

Highlights of the Week

- Cotton spot market stood firm after an improvement in domestic millers demand during this week. Comparatively, higher millers demand and a partial removal of ban on raw cotton exports impacted on cotton prices and input a positive tone.
- As on 11th March 2012, total arrivals in India remained down by 6.39% at 237.31 lakh bales against 253.5 lakh bales in the corresponding period in 2011.
- Cotton sowing is likely to start in late April or 1st week of May 2012. However, lower area is expected to cover under Cotton crop due to rising input costs against lower profit margin.
- According to USDA latest report, world ending stocks in 2012 is expected to touch 62.3 higher from the last year 60.77 million bales which is fundamentally bearish outlook for ICE Future prices.

Current Market Dynamics

Cotton market ruled bullish tone as good trading activities were featured over this week. Millers buying activity comparatively improved which supported cotton price to increase. As a result, producers were interested to release their stocks in most of the key markets beginning of the week but slowed down at end of the week in hope of that government may increase Minimum Support Prices at competitive level. Thus, cumulative week arrivals were registered higher side in Punjab only. Farmers in Punjab are having limited stocks against good demand which will boost up cotton prices in Punjab. However, overall outlook in cotton segment is bearish in upcoming days as millers demand in most of the major markets is expected to come down as they are indecisive and under fear about cotton prices movements because cotton storage cost is very high against profit margin at the current scenario, while stocks are available in higher ratio in hand of farmers in spite of Punjab, which may remain restrict cotton prices at a higher note.

The Excise duty on Cotton textiles export has risen from 4% to 6% in the Union Budget for 2012-13 and service tax from 10% to 12%, which will raise exporters cost. While, Custom duty of 5% has been relaxed on importing automatic shuttle less loom which is positive action for textile industry mainly in the weaving sector.

Crop conditions & Cotton Arrivals

Weekly arrivals declined mainly in Maharashtra and Gujarat despite little recovering in prices as farmers are in hope that Government may further intervene to hike minimum support prices because costs of seeds, fertilizers and fuel rate went up while cotton prices reduced from the last year. However, other cotton growing states of India reported higher arrivals like Andhra Pradesh, Haryana, Rajasthan, Madhya Pradesh and Karnataka because producers were seemed to sell off their stocks at the prevailing prices.

Below table shows the comparison of Arrivals from the corresponding period last year:-

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 11-03-2012	Production as per CAB 24/01/2012	Arrivals as on 11-03-2011	
India	345.1	237.31	339.1	253.5	-6.39
Gujarat	117.2	75.76	106.2	83.17	-8.91
Maharashtra	74.75	49.76	87.75	66.46	-25.13
Andhra Pradesh	54.5	40.37	59.5	37.76	6.91
Haryana	20	15.38	17	13.12	17.23
Punjab	19.5	14.31	18.5	15.8	-9.43
Madhya Pradesh	17.7	14.62	17.7	13.73	6.48
Rajasthan	17.1	13.11	10.1	9.45	38.73
Karnataka	13.1	7.95	11.1	6.75	17.78

Source: The Cotton Advisory Board (Quantity in lakh bales)

Cotton sowing 2012/13 will start when wheat standing crop would be harvested completely. As, farmers viewed that planting will be on pick stage in late April or 1st week of May if weather will support. However, they are intended to cover lower cotton area than previous year and may move to other crops like Guar, Soybean due to higher profit realization in the current season.

Export and Import Scenario

On other hand, exporters are not actively participating in the market on restriction of fresh issues which is weighing on market and restricted prices to sustain at higher level. While China and Pakistan renewed demand is expected to come. If ban of fresh issues would be continued, there is possibility that prospectus import demand may switch towards other competing countries like Australia, U.S or Brazil. India has so far exported 95 lakh bales (1 bale = 170kg) against original estimate of 84 lakh bales in 2012.

On other hand, the Government added (after allowing only those registrations signed before 5th March 2012) that DGFT would revalidate all RCs and separate application should be issued for each valid RC, which should be submitted till 22nd March which has been decided as a last date to submit.

