

COTTON

24th June 2005

MAJOR HIGHLIGHTS

- Domestic Cotton Markets Remain Strong
- NYBOT Cotton Sharply Higher on Speculative Buying
- Cotton Futures in China Rebound Sharply
- Pak Trading Remains Quiet

NEWS ANALYSIS

Cotton: US Mill Use Declined in the Month of May

The U.S. Census Bureau reported that total U.S. consumption was 462,738 running bales in May, down from 472,680 bales a year ago. The U.S. textile mills used cotton at a seasonally adjusted annual rate of 6.09 million 480-pound bales in May, down from the year-ago figure of 6.21 million bales, the National Cotton Council said Thursday. The NCC revised its April 2005 figure up slightly to 6.2 million bales from a previous 6.14 million bales. The mill-use number was considered disappointing by most sources, though it didn't have much impact on trading.

China Cotton Output may Fall

Cotton output in China is expected to decline to around 3.2 million tons between the year 2005 and 2006. Shi Jianwei, executive vice chairman of the China Cotton Association, attributed the shortfall to the decline in China's cotton acreage by 10 percent over the 2004-2005 period, the country's cotton output is projected to be around 5.76 million tons. In the meantime, the country's market demand for cotton is likely to grow to around 8.85 million tons as the output of yarn is expected to increase by one million tons. The decline in the cotton acreage is also expected to be affected by climate changes, cotton imports, the development of textile trade disputes, exchange rates, interest rates and the macro-regulative policies of the Chinese government. A previous report from the US Department of Agriculture predicted that China's cotton output for 2005 and 2006 would be 5.552 million tons while its total domestic consumption will reach 8.927 million tons. With a stockpile of 1.58 million tons, China would import approximately 3.266 million tons of cotton this year according to the report.

FUNDAMENTAL ANALYSIS

DOMESTIC MARKET

NORTH INDIAN MARKETS

Cotton prices in Sirsa mandi of Haryana remained almost unchanged. In Sri Ganganagar market however, the prices of Bengal deshi cotton improved today. Monsoon is yet to come in this region. The market sources do not expect any significant decline in the prices due to monsoon.

GUJARAT MARKET

At last monsoon hit Gujarat. Heavy rainfall recorded in the major cotton markets. However, the cotton prices did not see any change here. The market tone still remains strong. Kalyan (V-797) variety is seeing good demand from the south Indian states. Low stocks and end of arrivals are supporting the prices. The rain is likely to start showing its effects on the prices from early next month. The sowing would start after the rain is over. Till then the prices are expected to remain at the same level.

Variety wise Spot Prices in Major Domestic Markets (Rs/Quintal)

MARKET	Bengal deshi	J-34	Shankar	V-797
Sirsa				
1. Cotton Lint	3137	4025	-	-
2. Raw Cotton	-	-	-	-
Sri Ganganagar				
1. Cotton Lint	3450	3900	-	-
2. Raw Cotton	-	-	-	-
3. Cottonseed	1040	940	-	-
Ahmedabad/Kadi				
1. Cotton Lint	-	-	4274-4836	3149-3486
2. Raw Cotton	-	-	2225	1100
3. Cottonseed	-	-	890	710

MAHARASHTRA AND MP MARKET

Cotton prices witnessed almost no change in the states of Maharashtra and MP. The federation is the only seller in Maharashtra having around 22 lakh bales of cotton with it. The Cotton Corporation of India (CCI) has around 32000 bales of cotton in MP. MP is still waiting for rain. In Maharashtra MCU-5 (31 mm) fetched a price of Rs 18500-18700 per candy. Price of H-4 (27 and 28 mm) cotton in MP was quoted between 15200-16100 per candy, while Y1 fetched Rs 14100 to 14500 per candy. Prices of MCU-5 (30mm) were recorded at Rs 17000 to Rs 17500 per candy. Prices of cotton khal in Akola remains at Rs 253.90 per 50

kg. Prices of cotton oil in Mumbai remained at Rs 378 per 10 kg.

VAYDA BAZAAR

The medium staple cotton futures at the NCDEX rebounded today amid strong NYBOT futures. The August contract at the NCDEX today opened at the higher side. The contract witnessed very less movement however, remained in the positive territory throughout the day. The contract closed the day at the day's high price. It is expected that tomorrow

also the contract would open at the higher side however, movement in the prices may not be significant.

