

Highlights of the Week

- Looking at the present poor demand, market is likely to continue with sluggish trend, except for occasional correction domestically. However ginners are waiting for the prices turn attractive to enter the market.
- Any upward movement in prices is likely to result in stockists/sellers unloading stocks.
- 2nd Advance Estimates released by the government placed current year's cotton production in India at 340 lakh (34 million) bales against an earlier estimate of 345 lakh bales, which is still higher compared to 330 lakh (33 million) bales in the previous year.
- As on 20th February, 2012, total arrivals in India stood at 21.33 million bales compared to 22.46 million bales during the corresponding period 2011 (Oct-Feb).
- India drags Turkey and Egypt to WTO for protective duties on cotton import.

Current Market Dynamics

Cotton prices dropped between 2 to 4 percent during the week reflecting overall sluggish sentiments and lack of buyers' interest at the current levels. However this temporary phase is expected to recover as the prices reach attractive levels for the buyers coupled with gradual recovery in export demand for Indian cotton in global markets.

Given the weak prices arrivals too continue to lag behind, as farmers tend to hold back stocks in anticipation of better prices.

On the production side both government and CAB have reduced their estimates at 34 million and 34.5 million bales respectively, which although reflects a drop from the earlier estimates, but still higher than last year's production.

Export and Import Scenario

Yarn export is lower by 4.65% at 79.14 million kgs during the month of January'12 against December'11 at 83 million kgs.

India is facing tough competition from Pakistan for lint, as Pak prices are cheapest in the world. This has resulted in diversion of demand from India to Pakistan.

While EU bailout package for Greece is expected to revive demand from this region, the revival will be slow given the overall economic situation in Europe.

In this backdrop, if India is able to achieve the CAB's revised estimate of 8.4 million bales in the current year, it will still be a commendable performance on the face of growing competition and uncertain demand across the globe.

According to the Export Promotion Council for Handicrafts (EPCH) Indian handicrafts exports are rising at an annual rate of 24 percent, the country's handicraft exports reached US\$ 178 million in January 2012.

Usually, around 70 percent of India's handicraft exports are destined towards the EU and the US. However, the demand from European markets was less than normal owing to slow economic growth in those countries. On the positive side, export demand is likely to pick up in this quarter, as exports usually pick up during January-March quarter helping the country to achieve the yearly targets.

Globally lower production prospects in Paraguay and Argentina is not likely to impact the prices adversely, as Chinese buying has already slowed down and any drop in production in these countries will be more than offset by lower global demand in the current year.

Weak economic data from EU and China, coupled with sluggish demand from consuming countries is expected to limit upside in cotton prices in the near term.

March futures in ICE have dropped from a peak of 111 cents on September 15, 2011 to close at 87.48 cents on February 24, 2012, which speaks about the global sentiments in cotton prices.

According to some rumors Chinese buying for strategic reserve is being suspended and any fresh buying will emerge only when global prices soften significantly to around 70 cts per lb.



USDA recently pegged upland cotton area for 2012-12 planting season to 13 million acres, up by 1 million acres from previous estimates. However USDA projection is lower compared to National Cotton Council's estimates of 13.6 million acres. National Council forecast includes mid-land and low- land cotton as well. Higher acreage estimates for the coming planting season shall ensure better supply of cotton from US and should add to the global supply especially when the supply is more this year compared to demand. This would keep ICE futures under pressure for short to medium term.

Summing up the emerging situation globally, the upside is very limited and we expect strong selling pressing with every rise in global markets. However, downside correction is seen till futures reach 70 cts/lb levels according to global analysts.

On the domestic front, increasing production and strong competition from Pakistan is the foremost challenge in keeping India's position and achieving the targets.

On the crop research front, there is a pressing need to develop BT varieties in short staple cotton to reduce dependence on imports. It is time to focus on planning production based on domestic needs and export potential. This will go a long way in moving forward in the right direction.

Cotton Arrivals State-wise

Compared to last week, pace of arrivals have shown a slight recovery. However total arrivals still continue to lag behind last year. As on 20th Feb 2012, total arrivals in India have been placed at 213.37 lakh bales down by 5.03% compared to last year's arrivals at 224.67 lakh bales, as farmers continue to wait for better price.

