

## COTTON

June 20-25 2005

### MAJOR HIGHLIGHTS

- **Domestic Cotton Prices this Week Improved Overall**
- **NYBOT Cotton Futures Gained Sharply this Week**
- **Pak Trading Remain Dull this Week**
- **Chinese Cotton Futures Improved Overall this Week**
- **USDA Reported Bearish Weekly Export Sales for the Period June 10 June 16**

### 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 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

#### **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.

### **Cotton: Contaminated Seed Seized in Uganda**

Cotton Development Organisation (CDO) in Uganda has seized 200 tonnes of cotton seeds suspected to have been treated with chemicals that were not recommended by the research organisation. Investigations indicate that Uganda Cotton Klub Limited was registered with the Uganda Investment Authority (UIA) on March 17, 2005 for cotton ginning with a capital investment of \$0.250m (sh420m). The illegally bought cotton has not been ginned up to date. This would affect the quality in terms of length, strength and colour. The Uganda cottonseed has about 10 percent of a deadly disease called Bacterial Blight. It has no pesticides to treat it that is why every year CDO must seek guidance from Serere Animal Agricultural Research Institute to get the recommended chemicals. Bronotak 12 percent is the chemical recommended by CDO this season. In 2000, cotton farmers in Pallisa earned between sh11b to sh14b. Last year, they produced 40,000 bales and earned sh13.4b. This year, because the prices collapsed on the international market, they produced 45,000 bales of lint but earned only sh8.8b. The contaminated seed could destroy the cotton production in the country.

### **Cotton: US Mill Use Declined for the Month of May**

The U.S. Census Bureau reported that total U.S. consumption was 462,738 running bales in May, down from 472,680 bales a year ago. The U.S. textile mills used cotton at a seasonally adjusted annual rate of 6.09 million 480-pound bales in May, down from the year-ago figure of 6.21 million bales, the National Cotton Council said Thursday. The NCC revised its April 2005 figure up slightly to 6.2 million bales from a previous 6.14 million bales. The mill-use number was considered disappointing by most sources, though it didn't have much impact on trading.

### **China Cotton Output may Fall**

Cotton output in China is expected to decline to around 3.2 million tons between the year 2005 and 2006. Shi Jianwei, executive vice chairman of the China Cotton Association, attributed the shortfall to the decline in China's cotton acreage by 10 percent over the 2004-2005 period, the

### **USDA Reported Bearish Weekly Export Sales**

USDA reported weekly cotton export sales for the period June 10-16. The report shows a decline in the cotton exports for the period. Last week the USDA reported a strong export sales report. Net Upland sales of 143,200 RB were two-fifths below the prior week and 30 percent under the previous 4-week average. China (97,600 RB) was the major buyer, followed by Taiwan (9,400 RB), Colombia (8,800 RB), Turkey (8,600 RB), and Mexico (4,500 RB). Net sales of 94,700 RB for delivery in 2005/06 were

country's cotton output is projected to be around 5.76 million tons. In the meantime, the country's market demand for cotton is likely to grow to around 8.85 million tons as the output of yarn is expected to increase by one million tons. The decline in the cotton acreage is also expected to be affected by climate changes, cotton imports, the development of textile trade disputes, exchange rates, interest rates and the macro-regulative policies of the Chinese government. A previous report from the US Department of Agriculture predicted that China's cotton output for 2005 and 2006 would be 5.552 million tons while its total domestic consumption will reach 8.927 million tons. With a stockpile of 1.58 million tons, China would import approximately 3.266 million tons of cotton this year according to the report.

### **IMF Wants End of Cotton Subsidy by Rich Countries**

To reduce the poverty among the cotton growers in the African countries the rich countries must stop giving subsidies to the cotton farmers according to the International Monetary Fund (IMF). The IMF was offering loans on concessionary terms to these countries for reforming their cotton sectors. Rodrigo Rato, the head of the IMF gave his view when there is an international push to alleviate poverty in Africa with aid and debt relief set to dominate a July 6-8 summit of the G8 -- the Group of Seven industrialised nations plus Russia. British Prime Minister Tony Blair wants rich nations to cancel up to 100 percent of Africa's multilateral debt, pay out an extra \$25 billion in annual aid to 2010 and open up Europe to African exports. Africa must practice good governance in return. According to Rato eliminating the cotton subsidies and other distortionary factors would lead to a recovery in prices and encourage cotton production in countries where there was no subsidy. The end of subsidies o cotton by the developed countries would make the under developed and developing countries to remain in competition in the international markets.

