

COTTON

3rd June 2005

MAJOR ACTIVITY HIGHLIGHTS

- Domestic Cotton Prices Witness Improvement
- NYBOT Cotton Higher on Technical Buying
- China Cotton Futures Improved Today
- Trading Remains Quiet Towards the Weekend

NEWS ANALYSIS

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.

Cotton: USDA Reports Reduced Weekly Export Sales

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.

FUNDAMENTAL ANALYSIS

DOMESTIC MARKET

North Indian markets

Improvement continues in cotton prices at the spot markets of North Indian states. While prices in Sirsa mandi in Haryana remains stable, Sri Ganganagar mandi of Rajasthan witnessed improvement in prices of J-34 variety. In these markets kapaskhali and cottonseed maintained the firm undertone.

Gujarat market

Spot prices of Shankar variety in Gujarat remained stable today amid continuous demand. However, prices of V-797 improved today. Higher closing of NYBOT futures helped the market sentiment. In Gujarat also prices of cotton cake and cottonseed maintained the strong trend. Today the arrival in Gujarat was recorded at around 7-8000 bales, of which V-797 contributed for around 5-6000 bales.

Maharashtra and MP Market

The same trend of cotton prices remains in the markets of Maharashtra and MP. There was a good response from the buyers in the CCI auction yesterday. Most of the cotton was sold in the range between Rs 12500 to 14000 per candy for lower grades. The best quality (29 mm) cotton was sold at Rs 16100 per candy. 28 mm cotton fetched a price of Rs 15000 to 15400 per candy. Today the auction by the federation is going on in Mumbai. However, this is not likely to affect the market prices. In Maharashtra MCU-5 fetched a price of Rs 17000-17500 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 226.5 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	3187	4062	-	-
2. Raw Cotton	-	-	-	-
Sri Ganganagar				
1. Cotton Lint	3375	3862	-	-
2. Raw Cotton	-	-	-	-
3. Cottonseed	950	850	-	-
Ahmedabad/Kadi				
1. Cotton Lint	-	-	4238-4611	3008-3245
2. Raw Cotton	-	-	2225	1060
3. Cottonseed	-	-	925	700

Vayda Bazaar

The medium staple cotton futures at the NCDEX today opened on a positive note. The June contract remained higher throughout the day. The contract closed just below

the day's high. There was strong support from the NYBOT futures. The futures at the NCDEX are expected to open higher tomorrow.

Medium Staple Cotton Futures At NCDEX (Rs/Quintal)

Contract	Prev. Set	High	Low	LTP*	Change	Contract
June	4560.00	4578.00	4560.00	4577.00	+17.00	June
August	4640.00	4665.00	4645.00	4645.00	+5.00	August

INTERNATIONAL MARKETS

USA

Cotton futures at the New York Board of Trade (NYBOT) settled higher amid strong buying supports. The July contract closed up 17 points at 48.76 cents per pound and December contract also rose to 51 points at 52.60 per pound. The market got the technical support also, as the market was in oversold condition. Short covering in the form of bottom picking also helped the cotton futures to remain strong. According to the players funds had been

liquidating lately and have now liquidated a large portion of their net long position. The report that indicated the growing areas in Alabama, Georgia and the Carolinas have received rains lately may have helped the market to anticipate an ideal crop condition everywhere. However, a report from a government research body forecasting that India's June monsoon rains may be 34% below normal levels. The market participants see this as bullish. The market today is waiting for the weekly export sales report by the USDA. The focus in the market may be on how quickly cotton is shipped, as the sales are already 108 per cent of which was expected. So the shipment figures would be more important.

Cotton Futures at the NYBOT as on 02/06/05 (cents/pound)

Contract	Open	High	Low	Close	Change	Contract
July	48.15	49.21	48.15	48.76	+0.17	July
December	51.70	52.85	51.70	52.60	+0.51	December

China

The China cotton futures improved today amid improved buying and support from the higher NYBOT futures. However, the China Cotton Index (CCI) remained under pressure and decline today also. Turnover on CNCE e-market totaled 6400 tonnes, up by 230 tonnes than the previous session. Domestic Type 428 reached 320 tonnes, the balance was domestic Type 229. The open interests totaled 98680 tonnes, down by 1040 tonnes. The open interests of MD contracts totaled 2090 tonnes, up by 10 tonnes. MA0508 opened lower at 13500, quickly rose to the

highest level at 13644, ending at 13638. Market moved narrowly and trading was light. The overall weakness is likely to continue.

Pakistan

Trading activities in the Karachi cotton markets got weaker with only 100 bales of contract changed hands. The spot rate remained unchanged at Rs 2225 per ounce. However, mills and private sector exporters participated seeking quality cotton of southern Punjab and upper Sindh. Traders attributed the thin trading to the little interest of ginners as well as buyers who were waiting for the Trading

Corporation of Pakistan (TCP)'s auction of 55,000 bales. Of the 400,000 bales auctioned so far, spinners have been the biggest buyers of the government held cotton. The buyers are eyeing TCP's lots as they are well aware of the fall in unsold stocks lying with ginneries. The ginneries now hold less than 12,000 bales. Half of that is low-quality cotton. The mills remained more active for making deals, as they had to meet the demand for fabrics by the local market. Due to

lower international prices the local market is likely to absorb most of the TCP's stocks.

Weather Watch (IMD)

Dust storm/thunderstorm are likely in Haryana. Isolated rain/thundershowers are likely over Maharashtra. Isolated dust storm/thunderstorm is likely over Rajasthan. Mainly dry weather in the rest region.

Exchange Rate: 1 USD = Rs 43.66; 1 Euro = 53.54

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

Latest Balance Sheet of Indian Cotton

Quantity in lakh bales of 170 Kg

Particulars	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

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