

COTTON

June 13-18 2005

MAJOR HIGHLIGHTS

- **Domestic Cotton Prices this Week Improved Marginally**
- **NYBOT Cotton Futures Gained Slightly this Week**
- **TCP's Auction Dominated the Trading Activities in Pakistan this Week**
- **Chinese Cotton Futures Continue the Improvement this Week**
- **USDA Reported Strong Weekly Export Sales for the Period June 3 June 9**

NEWS ANALYSIS

Cotton Yarn Mills Protest against VAT in Haryana

Cotton yarn mills in some parts of Haryana have gone on three-day strike to protest against imposition of market fee on cotton and Value Added Tax (VAT) on cotton yarn. Haryana Government had imposed these taxes in the state whereas there was no VAT on cotton yarn in Delhi and only two per cent VAT has been fixed by the Rajasthan Government. However, the Haryana government had imposed VAT in the state one year earlier. Cotton yarn was already in the ambit of sales tax in the state. Because of economic recession and trade rivalry, the cotton mill owners were passing through a period of economic problems. It is anticipated that if the market fee on cotton and VAT on cotton yarn at the rate of four per cent were imposed, the industry would be completely ruined.

Cotton: Quality Should Come First than Quantity

Though the government had estimated cotton output at 232 lakh bales, it is expected that the actual production would surpass the estimate in the cotton year (October - September) 2004-05. Despite this huge production the quality still remains under question. The textile ministry said that there has been a reduction in the trash content in raw cotton to 2-4 per cent in the current year from 6 per cent in 2000-01. The globally allowed level of contamination however, is 1.75 -2 per cent. Under the mini mission 3 and 4 the Technology Mission on Cotton (TMC) had taken up 275 out of 473 ginning and pressing units for modernisation in 2000. The trash content in the roller ginned cotton came down to 3 per cent from 5-6 per cent. However, in saw ginned cotton the level actually gone up to 4.5 per cent from 2.5 per cent due to lack of modern practices. The efforts by the TMC over the years have been very helpful to improve the quality of cotton. However, the process should continue for the betterment of the quality of cotton to remain competitive in the quality concerned international markets.

Expected Huge Stocks Pressurising Kapas Prices

The kapas prices in the different cotton markets of the country are under pressure for quiet sometimes despite ending of the arrival. A likely higher carry-over of cotton into 2005-06 is expected to add price pressure on the kapas cotton market. The buyers are reluctant to make new deals as the most of the mills have almost covered their positions.

The carry over stock is expected to be around 50 lakh bales against 25 lakh bales in 2004-05 season. The projected higher carry-over stock of 50 lakh bales is based on the current unsold stock of 30/32 lakh bales with the Maharashtra State Co-operative Cotton Growers Marketing Federation and another 10 lakh bales with the Cotton Corporation of India. The textile mills which account for an average 15 lakh bales of monthly consumption are believed to be holding two to three months stocks. According to sources, the private cotton trade is holding 10-12 lakh bales in stock. Even after adjusting the consumption by the mills between this month and August, the existing cotton stocks could get liquidated only partially, thus leaving a good quantum of cotton with the mills.

Cotton Sowing Almost Completed in Pakistan

Cotton sowing in Pakistan has almost been completed. However, some re-sowing due to rains and delayed sowings are in progress. Official figures about the area sown for 2005-2006 season is yet to be released but private estimates put total area around 2.95 - 3.08 hectares. Presently, weather can be said satisfactory but fears are there about more than normal monsoon rains. Unlike last season, this time lands have enough moisture, water storage is also in a good condition. More than normal rain can create a flood situation. The high temperatures ranging above 45 degrees Celsius in some cotton areas of Sindh is quite undesirable. The high humidity in the atmosphere would help pest development. The official production target for next season has been fixed at 13.0 Million bales ex-farm almost equal to cotton production achieved this season. Stocks of unsold cotton with the ginners have almost evaporated but Trading Corporation of Pakistan (TCP) is still holding unsold stocks of about 1.175 Million bales out of 1.6 million bales. Local spinners are evincing keen interest in buying TCP cotton stocks in open tenders.

Cotton: Planting in US Going Normal

The U.S. cotton crop rated 60% good to excellent, from 61% the previous week, the U.S. Department of Agriculture reported Monday afternoon. Declines were seen in the major producing states of Texas, Georgia and California.

