumption	24.00	24.70
Non- Mill Consumption	20.00	22.00
Total Consumption	260	267.40
Exports	84.00	68.80
Total Disappearance	344.00	336.20
Carry Forward	55.30	48.30

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

Export and Import Scenario

Active participation of the exporters is expected to commence in near-term to meet their export obligation. The rise in consumption, at a time when the total output is expected to decline, signals that cotton prices would remain firm, especially because even exports are pegged higher this year. The estimate for export has also been raised to 8.4 million bales, from eight million bales earlier.

AEPC data show that exports to Russia would grow at 30-40 per cent over the next two years. Expectations are that exports to Russia would touch \$170 million (Rs 871crores) in 12-24 months.

According to AEPC, Japanese demand also has helped Indian garment exports, which rose to 4.4 per cent last year after a 2.1 per cent drop the previous year. Data trend followed the February free-trade agreement that removed tariffs on several items, including clothing. Increasing Export demand may lead cotton prices in long run.

Comparison of Cotton Production and Estimated arrivals in India

Total arrivals of India fell by 15.27% and stood as on 24th Jan 2011/12 at 155.09 lakh bales compared to the total arrivals of 183.06 lakh bales in the corresponding period last year. Key states like Gujarat, Maharashtra Andhra Pradesh including others states reported a decline in arrivals.

(Quantity in lakh bales of 170 kgs)

State	Production 24/01/2012	Arrivals * As on 24-01-2012	Production 24/01/2012	Arrivals As on 24-01-2011
Gujarat	114	49.19	103	59.5
Maharashtra	69	29.80	82	46.30
Andhra Pradesh	48	25.47	53	28.52
Madhya Pradesh	17	9.88	17	9.88
Punjab	17	10.32	16	12.95
All over India	345	155.02	339	183.06

Data as per CAB

Fundamental Cotton Price Outlook for Coming Week

Cotton prices at domestic centers are expected to stay range bound with weak for short term. However, it may find buying support at lower quotes due to expectation of lower arrivals and possibility of renewed Chinese buying. Keeping in view recent slow in demand cotton prices might see some decline. However, robust international demand and crop threat in Latin American nations might keep medium term price outlook firm.

Cotton Spot Prices (Kadi Market) Technical Analysis



As evident from the above chart, cotton prices are indicating towards short build up phase. Immediate resistance can be seen at around 5041 level breaching above the same would take prices towards 5402 level. Other indicators like RSI and EMAs further supports for a firm market ahead.

Strategy: Buy on dips at the price level 4500 or towards the mentioned support levels.

Support and Resistance:

Support 2	Support 1	Resistance 1	Resistance 2
3957	4454	5041	5402

Expected Price range of Cotton Prices for next week

Markets	Expected Trading Band for the coming week	Expected Trend for coming week
Kadi	4500-4550	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 21/01/12	Week Ago 09/01/12
Cotton	Kadi-Bt Cotton#	-25	4675	4700
	Amravati-Vunni Mech-1#	Unch	4200	4200
	Ahmedabad-Shankar-6#	-125	4500	4625
	Abohar-J-34*	-140	3800	3940
	Muktsar-J-34*	-30	3820	3850

*-Rs/maund, #-Rs. qtl

Cotton Cumulative Arrivals in Key Centers

Centre	Arrivals		Change
	Week Ending 21/01/12	Week Ending 09/01/12	
Kadi -Bt Cotton	2550	1850	700
Amravati -Vunni Mech-1	17300	5600	11700
Ahmedabad - Shankar-6	370000	295000	75000
Abohar	3700	3150	550
Muktsar	1960	1420	540

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, cotton prices are indicating towards short build up phase. RSI is moving in neutral region indicating that correction could be seen. However, 9 and 18- day EMAs closed up and hints bullish trend in the market. Immediate resistance can be seen at around 1016 level breaching above the same would take prices towards 1034 level.

Strategy: Buy on dips at the price level 870 or towards the mentioned support levels.

Support and Resistance:

Support 2	Support 1	Resistance 1	Resistance 2
804	848	1016	1034

Expected Price range of Cotton Prices for next week

Markets	Expected Trading Band for the coming week	Expected Trend for coming week
NCDEX	870-875	Range bound to firm

INTERNATIONAL MARKET

Cotton prices advanced amid rising global cotton demand. Chinese buying is expected during the week as well before the Chinese Lunar Year to cover most of their requirement for Feb. This is expected to lend underlying support to the cotton prices at global front.

The China Cotton Association said that China's cotton planting area in 2012 is likely to fall 10.5 percent from last year because of reduced profits because cost of cotton production is higher for Farmers.

Local cotton prices are mostly supported by government purchases, which totalled 2.47 million tonnes as of Monday from September. It said farmers were uncertain about future pricing, and the actual area would be subject to change along with the government's new purchase price policy and cotton prices after the Lunar New Year.

On other hand, Cotton production in Pakistan is set to reach record production levels and is likely to surpass 14.27 million bales despite flood damage in the Sindh Province. This results into decline in cotton prices in Pakistan for last couple of week and pose stiff competition to the Indian exporters. As per trade sources importers are now start mulling towards Pakistani due to competitive prices. The same might divert some demand from India to Pakistan (Karachi spot market) during coming couple of days.

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 is at 63.86 and is below the last week's value 69.70 and is indicating the bearish momentum. However, 9 and 18-day EMAs closed up and hints a bullish trend in the market. Immediate resistance can be seen at around 101.2 level; breaching above the same would take prices towards 102.6 level. A weekly close below 95 can change the weekly trend of the market.

Support 2	Support 1	Resistance 1	Resistance 2
95.08	96.34	101.2	102.6

All in US\$/lb

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