

### Highlights of the Week

- ❖ The cotton prices have been reported down almost in all the cotton spot markets due to declining demand.
- ❖ Indian farmers are likely to reduce cotton area by 10 to 15% during this year, as per Textile commissioner due to deficit in rain and poor price as seen last few months.
- ❖ Exports have crossed 120 lakh bales this season compared to the estimate of 85 lakh bales made by the Cotton Advisory Board.
- ❖ The government has represented total cotton production for 2011/12 at 35.20 million tonnes in its fourth advance estimates.
- ❖ World cotton trade is likely to fall by 20% to 7.5 million tons in 2012/13 in expectation of lower imports by China in 2012/13.
- ❖ The cotton prices are likely to trade with sideways to bullish momentum in coming week in expectation of rising demand amid lower supplies.

### Domestic Market Fundamental

Cotton prices traded amid steady to lower side with normal buying support from the domestic mills. According to Textile Commissioner, the area under cotton cultivation in India is expected to reduce by 10 to 15 per cent from the present 122 lakh hectares during this season (October-September). However, there was no fear for any reduction in the production of cotton or availability, since the productivity in the major belts of Gujarat and Maharashtra, would compensate for the fall in the acreage. Further the department added that on the availability of the raw material for the coming season, global cotton availability has been in excess of demand and the imported cotton is found to be four to five cents/pence cheaper than the domestic cotton.

As per rating agency Fitch in its 2012 mid-year outlook on Indian textiles, India cotton prices will continue increase on fall in acreage and delayed monsoon for September 2012-March 2013 cotton season.

On the other hand, Ginners said that cotton will not move down much in near future due to shortage of the stocks and scanty rain. Currently, cotton price may not go below Rs 36,000 a candy (of 356 kg) in the near future as ginning activity is weak due to lower stock availability.

Meanwhile, cotton imports by mills in the South have picked up considerably in the last one month.

South mills have preferred much to import cotton in the last one month on the back of lower international prices and expected delay of fresh arrivals in the domestic cotton market. Bannari Amman Spinning Mills, a leading cotton spinner from the south, is importing 10 per cent of its annual consumption from Africa.

Currently, the mills are importing the raw material from West Africa, Uganda and Tanzania. A total of 1.5 to two million bales (a bale=170 kg) are expected to be imported by November after India's new crop

cotton enters the market. However, India is second largest exporter of World, therefore it is unusual for India to import the commodity. The last time India had imported cotton heavily was in 2004, as the area under cotton was lower due to poor rainfall.

### **Yarn & Textile Production & Demand**

As per textile ministry, the technical textile market in India has increased with a compounded annual growth rate of 11% to Rs 57,000 crore in 2011-12 from Rs 42,000 crore in 2007-08 and further it is likely to touch Rs. 1.58 lakh crore by 2016-17.

According to market source, Indian textile mills will import around 1.5 million bales of cotton mainly from Africa, Australia and Brazil. So far textile players have imported around 500,000 bales at 75-80 cents per lb, compared with the domestic cotton price of about 88 cents.

### **Domestic Export Scenario:-**

India had been actively exporting cotton, mainly to China during the first nine months of the cotton year (2011-12), but its exports have nearly halted from the end of June. Since May, Indian exports have remained almost stagnant. During October-May, 11 million bales were exported. However, since then, only one million bales were exported.

According to the Confederation of Indian Textile Industry, so far, 500,000 bales have been imported and another 100,000 bales are expected to come in from Africa by the end of September.

