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Cotton prices seesaw on high output

Almost 60 per cent of sowing complete in Rajasthan and Punjab

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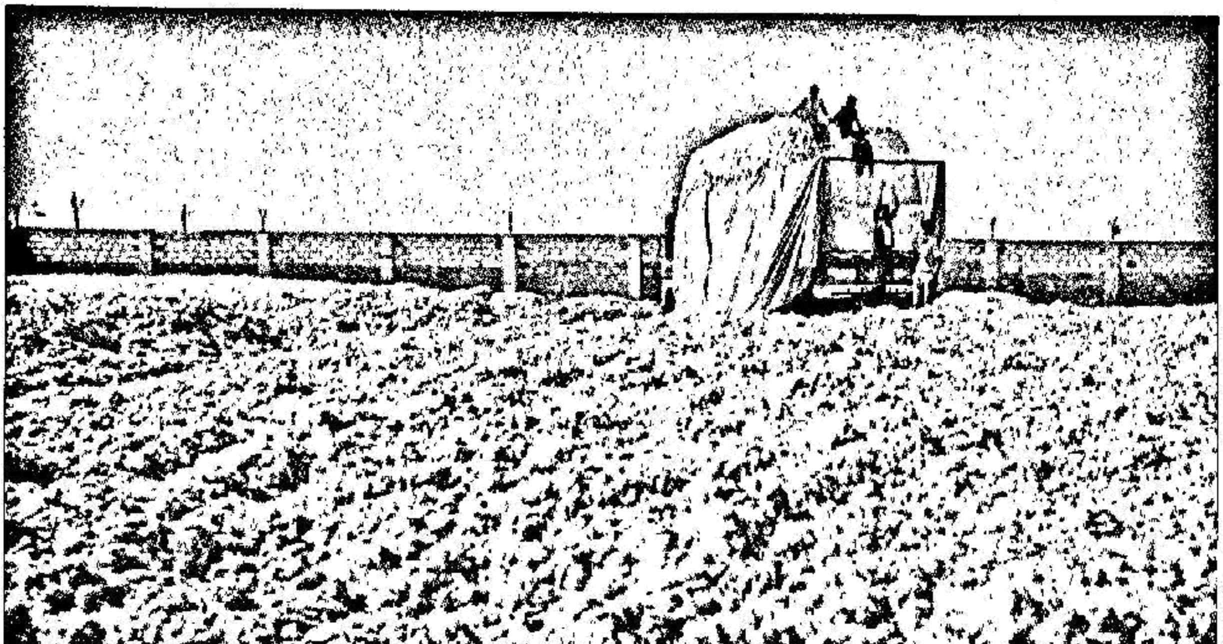

UNDER PRESSURE: Initial world cotton projections for 2012-13 show record closing stocks for the second consecutive season, resulting from an expected 6.7 million bale surplus in production over consumption, according to USDA

High domestic production and increased world supply, along with a gloomy global economy has put pressure on domestic cotton/'kapas' prices. Prices have witnessed some recovery since past one week due to the slow advance of southwest monsoon in India, which is crucial for sowing.

The cotton arrival season is nearing its end and almost 92.5 per cent of the crop has arrived so far. According to the Cotton Corporation of India (CCI), out of the estimated 347.05 lakh bales of cotton, 321.27 lakh bales had arrived till May 27, in line with last year's 321.52 lakh bales. Despite a decline in cotton consumption to 252 lakh bales, compared with 267 lakh bales last year, end stocks are estimated to decline sharply to 24.3 lakh bales on the back of record high exports that crossed 115 lakh bales this year. With the government lifting ban on exports, stocks may decline further and may support an upside in prices.

In the irrigated areas of Rajasthan and Punjab, almost 60 per cent of sowing is complete, while in the rainfed areas it would commence with the onset of monsoon in the respective regions. With record high prices in the year 2010-11, farmers had covered more area in 2011-12, which stood around 121.9 lakh hectares.

However, for the next season - 2012-13 crop year, cotton acreage may decline by around 10-15 per cent as farmers may opt for more remunerative crops like 'guar' in Rajasthan and Haryana, soya bean in Maharashtra, and groundnut in Gujarat.

According to the US department of agriculture's world agriculture demand-supply report, the initial 2012-13 world cotton projections show record world closing stocks for the second consecutive season, resulting from an expected 6.7- million bale surplus of production over consumption. World production is projected at 5 per cent lower than last season at 116.7 million bales in 2012-13, with reductions predicted for nearly all major cotton-producing countries, except the US. World consumption is expected to rise 3.3 per cent due to modest growth in both world GDP and cotton's share of world fibre demand. China's total ending stocks are expected to grow 14 per cent to 28 million bales, accounting 38 per cent of total world stocks. According to Vedika Narvekar, senior research analyst at Angel Broking, "With more than 90 per cent cotton already arrived in the market in the 2011-12 season, traders would now start eyeing sowing progress of the 2012-13 crop. Prices may take cues form the sowing progress and the advancement and distribution of rainfall in the cotton- growing regions of India".

Although, domestic demand supply fundamentals remain supportive for the upside in kapas prices, the downward pressure on the international market may limit gains, she added.

Cotton futures on MCX have tumbled more than 17 per cent since the first week of May. MCX cotton for June delivery has recorded a low of Rs 14,780 for one bale (170 kg) on Wednesday, but, is now on a recovery path. A surge in the benchmark ICE futures prices supported sentiments. A cut in interest rates by China influenced speculative buyers in the US to cover short positions.

"Prevailing weak sentiments are likely to continue towards Rs 14,700 per bale after that, possibly, a consolidation. However, strong bearishness will appear on the counter only after a break of Rs 13,800 with stiff volume. Conversely, prices need to close above Rs 16,900 to dent our short-term bearish outlook and take prices higher," says CP Krishnan, whole-time director at Geojit Comtrade.

MCX cotton prices have staged a massive bounceback to test the breakdown level of Rs 16,050-Rs16,200. "This completes the 38.2 per cent retracement for the fall from Rs 18,050 to Rs 14,780 during the past one month. Major resistance at Rs 16,050- Rs16,200 acts as support for prices to stage a positive turnaround. As long as this does not happen, odds favour a break of Rs 14,780 and fall to Rs 13,900 in the medium term. A close below Rs 15,440 would give an early signal of the impending fall," Venkateswaran Karikar, AVP, commodity research at IIFL pointed out.

NCDEX kapas April 2013 prices are drifting down from the contract high of Rs 1,129 per 20 kg levels.

According to Atul Shah, COO at Emkay Commotrade, "Prices are trading along the negative channel and we can expect the price to test the support of Rs 860 levels. On the continuous chart, prices are intact in upward trend. Undoubtedly, prices have settled above the symmetrical triangle. NCDEX kapas April 2013 support is identified at Rs 854 levels, a breach of this could correct to the next support of Rs 774 levels. At the same time, resistance is at Rs 994 levels, violation of this could extend to resistance at Rs 1,034 levels".

"Overall prices are expected to trade sideways or lower to the immediate support of Rs 854 levels," he added.

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