

Highlights of the Week

- Lack luster trade can be seen in different spot market during this week due to tepid buying as domestic users and exporters are expecting a correction in the cotton spot market.
- Government recently release 2nd advance estimate of cotton production. Production of cotton is estimated at 34.09 million bales of 170 kg. Bales.
- Maharashtra one of the major cotton growing state reported lower yield at 355 kgs per hectares.

Current Market Dynamics

Steady to weak sentiments featured in overall key market of cotton at the end of week 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. Lower arrivals y-o-y should keep domestic cotton prices on an encouraging note moving forward. Cotton prices at domestic centers are expected to stay range bound to 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.

Maharashtra has lowest yield at 355 kgs per hectare and Karnataka yield is 322 kg a hectare, released in the recent data of Cotton Corporation of India. According to Hirani, a yield of at least 5-6 quintals per acre is needed for the farmer to turn a profit. The state government is planning to increase minimum support price to support farmers.

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.

Government recently release 2nd advance estimate of cotton production. Production of cotton is estimated at 34.09 million bales (of 170 kg. bales). Higher cotton production estimates ensures better supply during current marketing year. However, growers may not be interested to sell cotton at subdued price levels negating any major price decline.

The cotton advisory board expects 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. CAB said mills had reported a renewed demand for cotton.

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.

Fundamental Cotton Price Outlook for Coming Week

Concisely prices might correct for short term due to lukewarm buying interest. However, higher domestic consumption and anticipation of higher export during 2012 might keep medium to long term fundamentals on encouraging note.

Cotton Spot Prices (Kadi Market) Technical Analysis



Candlestick pattern shows range bound movement. We can expect that price may trade in between range 4500 to 4700 Rs. RSI is moving down in neutral region hints a sideways momentum in medium term. However, 9 and 18- day EMAs closed up and hints bullish trend in the market. Immediate resistance can be seen at around 4766 level breaching above the same would take prices towards 4833 level.

Strategy: Sell on rise at the price level 4700 or towards the mentioned resistance levels.

Support and Resistance:

Support 2	Support 1	Resistance 1	Resistance 2
4383	4466	4766	4833

Expected Price range of Cotton Prices for next week

Markets	Expected Trading Band for the coming week	Expected Trend for coming week
Kadi	4500-4700	Steady to weak

Prices-Rs/quintal Kadi prices- Bt quality

Cotton Prices at Key Spot Markets:

Commodity	Centre & Variety	% Change Over Previous Week	Current 28/01/12	Week Ago 21/01/12
Cotton	Kadi-Bt Cotton#	-2	4600	4675
	Amravati-Vunni Mech-1#	Unch	4200	4200
	Ahmedabad-Shankar-6#	-1	4450	4500
	Abohar-J-34*	-1	3760	3800
	Muktsar-J-34*	-2	3760	3820

*-Rs/maund, #-Rs.qtl

Cotton Cumulative Arrivals in Key Centers

Centre	Arrivals		% Change
	Week Ending 28/01/12	Week Ending 21/01/12	
Kadi -Bt Cotton	2110	2550	-17
Amravati -Vunni Mech-1	27000	17300	56
Ahmedabad - Shankar-6	305000	370000	-18
Abohar	4100	3700	11
Muktsar	1950	1960	-1

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

Candlestick pattern shows bearish momentum in the market. Rising open interest and falling price indicate market behavior towards short build up phase means short sellers are entering in the market. We can expect that price may trade in between range 4500 to 4700 Rs. RSI is moving up in neutral region hints a sideways momentum in medium term. However, 9 and 18- day EMAs closed up and hints bullish trend in the market. Immediate resistance can be seen at around 926 level breaching above the same would take prices towards 955 level.

Strategy: Sell on rise at the price level 918 or towards the mentioned resistance levels.

Support and Resistance:

Support 2	Support 1	Resistance 1	Resistance 2
821	859	926	955

Expected Price range of Cotton Prices for next week

Markets	Expected Trading Band for the coming week	Expected Trend for coming week
NCDEX	870-920	Steady to weak

INTERNATIONAL MARKET

Cotton prices ended down amid dull trade activity. On other hand, Pakistan Cotton Ginners' Association reported total seed-cotton arrivals up by 19.23% at 12.829 million bales vs 10.760 million bales same time (30th Jan) in last season. In Punjab province arrivals are reported higher by 44.44 percent at 10.312 million bales and in Sindh lower by 30.48 percent at 2.517 million bales. 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.

As per a survey conducted by Chinese National Cotton Market Monitoring System (NCMMS) cotton area for 2012 would decline significantly. The agency conducted a survey to know the planting intentions. Survey results show that planting area to decline by 8.2% compared to previous year. However, actual Chinese cotton planting acreage would be clear after March and any major decline in area may lead to subsequent lower Chinese production. 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.

ICE Futures (March 2012 Contract) Technical Analysis



Chart depicts bearish momentum in the market. Relatively, 9 and 18-day EMAs are also down hints bearish signals. The RSI is continuing coming down in neutral region hints a sideways momentum. Immediate resistance can be seen at around 95.83 level breaching above the same would take prices towards 97.05 level. A weekly closed below 92 can change the weekly trend of the market.

Support 2	Support 1	Resistance 1	Resistance 2
92.56	92.81	95.83	97.05

All in USc/lb

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