

COTTON

May 30 - June 04 2005

NEWS ANALYSIS

China Not Imposing Export Tariffs on Textiles

China announced Monday it would no longer impose export tariffs on 81 categories of textile products, beginning June 1, 2005. A previous decision to quintuple the export tariffs on 74 textile categories, on which export tariffs were imposed from Jan.1 this year, was revoked, according to sources from the Customs Tariff Commission of the State Council, China's cabinet. The export tariff on flax yarn will also be abolished, the Commission said. On May 20 China had made a decision to revoke export tariffs on two categories of textile products. Monday's decision was announced in the wake of European Union's decision to impose quotas on imports of Chinese textiles, as well as United States' decision to re-impose restrictions on seven kinds of Chinese textile and clothing imports recently.

US Ban of Chinese Textile Imports Unlikely to Benefit India

The US has banned the three categories of textiles from China as their increase in the first quarter was above the acceptable limits. However it is unlikely to benefit India immediately, and Indian exporters are not showing much more interest on this. According to the president of Confederation of Indian Apparel Exporters (CIAE), the Chinese will not stop the business so easily, they will definitely find some alternative way of exporting these goods. He also reported that they might ship the fabric to other countries like Vietnam, Indonesia, Thailand or even Sri Lanka and using those countries as a base of export. Therefore the Indian exporters have not yet seen a major gain from this move. The Indian exporter is actually losing business and getting non-competitive due to various factors such as reduction in Duty Drawback, re-opening of 80HHC cases and higher input and fuel costs. According to CIAE, India can have a steady growth rate of 15-20% annually with a little help from the government on these issues. The US will now enter into consultation with China regarding the ban within 30 days of the China's receipt of the request. The US will put together every effort to reach a mutually satisfactory agreement with the Chinese to ease or avoid the threat of disruption in the US market for these product categories within 90 days of such request.

TCP Asked to Sell Its Cotton Stocks by August

The ministerial committee on disposal of cotton and purchase and sale of raw cotton told the Trading Corporation of Pakistan (TCP) to sell its stock of cotton in the domestic as well as in the international markets within August 15. After the deadline the TCP can sell cotton only

for exports. This would allow the government entity to purchase fresh stocks of the next crop from the market. The buying by the TCP as a second buyer would help the farmers to get remunerative prices. This year also the TCP played an important role in stabilizing the falling cotton prices.

GEAC's Decision on Bt Cotton may Raise Controversy

A recent move by the Genetic Engineering Approval Committee (GEAC) is likely to raise controversy between those with Bt cotton commercialisation approvals and those without. Additionally, there appears to be a division between Monsanto sub-licensees and non-Monsanto Bt cotton players. The non-Monsanto section of the seed industry has termed the recent GEAC moves with regards to Bt cotton approvals as being anti-competitive. They argued that this move would result into monopoly and continuation of high prices of Bt cottonseeds. However, Monsanto denies the charge of monopoly. According to the other players after clearing Bt cotton hybrids that conform to certain minimum norms, the GEAC should not change rules suddenly. A procedural change introduced by the GEAC recently makes the approval stringent for those Bt cotton hybrids, which are sourced from seeds not yet notified by the Indian Council of Agricultural Research. For those hybrids, GEAC has asked companies to limit their extent of seed production during the first year to one acre only as compared to the earlier limit of 100 hectare (250 acres). In the second year, GEAC may give approval for seed production in about 20 acres. Second, instead of "minimum of one year of large scale trials (LST)" required before giving a go ahead for commercialisation, GEAC had asked companies to conduct "minimum of two years of LST". Till date, all the Bt cotton hybrids approved for commercialisation belong to companies that are licensees of US-based Monsanto. Many of these approved varieties are sourced from non-notified hybrids that have undergone one year of LST. The seeds of these companies that include Maharashtra Hybrid Seeds Company (Mahyco), Nuziveedu Seeds, Rasi Seeds and Ankur Seeds incorporate the cry1Ac gene, based on Bollgard, the specific gene construct patented by Monsanto.

Area Under GM Cotton may Fall in Australia

The area planted with genetically modified (GM) cotton in Australia could fall this summer, with Monsanto announcing a 20 per cent increase in the cost of its cotton plants. About 70 per cent of the crop planted this year was Monsanto's new two-gene cotton. Growers say the price rise could force them to return to non-GM cotton and use chemicals to

control pests. Though the Monsanto says the price has been set in collaboration with the industry the farmers are not satisfied. The farmers may go for conventional farming due to this. However, the company thinks though the \$300 is little up but still it would be economically viable. Meanwhile, the National Australia Bank says cotton prices

could rise up to 17 per cent next summer because more expensive oil is pushing up the price of synthetics. However, the quality issue may be a matter of concern in this regard.