### **Cotton Output may Fall Sharply in Zimbabwe**

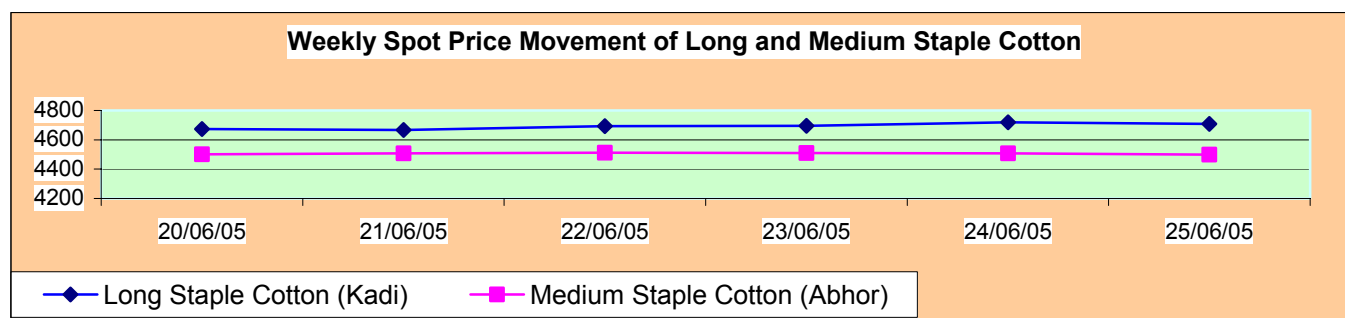
According to the experts cotton production in Zimbabwe may see a sharp decline this year at around 190,000 metric tons, down from 340,000 tons worth 150 million US dollars produced last year. Drought conditions, pest attack and lack of inputs lowered the crop output this year. An estimated 133,000 metric tons of cotton had so far been sold with only a month left before the end of the selling season. Meanwhile, the National Cotton Council urged farmers to increase yields per hectare from the average 800 kilograms to about 3,000 kilograms in order to boost the country's cotton production and foreign exchange earnings. However, for this the farmers are required to be trained and guided about new technologies and proper inputs are to be supplied. Cotton is one of the country's largest foreign currency earners. Last year, foreign exchange earnings from the crop at 150million US dollars surpassed those of tobacco, which raked in 140 million US dollars.

primarily for Mexico (25,100 RB), South Korea (21,900 RB), China (14,300 RB), and Pakistan (11,300 RB). Exports of 268,500 RB were 11 percent below the previous week and 3 percent under the prior 4-week average. The primary destinations were China (121,100 RB), Turkey (24,800 RB), Mexico (22,300 RB), Indonesia (17,300 RB), Colombia (11,100 RB), and Thailand (9,700 RB). The bearish export data is expected to put further pressure on the NYBOT cotton futures.

## PRICES

### Spot (Domestic)

Date	Rates (Rs/Quintal)	
	Long Staple Cotton (Kadi)	Medium Staple cotton (Abohar)
20/06/05	4674.15	4500.50
21/06/05	4667.95	4507.20
22/06/05	4692.75	4511.25
23/06/05	4695.50	4510.75
24/06/05	4720.15	4508.25
25/06/05	4708.25	4499.35



### Futures: December contract (NYBOT)

Contract	Open	High	Low	Change	Close	
6/20/2005		51.9	52.95	51.75	52.49	+1.15
6/21/2005		52.69	53.39	52.65	53.03	+0.54
6/22/2005		53.5	53.63	52.25	52.29	-0.74
6/23/2005		51.95	53.6	51.9	53.46	+1.17
6/24/2005		53.65	54.8	53.64	54.79	+1.33

