

COTTON

June 06-11 2005

MAJOR HIGHLIGHTS

- **Weekly Domestic Cotton Spot Prices Up, Futures Down**
- **NYBOT Futures Recovered Some Losses on the Last Trading Day**
- **Cotton Trading in Pakistan Remained Dull Throughout the Week**
- **Chinese Cotton Futures Improved Slightly this Week**
- **USDA Reported Fall in Export sales for the Period May 27 to June 2**
- **USDA Reports Lower Output for 2005-06 in its Monthly Supply/Demand Estimates**

NEWS ANALYSIS

Cotton: Sowing Progressing Well in Pakistan

According to the Central Cotton Research Institute (CCRI) cotton crop has been sown on 5.2 million acres in Punjab till June 3. The cotton sowing target has been fixed at 6.3 million acres, so over 82 percent target has been achieved. The CCRI chief said the production target for Punjab has been set at 11.65 million bales out of the total national figure of 15 million bales. The CCRI director advised the growers to cultivate only those varieties of seed recommended by cotton experts and agriculture department (extension) officials. The recommended seed varieties include, CIM-496, CIM-506, CIM-499, CIM-473, CIM-446, CIM-707, Niab-111, Niab-999, FH-901 and BH-160. He said for the major cotton zone districts including Multan, Lodhran, Vehari, Khanewal, Bahawalpur, Bahawalnagar, Rahimyar Khan, D G Khan, Muzaffargarh, Rajanpur and Layyah. The sowing target has been fixed at 5.375 million acres and against it the crop has been cultivated on an area of 43.75 million bales, he added.

Cotton: ICAC Forecast Fall in Output in 2005-06

According to the International Cotton Advisory Committee world production is skyrocketing to 26.1 million tons in 2004-05 (up 26%), outpacing world consumption (up 9%) by an estimated 2.9 million tons, the highest gap in twenty seasons. The Cotlook A Index is forecast to average 53 cents per pound in 2004-05, down fifteen cents from a six-year high in 2003-04. The world production in 2005-06 is forecast to decline to 23.4 million tons in 2005-06, down 2.7 million tons (10%) from the record this season, but still the second largest crop on record. World consumption is projected to climb to a record 23.7 million tons in 2005-06, up half a million tons (2%). China (Mainland) remains the driving force behind world cotton mill use. Cotton consumption in China (Mainland) is expected to reach 8.6 million tons in 2005-06, up 5% from this season, exceeding anticipated production by 2.8 million tons. Mill use in the rest of the world is expected to reach 15.1 million tons, expected increases in India and Pakistan offsetting declines in other developed countries. China (Mainland) is the main beneficiary of the abolition of quotas on textile and

apparel trade among WTO members since January 1, 2005. Safeguard petitions to limit the growth of imports from China (Mainland) to developed countries are multiplying in numerous textile categories, as allowed until 2008 under WTO rules. An appreciation of the yuan, if it occurs, would benefit China's competitors on the export markets, without stemming the flows into import markets. Record imports by China (Mainland), combined with lower production and rising consumption in the rest of the world, will lead to 2005-06 world exports of an estimated 8.1 million tons, up 900,000 tons from this season. The Cotlook A Index is expected to average 68 cents per pound in 2005-06. The projected 15-cent jump from the average anticipated for the current season is essentially the result of projected booming net imports by China (Mainland). The structural imbalance between domestic production and consumption in China (Mainland) is expected to continue supporting cotton prices during the next seasons.

Centre Likely to Subsidise Cotton Export from Maharashtra

The Centre has agreed to subsidise export of cotton procured by Maharashtra state federation by Rs 500 per bale. The Government decision is expected to help the State to liquidate part of its cotton stocks of 30 lakh bales. The subsidy is for transport of cotton from procurement centre to the nearest port of shipment. A notification to this effect is expected to be issued soon. According to the market sources, the State Government would try to export 10 lakh bales of cotton in the current season. The State marketing agency for cotton is expected to tap China for export of medium and short staple cotton, where there is good demand for these varieties. However, cotton traders in the State do not see this development positively. However, the cotton traders are not happy with this decision given the fact that cotton has been procured at a much higher rate in Maharashtra than the minimum support price of Rs 1,760 per quintal. The traders also demand the same benefit for themselves. In the cotton season of 2004-05, the Maharashtra Government through its nodal body, The Maharashtra State Co-operative Cotton Growers

Marketing Federation (MSCCGMF), has procured 212 lakh quintals of cotton at a price of Rs 3,664 crore, under the Cotton Monopoly scheme. However, the subsidy and the permission to exports would not be very high in monetary terms given the fact that the cotton monopoly scheme had been running into huge losses for the last 10 years. The accumulated loss of the scheme is Rs 4,009 crore and this year, the loss is expected to be between Rs 1,600 crore and Rs 1,650 crore.