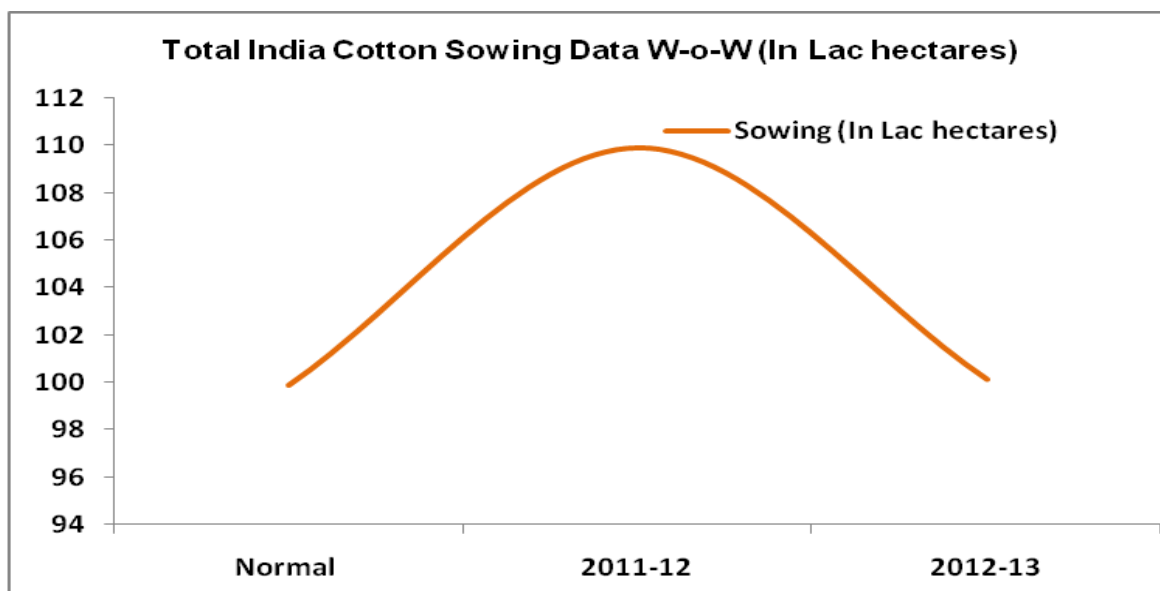
This season, cotton imports are expected to cross two million bales higher than previous year i. e 700,000 bales of cotton. Landed cost of imported cotton is Rs 35,000 a candy (a candy = 356 kg) of average quality, while the benchmark local variety, Shankar 6, is quoted at Rs 37,000 a candy.

**Crop Situation: -**

Area under cotton is down by 9.78 lakh hectares to 100.14 lakh hectares as on 3rd August 2012 compared to 109.92 lakh hectares during the same period last year. Higher acreage is reported in the states of Andhra Pradesh (up by 2.43 lakh ha.), Maharashtra (up by 0.37 lakh ha.), Orissa (up by 0.15 lakh ha.) as per Ministry of Agriculture. Lower area is reported in the states of Gujarat (down by 7.1 lakh ha.), Madhya Pradesh (down by 1.09 lakh ha), Haryana (down by 0.83 lakh ha.), Karnataka (down by 1.64 lakh ha.), Punjab (down by 0.59 lakh ha.) and Rajasthan (down by 1.39 lakh ha.) compared to same period during previous year.

Below Figure shows sowing status of Cotton in India as on 3rd August 2012

	2012-13	2011	Normal (as on date)	Normal (Season)
<b>Area Sown (In Lac hectares)</b>	<b>100.14</b>	109.92	99.89	111.81



Source: Ministry of Agriculture

**Weather Situation (IMD Report)**

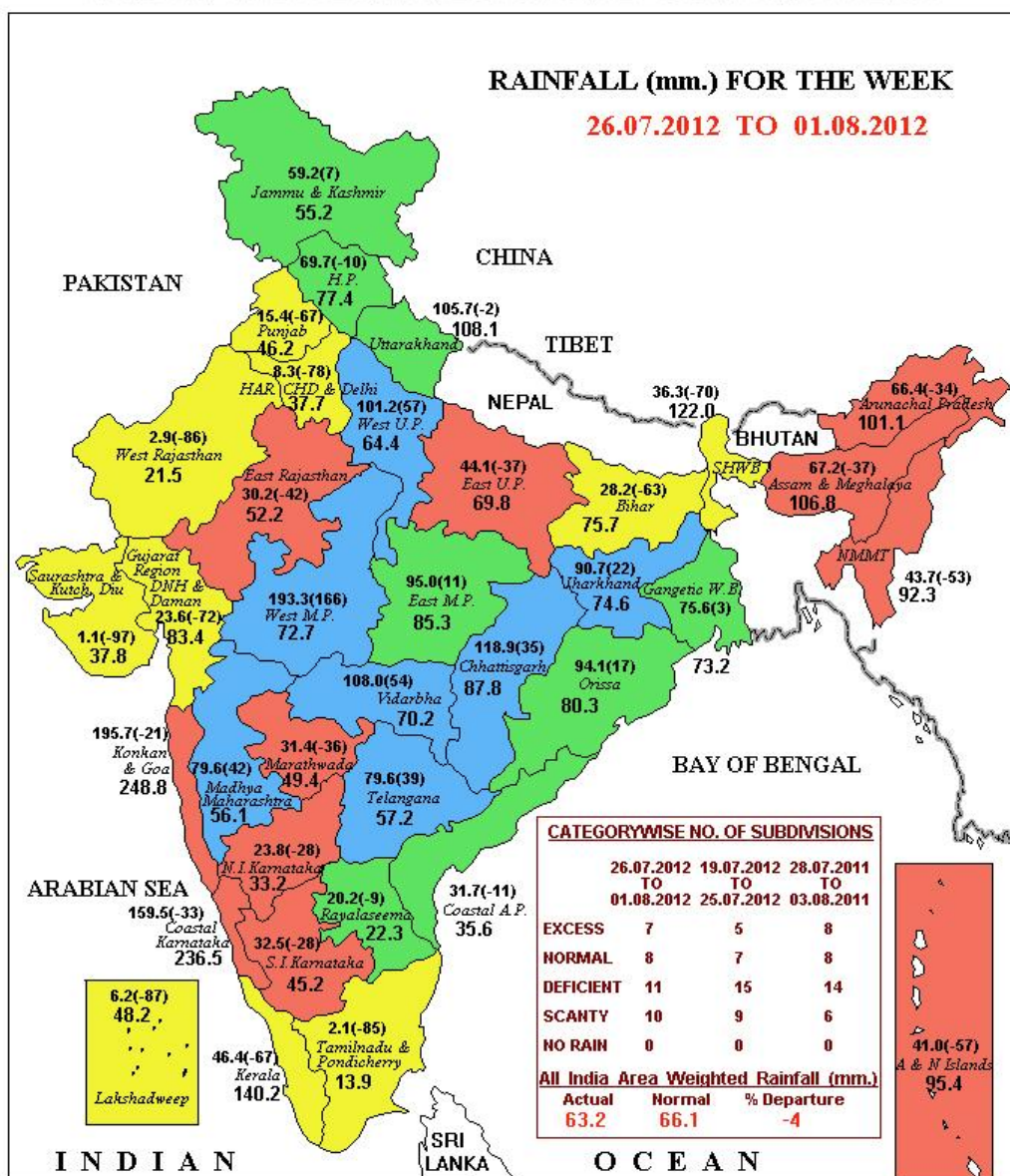
As per IMD, Punjab, Haryana, Chandigarh & Delhi, West Rajasthan and Saurashtra & Kutch have received scanty of rainfall. In area wise distribution 37% area of the country received excess/normal rainfall. Remaining 63% area received deficient/scanty rainfall. On the other hand, the North East region, North Bihar and North Bengal have received heavy rainfall.

