

COTTON

11th June 2005

MAJOR HIGHLIGHTS

- **Domestic cotton Prices Remain almost Unchanged**
- **NYBOT Cotton Higher on Buying Support at Low Level**
- **Pak Trading Weak, Prices Unchanged**
- **USDA Reports Lower Output for 2005-06**

NEWS ANALYSIS

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 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.

USDA Reported Fall in Export sales

Yesterday the USDA reported the weekly sales report for the period May 27 to June 2. The report showed decrease in cotton sales over the week. Net Upland sales of 93,300 RB were 17 percent below the prior week and 48 percent under the previous 4-week average. The major buyers were China (24,000 RB), Turkey (13,800 RB), Thailand (12,700 RB), and Mexico (12,300 RB). Net sales of 62,600 RB for delivery in 2005/06 were primarily for Thailand (15,900 RB), China (11,300 RB), Turkey (10,000 RB), Indonesia (8,200 RB), and South Korea (7,800 RB). Exports of 275,200 RB were 7

percent above the previous week and 2 percent over the prior 4-week average. The primary destinations were China (85,400 RB), Turkey (40,500 RB), Mexico (35,300 RB), Thailand (18,500 RB), Taiwan (16,100 RB), Indonesia (15,300 RB), and Pakistan (15,100 RB). The sales report could not have any significant impact on the NYBOT futures.

FUNDAMENTAL ANALYSIS

DOMESTIC MARKET

NORTH INDIAN MARKETS

Weakness continues in the North Indian cotton markets. The cotton season is going to close. The subdued market sentiments kept the prices at the lower end. According to the market sources the sowing has been very good in these states, which may pressurise to clear the stocks.

GUJARAT MARKET

Cotton prices in Gujarat remained on the upper side. There is buying support at the lower prices in case of Shankar variety. The mills are still buying small amount of Shankar variety. The exporters remain on the sidelines. However, the V-797 variety remained under pressure and prices eased slightly. The market activities remained dull as, the players preferred to stock till the monsoon hits the markets. Today around 4-5000 bales of cotton arrival was recorded, of which Shankar contributed only around 1000 bales.

MAHARASHTRA AND MP MARKET

Cotton prices in Maharashtra and MP remained with the same undertone today. Prices in MP maintained the slight strength as it is continuing from few days. 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 14800-16200 per candy, while Y1 fetched Rs 13700 to 13800 per candy. Prices of cotton khal in Akola remains at Rs 236.3 per 50 kg. Prices of cotton oil in Mumbai remained at Rs 368 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	3150	4037	-	-
2. Raw Cotton	-	-	-	-
Sri Ganganagar				
1. Cotton Lint	3350	3850	-	-
2. Raw Cotton	-	-	-	-
3. Cottonseed	1000	950	-	-
Ahmedabad/Kadi				
1. Cotton Lint	-	-	4217-4667	3093-3239
2. Raw Cotton	-	-	2225	1100
3. Cottonseed	-	-	920	720

INTERNATIONAL MARKET

USA

Cotton futures at the New York Board of Trade (NYBOT) settled higher after the USDA issued a mostly neutral to mildly constructive June crop report and as prices found support at low levels. The most-active July cotton settled 67 points higher at 46.96 cents a pound, near the high of 47.15 cents. The USDA raised new-crop exports by 500,000 bales to 15 million but lowered old-crop exports by 400,000 bales to 13 million. The change in exports was based on slower-than-expected shipments to date and were associated with a 1.5-million-bale reduction in estimated imports by China, the USDA said, which was not a bullish development for the market but not a huge surprise either. Therefore, U.S. old-crop ending stocks were raised to 7.50 million from 7.10 million bales. U.S. 2005-06 ending stocks fell to 6.20 million bales from 6.30 million. The report confirmed the effect of the US embargo on China however, the bullish news in the report is based on ideas that Chinese demand will resurface during the 2005-06 crop year, if an agreement between the two countries can be worked out. Traders rolling positions from July to the December contract was also a feature of the market, though to a lesser extent than has been seen recently. However, the oversold condition may help the cotton prices to bounce back.

Cotton Futures at the NYBOT as on 10/06/05 (cents/pound)

Contract	Open	High	Low	Close	Change
July	46.32	47.15	46.30	46.96	+0.67
December	50.50	51.30	50.50	51.27	+0.56

CHINA

The Chinese cotton futures remain closed on Saturday and Sunday.

PAKISTAN

Trade at the Karachi cotton market remained dull while prices remained almost unchanged. Only around 60 bales changed hands during the session. Mills purchased quality cotton of southern Punjab and upper Sindh. The spot rate

Medium Staple Cotton Futures At NCDEX (Rs/Quintal)

Contract	Prev. Set	High	Low	LTP*	Change
June	4512.00	4529.00	4511.00	4529.00	+17.00
August	4582.00	0.00	0.00	4582.00	0.00

VAYDA BAZAAR

The medium staple cotton futures at the NCDEX today also opened higher. The June contract remained positive throughout the day. The contract found some buying support amid strong close of the NYBOT futures. After a smooth increase the contract closed the day at the day's high.

remained unchanged at Rs 2,225 per maund. Traders attributed the thin trade to the absence of buying interest. Mills are eyeing the Trading Corporation of Pakistan (TCP)'s lint. The corporation has invited tenders from local mills and exporters for selling around 50,000 bales. The TCP would offer all of its stocks to local mills and foreign buyers before the start of new cotton season by mid August. Mills and exporters suggested TCP to offer its stocks in open sale on weekly basis at fixed prices. It would save time and buyers would get their stocks at the earliest according to them. The poor quality lint offered by some ginners could attract very low prices. The ginners having quality lint would try to hold back their stocks until new crop from areas of lower Sindh arrives by mid August. Most of the mills and spinners are still in need of fine lots. Thus, it is likely that the cotton prices would not go down in near future.

WEATHER WATCH (IMD)

Rain/thundershowers likely at a few places over Konkan & Goa and South Madhya Maharashtra and isolated over North Madhya Maharashtra and Marathawada. Mainly dry weather in the rest region.

EXCHANGE RATE: 1 USD = Rs 43.56;

1 Euro = Rs 53.21

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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