## FUNDAMENTAL ANALYSIS

### INTERNATIONAL MARKETS

#### USA

The Cotton futures at the New York Board of Trade (NYBOT) gained sharply throughout the week amid strong buying supports and technical supports. The NYBOT futures settled higher except only one day this week. December cotton saw 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. The spread trading between July and December also remained one of the major features of the week. Meanwhile, export sales for cotton were about as expected by the market participants. Net export sales for 2004-05 cotton were 143,200 bales for the week ended June 16, down two-fifths from the previous week and 30% under the previous four-week average, the U.S. Department of Agriculture said. New-crop 2005-06 sales

were 94,700 bales. The USDA said total shipments for the week were 268,500 bales, down from 300,300 the previous week. Shipments for the 2004-05 year so far total 10.152 million bales, versus 11.141 million at the same time last year. The USDA projects 2004-05 exports will total 11.860 million bales. Higher crude oil prices supported the rally. The recent fundamental developments coupled with bullish technical action have lent underlying support to the cotton market, which will likely build on its recent gains. Technically, the market has now recouped over 50% of its losses incurred since May 2. In other news, China's May cotton imports fell 28.9% to 160,867 metric tons, compared to May 2004 levels. For the January-May period, China has imported 613,172 tons, down 51% from year-ago levels, China's General Administration of Customs reported Friday. However, that could not have any significant effect on the cotton futures. However, some consolidation may be seen in the next week.

## China

Cotton futures in China this week improved overall against the last week. For the first couple of days the futures went up sharply amid support from the NYBOT cotton futures. The volume however, remained volatile. In the middle of the week the futures declined for a couple of days. Some profit-taking activities at higher prices put pressure on the prices. However, on the last trading day of the week the cotton prices in China rebounded sharply. The China International Cotton Conference (CICC) held in China this week. The participants watched the developments closely. In the next week the cotton prices are likely to remain strong slightly.

## Pakistan

The cotton trading in Pakistan continues to remain dull throughout the week. The spot rate remained unchanged at Rs 2275 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 leading ginnings of major growing areas offered very little quantity of

quality lots to the mills and private sector exporters. Ginnings and the spinners were engaged in discovering prices. The leading spinners remained on the sidelines, as they were looking at the Trading Corporation's next tender opening rates. The TCP is likely to offer its stocks to local mills and avoid selling to foreign buyers, as they are offering very little prices. The mills and exporters have again suggested TCP to offer its stocks in open sale on weekly basis at fixed prices. The ginnings are still having some stocks and may wait for the termination of the TCP's operation. However, the mills remained active in making deals for better quality cotton, as they have to meet foreign demand for their products. It is being anticipated that the ginnings with very little fine lots were still in a position to sell their stocks on higher rates in coming weeks before arrival of the new crop by mid August. In the coming week the auction by the TCP is likely to provide some direction to the cotton trading in Pakistan.

## DOMESTIC MARKET

Cotton prices in the North Indian states maintained the stable trend throughout the week. In Gujarat prices of cotton continued the strong undertone this week also. The futures at the NCDEX also improved marginally over the week.

### North Indian Markets

This week cotton prices at the North Indian markets remained stable amid lower stocks and marginally improved demand. Partial crop damage helped to boost the market sentiments. Delay in monsoon also supported the stockists to hold their stocks. Sowing is completed in these states. Good monsoon still may help the crop. However, further delay in monsoon may affect negatively the cotton crop. It is expected that in near future there is very little scope for the prices to change significantly. The price of J-34 was recorded between Rs 1600-1620 per mon in Sirsa and Bengal deshi fetched Rs 1250-60 per mon. Price of J-34 cotton in Sri Ganganagar market of Rajasthan was quoted between Rs 1545 to Rs 1560 per mon whereas Bengal deshi fetched Rs 1360-80 per mon.