Cotton Traders Disagree With the CAB Estimates

Cotton traders and textile industry have disputed the Cotton Advisory Board's (CAB) estimate of this year's total cotton production at 232 lakh bales (lb). Going by market arrivals they predict the output to be higher than the CAB figure by at least 8 lb, at 240 lb--the highest ever production. According to traders, the current availability of cotton in the domestic market is more than 55 lb. By far, 236 lb have reached the market and another 405lb are expected to hit the market shortly. Also, no major decline in production is expected in the coming (October-September) season as well. Reports suggest that in Punjab, Rajasthan and Haryana, where sowing has been completed, area under cotton cultivation has gone up by significantly. However, there are fears that the record production would pull down prices. Allaying such fears, the mill owners say that with a major increase in yield per hectare, any dip in price would be more than offset by volumes. From 2002-03 season to May 2005, domestic cotton prices had declined 15-20%. On the other hand, yield per hectare increased 45% during the period, keeping farmers' income at higher levels. Given the current level of production, yield is estimated to have touched a record high of 440 kg /hectare. The total demand stands at 210 lakh bales, which falls short of supply by 30 lakh bales. The demand for raw cotton has increased from 150.39 lakh bales (in 2004-05) to 168 lakh bales this year. The same trend is seen in the mills sector and the powerlooms with the demand increasing from 13 lakh bales (in 2004-05) to 17 lakh bales and from 10.5 lakh bales (in 2004-05) to 13 lakh bales respectively. Due to an increase in cotton production, the quantity of cotton imported is expected to come down from 7.21 lb in 2004-05 to 6 lakh bales this year, and exports are likely to increase from 13.25 lb in 2004-05 to 14 lb this year.

CCI to Set Up More Centres in Tamil Nadu

The Tamil Nadu state government wants the Cotton Corporation of India (CCI) to open its purchasing centres in the southern districts so that the farmers get good prices for their produces. The farmers complained the government that the CCI and NAFED are not coming forward to buy their cotton at the MSP. As a result the farmers have to go for distress sale below the MSP. Currently the farmers are selling their produce at Rs 1200 per quintal, whereas the MSP set by the government is between Rs 1640 to Rs 2000 per quintal for different varieties. A team comprising different government, CCI and other officials found that the farmers were selling cotton at Rs 200 to 300 less than MSP. Thus, it has been decided to set up purchasing centres by the CCI in the districts of Madurai, Virudhunagar, Rajapalyam etc. In other cotton producing states the roll of CCI has been supportive to protect the interest of the farmers.

Cotton Output to Fall in Greece

Cotton lint production in Greece is expected to drop sharply this year, according to a recent report from the U.S.

agricultural attache for the country. Production could sink from 390,000 metric tons (MT) last year to a forecast 371,000 MT this year on the basis of a decline in seeded area from 380,000 to 358,000 hectares. This year's area is a preliminary estimate reported by the GOG Ministry of Agriculture (figure subject to slight revisions in the future). However, the GOG Ministry of Agriculture and Food has announced that this acreage is the acreage "target" for this year, in an attempt to keep production within the EU guaranteed threshold. By staying on target farmers get the highest possible price subsidy, avoiding high coresponsibility levies, as was the case a year earlier.

Cotton: Pak Traders Happy with New Budget

The new budget in Pakistan came as a breather for the cotton markets and the June 7 budget termed by the market players as textile budget. The Pak government did everything to boost the textile exports to \$10 billion. The removal of general sales tax of 15 per cent on the purchase of lint would have a positive impact on the export shipments. The spinners and the mills got what they want from the government. Now it is the turn for them how they can use these benefits to boost the exports. The spinners are likely to go for value addition in the tax-free regime. The ginners are also likely to get benefits from this new mechanism, as earlier ginners had to collect sales tax from the spinners and then had to deposit to the government.