In the favor of partial running ban in India, the Commerce Ministry said that around 85% of shipments have been delivered to China therefore we expect that there were evidence of storage of fibers abroad which could adversely impact on India as India is also one of the top consumer of cotton for its domestic requirements.

Fundamental Cotton Price Outlook for Coming Week

Sideways to weak tone could be seen in Cotton Prices during upcoming days on back of lackluster millers demand against higher availability. Meanwhile, a restriction of fresh registrations for fresh exports registrations could also discourage exporters for aggressive buying further.

Cotton Spot Prices (Kadi Market) Technical Analysis



- The chart depicts upward momentum during this week as got the support on fundamentals. However, it is expected that prices may come under pressure as prices are not getting support at higher level during upcoming days.
- 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: Sell Kapas (Kadi Market) at resistance level and book profit at immediate support level.

Support and Resistance:

Support 2	Support 1	Resistance 1	Resistance 2
3416.8	3750.7	4499	4625

Expected Price range of Cotton Prices for next week

Markets	Expected Trading Band for the coming week	Expected Trend for coming week
Kadi	3880-4499	Range bound to Bearish

Prices-Rs/quintal Kadi prices- Bt quality

Cotton Prices at Key Spot Markets:

Commodity	Centre & Variety	% Change Over Previous Week	Current Week 17/03/12	Previous Week 10/03/12
Cotton	Kadi-Bt Cotton#	10%	3900-4400	3625-4000
	Amravati-Vunni Mech-1#	5%	3850-3900	3650-3700
	Ahmedabad-Shankar-6#	-	4160-4250	-
	Abohar-J-34*	5%	3670	3510
	Muktsar-J-34*	4%	3670	3520
	Fajlika#	5%	3700-4451	3650-4250
	Khandwa#	-	3350-4000	-

*-Rs/maund, #-Rs.qtl

Cotton Cumulative Arrivals in Key Centers

Centre	Cumulative Weekly Arrivals		% Change
	Current Week 17/03/12	Previous Week 10/03/12	
Kadi -Bt Cotton	520	800	-35%
Amravati -Vunni Mech-1	18500	18000	3%
Ahmedabad - Shankar-6	20000	65000	-69%
Abohar	3500	1750	100%
Muktsar	1800	800	125%
Fajlika	11100	4200	164%
Khandwa	6200	-	-

Khandwa, Kadi, Fajlika-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 represented lower trend of the market as prices are not getting major support at higher level. As a result, prices are responding higher volatility and are likely to continue as prices are lying slight down from 50% of fibonacci retracements level.
- Cotton price are likely to move between 819-856 and test its key immediate resistance of 859.7 breaching the same might initiate a fresh bull run. However, failing the immediate resistance could lead prices lower towards support near 818.
- Divergence is seen between prices and RSI, indicating possibility of sideways to bearish momentum of cotton prices in near term however would be highly affected on fundamentals.

Strategy: We can see range bound trading between 819-856 during upcoming week. One can sell towards resistance level and book profit at immediate support level.

Support and Resistance:

Support 2	Support 1	Resistance 1	Resistance 2
800	818	859.7	894.6

Expected Price range of Cotton Prices for next week

Markets	Expected Trading Band for the coming week	Expected Trend for coming week
NCDEX	819-856	Range bound to Bearish

