

## COTTON

21<sup>st</sup> June 2005

### MAJOR HIGHLIGHTS

- Domestic Cotton Prices Remain Less Moved
- NYBOT Cotton Higher on Fund Buying
- China Cotton Futures Improved Sharply
- Pak Trading Remains Dull

### NEWS ANALYSIS

#### Cotton: CICC Forecasts Lower Planting in 2005-06

The China National Cotton Conference (CICC) 2005 held in China forecast the world cotton planting in 2005-06 to fall. Cotlook's forecast is a decline in area of about 6 percent. Moreover, it seems improbable that the generally ideal conditions that prevailed in 2004 will be repeated. World average yield in 2004/2005 is estimated to have risen by some 14 percent, to around 726 kilos per hectare. 2003/2004 was a poor year, by comparison, in some countries, including China, so care is required in making such comparisons. Even so, the gains in yield this season appear to have been above average in many parts of the world, including in parts of Africa, Australia, the Indian subcontinent and the United States. Cotlook's forecast for yields in 2005/2006 is that there will be some moderation, but the average will still be the second-highest on record, given no adverse intervention from the weather.

#### Cotton Use Likely to go up in Indian Subcontinent

The expiration of the Multi-Fiber Arrangement is expected to boost cotton use growth in the Indian Subcontinent (India, Pakistan, and Bangladesh) above the world average in MY (August to July) 2005/06. However, the subcontinent, the world's largest consumer of cotton outside China, will remain well over 90% self-sufficient, a strong contrast from China, which is forecast to be only 60% self-sufficient in MY 2005/06. Domestic use will surpass previous records in all three Subcontinent countries: India (15.8 million bales), Pakistan (10.8 million bales), and Bangladesh (1.8 million bales). Each country's record domestic use is attributed both to larger local consumer demand and exports of textile and apparel products. This season only cotton and sugarcane are seeing an increase in the net sown area unlike coarse grains, rice, and oilseeds, for which the area is going to decline. Bangladesh imports almost all of its cotton needs. India and Pakistan import predominantly only their Extra Long Staple (ELS) and other superior quality cotton needs. The top supplier, the United States, accounted for 30% of the region's imports in MY 2003/04, excluding intra-trade (12.7%). The need for higher quality cotton is likely to keep the demand for US cotton relatively constant. World cotton use for MY 2005/06 is forecast at a record 111.5 million 480-lb bales, up 3.2% from the current season. Meanwhile, the Subcontinent's cotton use is expected to grow to a

record 28.4 million bales, up 4.7%. Collective use for the United States, Canada, and EU-25 is forecast down 8.5% to 9.3 million bales for MY 2005-06.

### FUNDAMENTAL ANALYSIS

#### DOMESTIC MARKET

##### NORTH INDIAN MARKETS

Cotton prices in the North Indian states remained unchanged. The price of J-34 in Sri Ganganagar market of Rajasthan remained strong. Mainly the prices of Bengal deshi cotton remained on demand in these markets. There may be more improvement in the prices of Bengal deshi cotton.

##### GUJARAT MARKET

Spot prices of cotton in Gujarat markets improved today. The market tone remains strong. Buyers dominated the markets. Sellers preferred to wait. Price of V-797 also improved significantly along with Shankar. The mills are still in the market to cover their requirements. Early monsoon may pressurise the cotton prices in these markets. The arrival has also come down and today around 2500-3000 bales of cotton have arrived.

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

MARKET	Bengal deshi	J-34	Shankar	V-797
Sirsa				
1. Cotton Lint	3150	4050	-	-
2. Raw Cotton	-	-	-	-
Sri Ganganagar				
1. Cotton Lint	3425	3875	-	-
2. Raw Cotton	-	-		
3. Cottonseed	1055	960	-	-
Ahmedabad/Kadi				
1. Cotton Lint	-	-	4274-4780	3149-3430
2. Raw Cotton	-	-	2225	1150
3. Cottonseed	-	-	975	760

## MAHARASHTRA AND MP MARKET

No significant change in cotton prices in Maharashtra and MP was seen today. The participants are waiting for the monsoon to see some changes in the prices. 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 258.50 per 50