As of Sunday 94 percent of the crop was planted, up from 90% the previous week and on target with the year-ago and five-year average of 94 percent. U.S. cotton was 16% squaring, compared to 24% one year ago and the 22% five-year average. While there are concerns over dryness in the Rio Grande Valley of Texas, moisture levels in west Texas and particularly north around Lubbock are in the best moisture shape, according to the market players. The USDA rated 73% of the north Lubbock area as having adequate-surplus moisture while areas south of Lubbock were rated even higher at 76 percent. Mostly dry conditions are expected this week in Texas cotton areas, with a chance for a few light showers Wednesday. Daytime high temperatures range from 94-97 Fahrenheit this week, the Meteorlogix weather service said.

Drought May Hit Cotton Output in Australia

Drought may lower the cotton output in Australia this season. The size of crop for the year 2006 is very much unknown to the market participants also. The water storage can be used for harvesting only 1.5 million bales against the average crop size of 3 million. The 2005 crop is expected to be between 2.5 million to 2.6 million bales. However, recent sign of some rains acted as a confidence booster for the growers. The market players are expecting that prices may go up only if there is rain. However, very significant rain is needed to change the current scenario. They opined that anything less than 50 millilitres would be considered as light rain. Growers also were dealing with higher input costs, with seed supplier Monsanto raising the price for Bolgard.

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.

CCEA Approved Expansion of Mini Missions on Cotton

It's good news for the Indian cotton sector. The Cabinet Committee on Economic Affairs (CCEA) on Thursday approved the expansion of Mini Missions 3 and 4 of the cotton technology mission. The additional cost will be Rs 308 crore during the 10th Plan period. The number of market yards would be increased to 250 from 60 at present. The expansion will also include the Modernisation of 1,000 ginning and pressing factories with new bale-press and installation of 200 grading laboratories.

Bt Cotton Being Preferred over Conventional Seeds

Bt cotton is doing well in Nagpur. Monsanto's Bt cotton seeds are in hot demand according to the Nagpur District Agro Dealers Association. The sale is expected to be ten times more than the last year. According to the association the yield of 5 to 8 quintals last year has increased to 10 to 15 quintals due to use of Bt cotton. Also the area under Bt cotton is expected to go up to around 20000 acres against 2000 acres last year. Though the cost of Bt cotton is almost four times more than the conventional seeds, the higher returns compensate the costs. The lower use of pesticides, the main component of cotton cultivation helps to bring down the total cost of cultivation. The retail price of regular cotton seed ranges from Rs 350 to Rs 500 per 400 gm pack, while that of Bt cotton is between Rs 1,600 to Rs 1,800 per 400 gm pack. On every Bt cotton seed packet, a 120 gm pack of non-Bt cotton seeds is being given free by retailers. Different varieties of Bt cotton seeds are available in market such as Mahyco-162, 184, Rashi-2, Bunny-145 and Ankur-651 and for most farmers the retailer makes the decision. Mahyco-Monsanto recently introduced a new variety, which is supposed to give good results in fields where irrigation is poor. This year in all the cotton growing states the area under Bt cotton has been increased significantly. It is expected the exact result of using Bt cotton can be viewed this year, which may show the future of Bt cotton in India.

Late Monsoon May Negatively Affect Cotton Production

Monsoon can play foul with the cotton crop in the country. According to a USDA report the cotton production that is expected to rise by a whopping 34.1% during '04-05 to 3.9m metric tonnes, is likely to be affected by the delayed monsoon and down by 14.4% to 3.4m tonnes during '05-06. With a good monsoon, cotton output was estimated to register a 34.1% increase at 3.9m tonnes in '04-05, as against three million tonnes in '03-04, the report said. However, if the monsoon comes within a week the damage is not likely to be significant. The country's record domestic use estimated at 3.3m tonnes during '04-05 is attributed both to larger local consumer demand and exports of textile and apparel products. In addition, some of the lowest labour costs in the world, receiving zero-duty preferential treatment from the European Union and removal of the multi-fibre arrangement have made the subcontinent's textile and apparel industry very competitive. The country's cotton consumption was estimated to record a 11.1% rise at 3.3m tonnes in '04-05 compared to 2.9m tonnes in '03-04, it said. However, the Indian subcontinent, the world's largest consumer of cotton outside China, would remain well over 90% self-sufficient, in contrast to China, which was pegged to be only 60% self-sufficient in '05-06. The

