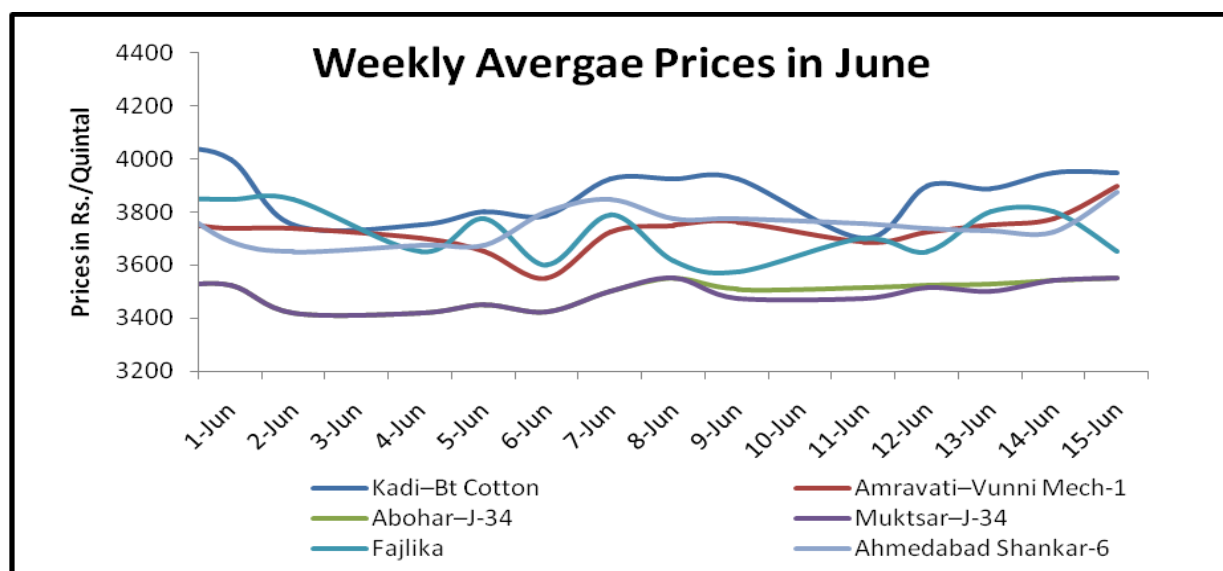


### Highlights of the Week

- ❖ The cotton spot prices surged in the key markets like Ahmedabad, Amravati, Kadi and Fajlika markets on improve local spinners demand during this week.
- ❖ The farmers in Gujarat may decline around 4.5% of cotton area to 28.88 lakh hectare during 2012 compared to 30.23 lakh hectare during 2011.
- ❖ Minimum support price of Cotton for 2012/13 has been raised by 28.18 to 3600 per quintal for medium staple length and 3900 for long staple length by Indian Government as on 14<sup>th</sup> June 2012.
- ❖ World's ending stocks has been increased to 74.57 million bales in 2012/13 as per recent released report by WASDE.
- ❖ USDA reduces US exports projection by 1.67% to 11.8 million bales in June against previous month export figure i.e. 12 million bales.
- ❖ We expect range bound to uptrend in coming week in anticipation of lower supplies against demand.

### Domestic Market Fundamental

Major Cotton markets reported higher cotton average prices during this week after the local mills demand as compare to previous week average prices. Declining stocks, intermittent exporters and local spinners demand pulled prices up. However, millers are showing their interest to buy higher quantum of cotton on lower prices but farmers are not getting profit selling their crops on lower prices as quoted by millers. As a result, cotton prices are not sustaining at higher side.



Indian Government declared cotton minimum support price for 2012/13 up by 28.57% to 3600 per quintal for medium staple length and long staple length by 18.18% to 3900 per quintal against last year MSP i.e. 2800 per quintal and 3300 per quintal respectively to encourage cotton farmers. However,

lower cotton prices against dull demand and other lucrative crops like Guar, soybean has compelled cotton farmers to reduce cotton area in 2012/13.

