

COTTON

10th June 2005

MAJOR HIGHLIGHTS

- **Domestic cotton Prices Remain almost Unchanged**
- **NYBOT Cotton Fell Further on speculative Selling**
- **China Cotton Futures Fell Today**
- **Pak Ginners on Sidelines; Trading Lacks Lustre**

NEWS ANALYSIS

Cotton Area Declined in Pakistan

According to the government officials the cotton sowing area in Pakistan had reduced by 1.2 percent till June 5, 2004, but the cotton sowing area in Sindh increased by 4.6 percent. A total of 2,558,000 hectares were sown till June 5 against the 2,590,000 hectares sown in the same period of the Kharif season last year, showing a decrease by 1.23 percent. The area sown in Punjab stood at 2,127,000 hectares till June 5 against the 2,178,000 hectares sown in the corresponding period last year, which is a decrease by 2.3 percent and by 82.9 percent of the target. In Sindh, the area sown stood at 431,000 hectares against the 412,000 hectares sown in the corresponding period of last year showing an increase by 4.6 percent over the last year and 67.6 percent by the target area. A total of 3,247,000 hectares had been targeted for cotton sowing in the current Kharif season against last year's sown area of 3,229,000, which was an increase by 0.55 percent in the area-wise target. The target area in Punjab is 2,559,000 hectares for this season against the 2,547,000 hectares last year; the target area in Sindh is 638,000 hectares against last year's target of 635,000 hectares. The target area for Balochistan remained unchanged at 40,000 hectares. However, the target area for the NWFP was increased from 7,000 hectares last year to 10,000 hectares to help the government achieve its overall target. The federal committee on agriculture (FCA) in consultation with the provinces has fixed the cotton production target for 2005-06 at 12 million bales. Encouraged by the growth in cotton production in 2004-05, the cabinet increased the target to 15 million bales. The Ministry of Food, Agriculture and Livestock (MINFAL) formed the cotton production strategy, which has been thoroughly discussed with the provincial governments and private-sector stakeholders.

Pak Suffering Losses for Cotton Stocking by TCP

The Pakistan government is bearing a loss of over Rs 1.7 billion due to stocking of cotton around 1.4 million bales lying in its godowns across the country due to rising interest rates. In per unit basis it is around Rs (Pak) 300 extra per maund of cotton. The government spent Rs 16 billion to acquire 1.6 million bales. With the passage of time, the

carrying cost rose with an increase in Karachi Inter-Bank Offered Rate (KIBOR), however, with the federal government's announcement last month to dispose of cotton to local mills, the Trading Corporation of Pakistan would be able to sell 0.8 million bales to the local industry by August 2005. The state-run agency in September last intervened in the local market on the directives of the federal government to rescue falling prices, which slumped below Rs 2,000 per maund on account of a bumper crop. The lower international prices pushed the government to stop the exports in January. It took four months for the government to decide to sell cotton to the local mills. The delayed decision to sell the cotton locally might result in further loss by August 2005, which the government set to sell out all the stock to local textile industry and foreign buyers. By August time, the government has estimated that 0.8 million could be sold out to local mills. And the remaining around 0.6 million bales would be exported as the TCP would not offer them to local industry due to arrival of new crop. Out of the total 1.6 million bales, the TCP has been successful in selling over 100,000 thousands bales since the last month's decision and still stocks round 1.4 million bales. The state-run agency is firm that it will not sell cotton to local mills after August to protect the interest of growers and follow the government directives to export the commodity. As per figures, compiled by the TCP, shows that the corporation has made total contracts of 2.586 million bales from across the country, which included 693,100 bales from Sindh, 1.874 million bales from Punjab and 18,800 bales from Balochistan.

USDA Reported Fall in Export sales

Yesterday the USDA reported the weekly sales report for the period May 27 to June 2. The report showed decrease in cotton sales over the week. Net Upland sales of 93,300 RB were 17 percent below the prior week and 48 percent under the previous 4-week average. The major buyers were China (24,000 RB), Turkey (13,800 RB), Thailand (12,700 RB), and Mexico (12,300 RB). Net sales of 62,600 RB for delivery in 2005/06 were primarily for Thailand (15,900 RB), China (11,300 RB), Turkey (10,000 RB), Indonesia (8,200 RB), and South Korea (7,800 RB). Exports of 275,200 RB were 7

percent above the previous week and 2 percent over the prior 4-week average. The primary destinations were China (85,400 RB), Turkey (40,500 RB), Mexico (35,300 RB), Thailand (18,500 RB), Taiwan (16,100 RB), Indonesia (15,300 RB), and Pakistan (15,100 RB). The sales report could not have any significant impact on the NYBOT futures.

FUNDAMENTAL ANALYSIS

DOMESTIC MARKET

NORTH INDIAN MARKETS

Cotton prices in the North Indian states remained weak today also. The selling of its cotton stocks by the Cotton Corporation of India (CCI) pulled the cotton prices down in Sri Ganganagar market of Rajasthan. Sowing is almost completed in these states. According to the market sources the sowing has increased significantly this year.

GUJARAT MARKET

In Gujarat cotton prices maintained the stable trend. There was buying at the lower prices. The lower international prices are pressurising the cotton prices here as the exporters are reluctant to enter at such prices. Stocks are also good in Gujarat. The prices would continue this tone till the monsoon hits the market. Today around 4-5000 bales of cotton arrival was recorded, of which Shankar contributed only around 1000 bales.