IMD has forecasted for August month that active monsoon conditions would prevail over parts of central & east India during 1st half with decrease in rainfall during 2nd half of week. Isolated heavy rainfall would occur over Orissa, Chhattisgarh, Vidarbha and Madhya Pradesh during 1st half of the week. Rainfall would occur at many places along the west coast and over northeast India. Rainfall would occur at few places over northwest India during the 1st half of the week and would increase towards the 2nd half of the week particularly over Uttar Pradesh, Uttarakhand and Himachal Pradesh. Subdued rainfall activity would occur over the remaining parts of country particularly over interior Peninsula.

**Outlook For The Week Ending on 8<sup>th</sup> August, 2012**

According to IMD, Rainfall activity would increase over central India and eastern states.

## भारत मौसम विज्ञान विभाग INDIA METEOROLOGICAL DEPARTMENT



**LEGEND:** ■ EXCESS (+20% OR MORE) ■ NORMAL (+19% TO -19%) ■ DEFICIENT [-20% TO -59%]  
■ SCANTY [-60% TO -99%] ■ NO RAIN [-100%]  NO DATA

**NOTES:**

[a] Rainfall figures are based on operational data.

[b] Small figures indicate actual rainfall (mm.), while bold figures indicate Normal rainfall (mm.)  
 Percentage Departures of Rainfall are shown in Brackets.

Source: IMD

**Cotton Prices at Key Spot Markets:**

Commodity	Centre & Variety	% Change Over Previous Week	Current Week 03/08/2012	Previous Week 27/7/2012
<b>Cotton</b>	Amravati–Vunni Mech-1#	<b>-2%</b>	4700	4800
	Kadi–Bt Cotton#	<b>-4%</b>	4900	4950-5100
	Ahmedabad–Shankar-6#	<b>-2%</b>	4700-4800	4750-4900
	Gondal	<b>-3%</b>	2500-4755	2500-4900
	Rajkot-(Bt Cotton)	<b>-3%</b>	4125-4870	4300-5025
	Abohar–J-34*	<b>-2%</b>	3825-3830	3900
	Muktsar–J-34*	<b>-2%</b>	3825-3830	3900
	Fajlika#	<b>-2%</b>	3820	3900
	Khandwa M.P.	<b>Unch</b>	5100-5200	5100-5200
	Patan-(Bt Cotton)	<b>-</b>	-	-
<b>3825</b>	Sri-Ganganagar	<b>-1%</b>	3785	3825