USDA Reported Strong Weekly Export Sales for the Period June 3 June 9

The USDA reported the weekly export sales for the period June 3-9. The report sates stronger export sales for the period. Net Upland sales of 239,500 RB were two and three-fifths times the prior week and 8 percent over the previous 4-week average. The major buyers were China (135,700 RB), Turkey (50,300 RB), Mexico (14,300 RB), Indonesia (10,100 RB), and Pakistan (8,100 RB). Net sales of 34,000 RB for delivery in 2005/06 were primarily for Indonesia (9,600 RB), Turkey (9,600 RB), and Mexico (4,600 RB). Exports of 300,300 RB were 9 percent above the previous week and 12 percent over the prior 4-week average. The primary destinations were China (129,400 RB), Turkey (41,700 RB), Mexico (25,700 RB), Indonesia (24,900 RB), Pakistan (15,300 RB), Taiwan (12,300 RB), and Thailand (11,600 RB). However, the stronger export sales could not provide support to the NYBOT futures.

USDA Reports Lower Output for 2005-06

This month's 2005-06 U.S. projections include larger beginning stocks that are more than offset by larger exports, leaving ending stocks marginally lower. The

subcontinent's cotton usage is expected to grow to a record 28.4m bales, representing a 4.7% hike during '05-06 while global consumption of cotton is estimated at a record 111.5m bales, indicating 3.2% increase from the current season.

US Cotton Industry Under Pressure on Subsidy Issue

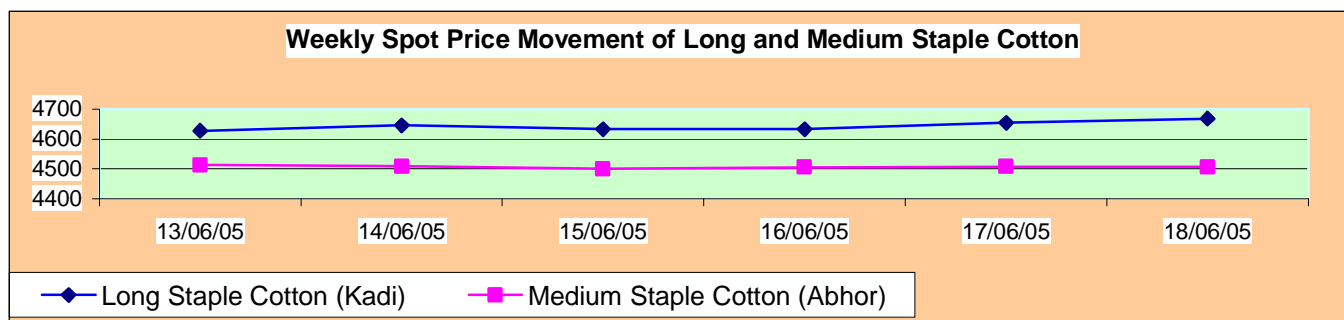
The Bush administration faces the unsavoury task of cutting billions of dollars in subsidies designed to facilitate the export of U.S. cotton products to comply with a recent World Trade Organization ruling. The ruling followed a suit brought to the WTO by Brazil claiming that the subsidies unfairly penalize producers in Brazil and other developing countries. For their part, many U.S. cotton growers vow to resist any phase-out of these subsidies and insist that the upcoming 2007 farm bill should address all subsidy-related issues. It would wreck rural communities like this one. There is no sign Brazil, however, is willing to back down. As retaliation for any American foot dragging, some Brazilian legislators threaten to enact legislation suspending intellectual property protection - laws aimed at preventing the pirating of U.S. films, software and pharmaceuticals.

production forecast is unchanged from last month, as is domestic mill use. With larger U.S. supplies and slightly reduced foreign supplies, U.S. exports are raised 500,000 bales to a record 15.0 million, accounting for a slightly higher share of world trade relative to last month. Ending stocks are now projected at 6.2 million bales, or 30 percent of total use. The 2005-06 world projections show only slight revisions from last month. World production of 106.2 million bales is reduced marginally, while consumption and trade are nearly unchanged. World ending stocks are projected lower by about just over 1.0 million bales to 44.1 million, due to reduced estimates of beginning stocks and production. For 2004-05, U.S. exports are reduced 400,000 bales to 13.0 million based on slower than expected shipments to date, thereby raising ending stocks by a like amount. The lower U.S. exports are associated with a 1.5-million-bale reduction in estimated imports by China, also reflecting activity to date. Lower imports by China and Thailand in 2004-05 are partially offset by increases for India, Indonesia, Mexico, and Turkey. U.S. domestic mill use is reduced 268,000 to 6.2 million bales in 2003-04, based on recent revisions by the Bureau of the Census. Ending stocks are unchanged.

