

## COTTON

22<sup>nd</sup> June 2005

### MAJOR HIGHLIGHTS

- Domestic Cotton Markets End the day With a Steady Tone
- NYBOT Cotton Higher on Strong Buying Support
- China Cotton Futures Settled Lower Today
- Trading Activities Remain Quiet

### NEWS ANALYSIS

#### Cotton: US Crop Normal; India Eyeing Monsoon

U.S. cotton in good-to-excellent condition rose to 63% in the week ended June 19 from 60% the previous week according to the U.S. Department of Agriculture. The 14-state average showed the cotton crop is 100.9% of normal compared with last year, up from 99.8% last week. One year ago, the crop was 102.3% of normal at this time. As of Sunday, 97% of the cotton crop had been planted, the same as a year ago and also equal to the five-year average. The USDA said 28% of the crop was squaring, up from 16% the previous week but down from 38% one year ago and the 36% five-year average. Four percent of the crop was setting bolls, compared with 6% one year ago and the 7% five-year average. While crop progress is a little behind the curve, the overall crop condition is good and there is no cause for concern at this point. Coming to India the sowing of cotton in the states of Haryana, Punjab and Rajasthan is over. The total area has increased by around 10-15 % according to the market sources. In the irrigated areas of Gujarat sowing is going on. In the rainfed areas of Gujarat and in the states of Maharashtra and MP cotton sowing is waiting for the monsoon. In the South Indian states the sowing is going on in some parts. According to the Indian Meteorological Department, India's monsoon season is expected to get into full swing within the next couple of days. The monsoon season will benefit planting in the main cotton-producing state of Gujarat. India's agriculture is critically dependent on the June-September monsoon rains. However, any further delay and scanty monsoon may have a bad effect on the overall crop condition of the country.

#### GM Cotton may Cover Half of the World Crop

Preference for GM cotton by the farmers in India and Brazil are likely to boost the demand worldwide so much that the share of the GM cotton may be more than half of the total cotton production according to the Rabobank. The present contribution of the GM cotton to the world cotton production is around 35 per cent. Cost of pesticides contributes as the major component of the total cost of cultivation. To cut down costs researchers tried to develop many resistant varieties. The GM crop by the Monsanto is the result of that research. A smaller chemical bill can lower farmers' costs of production, boosting their incomes. The expansion of GM production, particularly in regions, which already operate

under a fairly low-cost production system, will have long-term implications upon the marginal cost of production and, subsequently, prices according to the Rabobank report. India, the world's third-largest cotton-grower, planted 550,000 hectare (1.36 million acre) of biotech crops last year, up 460% from a year earlier, Rabobank said. Some estimates indicate that this area may officially double in 2005-06 to 1 million hectare and, coupled with a higher proportion of better performing seeds.

### FUNDAMENTAL ANALYSIS

#### DOMESTIC MARKET

##### NORTH INDIAN MARKETS

In the North Indian markets prices of cotton remained mixed today. Sirsa market saw some weakness in the prices of both J-34 and Bengal deshi whereas Sri Ganganagar market witnessed improvement in the prices of both the varieties. However, monsoon is coming nearer and it may put weight on the prices.

##### GUJARAT MARKET

Cotton prices in Gujarat maintained the stable trend today. There were no major activities found in the cotton markets in Gujarat. Sellers are not there in the markets at present. This is helping the market to maintain the firm undertone. Monsoon has reached the southern part of the state. It is expected that the monsoon would reach to the main part of the state within 2-3 days and this may pressurise the prices.

##### MAHARASHTRA AND MP MARKET

Cotton prices remained unchanged in the states of Maharashtra and MP amid reluctance of the buyers and sellers to participate actively in the trading. Some parts of Maharashtra are getting rain and the sowing is likely to start after one week. The prices are expected to fall slightly within two to three days. 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 14000 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 257.50 per 50 kg. Prices of cotton oil in Mumbai remained at Rs 378 per 10 kg.

