

COTTON

7th June 2005

MAJOR HIGHLIGHTS

- Domestic Cotton Spot Prices Stable; Futures Down
- NYBOT Cotton Sharply Lower on Heavy Speculative Selling
- Dull Trading Continues in Pakistan
- Chinese Cotton Futures Settled Modestly Higher

NEWS ANALYSIS

Centre Likely to Subsidise Cotton Export from Maharashtra

The Centre has agreed to subsidise export of cotton procured by Maharashtra state federation by Rs 500 per bale. The Government decision is expected to help the State to liquidate part of its cotton stocks of 30 lakh bales. The subsidy is for transport of cotton from procurement centre to the nearest port of shipment. A notification to this effect is expected to be issued soon. According to the market sources, the State Government would try to export 10 lakh bales of cotton in the current season. The State marketing agency for cotton is expected to tap China for export of medium and short staple cotton, where there is good demand for these varieties. However, cotton traders in the State do not see this development positively. However, the cotton traders are not happy with this decision given the fact that cotton has been procured at a much higher rate in Maharashtra than the minimum support price of Rs 1,760 per quintal. The traders also demand the same benefit for themselves. In the cotton season of 2004-05, the Maharashtra Government through its nodal body, The Maharashtra State Co-operative Cotton Growers Marketing Federation (MSCCGMF), has procured 212 lakh quintals of cotton at a price of Rs 3,664 crore, under the Cotton Monopoly scheme. However, the subsidy and the permission to exports would not be very high in monetary terms given the fact that the cotton monopoly scheme had been running into huge losses for the last 10 years. The accumulated loss of the scheme is Rs 4,009 crore and this year, the loss is expected to be between Rs 1,600 crore and Rs 1,650 crore.

Cotton Traders Disagree With the CAB Estimates

Cotton traders and textile industry have disputed the Cotton Advisory Board's (CAB) estimate of this year's total cotton production at 232 lakh bales (lb). Going by market arrivals they predict the output to be higher than the CAB figure by at least 8 lb, at 240 lb--the highest ever production. According to traders, the current availability of cotton in the domestic market is more than 55 lb. By far, 236 lb have reached the market and another 405lb are expected to hit the market shortly. Also, no major decline in production is expected in the coming (October-September) season as well. Reports suggest that in Punjab, Rajasthan and Haryana, where sowing has been completed, area under cotton cultivation has gone up by significantly. However, there are fears that the record production would pull down prices. Allaying such fears, the mill owners say that with a major increase in yield per hectare, any dip in price would be more than offset by volumes. From 2002-03 season to May 2005, domestic cotton prices had declined 15-20%. On the other hand, yield per hectare increased 45% during the period, keeping farmers' income at higher levels. Given the current level of production, yield is estimated to have touched a record high of 440 kg /hectare. The total demand stands at 210 lakh bales, which falls short of supply by 30 lakh bales. The demand for raw cotton has increased from 150.39 lakh bales (in 2004-05) to 168 lakh bales this year. The same trend is seen in the mills sector and the powerlooms with the demand increasing from 13 lakh bales (in 2004-05) to 17 lakh bales and from 10.5 lakh bales (in 2004-05) to 13 lakh bales respectively. Due to an increase in cotton production, the quantity of cotton imported is expected to come down from 7.21 lb in 2004-05 to 6 lakh bales this year, and exports are likely to increase from 13.25 lb in 2004-05 to 14 lb this year.

FUNDAMENTAL ANALYSIS

DOMESTIC MARKET

North Indian markets

Spot prices in the North Indian markets remained under pressure today also. Buyers were reluctant to enter the market. The sellers preferred to hold the stocks in

anticipation of better prices once the monsoon it's the states.

Gujarat market

Cotton prices in Gujarat maintained the stable trend. The undertone was however, positive. There was buying in V-797 from the stockists in anticipation of higher prices ahead. Shankar remained almost unchanged. Scattered buying was seen today. Today around 5-6000 bales of cotton arrival was recorded, of which Shankar contributed only around 1000 bales.

