

COTTON

16th June 2005

MAJOR HIGHLIGHTS

- Domestic Cotton Spot Prices Improved Marginally
- NYBOT Cotton Futures Lower on Fund Liquidation
- China Cotton Futures Remained Mixed Today
- Pak Markets Eyeing TCP's Auction

NEWS ANALYSIS

CCI Launched Its Operation in Tamil Nadu

The Cotton Corporation of India (CCI) has acted as the main agency to protect farmer's interests by purchasing cotton at the minimum support prices in different states. The CCI in its latest venture has launched its market intervention in Tamil Nadu by starting purchases at minimum support price (MSP) in two southern cotton centres of Paramakudi and Rajapalayam yesterday. According to CCI, on the first day of MSP operation at Paramakudi, 50 quintals of kapas were bought from the farmers and most of the cotton bought at this centre belonged to LRA 5116 variety. The details of the transaction made at Rajapalayam are yet to be available. The CCI's entry into direct cotton purchases in the State, happening after more than 15 years or so, comes in the wake of depressed cotton prices scenario for the summer cotton forcing the State agriculture department to appeal to the CCI to enter the market. The arrival of summer crop has just hit the State, which is expected to peak out by this month-end or the early next month. This year due to huge cotton output domestically and internationally prices have come down drastically, which forced the CCI to intervene into the cotton markets.

Indian Textile Exports to US Growing Well

Indian textile exports to the US continued to record an increase in April '05 in total volume. However, the percentage growth rate remained lower than that posted in February and March according to US government data. China is still the market leader in textile exports to the US, with Mexico and Canada continuing to lose out by recording negative growths for this period. While Bangladesh also continued its increase in textile exports to the US, Pakistan has recorded a lower growth in textile exports to the US for April compared to the previous months. For the month of April '05, textile exports to the US increased by \$387m, which is a 26% jump compared to April '04. At the aggregate level, textile exports to the US have increased by 27% so far this year compared to the corresponding period last year. For this year, so far, textile exports to the US have earned India \$1,585m. In FY05, March has been the best month in which India recorded \$460m. Looking at the textiles sector from the micro level, India posted the highest percentage growth of 114% in yarn imports, and a decline of 2% in fabric imports. Furthermore, India recorded

increases of 35% and 14% in cotton products and wool products exports, respectively, for this year compared to the previous year. April has also seen India and China increasing their share of textile exports to the US at the expense of Mexico and Canada, who continued to record negative growth rates of 5.2% and 7%, respectively, in their textile exports to the US. In '05 so far, China has netted \$6,330m in textile exports to the US, which is a 59% increase over the figure posted in the previous year. China has also recorded much higher growth in fabric exports, cotton products exports and wool products exports than India for this year compared to the previous year. Bangladesh recorded a 21% growth in its textile exports to the US for FY05, with Pakistan recording a moderate growth of 9% for the year so far.

FUNDAMENTAL ANALYSIS

DOMESTIC MARKET

NORTH INDIAN MARKETS

Cotton prices in Sirsa mandi of Haryana remained weak today also. However, prices improved slightly in North India for Bengal deshi cotton. The prices of J-34 cotton remained under pressure. The storm last week affected the crop that helped the prices to go up.

GUJARAT MARKET

Cotton prices in Gujarat remained with a strong undertone. The prices however, maintained the same tone as were on yesterday. The cottonseed prices and kapas prices eased a little bit. The arrival of Shankar kapas has almost finished, whereas, Kalyan kapas is likely to end within the coming few days. Today around 4-5000 bales of cotton arrival was recorded, of which Shankar contributed only around 1000 bales. Until the monsoon hits the markets the prices are likely to remain almost unchanged.

MAHARASHTRA AND MP MARKET

The spot prices in the markets of Maharashtra and MP remained almost unchanged. No significant activities were seen in these markets. The sowing activities will commence after the onset of monsoon here. 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-

16300 per candy, while Y1 fetched Rs 13700 to 13800 per candy. Prices of cotton khal in Akola remains at Rs 258.8 per 50 kg. Prices of cotton oil in Mumbai remained at Rs 372 per 10 kg.

VAYDA BAZAAR

The medium staple cotton futures at the NCDEX today opened lower. However, after that the June contract went up significantly higher. But after remaining at the peak for some time the contract fell down and closed the day in a slight positive undertone. The August contract also fell today.

