



Trade Research Report

COTTON

HIGHLIGHTS, MARKET TRENDS AND RECOMMENDATIONS

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HIGHLIGHTS

- **Domestic Cotton Prices Remain Slightly Weak**
- **NYBOT Cotton Sharply Lower on Bearish Fundamentals; Moderate Trading Witnessed in Pakistan**

NEWS ANALYSIS

GEAC's Decision on Bt Cotton may Raise Controversy

A recent move by the Genetic Engineering Approval Committee (GEAC) is likely to raise controversy between those with Bt cotton commercialisation approvals and those without. Additionally, there appears to be a division between Monsanto sub-licencees and non-Monsanto Bt cotton players. The non-Monsanto section of the seed industry has termed the recent GEAC moves with regards to Bt cotton approvals as being anti-competitive. They argued that this move would result into monopoly and continuation of high prices of Bt cottonseeds. However, Monsanto denies the charge of monopoly. According to the other players after clearing Bt cotton hybrids that conform to certain minimum norms, the GEAC should not change rules suddenly. A procedural change introduced by the GEAC recently makes the approval stringent for those Bt cotton hybrids, which are sourced from seeds not yet notified by the Indian Council of Agricultural Research. For those hybrids, GEAC has asked companies to limit their extent of seed production during the first year to one acre only as compared to the earlier limit of 100 hectare (250 acres). In the second year, GEAC may give approval for seed production in about 20 acres. Second, instead of "minimum of one year of large scale trials (LST)" required before giving a go ahead for commercialisation, GEAC had asked companies to conduct "minimum of two years of LST". Till date, all the Bt cotton hybrids approved for commercialisation belong to companies that are licensees of US-based Monsanto. Many of these approved varieties are sourced from non-notified hybrids that have undergone one year of LST. The seeds of these companies that include Maharashtra Hybrid Seeds Company (Mahyco), Nuziveedu Seeds, Rasi Seeds and Ankur Seeds incorporate the cry1Ac gene, based on Bollgard, the specific gene construct patented by Monsanto.

Latest Estimates by the ICAC

According to the latest estimates by the ICAC the world cotton production is expected to decline by 10% in 2005-06 and will likely fall slightly below world consumption. The net imports by China (Mainland) are projected to surge from an estimated 1.45 million tons this season to 2.8 million tons in 2005-06. As a result, the Cotlook A Index is

expected to average 66 cents per pound in 2005/06, thirteen cents above the average of 53 cents per pound expected for the current season. World production is now estimated at 26 million tons in 2004-05, up 5.3 million tons (26%) from 2003-04, outpacing mill use by 2.9 million tons. Consequently, world ending stocks are expected to rise from 7.8 million tons last season to an estimated 10.4 million tons on July 31st 2005. Lower cotton prices in 2004, combined with the anticipated return of normal weather in 2005 after near-ideal conditions last year, are likely to reduce world production in 2005-06. Nevertheless, rising cotton prices in 2005 are likely to slow the rate of growth of cotton mill use from an 18-year high of 8% this season to 2.5% in 2005/06. World cotton mill use is forecast to reach 23.7 million tons, up 600,000 tons. The gap between production and use in China (Mainland) is forecast to widen to 2.8 million tons in 2005/06, one million tons more than the estimated gap this season. Record imports by China (Mainland), combined with lower production and rising consumption in the rest of the world, will boost world trade to an unprecedented 7.9 million tons in 2005-06, up 800,000 tons from the current season.

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

USDA Forecast Lower Output in 2005-06

The USDA released its first estimates for 2005-06 that showed lower production and higher consumption and trade. The ending stock is likely to fall by 8 per cent. China's planted area is likely to fall about 15 percent from last season due to low prices at harvest; reduced production in China and the United States accounts for about 60 percent of the 12.3-million-bale decline anticipated for the world. World consumption of 111.5 million bales assumes above-average growth for the second consecutive year, based on continued expansion in textile demand and favourable cotton prices relative to polyester. A sharp increase in world trade is driven by anticipated China imports of 15.0 million bales, nearly double the estimated 2004-05 level. World ending stocks are projected at 45.2 million bales. For 2004-05, the U.S. estimates include slightly higher production that is offset by higher exports. World 2004-05 beginning stocks are raised 1.7 million bales to include historical revisions to China's balance sheet beginning in 1994-95. World 2004-05 production is raised marginally from last month, while a consumption increase of about 900,000 bales includes increases for China, Thailand, and Pakistan. Imports are raised mainly in Thailand and Mexico, partially offset by a decrease for Indonesia. World ending stocks are 1.2 million bales above last month. The lower production estimates for 2005-06 are expected to boost the prices in the coming days.

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

Fundamental Analysis:

Domestic Market:

North Indian markets

Weakness maintained in the North Indian cotton markets today also. Sirsa market found no change while cotton prices Sri Ganganagar market improved slightly. The prices in kapaskhali and cottonseed continue the up trend.

Gujarat market

After maintaining a stable trend the Gujarat market witnessed slight weakness in the cotton prices today. The sharp decline in the NYBOT futures pressurised the cotton prices in Gujarat. Cotton cake and cottonseed prices continued their strength. Today the arrival in Gujarat was recorded at around 8-9000 bales, of which V-797 contributed for around 3-4000 bales.

