

2013 Outlook: February

AW Outlook

Positive

Domestic Fundamentals

Cotton production revised estimate for the marketing season 2012-13 is 334 lakh bales which are lower by 5.3 percent than previous marketing year, 2011-12.

In the month of January 2013, the supply of raw cotton had increased than last month of December 2012. From arrivals of 1.5 lakh bales a day to 2.3 lakh bales a day. Around 170 lakh bales have arrived in the Indian market as on 31 January 2013, of which Gujarat is holding a major share of 42.5 lakh bales, 39.5 lakh bales in Andhra Pradesh, 3.2 lakh bales in Maharashtra according to news inputs. Consumption of 260 lakh bales by textile mills is expected in marketing year 2012-13. Also, as on January 31, 2013, registration for cotton exports stands at about 40 lakh bales, of which 34 lakh bales have already been exported.

Export demand is expected to pick up in current month, as traders are expecting demand from Southeast Asia to more than double in 2013 that could compensate decline of demand from China to some extent.

Cotton Corporation of India is likely to procure 60 lakh bales of cotton in 2012-13. It has already procured 13 lakh bales of cotton till date.

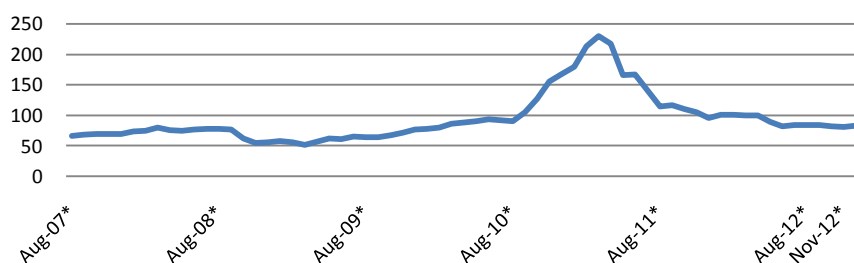
Domestic demands are likely to be at normal buying. Due to lower prices millers are not building up huge inventories. As per market sources, the prices are likely to remain same to lower for 2013.

International Fundamentals

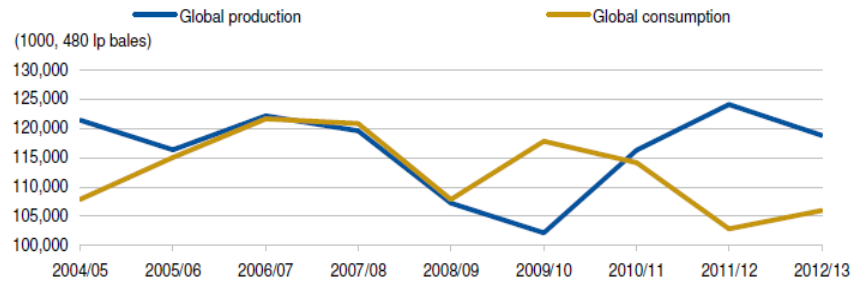
ICE Futures raised on speculations of buying from by China, March contract reached to 84.0 cents/pond, which is highest in several months. The current global cotton inventory is at a multi-decade high, with stocks to usage ratio estimated to be at 71% (source: USDA). Around 40% of this global inventory is in China. The muted cotton consumption levels globally along with surging global inventory, driven by China, have kept global cotton prices at levels seen in the 2009-2010 cotton season.

Monthly Average Cotlook A Index

(US cent per bl)



Production Yet to Adjust to Reduced Consumption

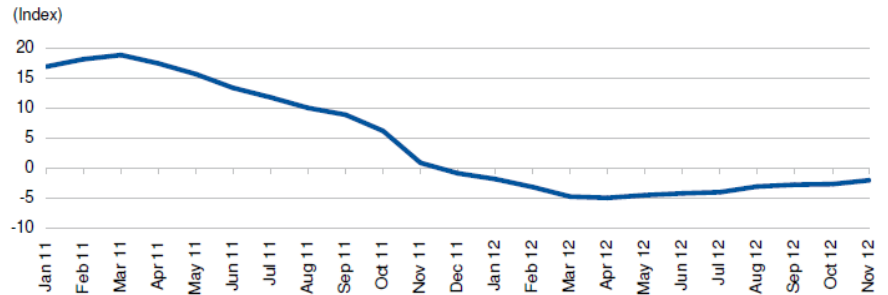


Source: USDA and India Ratings

Additionally, global production levels have not been able to adjust to the reduced level of cotton consumption post 2007-2008. However, given the recent improvement in consumption levels as well as the expected lower production, the global inventory in 2013-2014 may be lower than the current levels.