MAHARASHTRA AND MP MARKET

Cotton prices in Maharashtra and MP maintained the same undertone today. Prices in MP found marginal support from the buyers. In Maharashtra Bunny fetched a price of Rs 18000-18500 per candy. Price of H-4 (27 and 28 mm) cotton in MP was quoted between 14800-16200 per candy, while Y1 fetched Rs 13700 to 13800 per candy. Prices of cotton khal in Akola remains at Rs 235.8 per 50 kg. Prices of cotton oil in Mumbai remained at Rs 368 per 10 kg.

INTERNATIONAL MARKET

USA

Cotton futures at the New York Board of Trade fell Thursday, continuing their descent by setting a four-month low on speculative selling and as traders were busy rolling positions from the July to the December contract. Most-active July Nybot cotton settled 60 points lower at 46.29 cents a pound. The export sales were a little bit under what was expected, but it's getting later in the marketing year and so it's not as big of an influence. Weekly export sales of net upland cotton were 93,300 running bales, down 17% from the previous week and 48% under the previous four-week average, the U.S. Department of Agriculture said Thursday. China, Turkey, Thailand and Mexico were the largest buyers. Total exports of 275,200 bales were 7% above the previous week and up 2% from the previous four-week average. Weather forecasts for the Mississippi Delta call for scattered to widely scattered showers and storms Thursday and Thursday evening with 0.10-0.25 inch of rain possible. Scattered showers and storms are possible Friday, with more scattered storms possible in eastern areas on Saturday and Sunday, according to the Meteorologix weather service said. Meanwhile, the USDA is scheduled to issue its June crop production and

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

MARKET	Bengal desi	J-34	Shankar	V-797
Sirsa				
1. Cotton Lint	3150	4037	-	-
2. Raw Cotton	-	-	-	-
Sri Ganganagar				
1. Cotton Lint	3350	3825	-	-
2. Raw Cotton	-	-	-	-
3. Cottonseed	970	950	-	-
Ahmedabad/Kadi				
1. Cotton Lint	-	-	4217-4667	3093-3261
2. Raw Cotton	-	-	2225	1100
3. Cottonseed	-	-	920	720

Medium Staple Cotton Futures At NCDEX (Rs/Quintal)

Contract	Prev. Set	High	Low	LTP*	Change
June	4511.00	4530.00	4510.00	4512.00	+1.00
August	4570.00	4595.00	4582.00	4582.00	+12.00

VAYDA BAZAAR

The medium staple cotton futures at the NCDEX today opened higher. The June contract remained positive throughout the day. The contract found some buying support and closed with a positive note. However, the contract closed near the day's low.

supply/demand estimates today. Little change is anticipated to the 2005-06 new-crop cotton data, though some analysts expect minor adjustments to old-crop exports. The USDA currently pegs 2004-05 exports at 13.4 million bales, and the expected exports are at 13.3 million to 13.7 million bales. The market is interested to see if there are any changes made to China's cotton consumption or imports, which is expected in either the July or August USDA report. It expected that the cotton futures are likely to remain under pressure for few more days however, the weather condition may support the futures after that.

Cotton Futures at the NYBOT as on 08/06/05 (cents/pound)

Contract	Open	High	Low	Close	Change
July	47.20	47.65	46.10	46.29	-0.60
December	51.15	50.39	50.45	50.71	-0.19

CHINA

The cotton futures at the China National Cotton Exchange (CNCE) declined today. The volume also went down against yesterday. The China Cotton Index (CCI) however, improved today. 7370 tonnes were concluded on CNCE e-market, 3740 tonnes less than yesterday's session.

Domestic Type 428 reached 100 tonnes, the rest was domestic Type 229. The open interests totalled 101970 tonnes, up by 1620 tonnes. The open interests of MD contracts totalled 2020 tonnes, down by 20 tonnes. The lower buying interest and concern over the recent trade dispute between US and China are pressurising the market.

PAKISTAN

Trading activity at the Karachi cotton market remained dull on Thursday, as most of the ginners stayed on the sidelines. The mills lifted around 210 bales imported from USA at Rs 2,450 per maund. The KCA spot rate remained intact at Rs 2,225 per maund. The leading mills picked up fine lots of USA to meet their requirements. Some of the ginners offered very limited poor quality lots on mill to warehouse basis at Rs 21,00 per maund to Rs 2,125 per maund. The spinners remained inactive. The fine cotton of Trading Corporation of Pakistan (TCP) would remain in great demand. The demand for cotton by the spinners would go further up in the coming days. The market participants expect the quality lots would fetch Rs 2,500 per maund to Rs 2,520 per maund in next few weeks. The main buyers of TCP lots are likely to be the mills and the private sector exporters tomorrow, when it auctions 65,000 bales.

WEATHER WATCH (IMD)

Dust storm/thunderstorm likely at a few places over Uttar Pradesh, Punjab and Haryana including Delhi. Isolated rain/thundershowers are likely over south Maharashtra and Goa. mainly dry weather in the rest region. Mainly dry weather in the rest region. Current rainfall activity over coastal Karnataka, Kerala, Lakshadweep and Andaman & Nicobar Islands is likely to continue.

EXCHANGE RATE: 1 USD = Rs 43.56;

1 Euro = Rs 53.21

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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