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

MARKET	Bengal desi	J-34	Shankar	V-797
Sirsa				
1. Cotton Lint	3137	4025	-	-
2. Raw Cotton	-	-	-	-
Sri Ganganagar				
1. Cotton Lint	3437	3900	-	-
2. Raw Cotton	-	-	-	-
3. Cottonseed	1050	960	-	-
Ahmedabad/Kadi				
1. Cotton Lint	-	-	4274-4780	3149-3430
2. Raw Cotton	-	-	2250	1150
3. Cottonseed	-	-	910	735

## INTERNATIONAL MARKET

### USA

Cotton futures at the New York Board of Trade (NYBOT) settled higher amid strong buying supports and technical support. July cotton settled 57 points higher at 48.73 cents, and the most active December cotton ended 54 points higher at 53.03 cents a pound. December cotton opened higher on follow-through buying from recent gains and positive technical momentum, which attracted fund interest. Meanwhile, the latest spec/hedge report from Nybot for the week ended June 17 showed speculators were net long the market by only 0.5%, down from 5.3% last week, evidence that spec longs liquidated and commercials covered shorts. Open interest for the week fell 4,526 contracts. Some concerns over hot, dry weather in west Texas are beginning to surface, however. Texas cotton areas are expected to remain dry with above-normal temperatures according to the Meteorologix weather service. The cotton scenario looks good presently. Therefore, it is expected that the cotton prices would remain stronger in the coming few days.

#### Cotton Futures at the NYBOT as on 21/06/05 (cents/pound)

Contract	Open	High	Low	Close	Change
July	48.30	49.00	48.00	48.73	+0.57
December	52.69	53.39	52.65	53.03	+0.54

### CHINA

The cotton futures in China settled lower with light volumes. However, the China Cotton Index (CCI) continued the improvement today also. Turnover on CNCE e-market totalled 8260 tonnes, down by 3910 tonnes than the previous session. All those were domestic Type 229. The open interests totalled 95010 tonnes, up by 1960 tonnes. The open interests of MD contracts totalled 650 tonnes, down by 1490 tonnes. The market opened slightly, the turnover declined sharply, and open interests continuously moved up. The open interests of MA0507 decreased in today's session again. The China International Cotton Conference 2005 is going on and the market participants are watching the developments. The cotton futures in China are likely to remain strong overall.

### VAYDA BAZAAR

The medium staple cotton futures at the NCDEX maintained the weakness today. The August contract however opened higher than the previous closing and maintained the strong movement. But after setting a significant high the contract went down and closed at the day's low. The strength is likely to continue tomorrow.

#### Medium Staple Cotton Futures At NCDEX (Rs/Quintal)

Contract	Prev.	Set High	Low	LTP*	Change
August	4558.00	4580.00	4560.00	4560.00	+2.00

### PAKISTAN

Dull activity was witnessed at the Karachi cotton market when majority of the market players stood on the sidelines. However, mills and other buyers remained busy in lifting the stocks they purchased in Trading Corporation of Pakistan (TCP)'s previous auction. Deals were made for around 100 tonnes of cotton imported from India, which was offloaded at Karachi port three days ago. The spot rate stayed unchanged at Rs 2,275 per maund. Traders expect that the TCP would remain a dominant player in the market and probably would carry on its activity even after August 15. The TCP would open tenders for sale of 87,200 bales on Monday next to the local buyers. The mills would lift the major chunk of the TCP's lint to be followed by spinners. The new crop from Punjab would arrive in the market by mid July while crop of Sindh would be available by mid August. The TCP's weekly sale of cotton has strengthened the position of mills in the market. The prices are likely to remain strong in the Pakistan markets.

### WEATHER WATCH (IMD)

Isolated dust storm/thunder-storm is likely over Punjab, Haryana, Chandigarh and Delhi. Mainly dry weather in the rest region. Rain/thundershowers are likely at most places in Konkan & Goa; at many places over sauRashtra and south Gujarat region and at a few places in the rest region outside west Madhya Pradesh and Rajasthan, where it may be isolated. Isolated dust storm is also likely over Rajasthan.

**Warning:** Heavy to very heavy rainfall likely at a few places over Konkan & Goa, and coastal Karnataka. Isolated heavy rainfall also likely over northeastern states, sub Himalayan West Bengal & Sikkim, Saurashtra & Kutch, south Gujarat region, Kerala and Lakshadweep

**EXCHANGE RATE:** 1 USD = Rs 43.50;  
1 Euro = Rs 53.01

**Latest ICAC Estimates on Global Cotton Scenario (As on 1<sup>st</sup> 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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