Talks Continue on Cotton Subsidy Issue

The Maharashtra State Cooperative Cotton Growers' Marketing Federation is in talks with the Centre on the issue of export subsidies on cotton procured by the federation. The federation pointed that the Cotton Corporation of India (CCI) got 3 cents subsidy on exports. Therefore, they are also demanding the same kind of subsidy. The federation has procured around 4.33 million bales (1 bale = 170 kg) of cotton on behalf of the Maharashtra government and sold around 1.3 million bales till now. Though nothing has been finalised, the talk is going on with the centre. The federation also agrees that if the subsidy is given the scope to export to China would also increase.

Cotton Area Declined in Pakistan

According to the government officials the cotton sowing area in Pakistan had reduced by 1.2 percent till June 5, 2004, but the cotton sowing area in Sindh increased by 4.6 percent. A total of 2,558,000 hectares were sown till June 5 against the 2,590,000 hectares sown in the same period of the Kharif season last year, showing a decrease by 1.23 percent. The area sown in Punjab stood at 2,127,000 hectares till June 5 against the 2,178,000 hectares sown in the corresponding period last year, which is a decrease by 2.3 percent and by 82.9 percent of the target. In Sindh, the area sown stood at 431,000 hectares against the 412,000 hectares sown in the corresponding period of last year showing an increase by 4.6 percent over the last year and 67.6 percent by the target area. A total of 3,247,000 hectares had been targeted for cotton sowing in the current Kharif season against last year's sown area of 3,229,000, which was an increase by 0.55 percent in the area-wise target. The target area in Punjab is 2,559,000 hectares for this season against the 2,547,000 hectares last year; the target area in Sindh is 638,000 hectares against last year's target of 635,000 hectares. The target area for Balochistan remained unchanged at 40,000 hectares. However, the

target area for the NWFP was increased from 7,000 hectares last year to 10,000 hectares to help the government achieve its overall target. The federal committee on agriculture (FCA) in consultation with the provinces has fixed the cotton production target for 2005-06 at 12 million bales. Encouraged by the growth in cotton production in 2004-05, the cabinet increased the target to 15 million bales. The Ministry of Food, Agriculture and Livestock (MINFAL) formed the cotton production strategy, which has been thoroughly discussed with the provincial governments and private-sector stakeholders.

Pak Suffering Losses for Cotton Stocking by TCP

The Pakistan government is bearing a loss of over Rs 1.7 billion due to stocking of cotton around 1.4 million bales lying in its godowns across the country due to rising interest rates. In per unit basis it is around Rs (Pak) 300 extra per maund of cotton. The government spent Rs 16 billion to acquire 1.6 million bales. With the passage of time, the carrying cost rose with an increase in Karachi Inter-Bank Offered Rate (KIBOR), however, with the federal government's announcement last month to dispose of cotton to local mills, the Trading Corporation of Pakistan would be able to sell 0.8 million bales to the local industry by August 2005. The state-run agency in September last intervened in the local market on the directives of the

USDA Reported Fall in Export sales for the Period May 27 to June 2

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.

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

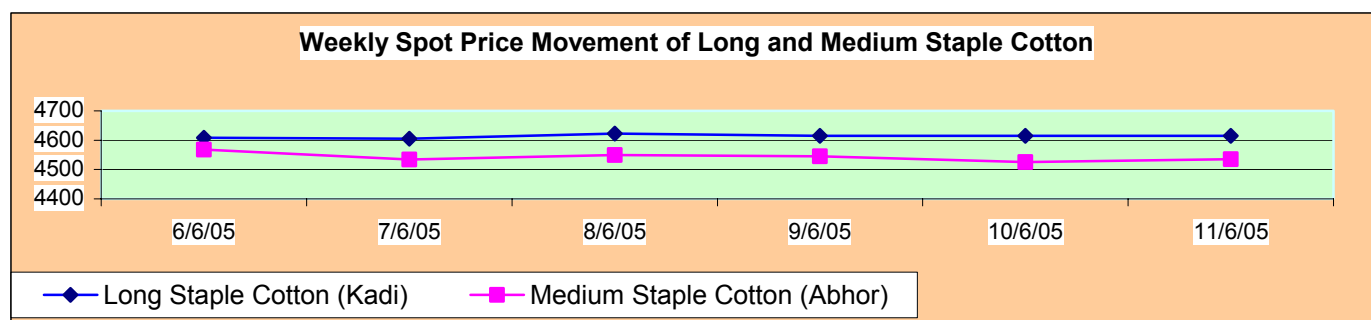
federal government to rescue falling prices, which slumped below Rs 2,000 per maund on account of a bumper crop. The lower international prices pushed the government to stop the exports in January. It took four months for the government to decide to sell cotton to the local mills. The delayed decision to sell the cotton locally might result in further loss by August 2005, which the government set to sell out all the stock to local textile industry and foreign buyers. By August time, the government has estimated that 0.8 million could be sold out to local mills. And the remaining around 0.6 million bales would be exported as the TCP would not offer them to local industry due to arrival of new crop. Out of the total 1.6 million bales, the TCP has been successful in selling over 100,000 thousands bales since the last month's decision and still stocks round 1.4 million bales. The state-run agency is firm that it will not sell cotton to local mills after August to protect the interest of growers and follow the government directives to export the commodity. As per figures, compiled by the TCP, shows that the corporation has made total contracts of 2.586 million bales from across the country, which included 693,100 bales from Sindh, 1.874 million bales from Punjab and 18,800 bales from Balochistan.