USDA Reports Reduced Weekly Export Sales for the Period May 20-26

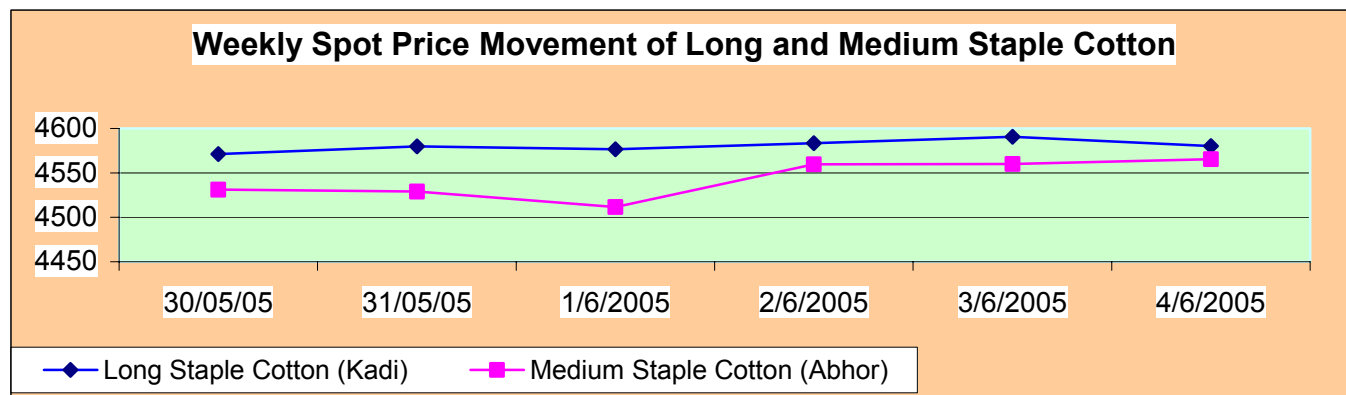
The USDA reported a decline in the weekly cotton sales for the period May 20 - 26. The net sales as well as exports both reduce on the week. Net Upland sales of 112,700 RB were 70 percent below the prior week and the previous 4-week average. The major buyers were China (54,100 RB), Turkey (16,100 RB), Indonesia (8,500 RB), Mexico (8,400 RB), and Vietnam (6,700 RB). Reductions of 5,900 RB for Canada were changed to delivery in 2005/06. Net sales of 29,600 RB for delivery in 2005/06 were primarily for South Korea (7,800 RB), Canada (6,100 RB), and Japan (5,300

RB). Exports of 257,000 RB were 7 percent below the previous week and 9 percent under the prior 4-week average. The primary destinations were China (80,400 RB), Turkey (33,100 RB), Thailand (31,300 RB), Mexico (30,200 RB), Taiwan (17,000 RB), and Indonesia (16,300 RB). The lower exports are expected to pressurise the cotton futures.

PRICES

Spot (Domestic)

Date	Rates (Rs/Quintal)	
	Long Staple Cotton (Kadi)	Medium Staple cotton (Abohar)
30/05/05	4571.05	4531.20
31/05/05	4579.85	4528.95
01/06/05	4576.55	4511.65
02/06/05	4583.55	4559.50
03/06/05	4590.70	4560.15
04/06/05	4580.10	4565.30



Futures: July contract (NYBOT)

Contract	Open	High	Low	Change	Close
5/31/2005	49.61	49.95	48.5	48.64	-1.79
6/1/2005	48.36	48.7	47.65	48.59	-0.05
6/2/2005	48.15	49.21	48.15	48.76	0.17
6/3/2005	48.76	49.1	48.1	48.34	-0.42