Maharashtra and MP Market

Cotton prices in Maharashtra and MP remained unchanged today amid no significant activities. There is not likely any change in prices in the nearby days. 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 14800-16000 per candy, while Y1 fetched Rs 13400 to 13700 per candy. Prices of cotton khal in Akola remains at Rs 228.3 per 50 kg. Prices of cotton oil in Mumbai remained at Rs 366 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	3150	4037	-	-
2. Raw Cotton	-	-	-	-
Sri Ganganagar				
1. Cotton Lint	3350	3825	-	-
2. Raw Cotton	-	-	-	-
3. Cottonseed	960	930	-	-
Ahmedabad/Kadi				
1. Cotton Lint	-	-	4217-4639	3093-3261
2. Raw Cotton	-	-	2250	1125
3. Cottonseed	-	-	940	725

Vayda Bazaar

The medium staple cotton futures at the NCDEX today opened lower. The June contract remained under pressure throughout the day. The contract remained under pressure

due to sharp decline in the NYBOT futures. The contract closed the day at the day's low.

Medium Staple Cotton Futures At NCDEX (Rs/Quintal)

Contract	Prev. Set	High	Low	LTP*	Change
June	4520.00	4517.00	4498.00	4498.00	-22.00
August	4605.00	4601.00	4570.00	4576.00	-29.00

INTERNATIONAL MARKETS

USA

The cotton futures at the New York Board of Trade (NYBOT) settled lower amid heavy speculative selling. The benchmark July contract settled 97 points lower at 47.37 cents a pound. The rolling of positions from July into December was the main attraction. Traders attributed this option related selling to the trade issues between China and the U.S. U.S. officials met with Chinese government over the weekend to discuss rampant product piracy but the trip was overshadowed by Chinese complaints about U.S. textile quotas. The participants opined that the volume was

not extremely heavy but the selling pressure was constant throughout the session. Meanwhile, Chinese Commerce Minister Bo Xilai Monday launched a vigorous defence of China's textile policies in an interview with National Public Radio. The radio network quoted Bo as saying China does not want a trade war with the U.S. but that it's China's right under WTO rules to export more textiles to the U.S. and E.U. Thus, overall scenario remains bearish in the near-term.

Cotton Futures at the NYBOT as on 06/06/05

(cents/pound)

Contract	Open	High	Low	Close	Change
July	48.49	48.65	47.15	47.37	-0.97
December	52.55	52.65	51.25	51.52	-0.95

China

The cotton futures in China settled modestly higher today amid support from the Chinese Commerce Ministry. The minister supported the Chinese textile policy. Turnover on CNCE e-market totaled 10420 tonnes, up by 3830 tonnes than the previous session. Domestic Type 428 reached 350 tonnes, the balance was domestic Type 229. The open

interests totaled 99250 tonnes, up by 890 tonnes. The open interests of MD contracts totaled 2100 tonnes, up by 20 tonnes. The China Cotton Index (CCI) also improved marginally today. In the coming days the trade dispute between US and China is likely to affect the market prices significantly.

Pakistan

Trading activity remained dull at the Karachi cotton market with around 200 bales changed hands. Mills and exporters lifted cotton of various grades in limited quantity. Fine lots fetched Rs 2,340 per maund. The KCA spot rate stayed intact at Rs 2,225 per maund. Traders said the mills picked up fine lots on slightly increased rates. The buyers also picked up poor quality lots of upper Sindh in limited number. The spinners made future contracts for poor quality lint on low prices. The quality stocks lying with

ginners might end by the end of July. The fine lots would remain in great demand, as mills and spinners were expecting a surge in demand for their products. The main buyers of TCP's lots would be mills and exporters. Recent decline in lint prices in international market has dimmed the prospects of export of stocks. There is little chance for the cotton prices to move significantly.

WEATHER WATCH (IMD)

Dust storm/thunderstorm likely at a few places over Uttar Pradesh, Punjab and Haryana including Delhi. Rain/thundershowers likely at a few places over Konkan &

Goa and Madhya Maharashtra. Isolated dust storm/thunderstorm likely over North Rajasthan and west Madhya Pradesh. Mainly dry weather in the rest region.

EXCHANGE RATE: 1 USD = Rs 49.53; 1 Euro = 53.55

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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