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

**Cotton Cumulative Arrivals in Key Centers**

Centre	Cumulative Weekly Arrivals		% Change
	Current Week 3/8/2012	Previous Week 27/7/2012	
Amravati –Vunni Mech-1	3700	3900	<b>-5%</b>
Kadi –Bt Cotton	-	75	<b>-</b>
Ahmedabad – Shankar-6	35000	52000	<b>-33%</b>
Gondal	1381	1407	<b>-2%</b>
Rajkot-(Bt Cotton)	4046	5056	<b>-20%</b>
Abohar J-34*	-	1000	<b>-</b>
Muktsar J-34*	-	-	<b>-</b>
Fajlika	-	-	<b>-</b>
Khandwa M.P.	-	-	<b>-</b>
Sri-Ganganagar	-	-	<b>-</b>
Patan-(Bt Cotton)	-	-	<b>-</b>

(Amravatai, Fajlika = 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 (02/08/2012)	Rs. Per Candy (26/7/2012)	Change
Bengal Deshi (RG)/ Assam Comilla(101)	Below 22mm	5.0 - 7.0	15	42100	43300	-3%
Bengal Deshi (SG)(201)	Below 22mm	5.0 - 7.0	15	43000	44500	-3%
J-34(202)	26mm	3.5 - 4.9	23	34800	35200	-1%
H-4/ MECH- 1(105)	28mm	3.5 - 4.9	27	36100	36800	-2%
Shankar-6(105)	29mm	3.5 - 4.9	28	36700	37300	-2%
Bunny/ Brahma(105)	31mm	3.5 - 4.9	30	38900	40100	-3%
MCU-5/ Surabhi(106)	32mm	3.3 - 4.9	31	N.Q.	N.Q.	-
DCH-32(107)	34mm	3.0 - 3.8	33	54000	54000	0%

**Fundamental Cotton Price Outlook for Coming Week**

We expect sideways to bullish momentum in upcoming week on back of rising spinners demand against lower stocks. However, cheaper international prices against domestic cotton prices of cotton may influence spinners' mills to import more quantity of cotton from foreign markets which may cap cotton prices upper level.

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

**Prices-Rs/quintal**

- Continued bullish trend reflected in the cotton spot market due to buying pressures.
- On the other hand, RSI is moving up in neutral region hints a bullish momentum in upcoming days.
- Above 9 & 18 days EMAs reinforcing its medium term & long term bullish momentum.
- Any near-term jump might face resistance towards the level of 5303 breaching it would test the level of 5424.4.

**Trading Strategy:** 4059.9 to 5314 is the immediate trading range for the price; drifting in either direction is likely to take it further in the respective direction.

**Buy at the current price level near to Rs. 5000.**

**Support and Resistance:**

Support 2	Support 1	Resistance 1	Resistance 2
3751.4	4059.6	5314	5424.4

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 slight down due to selling interest.
- Rising open interest & falling prices depicts market under short build up phase.
- Immediate resistance could be seen at 1194 crossing such level price would test second resistance level at 1203.
- Our short term outlook on the contract is bullish. We advise to go for long positions price level around 1120-1135 and book profit near resistance level.

**Support and Resistance:**

Support 2	Support 1	Resistance 1	Resistance 2
1076	1095	1193	1204

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

Markets	Expected Trading Band for the coming week	Expected Trend for coming week
NCDEX	1106-1193	Sideways to Bullish Momentum

**International Market**

- As per International Cotton Advisory Committee, World Cotton prices declined in 2011-12 on back of increase in global cotton stocks and declining mill use.
- The Cotlook “A” Index averaged \$1.00 per pound in 2011/12, down by 39% from its record of the previous season. Exceptionally high cotton imports by China (5.2 million tons) triggered by domestic policies were the main factor preventing a more pronounced fall in international prices.
- World cotton production is forecast down by 9% to 24.7 million tons in 2012/13. Global cotton mill use is projected to rise only slightly to 23.2 million tons, as the rate of global economic growth is expected to remain slow and because the high domestic cotton support price in China is encouraging mills there to shift toward alternative fibers.
- In 2012/13, the resulting excess supply of 1.6 million tons will cause global stocks to rise by 11% to 15.2 million tons. In contrast with 2011/12, stocks could accumulate at a faster rate outside of China. However, the Chinese government announced a slightly higher minimum support price for 2012/13 and is expected to buy a large portion of the new cotton crop. This suggests that the size of the Chinese national cotton reserve may continue to increase, even if the government rotates some of its old stocks during the season.
- World cotton trade is likely to fall by 20% to 7.5 million tons in 2012/13 in expectation of lower imports by China in 2012/13. However, imports by countries other than China could go up, due to lower cotton prices and a slightly higher level of consumption.

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


Oct Contract of ICE futures closed on lower side due to selling pressures. RSI is marginally moving down to 30 in neutral region against 32.01 of previous week level hints possible correction in upcoming days. Prices ranged between 69.86 to 71.4 during the week. Immediate resistance level is at 72.85 breaching this may touch 74.60 during upcoming week.

Support 2	Support 1	Resistance 1	Resistance 2
66.68	67.97	72.85	74.60

All in USc

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