

## COTTON

20<sup>th</sup> June 2005

### MAJOR HIGHLIGHTS

- Domestic Cotton Prices Improved Today
- China Cotton Futures Settled Higher Today
- Pak Spot Prices Improved

### 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 markets of North India maintained the strong undertone today. All the markets of Haryana, Punjab and Rajasthan witnessed the same price movement today. The market participants are closely watching progress in monsoon.

##### GUJARAT MARKET

In the states of Gujarat prices of cotton remained stable with a firm undertone. Prices of both Kalyan and Shankar improved today. The markets sources are expecting more improvement in the prices of Kalyan in the coming days. The arrival is coming down day by day. This coupled with the lower stocks and monsoon concern are supporting the prices. Till the monsoon comes the prices are likely to maintain the same tone. 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	1055	960	-
Ahmedabad/Kadi			
1. Cotton Lint	-	-	4274-4780 3149-3430
2. Raw Cotton	-	-	2225 1150
3. Cottonseed	-	-	975 760

## MAHARASHTRA AND MP MARKET

There was no change found in the prices of cotton in the markets of Maharashtra and MP. Monsoon is progressing slowly in these states. The prices are likely to remain at the same level here. 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 15200-16000 per candy, while Y1 fetched Rs 14000 to 14500 per candy. Prices of MCU-5 (30-31 mm) were recorded at Rs 17500 to Rs 18700 per candy. Prices of cotton khal in Akola remains at Rs 259.50 per 50 kg. Prices of cotton oil in Mumbai remained at Rs 378 per 10 kg.

## INTERNATIONAL MARKET

### USA

NYBOT futures remain Closed on Saturday and Sunday.

#### 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

The cotton futures in China today ended higher with heavy volume. The China Cotton Index (CCI) also improved today. Turnover on CNCE e-market totalled 13840 tonnes, up by 4150 tonnes than the previous session. Domestic Type 428 reached 580 tonnes, the balance was domestic Type 229. The open interests totalled 101070 tonnes, down by 1050 tonnes. The open interests of MD contracts totalled 2000 tonnes, down by 10 tonnes. Today's total turnover was 1.4 times than last session. And the open interest was narrowed. The prices of the contracts in MA have risen around 100 Yuan, MD's price increased slightly. MA0506 completed the business transaction ahead of the schedule. And MA0506 was the only one, which the open interest declined.

### PAKISTAN

The ginner made most of the manageable cotton stock held with them and the fact the new crop growing fast and is expected in a couple of months away. The TCP auction

## VAYDA BAZAAR

The medium staple cotton futures at the NCDEX remained strong with very less price movement. The June contract expired today. The contract improved today over the previous day closing.

#### Medium Staple Cotton Futures At NCDEX (Rs/Quintal)

Contract	Prev.	Set High	Low	LTP*	Change
June	4541.00	4565.00	4535.00	4557.00	+16.00
August	4563.00	4565.00	4550.00	4565.00	+2.00

has continued to throttle trading and hence the spot rate was not ventured to be tailored to the sellers need. On Saturday the spot rate was enhanced by Rs 25 to Rs 2275. Despite some odds, more than 95 percent cotton sowing has been completed in the country, and a few lots of new crop lint cotton from lower Sindh stations have been sold at around Rs 2,300 per maund ex-gin (= 46.80 cents/lb). The ginner still prefer to sit on the sidelines and brought very little quantity of quality lots to the markets. The present scenario indicates towards the strong market sentiments to continue in the coming days.

#### WEATHER WATCH (IMD)

Rain/thundershowers are likely at most places in Konkan & Goa, at many places over Madhya Maharashtra, Saurashtra and South Gujarat; at a few places over West Madhya Pradesh, Marathwada and at isolated places in Vidarbha and rest Gujarat. Isolated dust storm/thunderstorm is likely over Rajasthan.

**Warning:** Heavy to very heavy rainfall is likely at a few places over Konkan & Goa. Isolated heavy rainfall is also likely over Andaman & Nicobar Islands, Lakshadweep, coastal Karnataka, Madhya Maharashtra, Northeastern states, sub Himalayan West Bengal & Sikkim and south Gujarat.

**EXCHANGE RATE:** 1 USD = Rs 43.54;  
1 Euro = Rs 53.22

#### Latest ICAC Estimates on Global Cotton Scenario (As on 1<sup>st</sup> 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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