Medium Staple Cotton Futures At NCDEX (Rs/Quintal)

Contract	Prev. Set	High	Low	LTP*	Change
June	4520.00	4535.00	4505.00	4521.00	+1.00
August	4599.00	4600.00	4590.00	4600.00	+1.00

INTERNATIONAL MARKET

USA

Cotton futures at the New York Board of Trade (NYBOT) reversed the trend and closed lower amid continuous spread trading between July and December. The July cotton settled at 47.07 cents a pound, down 53 points on the day. December settled 52 points lower at 50.60 cents. Meanwhile, speculators decreased their net long position in the market to 5.3%, from 16.8% the previous week, NYBOT said in its spec/hedge report for the week ended June 10, released one day later than usual because of July cotton options expirations last Friday. The players however, think that the drop in speculative longs was not due to long liquidation but the addition of a tremendous number of new speculative shorts. In weather, showers and thunderstorms are possible Wednesday night into Thursday for western and southern areas of the Mississippi Delta, the Meteorlogix weather service said. A few showers and thunderstorms are possible in the south, with mostly dry conditions noted in central and northern areas on Friday. A few isolated showers are seen in the Southeast Wednesday, with mostly dry conditions expected Thursday and Friday. Dry conditions are expected in Texas Wednesday through Sunday with near- to above-normal temperatures, Meteorlogix said. Weekly exports are scheduled for release on Thursday morning, with expectations for modest sales. He expects from 100,000-150,000 bales in both old- and new-crop sales, with 250,000-260,000 bales in total shipments. Cotton futures traded lower despite a sharply lower dollar versus the world's major currencies and higher crude oil prices. That combination can often be supportive for cotton prices because a lower dollar makes cotton more attractive to foreign buyers and high crude oil products make cotton cheaper compared to synthetic fabrics.

Cotton Futures at the NYBOT as on 15/06/05 (cents/pound)

Contract	Open	High	Low	Close	Change
July	47.65	47.75	47.00	47.07	-0.53
December	51.10	51.20	50.57	50.60	-0.52

CHINA

The cotton futures in China remained mixed today. The volume however, declined. The ongoing trade disputes between US, EU and China are pressurising the cotton

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	3875	-	-
2. Raw Cotton	-	-	-	-
3. Cottonseed	1040	960	-	-
Ahmedabad/Kadi				
1. Cotton Lint	-	-	4274-4780	3149-3374
2. Raw Cotton	-	-	2225	1100
3. Cottonseed	-	-	950	755

market sentiments. Today 7190 tonnes were concluded on CNCE e-trading market, down by 320 tonnes from yesterday's session. Domestic Grade 428 reached 240 tonnes, and the balance was Grade 229. The open interests totaled 102860 tonnes, down by 470 tonnes. The open interests of MD contracts totaled 1970 tons, up by 40 tonnes. The price of MA rose 10/200 Yuan, MD's was similar with the last session. China cotton futures are likely to remain slightly weak in the coming days.

PAKISTAN

Due to the reluctance of the majority of the market players to participate in the market activities, the cotton trading remains dull in Pakistan. The ginners stood on the sidelines, as they wanted to hold their stocks for coming sessions when they expected the prices to rise. Mills lifted around 120 bales at Rs 2,350 per maund. The KCA spot rate stayed unchanged at Rs 2,225 per maund. The ginners of southern Punjab offered very limited quantity of cotton at prices between Rs 2,230 per maund and Rs 2,350 per maund. The spinners and mills were eyeing fine lots of Trading Corporation of Pakistan (TCP), which would hold auction of around 56,000 bales on Saturday. TCP has been rejecting foreign buyers' bids, as they offer low prices. It has managed to sell its stocks to local mills for Rs 2,385 per maund. The ginners are holding quality lint in limited quantity would try to hold back their stocks until new crop from the cotton sowing areas of lower Sindh arrives by mid August. Most of the mills and spinners are still in need of fine lots. Thus, spinners are offering to lift TCP's quality lint for Rs 2,385 per maund and poor quality lots for Rs 2,285 per maund. Therefore, the Pakistani cotton markets are expected to maintain the strong undertone.

WEATHER WATCH (IMD)

Rain/thundershowers are likely at many places over Konkan & Goa and isolated in rest Maharashtra. Mainly dry weather in the rest region. Isolated heavy rainfall is likely over Kerala, Coastal Karnataka and South Konkan & Goa.

EXCHANGE RATE: 1 USD = Rs 43.61;
1 Euro = Rs 52.69

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

Disclaimer

The information and opinions contained in the document have been compiled from sources believed to be reliable. The company does not warrant its accuracy, completeness and correctness. Use of data and information contained in this report is at your own risk. This document is not, and should not be construed as, an offer to sell or solicitation to buy any commodities. This document may not be reproduced, distributed or published, in whole or in part, by any recipient hereof for any purpose without prior permission from the Company. IASL and its affiliates and/or their officers, directors and employees may have positions in any commodities mentioned in this document (or in any related investment) and may from time to time add to or dispose of any such commodities (or investment). Please see the detailed disclaimer at <http://www.agriwatch.com/Disclaimer.asp>

© 2005 Indian Agribusiness Systems Pvt Ltd.