The following table shows the comparative arrivals status as on 20/02/12:-

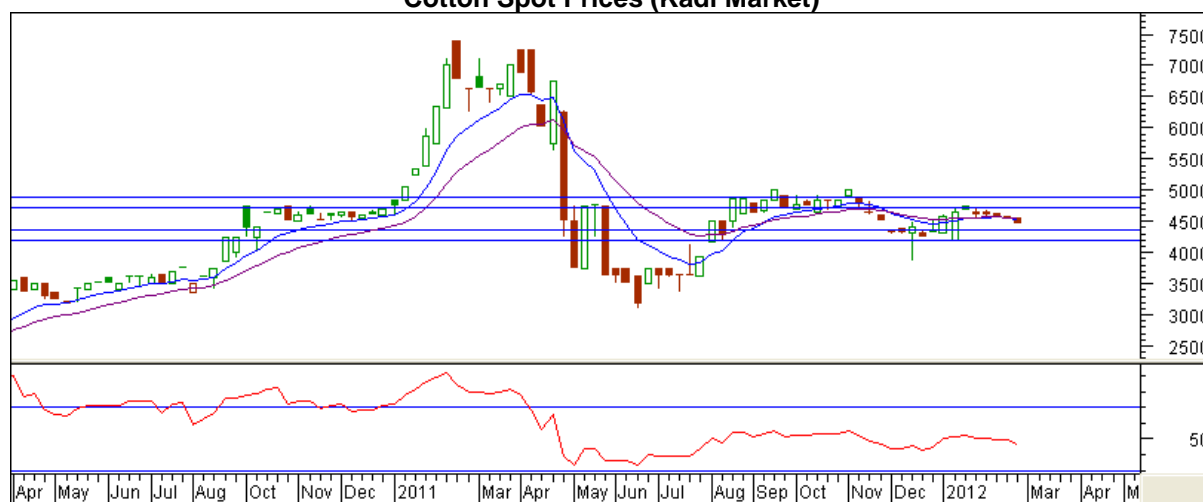
States			%change of Arrivals
	Arrivals* As on 20-02-2012	Arrivals As on 20-02-2011	
Gujarat	67.58	72.90	-7.3
Maharashtra	43.72	57.30	-23.7
Andhra Pradesh	37.05	34.83	6.37
Punjab	12.98	14.85	-12.6
Haryana	14.05	11.78	19.27
Madhya Pradesh	13.38	12.60	6.37
Rajasthan	11.96	8.70	37.47
Karnataka	7.43	6.14	21.0
Total In India	213.37	224.67	-5.03

Source: The cotton Advisory Board, Quantity in lakh bales

Fundamental Cotton Price Outlook for Coming Week

Cotton prices are expected to be range bound with weak bias in the coming week as mills and exporters are slowing down their buying. However, anticipation of higher export possibilities with declining global prices is expected to support market in medium to long term.

Technical Analysis Cotton Spot Prices (Kadi Market)



- Prices enter into a brief sideways consolidative phase and is likely to test its key support zone near 4200-4365/Qtl.
- Technical buying is expected near its support zone which might lead the prices to improve near 4500-4600. Any further surge might lead the prices to test towards its key resistance zone of 4720 to 4885.
- This indicates sideways consolidative phase is likely to stay intact for coming couple of weeks.
- RSI stays flat further supporting sideways price movement.

Strategy: Buying towards support is desirable and one should start liquidating the physical stocks near 4500-4600.

Support and Resistance:

Support 2	Support 1	Resistance 1	Resistance 2
4200	4365	4720	4885

Expected Price range of Cotton Prices for next week

Markets	Expected Trading Band for the coming week	Expected Trend for coming week
Kadi	4500-4600	Sideways

Prices-Rs/quintal Kadi prices- Bt quality

Cotton Prices at Key Spot Markets:

Commodity	Centre & Variety	% Change Over Previous Week	Current Week 23/02/12	Previous Week 16/02/12
Cotton	Kadi-Bt Cotton#	-2%	4450	4550
	Amravati-Vunni Mech-1#	-2%	3950	4025*
	Ahmedabad-Shankar-6#	-2%	4300	4400
	Abohar-J-34*	-4%	3585	3750
	Muktsar-J-34*	-4%	3590	3750

*-Rs/maund, #-Rs.qtl *prices as on 17th Feb

Cotton Cumulative Arrivals in Key Centers

Centre	Arrivals		% Change
	Week Ending 23/02/12	Week Ending 16/02/12	
Kadi –Bt Cotton	1900	1900	0%
Amravati –Vunni Mech-1	25000	25000	0%
Ahmedabad – Shankar-6	345000	345000	0%
Abohar	3450	3450	0%
Muktsar	1700	1700	0%

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

Technical Analysis of Cotton Futures April 2012 contract at NCDEX

Prices-Rs/20kg

- Kapas futures (April Contract) fail to sustain at higher levels during early gains and decline to test its key support zone near 838 - 855. Prices extended its sideways consolidative phase.
- Technical bounce is expected towards its support which might bring the prices 895 for short term. However closing below the support zone may results into sharp fall towards 775.
- Divergence stays intact in the contract chart indicating prices to face strong resistance in case of near term gain.

Strategy: Sell on rise in the range of 895-900 and cover short position near 855.

Support and Resistance:

Support 2	Support 1	Resistance 1	Resistance 2
838	855	910	925

Expected Price range of Cotton Prices for next week

Markets	Expected Trading Band for the coming week	Expected Trend for coming week
NCDEX	850-920	Sideways

The following table shows the world supply and demand status of 2011/12 Vs 2010/2011:-

World Supply & Demand 2010/11 & 2011/12						
Year	2010/11 (Estimated)	2011/12 (Projected)		2010/11 (Estimated)	2011/12 (Projected)	
Region	World		%Change	United States		%Change
Beginning Stocks	45.29	46.99	3.75	2.95	2.6	-11.86
Production	116.46	123.34	5.91	18.1	15.67	-13.43
Import	35.69	37.42	4.85	0.01	0.01	Unch
Domestic Use	114.64	109.71	-4.30	3.9	3.5	-10.26
Export	35.75	37.42	4.67	14.38	11	-23.50
Ending Stocks	46.99	60.77	3.75	2.6	3.8	46.15

Source: USDA & Units in million 480-Pound bales

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