FUNDAMENTAL ANALYSIS

INTERNATIONAL MARKETS

USA

The cotton futures at the New York Board of Trade (NYBOT) declined overall this week. The very first day saw sharp decline in the cotton futures amid bearish technical and fundamental news. The roll over of positions from July into October also remained as the bearish factor for the market. Fundamentally, market sources said news of rainfall in the dryland areas of west Texas and the Delta was bearish for cotton prices as it boosts the cotton crop for the 2005-06 season. Weather reports noted that planting is active through west Texas and increasing shower activity during the second half of this week will improve emergence and growth of dryland fields. In the U.S. southeast region, planting progress is ongoing while more rain and warmer temperatures benefit the crop. Pressure from a rising dollar mixed with rising trade tensions with China were also behind the steady decline. Only for a day the futures tried to recover amid strong buying supports. A report from a government research body forecasting that India's June monsoon rains may be 34% below normal levels was seen by the market participants as bullish. However, on the last day also the futures declined amid bearish US export data. Export data from the U.S. Department of Agriculture Friday showed that for the week ended May 26, net upland sales of 112,700 running bales (RB) were 70% below the prior week and the previous four-week average. Exports of 257,000 RB were 7% below the previous week and 9% under the prior four-week average. The other factors have been sharply declining euro against the dollar and trade relation between US, UK and China. Therefore, the overall scenario is pointing towards a weak outlook for the next week also.

China

Cotton futures in China remained almost mixed this week. The futures started this week on a positive note. The CNCE trading finished the first day limit up. The announcement Monday that China would no longer impose export tariffs on 81 categories of textile products, beginning June 1, 2005 greatly supported the cotton prices. Traders were closely watching the developments of textile trade battle. The

millers and the other participants remained cautious about the ongoing trade tensions on textile products between China and US and EU. The policy by the government in this regard is going to be very crucial. Meanwhile, the announcement by the China National Cotton Reserves Corporation that it intends to rent cotton warehouses from the public at Tianjin and Shanghai, indicates towards more imports of cotton. This also put weight on the cotton prices. The China Cotton Index (CCI) however, declined overall this week. In the coming week also the cotton futures in China are expected to remain with the same tone.

Pakistan

Cotton trading in Pakistan remained almost dull throughout the week. Prices however, remained unchanged at Rs 2225 per maund. The leading ginner of upper Sindh and southern Punjab did not offer much of their stocks in order to keep their prices at the TCP's levels. They offered second-grade lint to the buyers at prices below the spot rates. The private sector exporters also brought their produce in the market for domestic sale. Due to little improvement in international market, private sector exports were in a position to sell the produce to local buyers on better rates. The private sector exporters and mills participated in Trading Corporation of Pakistan (TCP)'s open auction of more than 55,000 bales on Monday. TCP received bids of Rs 2,300 per maund for its cotton. The fine lots would remain in demand until the new crop starts arriving by mid August. Very little stocks of around 12000 bales were lying with the ginner now and that too was of low quality, due to which they were not receiving buyers. However, the ginner felt there was no dearth of buyers for low-grade lint and they seem to be comfortable. As the domestic consumption of yarn and cloth has gone up by 30 percent, the ginner could sell their produce on slightly competitive prices to the mills. The leading mills and spinners have received increased orders for cloth and yarn from abroad while domestic demand has also risen. Thus, there may be some improvement in the prices in the early next week.

DOMESTIC MARKET

Cotton prices improved slightly in North Indian states. Prices remained stable with a strong undertone in Gujarat. Futures at the NCDEX also improved this week.

North Indian Markets

Prices of cotton at the spot markets of North Indian states improved slightly this week. In the Sirsa market however, cotton prices remained stable throughout the week. Prices of J-34 witnessed a recovery over the last week in Sri Ganganagar market of Rajasthan. However, towards the end of the week the prices eased. The participants are expecting that until monsoon hits the states the prices would remain in the same level. After that there may be some more improvement in the prices. The price of J-34 was recorded between Rs 1615-1620 per mon in Sirsa and

Bengal deshi fetched Rs 1275-80 per mon. Price of J-34 cotton in Sri Ganganagar market of Rajasthan was quoted between Rs 1525 to Rs 1530 per mon whereas Bengal deshi fetched Rs 1345-55 per mon.

Gujarat Market

Prices of cotton in Gujarat remained stable throughout the week. Shankar variety remained on demand from the exporters and mills. Prices of V-797 found some demand from the local markets. Movement in the NYBOT futures affected the prices here. The arrival of cotton declined significantly this week. Mainly Shankar variety came in very low amount. This helped the cotton cake and cottonseed prices to remain firm. In the next week also prices are expected to remain stable. This week, the arrival of cotton in Gujarat remained between 4000-7000 bales. The prices

of Shankar were recorded between Rs 14800 to Rs 16700 per candy. Price of Shankar (28 mm) remained between Rs 16000-16700 per candy. Prices of V-797 were quoted between Rs 11000-11700 per candy for ready delivery.