INTERNATIONAL MARKETS

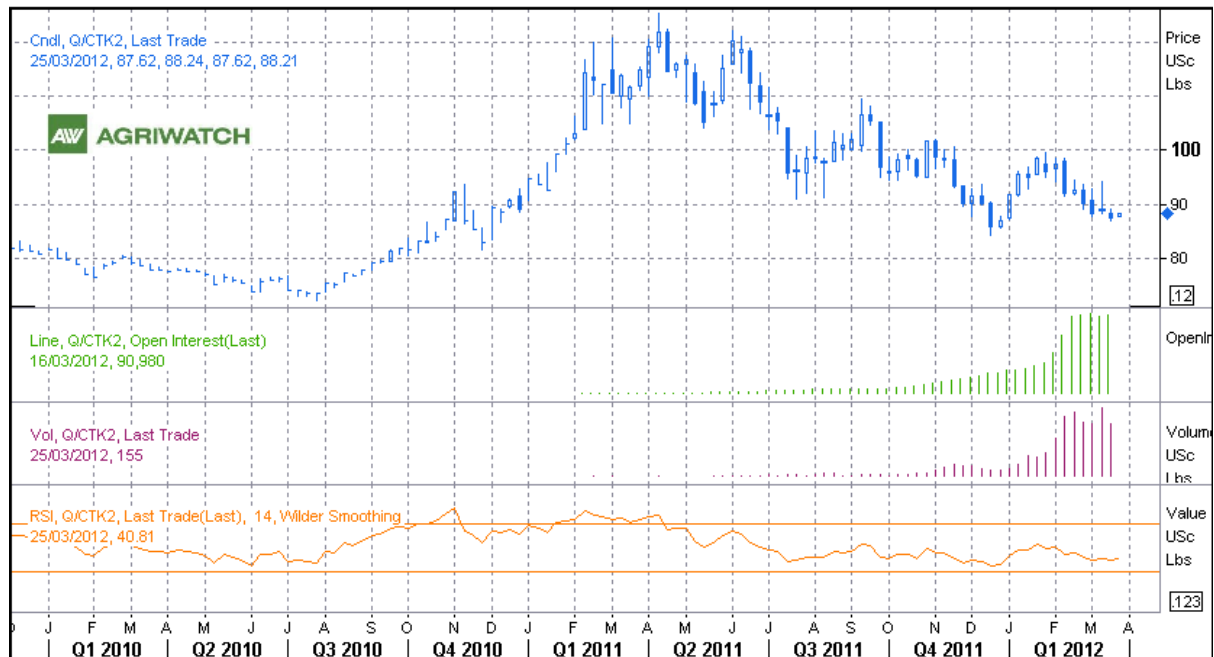
ICE futures of May contract ended lower amid moderate demand and supply. However, fresh export demand may support the prices in upcoming days if India will continue stay on the restriction of fresh exports registrations because China and Pakistan demand is likely to re-enter in the market.

According to USDA report, the world cotton export was estimated higher by 8% to 38.8 million bales from last year record despite lower contribution from the country United States and Uzbekistan. U.S cotton export is likely to reduce nearly 25% this season. As, the drought damaged the length of standing crops which lowered foreign buyers interests. Therefore, the export figure was projected to decline 28.4% in 2011/12 from last year. Total cotton export in U.S for 2011/12 has been registered at approx.11.4 million bales against 15.6 million bales during the corresponding period in 2010/11. However, U.S. commerce Department has revealed total monthly upland cotton exports on higher side to 282602 bales in Jan'12 than December'11 to 203341 bales.

While Australia and Brazil were expected to contribute export at 4.0 million bales 3.9 million bales in 2011/12. Besides, India was expected to export 52% high to 7.8 million bales compared to previous year.

In concern of import status, China was expected to increase import by 52% to 18.5 million bales in 2011/12 from the last year record. Even, China cotton import increased higher 234% at 616,000 tonnes in February 2012 against corresponding period of last year 2011. However, other importers like Bangladesh, Indonesia, Pakistan and Turkey were expected to import down by 12% to 3.3, 7% to 2.0, 32% to 1.0 and 25% to 2.5 million bales respectively in 2011/12 from the preceding year. Source: USDA

Whereas, world ending stocks were estimated at 62.3 million bales an increase by 32% compared to last year on account of higher global production record and lower mill use, represented in USDA latest released report. Due to which, prices may remain under stress and restrict gain further.

ICE Futures (March 2012 Contract) Technical Analysis


- May contract of ICE futures show continue selling pressure in the market. Hence, range bound to weak trend featured during the week and further it is likely to continue.
- Prices are likely to face strong resistance towards 93.04.
- Prices may find buying support near 87.55 which is likely to extend its sideways trade further.
- We expect cotton prices to stay in the range of 86.95 to 89.50 for short term.

Strategy: Buying towards support is desirable

Support 2	Support 1	Resistance 1	Resistance 2
84.44	85.72	93.04	90.92

All in US\$/lb

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