### Cotton Crop Situation & Weather Condition

According to IMD, rain has been reported in some parts of north Haryana, Rajasthan and Gujarat. Rain in these areas provided soil moisture for sowing, thereby weighing on the market. South-west monsoon is likely to progress further into east coast and west coast in the near –term.

**Traders/ farmers View:** - As per Traders, the cotton sowing has been completed in Punjab and Haryana almost in all the cotton districts successfully due to availability of irrigated water. However, cotton area has been reduced by 8 to 10% and 10 to 15% respectively in Punjab and Haryana as farmers are planning to shift towards Guar. They expect 10% decline in cotton area totalled in India during 2012/13 and the area may further reduce if there is any deficiency in the monsoon rain. The sowing pace will increase second half of June with onset of four month long rainy season.

**Below table shows state-wise cotton crop situation in 2012:**

Cotton Sowing Progress 2012 in India					
States	Gujarat	Punjab	Maharashtra	Madhya Pradesh	Rajasthan
Crop Available with Farmers	10%	Below 10 lakh bales	6-7%	10 to 15%	No crop
Sowing Progress	2-5% completed	99% completed	30% completed	First week of July	70% completed
Cotton Area Shift	Guar & Groundnut	8 to 10% towards Guar	10% towards Soybean	Soybean	30% towards Guar
Area 2011/12	30.23	5.6	40.95	7.06	5.3
Production 2011/12	120	19.5	73.75	17.7	17.1

Source: Agriwatch, (Area in lakh hectares, Production in lakh bales)

As per the cotton Association of India, Farmers in India may reduce cotton area by 15-20% in 2012/13 on account of poor price performance and unstable export policy.

### The Projection of Agriwatch for Gujarat's Cotton Area in 2012

Regression was carried out using cotton acreage in Gujarat as the dependent variable which depends on cotton prices in bench mark market of Kadi with annual data sourced from 2006 onwards. Statistical equation and interpretation of the same is as follows:

It is evident from the table below that cotton area in Gujarat and prices are highly correlated. Regression equation  $R^2$  explains for 83% variation in cotton acreage with variation in prices of bench mark market of Kadi.

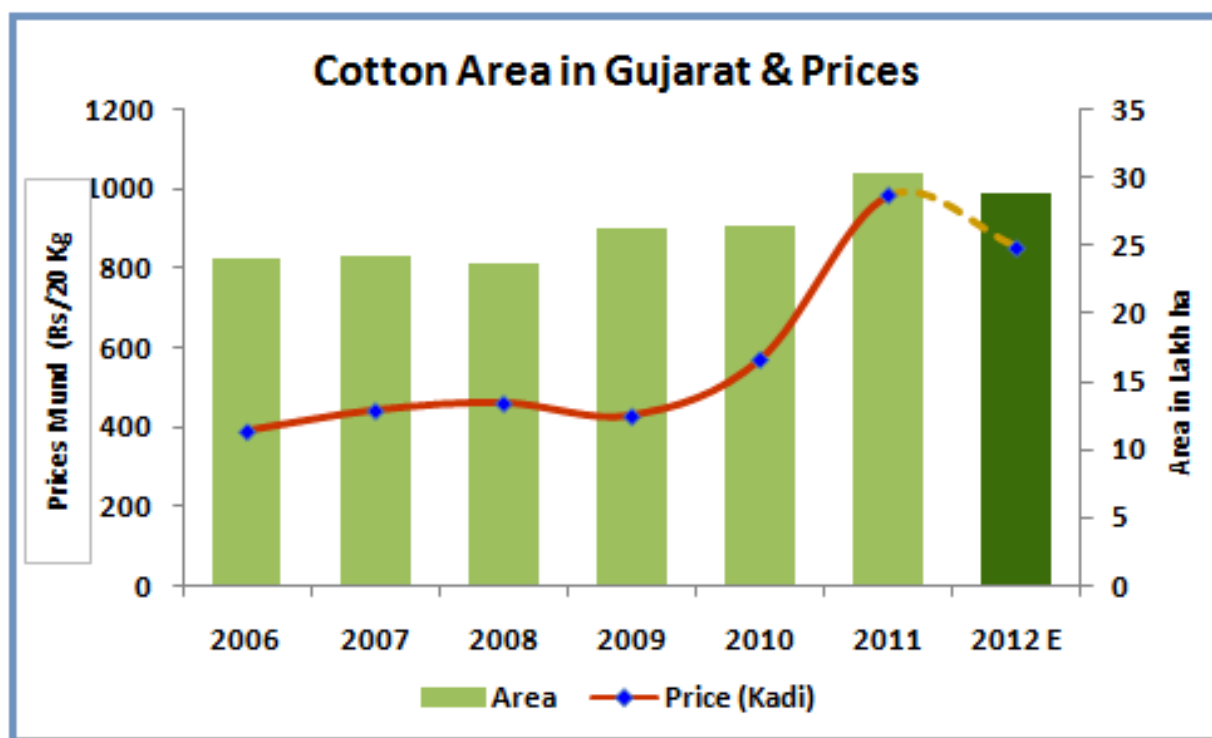
Regression Statistics	
Multiple F	0.915393114
R Square	0.837944552