Maharashtra and MP Market

Prices remained unchanged in Maharashtra and MP this week also. This week the cotton auction by the CCI and state federation held and both received good response. Average prices of cotton in CCI's auction remained between Rs 12500 to Rs 14000 per candy. And for the federation the maximum cotton was sold within the price range of Rs 11000 to Rs 12500 per candy. The federation sold 22800 bales of cotton through auction. Mills remains the major buyers. However, this did not have any significant effect on the market prices. In the coming week also cotton

prices are expected to remain at the present level unless monsoon appears. In Maharashtra Bunny fetched Rs 18000-18500 per candy. Price of H-4 cotton in MP was quoted between 14500-16000 per candy. Prices of cotton khal in Akola remains between Rs 226-233.5 per 50 kg. Prices of cotton oil in Mumbai remained between Rs 364 to Rs 366 per 10 kg.

Vayda Bazaar

The medium staple cotton futures at the NCDEX remained with strong undertone throughout the week. Cotton futures gained this week significantly amid buying supports. Prices got marginal support from the NYBOT futures also. It is expected that the futures would remain strong with a positive undertone at the NCDEX in the next week.

WEATHER WATCH (IMD)

Conditions are favourable for onset of monsoon over Kerala towards the end of week. Ongoing rainfall activity over Andaman & Nicobar Islands is likely to continue. It may get enhanced over south Peninsula and Northeastern States.

Heat wave conditions may prevail over northwestern, northern and west-central parts of the country.

Exchange Rate in INR

Currency	24/05	25/05	26/05	27/05
1 USD	43.49	43.51	43.52	43.52
1 Euro	54.75	54.72	54.61	54.52
1 GBP	79.68	79.57	79.46	79.35
100 Yen	40.46	40.49	40.33	40.37

Latest Balance Sheet of Indian Cotton

Particulars	Quantity in lakh bales of 170 Kg					
	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05
Supply						
Opening stock	36.50	40.5	29	40	24	21
Crop size	156.00	140	158	136	177	232
Imports	22.01	22.13	25.26	17.67	7.21	6
Total availability	214.51	202.63	212.26	193.67	208.21	259
Demand						
Mill consumption	150.60	149.36	147	142.42	150.39	168
Small Mill consumption	8.37	10.97	11.7	11.63	13	17
Non-mill consumption	14.39	12.7	13.06	14.78	10.57	13
Total consumption	173.36	173.03	171.76	168.83	173.96	198
Exports	0.65	0.6	0.5	0.84	13.25	12
Total disappearance	174.01	173.63	172.26	169.67	187.21	210
Carry Forward	40.50	29	40	24	21	49

Source: The Cotton Corporation of India Ltd., Cotton Advisory Board

Latest ICAC Estimates on Global Cotton Scenario (as on 2nd May)

Particulars	2003-04	2004-05	2005-06
Production	95.09	119.3	108.10
Consumption	98.07	106.00	108.60
Exports	33.43	32.60	36.40
Ending stocks	35.66	47.60	47.00
Cotlook A index*	68.3	53.0	66.0

(Figures in million bales)

*- US cents per pound

Area, Yield and Production of Cotton in Major countries (As on 13/05/05)