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.

PRICES

Spot (Domestic)

Date	Rates (Rs/Quintal)	
	Long Staple Cotton (Kadi)	Medium Staple cotton (Abohar)
06/06/05	4608.30	4568.40
07/06/05	4604.60	4533.65
08/06/05	4622.20	4549.25
09/06/05	4615.20	4545.05
10/06/05	4614.95	4525.25
11/06/05	4614.80	4535.05



Futures: July contract (NYBOT)

Contract	Open	High	Low	Change	Close
6/6/2005	48.49	48.65	47.15	47.37	-0.97
6/7/2005	47.48	47.65	46.85	46.94	-0.43
6/8/2005	46.77	47.15	46.2	46.89	-0.05
6/9/2005	47.2	47.65	46.1	46.29	-0.60
6/10/2005	46.32	47.15	46.3	46.96	+0.67

FUNDAMENTAL ANALYSIS

INTERNATIONAL MARKETS

USA

The cotton futures at the New York Board of Trade (NYBOT) remained weak almost throughout the week. From the very first day the futures fell continuously till the last trading day of the week, when the futures tried to recover some losses. On the very first day of the week the contracts fell sharply on speculative selling. The rolling of positions from July into December was the main attraction. Traders attributed this option related selling to the trade issues between China and the U.S. U.S. officials met with Chinese government over the weekend to discuss rampant product piracy but the trip was overshadowed by Chinese complaints about U.S. textile quotas. On the planting issue as of June 5, 90% of cotton was planted in the U.S. versus 91% the year-prior and the average 88%. Despite bullish weather report the cotton futures declined due to fund liquidation. Weather reports appeared to be bullish for cotton futures on Wednesday as storms swept across West Texas dumping golf-size hail on the cotton crop. Weather forecasts for the Mississippi Delta call for scattered to widely scattered showers and storms Thursday and Thursday evening with 0.10-0.25 inch of rain possible. Weekly export sales of net upland cotton were 93,300 running bales, down 17% from the previous week and 48% under the previous four-week average, the U.S. Department of Agriculture said Thursday. China, Turkey, Thailand and Mexico were the largest buyers. Total exports of 275,200 bales were 7% above the previous week and up 2% from the previous four-week average. The market sentiment on the last day surged up by an almost friendly supply demand report by the USDA. 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. The oversold condition of the market may help the cotton futures to go up again in the coming week.

China

The cotton futures this week remained mostly higher. The ZCE prices also improved this week. The futures earlier got support for the comments by the Chinese commerce minister. Chinese Commerce Minister Bo Xilai Monday launched a vigorous defence of China's textile policies in an interview with National Public Radio. The radio network quoted Bo as saying China does not want a trade war with the U.S. but that it's China's right under WTO rules to export more textiles to the U.S. and E.U. this indicated that government would support the textile exports. However, reports showed that the Chinese textile sector made less profit in the last month. In the coming week also the trade dispute between the US, EU and china is likely to pressurise the cotton futures in China.