P-value indicates the relation between cotton acreage in Gujarat and cotton prices at bench mark Kadi market is highly significant. It shows confidence interval is around 99% which is higher than its standard 95%.

Constants	Coefficients	Standard Error	P-value
Intercept	20.13694006	1.31604357	0.000106412
X Variable 1	0.010284433	0.002261385	0.010434666

Considering highly significant relation between cotton area in Gujarat and fitting the coefficients in linear regression equation cotton area in Gujarat should decline nearly by 4.5% (min) during 2012. We expect cotton area in Gujarat is to stay near to 28.88 lakh hectare during 2012 compared to 30.23 lakh hectare during 2011.

The following chart shows expected area and average cotton prices for 2012:



**Cotton Prices at Key Spot Markets:**

Commodity	Centre & Variety	% Change Over Previous Week	Current Week 15/6/2012	Previous Week 8/6/2012
<b>Cotton</b>	Amravati–Vunni Mech-1#	4%	3900	3750
	Kadi–Bt Cotton#	1%	3750-4150	3750-4100
	Ahmedabad–Shankar-6#	1%	3750-4000	3750-3950
	Gondal	-	-	2500-4895
	Rajkot-(Bt Cotton)	-2%	3750-3950	3535-4015
	Abohar–J-34*	Unch	3550	3550
	Muktsar–J-34*	Unch	3550	3550
	Fajlika#	1%	3650	3615
	Patan-(Bt Cotton)	-6%	3400-3425	3600-3650
	Sri-Ganganagar	2%	3420-3425	3360

\*-Rs/maund, #-Rs.qtl

**Cotton Cumulative Arrivals in Key Centerssss**

Centre	Cumulative Weekly Arrivals		% Change
	Current Week 15/6/2012	Previous Week 8/6/2012	
Amravati –Vunni Mech-1	17000	18000	-6%
Kadi –Bt Cotton	350	195	79%
Ahmedabad – Shankar-6	77000	92000	-16%
Gondal	-	4684	-
Rajkot-(Bt Cotton)	23450	21990	7%
Abohar J-34*	950	1450	-34%
Muktsar J-34*	-	110	-
Fajlika	850	2700	-69%

(Amrvatai,Fajlika & Khandwa- Quintal,) (Kadi- Motors=100 quintals,) (Ahmadabad, Abohar and Muktsar-Bales)