Uncertain Chinese Policy

Chinese Cotton Production Index



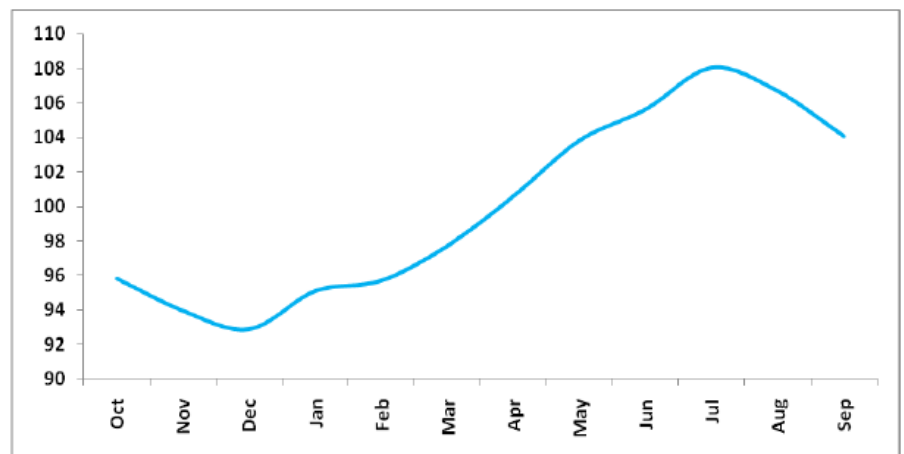
Source: Bloomberg and India Ratings

The largest event risk in the cotton market is the decision of Chinese policy makers to handle around 10 million tonnes cotton inventory. The precise way by which the Chinese policy makers decide to support their domestic cotton producers as well as facilitate their textile producers to access international cotton at reasonable prices will be closely watched. This uncertainty is likely to keep a check on global production levels in 2012-2013.

Cotton Seasonality Index

Seasonal indices method has been adopted to find out seasonality of Cotton prices in India. The monthly average auction price from 1990-91 to 2008-09 has been collected from spot market. Seasonal Indices were calculated by averaging monthly average prices and correcting the total to 1200. Correcting the sum to 1200 will be done to give equal weightage to each month. After getting correction factor by dividing 1200 by the sum of average, this correction factor will be multiplied with monthly average price to get adjusted Seasonal Indices.

The seasonality index for domestic cotton lint prices from 1990-91 to 2008-09, indicates smooth movement of prices. Like other commodities, cotton also shows a seasonality pattern in the price movement. As shown in the above figure, the cotton prices traded lower during the early arrival season, i.e., from October to December and started rising after January. The seasonality index remained below 100 units till March and started increasing only after mid April till August, which is the peak arrival season for cotton in Indian domestic markets and it has reached its highest at 108 units in the month of August.



Source: Karvy

Cotton Prices

Variety	Staple (In MM)	Mic
J-34	28.5	3.8

Punjab	Low(In Rs/Md)	High(In Rs/Md)
MANSA	3570	3610
ABOHAR	3580	3620
BHATINDA	3595	3625
BUDLADHA	3605	3635

Haryana

SIRSA	3500	3530
HISSAR	3510	3540
UCHANA	3520	3550
TOHANA	3525	3555

Rajasthan

SRI GANGANAGAR	3465	3495
HANUMANGARH	3520	3550

1 Maund =37.32kg

Variety	Staple (In MM)	Mic
MECH-1	29	3.6-4.2

Punjab	Low(In Rs/Md)	High(In Rs/Md)
Amravati	4050	4025

Variety	Staple (In MM)	Mic
Bt Cotton	-	-

Maharashtra

Kadi	4250	4350
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Punjab

Fajlika	3635	3565
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Cotton Arrivals

(Quantity in lakh bales of 170 kgs)				
States	2012-13		2011-12	
	Production as per CAB	Arrivals As on	Production as per CAB	Arrivals As on
	4/10/2012	20-1-2013	4/10/2012	20-1-2012
1. Punjab	18	9.32	18.5	9.96
2. Haryana	24	12.97	25	9.97
3. Rajasthan	16	9.63	17	8.58
A. North Total (1+2+3)	58	31.92	60.5	28.51
4. Gujarat	85	29.81	120	46.83
5. Maharashtra	80	24.4	74	27.68
6. Madhya Pradesh	17	7.83	18	9.37
B. Central Total (4+5+6)	182	62.04	212	83.88
7. Andhra Pradesh	72	33.55	72	23.84
8. Karnataka	12	4.9	12	4.74
9. Tamil Nadu	5	0.27	5	1.19
C. South Total (7+8+9)	89	38.72	76.5	29.77
10. Orissa	3	1.08	2	0.65
11. Others	2	0.7	2	1.04
D. Total (10+11)	5	1.78	4	1.69
Grand Total (A+B+C+D)	334	134.46	353	143.85

Source: CCI

Cotton Futures

Future Forecast in Domestic Markets; Feb 2013

Technical Analysis of Cotton Futures April 2013 contract at NCDEX



Rs/20 kgs

- April contract in NCDEX, denotes selling interest in the market.
- Decreasing volumes will add to the weak tone of the market.
- Immediate support could be seen at 895 touching such level price could slide further to 890.

Support and Resistance:

Support 2	Support 1	Resistance 1	Resistance 2
890	895	930	935

Expected Price range of Cotton Prices for next week

Market	Expected Trading Band for the coming Month	Expected Trend in coming Month
NCDEX	910-890	Sideways to Bearish Momentum

Future Trend in International Markets; Feb 2013

ICE Cotton Futures (March 2013 Contract) Technical Analysis



March 2013 Contract of ICE futures closed on up side. Prices ranged between 84.40 to 69.23 during the week. Immediate resistance level is at 87 breaching this may touch 89 levels during upcoming month.

Support 2	Support 1	Resistance 1	Resistance 2
70.25	74.40	88.10	89.20

All in cents/pound

Source: MRCI