Pakistan

Cotton trading in Pakistan remained dull throughout the week. The KCA spot rate remained unchanged at Rs 2225 per maund this week. Traders said mills picked up fine lots on slightly increased rates. The mills also participated in the auction of Trading Corporation of Pakistan (TCP)'s cotton and lifted more than half of the stocks offered. Poor quality lots of southern Punjab and upper Sindh were also traded in limited quantity. Spinners made future contracts for low-priced poor quality lint, they added. The fine lots would remain in demand until the new crop starts arriving by mid August. The main buyers of TCP lots would be mills as the private sector exporters and foreign buyers were least interested in TCP's cotton. He said recent decline of around 49 cents per pound in international market would create

problems for local exporters, as they would not be able to get a good price of their stocks. The leading mills and spinners have received increased orders for cloth and yarn from abroad while domestic demand has also risen. However, the auction by the TCP eased the supply of cotton. The mills have sufficient stocks bought from local

DOMESTIC MARKET

Cotton prices improved this week slightly in North Indian states. Prices remained stable with a strong undertone in Gujarat. Futures at the NCDEX however, declined over the week.

North Indian Markets

The cotton prices in the North Indian states maintained the improvement from the last week. This week cotton prices in Haryana remained almost unchanged however, the prices of J-34 improved in Sri Ganganagar of Rajasthan. According to the market sources the selling of cotton by the Cotton Corporation of India (CCI) at the lower prices put pressure on the market prices. The participants thus, preferred to stock the raw material till the monsoon. The price of J-34 was recorded between Rs 1615-1620 per mon in Sirsa and Bengal deshi fetched Rs 1260-75 per mon. Price of J-34 cotton in Sri Ganganagar market of Rajasthan was quoted between Rs 1530 to Rs 1550 per mon whereas Bengal deshi fetched Rs 1340-50 per mon.

Gujarat Market

The cotton prices in the market of Gujarat this week too remained with a stable trend. The tone remained positive. There was scattered buying by the mills at the lower prices. Shankar variety remained on continuous demand. The sharply declining NYBOT futures kept the exporters out of the market. Prices of V-797 remained volatile throughout the week. Prices of cotton cake and cottonseeds remained on demand that helped the prices of these to increase throughout the week. The lower arrival of Shankar helped

WEATHER WATCH (IMD)

Conditions are favourable for further advance of southwest monsoon into the northeastern states and some more parts of south peninsula during the second half of the week. Ongoing rainfall activity over Andaman & Nicobar Islands and south peninsula is likely to continue. Isolated

Exchange Rate in INR

Currency	06/06	07/06	08/06	09/06	10/05
1 USD	43.60	43.53	43.53	43.55	43.56
1 Euro	53.37	53.55	53.62	53.22	53.21
1 GBP	79.17	79.61	79.89	79.49	79.26
100 Yen	40.57	40.75	40.73	40.59	40.53

market and abroad. However there is still a shortfall of around 37,000 bales, which they would meet in coming days. The auction by the TCP is likely to set the market prices. The present tone of the market is likely to continue in the coming week too.

the seed and raw cotton prices to remain higher. This week, the arrival of cotton in Gujarat remained between 4000-5000 bales. The prices of Shankar were recorded between Rs 14800 to Rs 16700 per candy. Price of Shankar (28 mm) remained between Rs 16200-16600 per candy. Prices of V-797 were quoted between Rs 11000-11700 per candy for ready delivery.

Maharashtra and MP Market

There was no significant change in the cotton prices in the states of Maharashtra and MP. The auction by the CCI and Maharashtra federation had very negligible effect on the market prices. However, some buying activities before the monsoon hits the markets helped slight improvement in prices in MP. In the coming week also the prices are likely to maintain the same tone. In Maharashtra Bunny fetched Rs 18000-18500 per candy. Price of H-4 cotton in MP was quoted between 14500-16000 per candy. Prices of cotton khal in Akola remains between Rs 226-233.5 per 50 kg. Prices of cotton oil in Mumbai remained between Rs 364 to Rs 366 per 10 kg.

Vayda Bazaar

The medium staple cotton futures at the NCDEX remained somewhat weaker this week. The continuously declining NYBOT futures pressurised the market. Sellers were dominant almost throughout the week. However, on the last day the futures improved slightly. Overall, the futures at the NCDEX remained lower over the week.

rain/thundershowers also likely over northwest and east central India.