PRICES

Spot (Domestic)

Date	Rates (Rs/Quintal)	
	Long Staple Cotton (Kadi)	Medium Staple cotton (Abohar)
13/06/05	4627.15	4513.10
14/06/05	4645.85	4508.90
15/06/05	4632.75	4500.75
16/06/05	4632.75	4505.60
17/06/05	4653.90	4507.50
18/06/05	4667.85	4507.00



Futures: July contract (NYBOT)

Contract	Open	High	Low	Change	Close	
6/13/2005		47.3	47.7	47.25	47.53	+0.57
6/14/2005		47.5	47.75	47.25	47.6	+0.07
6/15/2005		47.65	47.75	47	47.07	-0.53
6/16/2005		47.15	47.85	46.55	46.64	-0.43
6/17/2005		47.25	47.5	46.8	47.38	+0.74

FUNDAMENTAL ANALYSIS

INTERNATIONAL MARKETS

USA

The cotton futures at the New York Board of Trade improved this week marginally. For the most of the days the contracts settled higher. However, for a couple of days the Benchmark contract closed lower. In the very first day of this week the contract settled higher amid news of a successful trade agreement between China and the EU. The trade agreement between China and the EU reportedly states that China would work with E.U. officials to limit the growth of certain textile and apparel exports to Europe to about 10% a year through the end of 2008. This boosted up the market sentiments with the anticipation that the textile issue between the US and China may also be discussed. A sharp rally in crude oil was also supportive for cotton futures by making synthetic fabrics more expensive compared to cotton. The roll over positions between July and December also remained one of the major price drivers this week. In fact, the July/December spread had a much wider trading range - 105 points - than either the July or December flat price, illustrating the dominance of the spread trading. 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. Weekly export sales remained stronger than that supported the futures. export sales for the week ended June 9 were a net 239,500 running bales, higher than the previous week, the U.S. Department of Agriculture said Thursday. China was the largest buyer at 135,700 bales; Turkey was next at 50,300 bales. Net 2005-06 export sales were 34,000 bales. Sales commitments this year total 13.644 million bales, up from 13.151 million at the same time last year. In weather Texas is expected to be mostly dry and hot through next Tuesday, according to Meteorlogix. Temperatures over the weekend and into next week are expected to be above to much above normal. Meanwhile, Informa Economics estimated the U.S. cotton

crop at 14.235 million acres and pegged upland acres at 13.94 million, trade sources said. This compares to the U.S. Department of Agriculture's estimate of 13.8 million total cotton acres and upland acres of 13.5 million. Thus, it had almost no effect on the prices. The fundamentals are indicating towards the strength in the prices to continue for more days.

China

The cotton futures in China this week remained strong overall this week. Support from NYBOT futures helped the Chinese cotton prices to maintain the firmness. The ongoing trade disputes between US, EU and China are pressurising the cotton market sentiments however. The China Cotton Index (CCI) also improved throughout the week. The government policy indicating support to the domestic cotton industry provided support to the cotton market sentiments. This week too the cotton prices are expected to remain strong.