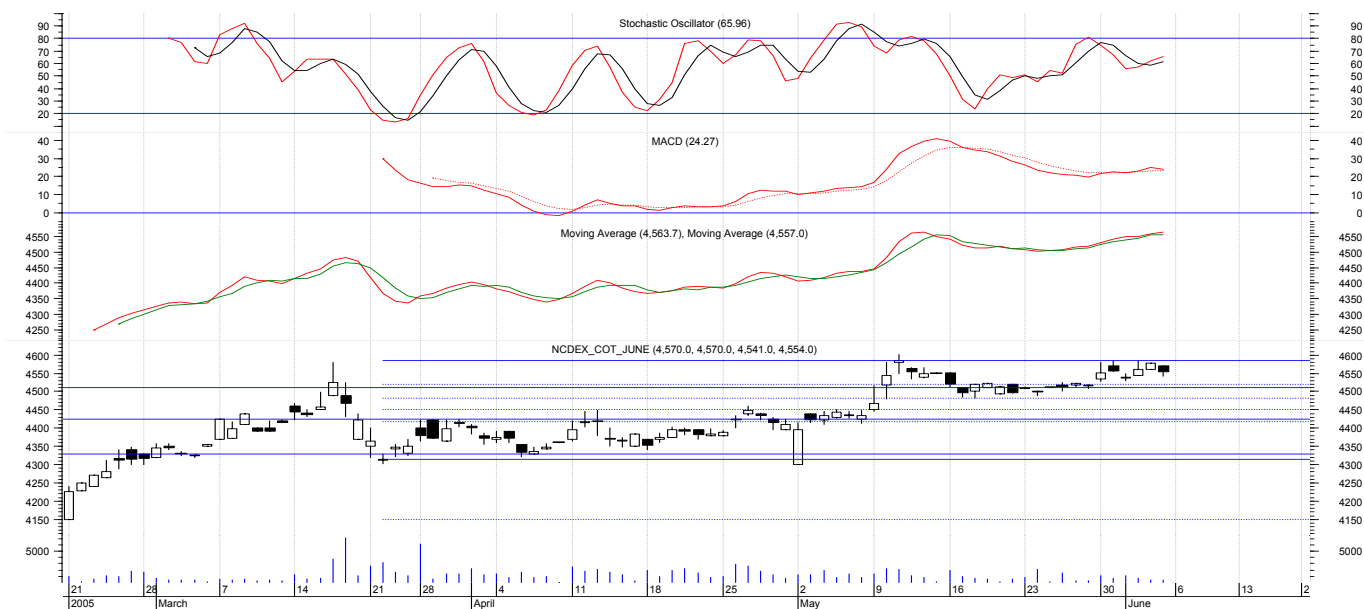
Countries	Area (Million Hectare)		Yields (Kg Per Hectare)		Production (Million 480 lb. Bales)		Change in Production from last year	
	2003/ 2004	2004/ 2005	2003/ 2004	2004/ 2005	2003/ 2004	2004/ 2005	Absolute	% age
China	5.11	5.69	950	1,110	22.3	29	6.7	30.04
United States	4.86	5.28	818	958	18.25	23.25	5	27.37
India	7.79	9	386	435	13.8	18	4.2	30.43
Pakistan	3.09	3.2	546	769	7.75	11.3	3.55	45.81
Brazil	1.1	1.15	1,191	1,212	6.01	6.4	0.39	6.4
Uzbekistan	1.4	1.42	638	777	4.1	5.05	0.95	23.17
African Franc Zone	2.41	2.66	402	386	4.44	4.72	0.28	6.43
Turkey	0.71	0.7	1,257	1,291	4.1	4.15	0.05	1.22
Australia	0.2	0.33	1,888	1,809	1.7	2.7	1	58.82
World	32.45	35.92	638	723	95.12	119.32	24.2	25.44

Note: Figures are in 1000 480 lb. Bales/MY Aug-July; E- Estimated; F- Forecasted

Source: USDA

TECHNICAL ANALYSIS

Contract: Medium Staple Cotton (June Future)
Exchange: NCDEX
Perspective: Very Short Term (Weekly)



Candlesticks: The formation of the candlestick pattern is indicating towards a week opening on the next day. Formation of a hammer indicates a trend reversal.

Moving Average: The 3 -day MA is above the 5 -day MA.

MACD: The MACD (5-day) is in the positive territory but it bent downward. However, could not generate any clear indication.

RSI: RSI (57.86) is in the neutral region and moving downwards.

Stochastic: The %K-line after cutting the %D -line from below is going up.

There are mixed signals generated by the indicators. However, most of the indicators are pointing towards the strength of the market prices. The nearby support level is at 4550 marks and the resistance is at around 4585 marks.

Recommendation: If the contract stays above 4550 marks remain long.

Disclaimer

This document is not and should not be construed as an offer to sell or the solicitation of an offer to purchase or subscribe for any investment. 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). If a customer of an affiliate of IASL receives this report, its provision to the recipient is subject to the terms of business in place between the recipient and such affiliate. This document is for private circulation only and may not be reproduced in whole or in part for any purpose without written permission. Use of data and information contained in this report is at your own risk. Please visit us at: www.agriwatch.com Registered Office: E 12, Greater Kailash I, New Delhi 110 048 Telefax: (011) 2628 3336
Copyright © 2002 Indian Agribusiness Systems Pvt Ltd.