Medium Staple Cotton Futures At NCDEX (Rs/Quintal)

Contract	Prev. Set	High	Low	LTP*	Change
August	4545.00	4565.00	4555.00	4565.00	+20.00

INTERNATIONAL MARKET

USA

The cotton futures at the New York Board of Trade (NYBOT) settled sharply higher on improved speculative buying. The benchmark December contract settled 117 points higher at 53.46 cents per pound while July was up 214 points at 49.65 cents. The spread settled at 381 points. Most of the activity was prompted by July going into its notice period at the end of Thursday's session. The market participants are waiting to see if any company agrees to take physical delivery. It also appeared that many of the longs had already gotten out of July cotton, while many shorts had not and they covered those positions in late trading. Meanwhile, export sales for cotton were about as expected by the market participants. Net export sales for 2004-05 cotton were 143,200 bales for the week ended June 16, down two-fifths from the previous week and 30% under the previous four-week average, the U.S. Department of Agriculture said. New-crop 2005-06 sales were 94,700 bales. The USDA said total shipments for the week were 268,500 bales, down from 300,300 the previous week. Shipments for the 2004-05 year so far total 10.152 million bales, versus 11.141 million at the same time last year. The USDA projects 2004-05 exports will total 11.860 million bales. Higher crude oil prices supported the rally. The market may however, may see a reversal soon.

Cotton Futures at the NYBOT as on 23/06/05 (cents/pound)

Contract	Open	High	Low	Close	Change
July	47.80	50.05	47.10	49.65	+2.14
December	51.95	53.60	51.90	53.46	+1.17

CHINA

The China cotton futures settled modestly higher today. However, the volume remains light. The China Cotton Index (CCI) today went up smoothly and closed higher against the last day. The futures got strong support from the NYBOT futures that went up sharply higher. Turnover on CNCE e-market totalled 5380 tonnes, down by 130 tonnes than the previous session. All those were domestic Type 229. The open interests totalled 95000 tonnes, down by 190 tonnes. The open interests of MD contracts totalled 840 tonnes, up by 190 tonnes. The market opened higher,

and it was modest in the mid-session. The MD's turnover, which was silent for several days, had increased. The prices of all the contracts had moved up 10-109 Yuan. Today was the last day of trading and in the coming week the cotton futures in China are likely to remain strong.

PAKISTAN

Trade at the Karachi cotton market remained thin, as the major players remained on the sidelines during the session. The KCA spot rate stayed unchanged at Rs 2,275 per maund. The traders attributed the dull activity to the high prices demanded by the ginners. The mills and spinners are eyeing stocks of Trading Corporation of Pakistan (TCP), which would hold its next auction on Monday. The increase in demand for lint by leading mills and spinners would benefit the ginners, as TCP would wind up its sale of cotton to local mills by mid August. There is possibility of demand supply gap in near future, as the demand for textiles and yarn is rising. It would definitely benefit the ginners and prices of new crop would also go up, according to the market sources. It is expected that the auction of 87,200 bales by TCP on Monday would set the prices in the market. The ginners also might get good price for the little quantity of prime lint they now have in their stocks.

WEATHER WATCH (IMD)

Rain/thundershowers are likely at most places in north Konkan, at many places over south Konkan & Goa, Saurashtra and south Gujarat region and at a few places in the rest region out side west Rajasthan where it may be isolated. Isolated dust storm is likely over west Rajasthan.

Warning: Heavy to very heavy rainfall is likely at a few places over sub Himalayan West Bengal & Sikkim and north Konkan, isolated heavy rainfall also likely over Northeastern states, north Bihar, Saurashtra, south Gujarat region and south Konkan & Goa.

EXCHANGE RATE: 1 USD = Rs 43.56;
1 Euro = Rs 52.42

Latest ICAC Estimates on Global Cotton Scenario (As on 1st June)

Particulars	2003-04	2004-05	2005-06
Production	95.1	120.0	107.0
Consumption	97.7	106.7	109.0
Exports	33.3	33.1	37.0
Ending stocks	36.3	48.3	47.0
Cotlook A index*	68.3	53.0	68.0

(Figures in million bales)

*- US cents per pound

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