### Gujarat Market

Strong trend in the cotton prices continued this week too in the markets of Gujarat. Lower stocks remained as a psychological support for the market prices. Buyers also remained on the sidelines as they have almost covered their positions. They preferred to wait for a decline in the prices. The stockists were waiting for the monsoon that has arrived two days back. Now they are preparing to sell their cotton in anticipation of a wait gain. Next week the sellers are expected to dispose their stocks to the market, which

may bring down the prices slightly. This week, the arrival of cotton in Gujarat remained between 1000-2000 bales. The prices of Shankar were recorded between Rs 14800 to Rs 17200 per candy. Price of Shankar (28 mm) remained between Rs 16400-16800 per candy. Prices of V-797 were quoted between Rs 11000-12200 per candy for ready delivery.

### Maharashtra and MP Market

There was no significant change in the cotton prices in the states of Maharashtra and MP. The auction by the Maharashtra federation had very negligible effect on the market prices. However, some buying activities before the monsoon hits the markets helped slight improvement in prices in MP. Monsoon has hit the markets however, cotton growing areas in MP are yet to see rain. Next week the sowing activities are likely to start here. This week in Maharashtra MCU-5 fetched Rs 17500-18700 per candy. Price of H-4 cotton in MP was quoted between 15000-16300 per candy. Prices of cotton khal in Akola remains between Rs 252-260 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 witnessed a very marginal improvement this week. The June vayda expired this week. The sharply higher NYBOT futures did little to the NCDEX futures. The August contract however, saw little fluctuations in the prices. The volume and open interest remained very less. In the next week the futures may see some consolidation.

## WEATHER WATCH (IMD)

### Monsoon Outlook :

Conditions are becoming favourable for formation of a low pressure area over North-west Bay of Bengal and adjoining area around 27th June 2005.

Conditions are favourable for further advancement of monsoon over parts of west Uttar Pradesh, Uttaranchal,

some more parts of West Madhya Pradesh, Gujarat region, Saurashtra and Kutch, and parts of South-east Rajasthan during next 4 days.

With the strengthening monsoon circulation, favourable condition may build up for further advancement of monsoon over parts of Himachal Pradesh and Haryana (including Delhi) after 28th June.

**North & North-West India** [ J&K, HP, Uttranchal, Punjab, Haryana, West UP]  
Scattered rainfall is likely over West UP and Uttranchal and isolated over rest parts of the region during next 4 days.

**East and NE India** [East Up, Bihar, Jharkhand, West Bengal, Orissa, NE States]  
Northeastern States and West Bengal are likely to receive fairly widespread to widespread rains/ thundershowers with isolated heavy to very heavy rains during next 5 days.

Rainfall activity over Orissa, Bihar and Jharkhand may enhance during next 5 days.

East U.P. is likely to witness fairly widespread rainfall during next 3 days.

**Central India** [ MP, Chattisgarh, Vidarbha]  
Vidarbha and Chattisgarh are likely to receive scattered rainfall during next 3 days.

#### Exchange Rate in INR

Currency	20/06	21/06	22/06	23/06	24/06
1 USD	43.54	43.61	43.50	43.53	43.56
1 Euro	53.22	52.93	53.01	52.74	52.42
1 GBP	79.50	79.49	79.58	79.25	79.12
100 Yen	40.05	39.88	40.11	40.04	39.96

**South India** [Tamilnadu, AP, Kerala, Karnataka, Andaman & Nicobar Islands, Lakshadeep]  
Fairly widespread rainfall is likely over Andaman & Nicobar Islands, Coastal Karnataka and Coastal A.P, Scattered in Lakshadeep, Kerala, South Interior Karnataka, and Isolated over north-interior Karnataka, Tamilnadu, Telangana and Rayalseema during next 3 days.

**West India** [ Maharashtra other than Vidarbha, Gujarat, Rajasthan]  
Widespread rainfall with isolated heavy to very heavy rainfall is likely over Konkan & Goa, Scattered to fairly wide spread over Madhya Maharashtra, Marathawada, South Gujarat region, south Saurashtra & Kutch during next 3-4 days.

Rajasthan is likely to experience mainly dry weather along with heat wave conditions during next 3-4 days.

#### 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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