Latest ICAC Estimates on Global Cotton Scenario (as on 2nd May)

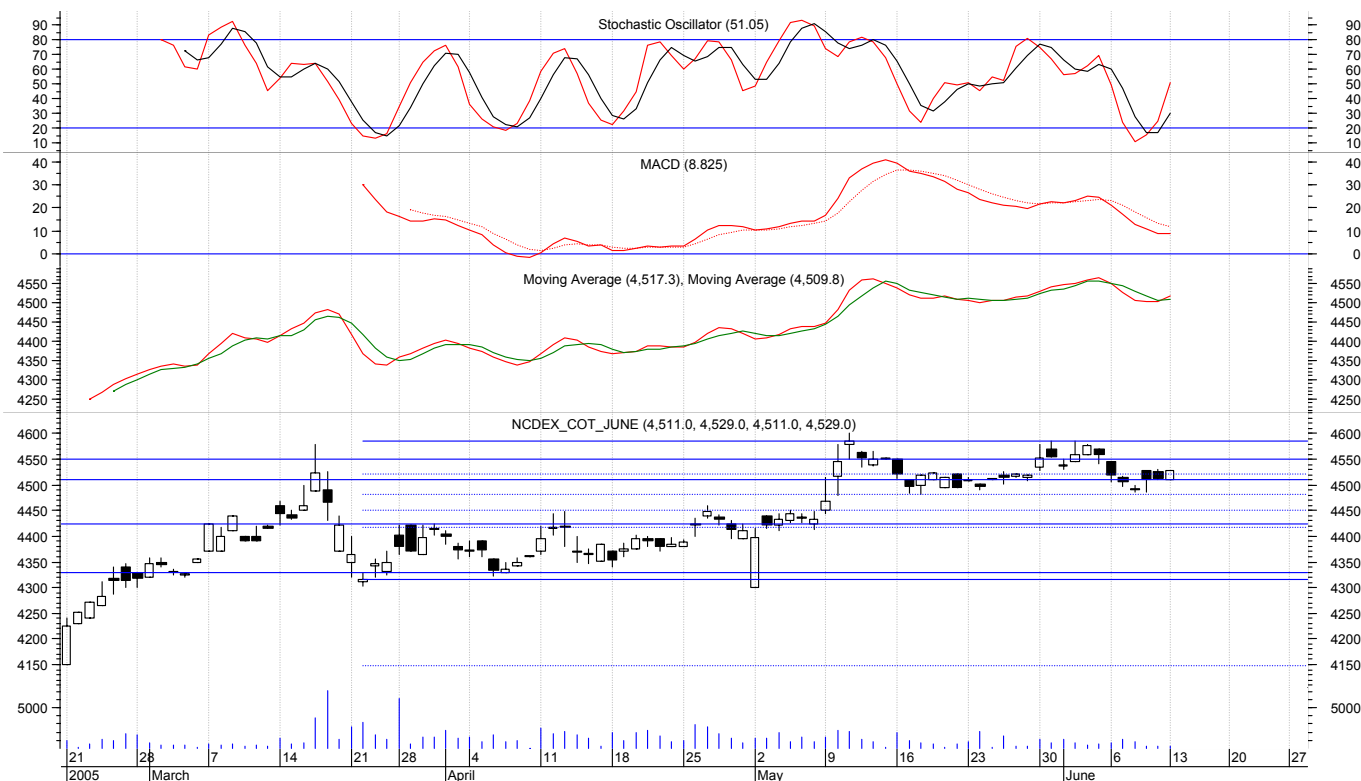
Particulars	2003-04	2004-05	2005-06
Production	95.09	119.3	108.10
Consumption	98.07	106.00	108.60
Exports	33.43	32.60	36.40
Ending stocks	35.66	47.60	47.00
Cotlook A index*	68.3	53.0	66.0

(Figures in million bales)

*- US cents per pound

TECHNICAL ANALYSIS

Contract : Medium Staple Cotton (June Future)
 Exchange : NCDEX
 Perspective : Very Short Term (Weekly)



Candlesticks: The formation of the candlestick pattern is indicating towards a strong opening on the next day.

Moving Average: The 3-day MA is above the 5-day MA.

MACD: The MACD (5-day) is in the positive territory and it is trying to bend upward. However, could not generate any clear indication.

RSI: RSI (52.93) is in the neutral region and moving upwards.

Stochastic: The %K-line after cutting the %D -line from below is going up.

Almost all the indicators are indicating towards the upward correction of the prices. The prices succeed to remain well above the resistance level at 4520 marks. There is a possibility for the prices to check the next resistance at 4550 marks.

Recommendation: If the contract stays above 4520 marks remain long.

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