

COTTON

18th June 2005

MAJOR HIGHLIGHTS

- Domestic Cotton Prices Remain Stable
- NYBOT Cotton Higher on Late Short Covering
- TCP's Auction Dominated Pak Trading

NEWS ANALYSIS

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 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.

FUNDAMENTAL ANALYSIS

DOMESTIC MARKET

NORTH INDIAN MARKETS

Cotton prices in the North Indian markets remained strong today. Storm in the last week and delay in monsoon are supporting the prices in North Indian states. However, rain within next four to five days would dismiss the damage expectation.

GUJARAT MARKET

The strong trend in the cotton prices continued in the markets of Gujarat. The arrival of cotton is going down day by day. Prices of Kalyan witnessed more improvement amid strong demand and low stocks. Sowing is going on here at a very low scale in the irrigated areas of the state. 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 desi	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	1050	960	-	-
Ahmedabad/Kadi				
1. Cotton Lint	-	-	4274-4780	3149-3374
2. Raw Cotton	-	-	2225	1125
3. Cottonseed	-	-	975	760

MAHARASHTRA AND MP MARKET

No significant change was found in the cotton prices in the states of Maharashtra and MP. Unless the monsoon hits the markets the prices are not likely to change significantly from its current level. In Maharashtra Bunny fetched a price of Rs 18000-18500 per candy. Price of H-4 (27 and 28 mm) cotton in MP was quoted between 14800-16300 per candy, while Y1 fetched Rs 13700 to 13800 per candy. Prices of cotton khal in Akola remains at Rs 260.0 per 50 kg. Prices of cotton oil in Mumbai remained at Rs 376 per 10 kg.

VAYDA BAZAAR

The medium staple cotton futures at the NCDEX today opened lower today. The contacts went up significantly

INTERNATIONAL MARKET

USA

The cotton futures at the New York Board of Trade (NYBOT) settled higher amid late short coverings. The July cotton settled 74 points higher at 47.38 cents and most-active December ended 71 points higher at 51.34 cents a pound. Switch trading from the July to the December was active once again Friday, with nearly 75%-80% of total volume coming from the spread. Cotton prices closed mixed and well off their highs Thursday when late sell orders hit the market and took values down, surprising many traders and analysts. 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. In weather, scattered thundershowers are expected in southwestern areas of the Mississippi Delta Saturday with mostly dry conditions in the northeast, the Meteorologix weather service said. Over the Southeast, dry conditions are expected to continue Friday night and Saturday. A few thunderstorms are possible in the south-southwest on Saturday, while mostly dry conditions are seen on Sunday. Texas is expected to be mostly dry and hot through next Tuesday, according to Meteorologix. Temperatures over the weekend and into next week are expected to be above to much above normal. The lower US dollar also provided support to the cotton prices. Higher crude prices also indicated good demand for cotton fibres. Thus, in the longer terms cotton prices are expected to remain strong. For the week, December cotton gained 7 cents to 51.34 cents a pound.

Cotton Futures at the NYBOT as on 17/06/05 (cents/pound)

Contract	Open	High	Low	Close	Change
July	47.25	47.50	46.80	47.38	+0.74
December	51.10	51.60	50.75	51.34	+0.71

CHINA

NCNE remains Closed on Saturday and Sunday.

PAKISTAN

thereafter. The market tone remained strong today amid support from the spot prices and strength in the NYBOT futures. However, the June contract could not sustain at the high prices and erased some gains to close near the day's low.

Medium Staple Cotton Futures At NCDEX (Rs/Quintal)

Contract	Prev. Set	High	Low	LTP*	Change
June	4533.00	4550.00	4532.00	4538.00	+5.00
August	4588.00	4580.00	4550.00	4550.00	-38.00

Due to reluctance of the most of the ginners the trading activities in Pakistan remained dull. In its weekly auction the Trading Corporation of Pakistan (TCP) sold around 99,5000 bales of cotton. Around 100 tonnes cotton imported from India by some mills was offloaded at Karachi port. The spot rate stayed unchanged at Rs 2,250 per maund. Traders said TCP would remain a dominant player in the market until start of the fresh crop season by mid August. The ginners of southern Punjab and upper Sindh have very little stocks now, which they are holding in hope of rise in prices in coming weeks. 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 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 ginners 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.

WEATHER WATCH (IMD)

Isolated dust storm/thunderstorm likely over Haryana & Delhi. mainly dry weather in the region. Rain/thundershowers are likely at many places over Konkan & Goa, at a few places over Madhya Maharashtra and isolated in rest Maharashtra and south Gujarat. Isolated dust storm/thunderstorm is likely over Rajasthan and west Madhya Pradesh. Mainly dry weather in the rest region.

Warning: Isolated heavy rainfall is likely over Lakshadweep, Kerala, Coastal Karnataka, Konkan & Goa, Northeastern states, sub himalayan West Bengal & Sikkim and Andaman & Nicobar Islands.

EXCHANGE RATE: 1 USD = Rs 43.59;
1 Euro = Rs 52.75

Latest ICAC Estimates on Global Cotton Scenario (As on 1st 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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