

Highlights of the Week

- Mixed sentiments featured in the cotton spot market during this week as poor demand prevailed amongst domestic millers due to lower profit margin.
- As on 28th February 2012, total arrivals in India stood at 223.43 lakh bales against 233.84 lakh bales in the corresponding period in 2011.
- India banned raw cotton export on March 5th, adversely affecting cotton prices. However, the decision is under review by a Group of Ministers after strong opposition to the ban. The Prime Minister has asked for a final decision to be taken urgently.
- ICAC has lowered its projection of global cotton production to 24.9 million tonnes in 2012/13 against 26.78 million tonnes in 2011/12.

Current Market Dynamics

During this week, cotton traded with mixed tone due to ups and down in supply and demand in the market. As per market reports, some of the small and economically weak farmers are releasing their stocks due to their limited holding capacity, which has led to higher arrivals in few markets like Amravati compared to previous week. However, big farmers are still not keen to sell off their stock as they continue to expect higher price in future. The Cotton Corporation of India (CCI) revealed that millers have already procured stocks for 2 months use. Therefore millers are not aggressive buyers at this stage. Textile and yarn demand is comparatively very slow and as a result, cotton price remains under pressure.

Meanwhile, the export ban is the main price determining factor in the short term. The Commerce Ministry had banned cotton exports on the evening of Monday, March 5 on the grounds of increasing domestic market availability. However the ban immediately ran into strong opposition from the Agriculture Minister, a key ally of the coalition government, who said that farmers would be adversely affected. The decision was referred to a Group of Ministers for a resolution. The Prime Minister called for an urgent review of the ban in the afternoon of March 7th. Given the strong opposition to the ban, we expect that there might be at least a partial reversal of the export ban.

Until the issue is resolved, we expect domestic cotton prices to remain volatile. If the ban is revoked, prices might recover some of their recent losses, but given the dull demand in the domestic market, prices are not likely to rise substantially. If the ban is not revoked, prices will remain under pressure.

Cotton Arrivals

As on date, total 30% to 40% stocks are remaining in hands of farmers. Cumulative cotton arrivals have dropped down by 4.45% to 223.45 lakh bales against 233.84 lakh bales on a year-on-year

basis. However, some of the key market in Andhra Pradesh, Haryana, Rajasthan, Madhya Pradesh and Karnataka reported higher arrivals as shown in the table below.

Comparison of Arrivals 2011/12 Vs 2010/11

States	2011-12		2010-11		%change of Arrivals
	Production as per CAB 24/01/2012	Arrivals* As on 26-02-2012	Production as per CAB 24/01/2012	Arrivals As on 26-02-2011	
India	345.1	223.43	339.1	233.84	-4.45
Gujarat	117.2	70.98	106.2	76.37	-7.06
Maharashtra	74.75	46.27	87.75	60.42	-23.42
Andhra Pradesh	54.5	38.6	59.5	35.58	8.49
Haryana	20	14.57	17	12.11	20.31
Punjab	19.5	13.55	18.5	15.14	-10.50
Madhya Pradesh	17.7	13.94	17.7	12.96	7.56
Rajasthan	17.1	12.4	10.1	8.9	39.33
Karnataka	13.1	7.6	11.1	6.31	20.44
India	345.1	223.43	339.1	233.84	-4.45

Source: CAB (Quantity in lakh bales)

Export and Import Scenario

India has so far already exported 85 lakh bales (1 bale = 170kg) compared to 66 lakh bales exported in marketing year 2010-11. China has been the dominant buyer of Indian cotton. The coming days are likely to see a final decision being taken by the Group of Ministers reviewing the cotton export ban. Until the ban was announced, exports were compensating for weak domestic demand.

Fundamental Cotton Price Outlook for Coming Week

The domestic cotton prices are expected to recover from the sharp fall seen after the news of the export ban. This is because with a crucial ally of the coalition government opposing the ban, the government is likely to either completely reverse the ban or allow export of some additional amount of cotton. The short term is likely to be volatile. However, once this issue is resolved, the weak domestic fundamentals due to poor demand from domestic mills are likely to limit the upside to prices.

Cotton Spot Prices (Kadi Market) Technical Analysis



- Dragon fly doji pattern formation in the technical chart indicates prices are likely to increase for short term in Kadi spot market. It retraced back from its key support of Rs 3,735 indicating prices might improve further over the short term.
- Divergence between prices and RSI could be seen indicating accumulation of cotton at these levels and stands indicative of possible price rise.
- Any near-term jump might face resistance towards the level of the simple moving averages (SMAs) and breakout above the moving averages could lead to a further run-up.