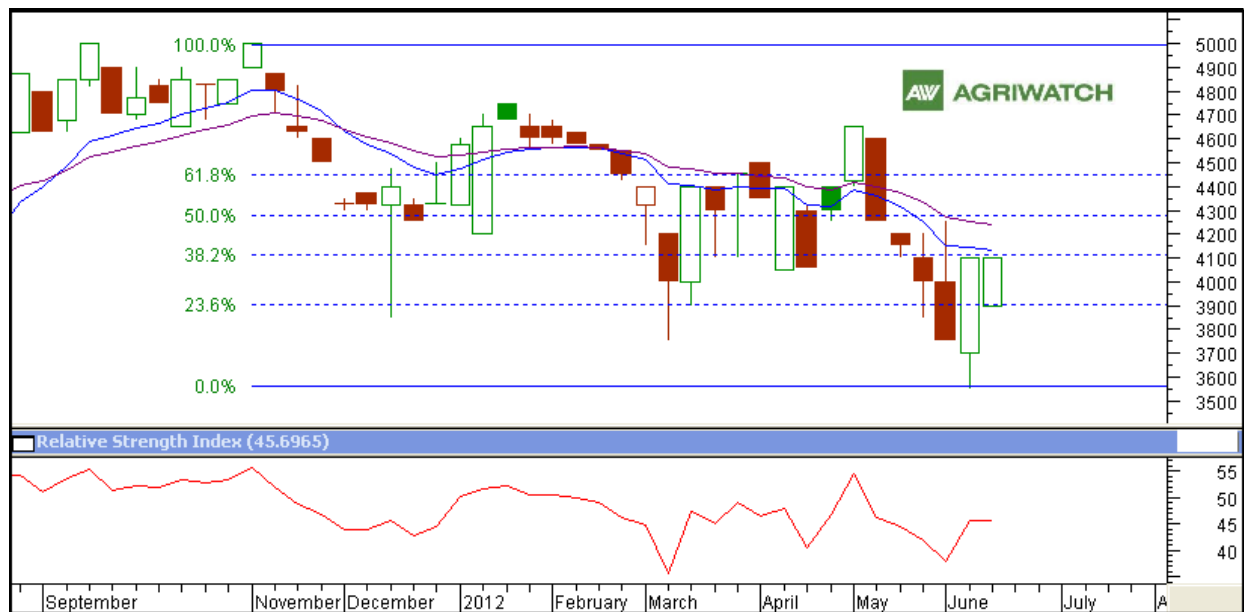
**Cotton Association of India Spot Rates**

Trade Name	Staple	Micronaire	Strength/ GPT	Rs. Per Candy (14/6/2012)	Rs. Per Candy 8/6/2012)	% Change
Bengal Deshi (RG)/ Assam Comilla(101)	Below 22mm	5.0 - 7.0	15	35000	34500	1%
Bengal Deshi (SG)(201)	Below 22mm	5.0 - 7.0	15	36200	35700	1%
J-34(202)	26mm	3.5 - 4.9	23	30800	30500	1%
H-4/ MECH- 1(105)	28mm	3.5 - 4.9	27	30900	31500	-2%
Shankar-6(105)	29mm	3.5 - 4.9	28	32100	32500	-1%
Bunny/ Brahma(105)	31mm	3.5 - 4.9	30	34400	35000	-2%
MCU-5/ Surabhi(106)	32mm	3.3 - 4.9	31	35500	36000	-1%
DCH-32(107)	34mm	3.0 - 3.8	33	45500	46500	-2%

**Fundamental Cotton Price Outlook for Coming Week**

We expect range-bound to firm trend in upcoming week in anticipation of improving local mills demand.

On the other hand, declining crops almost in all the key markets may support cotton prices during upcoming days. Some intermittent buying activities of exporters could be seen in upcoming week further to fulfill Pakistan's raw cotton demand which will also help cotton prices to go up.

**Cotton Spot Prices (Kadi Market) Technical Analysis**

**Prices-Rs/quintal**

- Unfilled Marubozu candlestick patterns reveals that the cotton prices in Kadi market moved significantly higher after the open on buying pressures.
- However, steady RSI momentum hints possible steady momentum in upcoming days.
- On the other hand, it is down on its 9 & 18 days EMAs reinforcing its medium term & long term steady to bearish momentum.
- Prices are hovering well below 50% of Fibonacci retracement level i.e. Rs.4300 if prices breaks such level then it may continue its uptrend in the long run too.
- Any near-term jump might face resistance towards the level of 4300 breaching it would test the level of 4425.