Maharashtra and MP Market

No change was recorded in the cotton prices in Maharashtra and MP. The market is waiting for the auction of 25000 bales by the CCI in Akola tomorrow. The auction by the Maharashtra federation is also scheduled on day after tomorrow in Mumbai. In Maharashtra Y1 fetched Rs 13500 to 13700 per candy and 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. Prices of cotton khal in Akola remains at Rs 233.5 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	4050	-	-
2. Raw Cotton	-	-	-	-
Sri Ganganagar				
1. Cotton Lint	3375	3825	-	-
2. Raw Cotton	-	-		
3. Cottonseed	940	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 remained range-bound. The prices remained in the positive territory for the most of the time. The June contract closed between the day's low and high. The contract at last closed lower than the yesterday's closing.

Medium Staple Cotton Futures At NCDEX (Rs/Quintal)

Contract	Prev. Set	High	Low	LTP*	Change
June	4555.00	4550.00	4530.00	4540.00	-15.00
August	4655.00	4625.00	4625.00	4625.00	+5.00

*As on 5.00 pm.

International Markets:

USA

Cotton futures at the New York Board of Trade (NYBOT) declined sharply amid bearish technical and fundamental news. The benchmark July contract closed down 179 points at 48.64 cents per pound. The strong bearish technical pressure made the contract weaker. The roll over of positions from July into October also remained as the bearish factor for the market. Fundamentally, market sources said news of rainfall in the dryland areas of west Texas and the Delta was bearish for cotton prices as it boosts the cotton crop for the 2005-06 season. Weather reports noted that planting is active through west Texas and increasing shower activity during the second half of this week will improve emergence and growth of dryland fields. In the U.S. southeast region, planting progress is ongoing while more rain and warmer temperatures benefit the crop. Pressure from a rising dollar mixed with rising trade tensions with China were also behind the steady decline. Therefore, the weakness is likely to continue in the short-term.

Cotton Futures at the NYBOT as on 31/05/05 (cents/pound)

Contract	Open	High	Low	Close	Change
July	49.61	49.95	48.50	48.64	-1.79
December	52.50	52.70	51.50	51.62	-1.43

Pakistan

Moderate trading activity was witnessed at Karachi cotton market with around 1,500 bales of contracts. Mills and private sector exporters were busy in buying. The KCA spot rate remained unchanged at Rs 2,225 per maund. The buyers remained active in matching the prices with the Trading Corporation of Pakistan's rates for different stations. Ginners with limited stocks of poor quality remained busy in hunting the buyers for their lots on breakeven prices. Spinners have already accumulated sufficient stocks through buying from local market as well as imports for their current season requirements. Still they were short of around 500,000 bales and they would be buying cotton in the coming days to meet the shortfall. According to the brokers the current cotton season was coming to an end and the first delivery of new crop season would probably arrive by mid August. Spinners of southern Punjab and upper Sindh were still picking up low quality lint from the market to produce yarn for domestic sale. Therefore, there is little chance for the cotton prices to go down in near future.

Weather Watch (IMD):

Rain/thundershowers are likely at a few places over South Madhya Maharashtra. Mainly dry weather in the rest region. Increased pre monsoon thundershower activity over south peninsula likely to continue.

Area, Yield and Production of Cotton in Different countries (As on 13/05/05):

Countries	Area (Million Hectare)		Yields (Kg Per Hectare)		Production (Million 480 lb. Bales)		Change in Production from last year	
	2003/ 2004	2004/ 2005	2003/ 2004	2004/ 2005	2003/ 2004	2004/ 2005	Absol ute	% age
United States	4.86	5.28	818	958	18.25	23.25	5	27.37
African Franc Zone	2.41	2.66	402	386	4.44	4.72	0.28	6.43
Argentina	0.25	0.37	449	403	0.51	0.69	0.17	33.01
Australia	0.2	0.33	1,888	1,809	1.7	2.7	1	58.82
Brazil	1.1	1.15	1,191	1,212	6.01	6.4	0.39	6.4
China	5.11	5.69	950	1,110	22.3	29	6.7	30.04
Egypt	0.22	0.31	919	922	0.92	1.3	0.38	41.3
Greece	0.36	0.38	918	1,045	1.53	1.8	0.27	17.65
India	7.79	9	386	435	13.8	18	4.2	30.43
Pakistan	3.09	3.2	546	769	7.75	11.3	3.55	45.81

Paraguay	0.28	0.24	393	272	0.51	0.3	-0.21	-40.6
Spain	0.09	0.09	1,018	1,210	0.43	0.5	0.07	16.28
Sudan	0.18	0.21	377	544	0.31	0.52	0.21	69.35
Turkey	0.71	0.7	1,257	1,291	4.1	4.15	0.05	1.22
Turkmenistan	0.48	0.55	426	376	0.94	0.95	0.01	1.06
Uzbekistan	1.4	1.42	638	777	4.1	5.05	0.95	23.17
Other	3.93	4.35	91	95	1.64	1.89	0.26	15.64
World	32.45	35.92	638	723	95.12	119.32	24.2	25.44

Note: Figures are in 1000 480 lb. Bales/MY Aug-July; E- Estimated; F- Forecasted

Source: USDA

Exchange Rate: 1 USD = Rs 43.72; 1 Euro = 53.93

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