Strategy: Buy Kapas (Kadi Market) in the range of 4150-4200 with a view of getting a target between 4400-4500 for short term.

Support and Resistance:

Support 2	Support 1	Resistance 1	Resistance 2
3735	3930	4520	4670

Expected Price range of Cotton Prices for next week

Markets	Expected Trading Band for the coming week	Expected Trend for coming week
Kadi	4400-4500	Firm

Prices-Rs/quintal Kadi prices- Bt quality

Cotton Prices at Key Spot Markets:

Commodity	Centre & Variety	% Change Over Previous Week	Current Week 03/03/12	Previous Week 25/02/12
Cotton	Kadi-Bt Cotton#	-1%	3900-4400	3950-4450
	Amravati-Vunni Mech-1#	-1%	3800	3850
	Ahmedabad-Shankar-6#	4%	4150-4300	4100-4150
	Abohar-J-34*	5%	3700	3525
	Muktsar-J-34*	5%	3700	3525
	Fajlika	5%	3750-4360	3750-4150

*-Rs/maund, #-Rs.qtl

Cotton Cumulative Arrivals in Key Centers

Centre	Arrivals		% Change
	Week Ending 03/03/12	Week Ending 25/02/12	
Kadi -Bt Cotton	1025	2050	-50%
Amravati -Vunni Mech-1	28000	24000	17%
Ahmedabad - Shankar-6	205000	270000	-24%
Abohar	2000	2600	-23%
Muktsar	950	1550	-39%
Fajlika	9400	13300	-29%

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


- April contract in NCDEX retraced back from its weekly lows and got buying support towards the lower channel of the falling wedge. Prices remain well within the falling wedge and are waiting for a technical break out in either direction.
- Cotton price is likely to test its key immediate resistance of 860. Breaching the same might initiate a fresh bull run. However, failing the immediate resistance could lead prices lower towards support near 822.
- Divergence could be seen between prices and RSI, indicating possibility of further rise in cotton prices in near term.

Strategy: One should wait for a break out above 860. Breaching the immediate resistance shall take the prices higher to test 890-895 levels in the short term.

Support and Resistance:

Support 2	Support 1	Resistance 1	Resistance 2
825	834	860	910

Expected Price range of Cotton Prices for next week

Markets	Expected Trading Band for the coming week	Expected Trend for coming week
NCDEX	860-890	Firm

INTERNATIONAL MARKET

ICE future traded weak as dull trade activities were seen in the market. Supplies were also moderate as producers are not too interested in selling their produce at the current price. However, after the decision of export ban by India was announced, ICE future spiked up and hit the upper circuit, before giving up some of the gains on news that the decision on banning exports might be reviewed.

China's cotton acreage is reportedly down by 6.1% at 5.09 million hectares in 2012 from the previous year, as recently revealed in a Shanghai Securities News Report. The report added that Chinese government may step forward to increase its state reserve by importing cotton from the overseas market.

Major Cotton growing countries like China, India, Pakistan, Brazil, Central Asia and Australia are expected to grow lower cotton crop in 2012-13. India is likely to plant 26.5 million bales down 2% from 2011-12 planting. Pakistan, Brazil and Australia are also expected to cut planting in 2012-13 by 4% to 10 million bales, 6% to 8.5 million bales, 6% to 4.7 million bales respectively compared to the year 2011-12.

Cotton crop in South American nations such as Paraguay and Argentina is facing severe drought during current period. Yield is estimated to decline as much as 60 to 70% in Paraguay as reported by the state government. Yield of 300 to 400 kg/ha is estimated for current crop as against the normal yield of 1800 kg/ha indicating marked decline in Paraguay. Total area planted in Paraguay was at 70,000 ha. Similarly the situation is also worsening in Argentina with production to decline by nearly 8-10% as per an estimate.

However, record production from India and Pakistan to the tune of 340 lakh bales and 143 lakh bales respectively could ensure adequate supply to the global trade chain off-setting any major decline from the Latin American nations. This is likely to limit excessive gains in the world market in general and domestic market in specific in long run.

ICE Futures (March 2012 Contract) Technical Analysis



- March contract of ICE futures extended its sideways consolidative phase during the week with significant higher opening but could not sustain at higher levels. Prices faced strong resistance towards 95.20.
- Prices may find buying support near 90.14 which is likely to extend its sideways trade further.
- We expect cotton prices to stay in the range of 90.14 to 95.19 for short term.

Strategy: Buying towards support is desirable

Support 2	Support 1	Resistance 1	Resistance 2
87.42	90.14	95.19	98.30

All in USc/lb

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