**Trading Strategy:** 3568.1- 4300 is the immediate trading range for the price; drifting in either direction is likely to take it further in the respective direction.

**Buy on dips and book profit towards resistance level.**

**Support and Resistance:**

Support 2	Support 1	Resistance 1	Resistance 2
3473.3	3568.1	4300	4425

Prices-Rs/quintal Kadi prices- Bt quality

**Technical Analysis of Cotton Futures April 2013 contract at NCDEX**


Rs/per 20 kgs

- April contract in NCDEX closed up due to buying supports and further uptrend channel reflects bullish trend of the market in upcoming days.
- Rising open interest & prices depicts market under long build up phase in next week.
- If prices breach 50% of Fibonacci retracement level of 991.6 then prices will continue the current bullish momentum.
- On the other hand, RSI is moving up in natural region hints sideways to bullish phase in the market.
- Immediate resistance could be seen at 991.6 crossing such level price would test second resistance level at 1016.8
- Our short term outlook on the contract is bullish. We advise to go for long positions and book profit near resistance level.

**Support and Resistance:**

Support 2	Support 1	Resistance 1	Resistance 2
910	960.4	991.6	1016.8

**Expected Price range of Cotton Prices for next week**

Markets	Expected Trading Band for the coming week	Expected Trend for coming week
NCDEX	960-991	Range bound to Bullish Momentum

### International Market

As per USDA report, US cotton production is likely to increase supported by favorable weather condition in 2012/13 despite reducing cotton area against previous year record. Export figure has been revised down by 1.67% to 11.8 million bales from 12 million bales as projected in May 2012. Ending stocks is same as previous month but higher than previous year in anticipation of lower mills consumption in 2012/13.

Following table shows the details of U.S Crops:-

	2010/11	2011/12	2012/13	Projection	
U.S Cotton Crop	Actual	Estimate	May	June	% Change
Planted (mln acre)	10.97	14.74	13.16	13.16	Unch
Harvested (mln acre)	10.7	9.46	10.5	10.5	Unch
Yield/acre	812	790	777	777	Unch
Production (mln bales)	18.1	15.57	17	17	Unch
Exports (mln bales)	14.38	11.6	12	11.8	-1.67
Ending Stocks (mln bales)	2.6	3.2	4.9	4.9	Unch

Source: USDA

World ending has been revised and increased by 1% to 74.5 million bales as compared to previous month as China is projected to hold 45% of the total. However, world cotton production has been forecasted down by 1.4 million bales as major growing countries like Brazil, Argentina and Australia are likely to reduce cotton area in 2012/13. Due to fall in cotton prices in 2011/12. World consumption is also declined by 1.0 million bales after a projection to decrease import by China, Thailand. The export figure of US for 2011/12 has been increased by 200,000 bales following recent strong sales and shipments however; the export for 2012/13 is forecasted lower by 200,000 bales in expectation of poor foreign demand.

According to ICAC world cotton area may decline by 7% to 33.6 million hectares in 2012/13 on account of poor cotton prices.



**ICE Futures (July 2012 Contract) Technical Analysis**


July Contract of ICE futures closed upside on back of buying supports however it is still hovering below 50% Fibonacci retracement level which signals a downtrend in long run. On the other hand, falling open interest and rising prices depict market under short covering phase. Prices ranged between 73.27 to 81.37 during the week. RSI is moving up at 47.58 in neutral region as compared to previous week i.e. 31.57. Immediate resistance level is at 84.89 breaching this may touch 90.05 during upcoming week.

**We expect range-bound trading activity in between 76 to 84 in near term-**

Support 2	Support 1	Resistance 1	Resistance 2
66.71	70.46	84.89	90.05

All in USc

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