## INTERNATIONAL MARKET

### USA

Cotton futures at the New York Board of Trade (NYBOT) settled sharply higher amid fund buying and technical corrections. The July cotton settled 78 points higher at 48.16 cents and December cotton ended 115 points higher at 52.49 cents a pound. The December contract is getting support around 50 cents. December cotton reached its strongest level in three weeks at one point during the session, rising to 52.95 cents, its highest since May 27. While a portion of those gains eroded by the close, the contract still put in a strong day by holding above the 20-day moving average and closing at its highest point in two weeks. Hot, dry conditions in west Texas are prompting some of those concerns. Mostly dry weather with above-normal temperatures are seen throughout much of the state this week, the Meteorlogix weather service said. In the Mississippi Delta, dry weather is expected to continue through Wednesday, when a few light showers may be seen in northern areas. Mostly dry conditions are expected Thursday and Friday with near- to above-normal temperatures. Over the Southeast, dry conditions with chances for a few light showers are seen through most of this week. Temperatures are expected to begin the week near to below normal and rise to near to above normal by the end of the week, according to Meteorlogix. Yesterday cotton rallied despite higher dollar. However, higher crude oil prices remained supportive for cotton. Friday is first notice day for July cotton futures, so traders have been busy switching positions to the December from the July contract. The market is now looking for the spec/hedge report tomorrow. The present situation suggests the cotton prices to maintain the strength.

#### Cotton Futures at the NYBOT as on 20/06/05 (cents/pound)

Contract	Open	High	Low	Close	Change
July	47.75	48.55	47.50	48.16	+0.78
December	51.90	52.95	51.75	52.49	+1.15

### CHINA

Cotton prices in China today moved higher along with the open interest however, turnover on CNCE e-market totalled 12170 tonnes, down by 1670 tonnes than the previous session. Domestic Type 428 reached 180 tonnes, the balance was domestic Type 229. The open interests totalled 104690 tonnes, up by 3620 tonnes. The open interests of MD contracts totalled 2140 tonnes, up by 140 tonnes. Today, the prices of each contract rose 30-90

kg. Prices of cotton oil in Mumbai remained at Rs 376 per 10 kg.

## VAYDA BAZAAR

The medium staple cotton futures at the NCDEX remained highly range-bound with almost no movement. The June futures expired yesterday. The August contract opened lower today and closed the day at the day's low.

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

Contract	Prev.	Set High	Low	LTP*	Change
August	4565.00	4575.00	4558.00	4558.00	-7.00

Yuan. The open interests of MA0506 increased 320 tonnes even today was the last session for it. Owing to the turnover was higher and it was closed to be delivered, MD0507 open interests continuously declined. The futures got support from the stronger NYBOT futures. The China Cotton Index (CCI) also continues the improvement today.

### PAKISTAN

Thin trading activity was witnessed at Karachi cotton market with around 300 bales were traded during the session. Quality lint fetched Rs 2,350 per maund. The spot rate stayed unchanged at Rs 2,275 per maund. Leading mills made deals for quality lots of upper Sindh and southern Punjab. They offered slightly better prices as compared to previous days. The leading ginners of major growing areas offered very little quantity of quality lots to mills and private sector exporters. The leading spinners remained on the sidelines, as they were looking at the Trading Corporation's next tender opening rates. The auction is likely to be held on Tuesday next. The TCP has once again changed its auction day schedule and it would offer around 90,400 bales including 80,000 bales stocked in Karachi warehouses. Any further rise in US cotton prices would definitely brighten the possibility of export to China. The private sector exporters also offered quality lint to mills. The TCP was trying to ensure the disposal of its stocks through auctions before arrival of the new crop by mid August.

## WEATHER WATCH (IMD)

Rain/thundershowers are likely at most places in Konkan & Goa, at many places over Madhya Maharashtra, Saurashtra and South Gujarat; at a few places over West Madhya Pradesh, Marathawada and at isolated places in Vidarbha and rest Gujarat. Isolated dust storm/thunderstorm is likely over Rajasthan.

**Warning:** Heavy to very heavy rainfall is likely at a few places over Konkan & Goa. Isolated heavy rainfall is also likely over Andaman & Nicobar Islands, Lakshadweep, coastal Karnataka, Madhya Maharashtra, Northeastern states, sub Himalayan West Bengal & Sikkim and south Gujarat.

**EXCHANGE RATE:** 1 USD = Rs 43.61;  
1 Euro = Rs 52.93

**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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