Pakistan

Cotton trading activities were dominated by the auctions of the Trading Corporation of Pakistan. The TCP auction sales continued to attract the spinners and textile millers keeping completely subdued ginner who would have liked to sell before new cotton arrivals. The very first day ginner would have liked to lighten their cotton burden, TCP liquidated nearly 80,000 bales of cotton. The TCP received bids for 111,300 bales of cotton in its Saturday's auction from 62 participants against it's 49,700 bales of cotton tender. From Exporters, the TCP received bid for 10,000 bales of cotton at rate of Rs 41-43 cents per pound. Dullness however, remained a continued feature for the Pak cotton market activities. For the most of the days the KCA spot rate remained unchanged at Rs 2225 per maund. However,

towards the end the prices improved Rs 25 to settle at Rs 2250 for the week. In its weekly auction on Friday the TCP sold around 99,5000 bales of cotton. Around 100 tonnes cotton imported from India by some mills was offloaded at Karachi port. According to the markets sources 66,000 bales of TCP from local warehouses changed hands at Rs 2,374 per maund. The rest of the lots of Multan changed hands at Rs 2,362 per maund. Private sector exporters also lifted 20,000 bales at around 42.65 cents per pound. The

DOMESTIC MARKET

Prices of cotton in the North Indian markets remained stable. The strong trend continued in Gujarat. The futures remained less moved this week with a recovery.

North Indian Markets

North Indian states this week continued to witness strength in the spot prices. The damage due to storm in the states of Haryana, Punjab and Rajasthan coupled with the delay in the monsoon are supporting the cotton prices in these states. The total area under cotton in the North Indian states according to the market sources is expected to rise by 30-40 per cent this season. However, the monsoon may play spoilsport with the cotton crop. However, there may not have significant impact on the prices. The participants thus, preferred to stock the raw material till the monsoon. The price of J-34 was recorded between Rs 1615-1620 per mon in Sirsa and Bengal deshi fetched Rs 1255-60 per mon. Price of J-34 cotton in Sri Ganganagar market of Rajasthan was quoted between Rs 1535 to Rs 1550 per mon whereas Bengal deshi fetched Rs 1355-70 per mon.

Gujarat Market

Cotton prices in Gujarat remained strong throughout the week. Improved buying helped the prices of both Shankar and Kalyan. The Kalyan (V-797) variety witnessed improvement in demand. Delay in monsoon along with lower stocks remained the supportive factors for the prices. Slight recovery in the NYBOT futures also provided support for the prices to maintain the firmness. Sowing is going on with a slow progress in the irrigated areas. Monsoon is not expected to have very significant effect on the crop in this

WEATHER WATCH (IMD)

Ongoing rainfall activity over Kerala and coastal Karnataka may get enhanced. Other parts of the Peninsula and northeast India may receive normal rainfall. Monsoon is likely to advance further into Maharashtra, Orissa, rest of the Peninsula, southern parts of Chhattisgarh and remaining parts of West Bengal. This may lead to

Exchange Rate in INR

Currency	13/06	14/06	15/06	16/06	17/06
1 USD	43.62	43.65	43.66	43.61	43.59
1 Euro	52.74	52.54	52.69	52.75	53.22
1 GBP	78.92	78.96	79.42	79.36	79.50
100 Yen	40.17	39.96	39.90	39.99	40.05

TCP did not accept the bids by international merchants, as their offered prices were below the expectations of the national entity. The spinners also participated in the TCP's auction and covered their future positions. Some local ginneries with very limited quantity of quality stocks would manage to sell their cotton at prices around Rs 2,430 per maund in next few weeks.

state. The cotton prices are likely to remain strong in the next week too. This week, the arrival of cotton in Gujarat remained between 2000-4000 bales. The prices of Shankar were recorded between Rs 14800 to Rs 17200 per candy. Price of Shankar (28 mm) remained between Rs 16300-16600 per candy. Prices of V-797 were quoted between Rs 11000-12200 per candy for ready delivery.

Maharashtra and MP Market

No significant improvement was seen in the cotton prices in the states of Maharashtra and MP. Private stockists are reluctant to sell their cotton in the current prices. The participants are waiting for the monsoon, when it is expected that there would be some market activities. The sowing is also likely to start after the monsoon comes. The auction by the federation is also not likely to have any significant impact on the market prices. 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 240-260.4 per 50 kg. Prices of cotton oil in Mumbai remained between Rs 372 to Rs 378 per 10 kg.

Vayda Bazaar

The medium staple cotton futures at the NCDEX improved marginally this week. The contracts did not see any significant movement in prices this week. There was some support from the NYBOT futures, which also improved slightly this week. The June vayda is going to expire. In the next week also the prices are expected to improve further.

abatement of heat wave conditions prevailing in east-central India.

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

TECHNICAL ANALYSIS

Due to insufficient data technical analysis for Medium Staple Cotton (NCDEX - August contract) has not been included in this report.

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