

COTTON

25th June 2005

MAJOR HIGHLIGHTS

- Domestic Cotton Spot Prices Stable; Futures Down
- NYBOT Cotton Rallied on Strong Speculative Buying
- Pak Cotton Trading Maintains Dullness

NEWS ANALYSIS

IMF Wants End of Cotton Subsidy by Rich Countries

To reduce the poverty among the cotton growers in the African countries the rich countries must stop giving subsidies to the cotton farmers according to the International Monetary Fund (IMF). The IMF was offering loans on concessionary terms to these countries for reforming their cotton sectors. Rodrigo Rato, the head of the IMF gave his view when there is an international push to alleviate poverty in Africa with aid and debt relief set to dominate a July 6-8 summit of the G8 -- the Group of Seven industrialised nations plus Russia. British Prime Minister Tony Blair wants rich nations to cancel up to 100 percent of Africa's multilateral debt, pay out an extra \$25 billion in annual aid to 2010 and open up Europe to African exports. Africa must practice good governance in return. According to Rato eliminating the cotton subsidies and other distortionary factors would lead to a recovery in prices and encourage cotton production in countries where there was no subsidy. The end of subsidies of cotton by the developed countries would make the under developed and developing countries to remain in competition in the international markets.

Cotton Output may Fall Sharply in Zimbabwe

According to the experts cotton production in Zimbabwe may see a sharp decline this year at around 190,000 metric tons, down from 340,000 tons worth 150 million US dollars produced last year. Drought conditions, pest attack and lack of inputs lowered the crop output this year. An estimated 133,000 metric tons of cotton had so far been sold with only a month left before the end of the selling season. Meanwhile, the National Cotton Council urged farmers to increase yields per hectare from the average 800 kilograms to about 3,000 kilograms in order to boost the country's cotton production and foreign exchange earnings. However, for this the farmers are required to be trained and guided about new technologies and proper inputs are to be supplied. Cotton is one of the country's largest foreign currency earners. Last year, foreign exchange earnings from the crop at 150million US dollars surpassed those of tobacco, which raked in 140 million US dollars.

FUNDAMENTAL ANALYSIS

DOMESTIC MARKET

NORTH INDIAN MARKETS

Prices of cotton in the North Indian markets remained with the strong undertone. Today the Sirsa mandi of Haryana witnessed a slight improvement in the prices of both J-34 and Bengal deshi. Bengal deshi variety also found marginal improvement in Sri Ganganagar market of Rajasthan. Rain is yet to hit the markets in North Indian markets. Till then the prices are expected to remain at the same level.

GUJARAT MARKET

Rain is going on in Gujarat for last two-three days. The sowing has started in some parts. The rest of the areas will see sowing in the next week. However, the prices did not witness any effect and maintained the strength. Low stocks and restricted arrivals are supporting the prices. Buyers are waiting for the prices to come down. Prices are likely to go down after three to four days.

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	3450	3900	-	-
2. Raw Cotton	-	-	-	-
3. Cottonseed	1050	950	-	-
Ahmedabad/Kadi				
1. Cotton Lint	-	-	4274-4836	3149-3486
2. Raw Cotton	-	-	2225	1100
3. Cottonseed	-	-	890	710

MAHARASHTRA AND MP MARKET

Rain has arrived in Maharashtra and the sowing activities have started. However, in MP the cotton growing areas are

still to see rain. The progress of monsoon suggests that within a couple of days rain would hit the regions and after that the cotton sowing would start. Till then the prices are not likely to change here. In Maharashtra MCU-5 (31 mm) fetched a price of Rs 18500-18700 per candy. Price of H-4 (27 and 28 mm) cotton in MP was quoted between 15200-16100 per candy, while Y1 fetched Rs 14100 to 14500 per candy. Prices of MCU-5 (30mm) were recorded at Rs 17000 to Rs 17500 per candy. Prices of cotton khal in Akola remains at Rs 252.50 per 50 kg. Prices of cotton oil in Mumbai remained at Rs 378 per 10 kg.

INTERNATIONAL MARKET

USA

The cotton futures at the New York Board of Trade (NYBOT) continued the bull-run to take the contracts five week high amid strong speculative buying and technical factors. Most-active December cotton settled 133 points higher at 54.79 cents a pound and July ended 48 points higher at 50.13 cents. December cotton opened higher and set the stage for the day's bullish tone. Also, the fact that a major Memphis merchant bought cotton late Thursday and boosted prices at the close the Friday's rally. In addition, news that Memphis/Eastern cotton price quotes have disappeared from the government's calculation of the Step 2 certification is expected to raise those payments to 9.80 cents per pound, from 2-4 cents, effectively making cotton more competitive according to the market participants. The new rates will be based on the higher-priced California/Arizona cotton. The news was a solid fundamental development for the market, although in reality clogged ports and backups at warehouses make it unlikely anyone can take advantage of those prices before the end of the 2004-05 crop year on July 31, Stevens said. The recent fundamental developments coupled with bullish technical action have lent underlying support to the cotton market, which will likely build on its recent gains. Technically, the market has now recouped over 50% of its losses incurred since May 2. In other news, China's May cotton imports fell 28.9% to 160,867 metric tons, compared to May 2004 levels. For the January-May period, China has imported 613,172 tons, down 51% from year-ago levels, China's General Administration of Customs reported Friday. However, that could not have any significant effect on the cotton futures. US weather conditions look beneficial overall for the cotton crop and this may put pressure resist the rally in near future.

Cotton Futures at the NYBOT as on 24/06/05 (cents/pound)

Contract	Open	High	Low	Close	Change
July	49.10	50.30	48.90	50.13	+0.48
December	53.65	54.80	53.64	54.79	+1.33

CHINA

The China cotton futures remain closed on Saturday and Sunday.

PAKISTAN

The cotton trading in Pakistan continues to remain dull. The spot rate remained unchanged at Rs 2275 per maund.

VAYDA BAZAAR

The medium staple cotton futures at the NCDEX reversed today and opened lower amid lack of buying interests. The intra-day price movement however remained strong. The august contract closed at the day's high.

Medium Staple Cotton Futures At NCDEX (Rs/Quintal)

Contract	Prev.	Set High	Low	LTP*	Change
August	4565.00	4547.00	4521.00	4547.00	-18.00

Leading mills made future contracts for quality lots of upper Sindh and southern Punjab. Ginners and the spinners are engaged in discovering prices. Spinners are reluctant to pay the prices asked by the ginners. Thus, the spinners are eyeing the Trading Corporation's next auction to be held on Monday. The mills and spinners were satisfied with the TCP's weekly auctions. These auctions had strengthened the position of buyers in the market. The mills are expected to lift fine lots of TCP even at higher rates, as they need to cover positions for meeting their foreign buyers' demand in the near future. Cotton of various stations also changed hands on mill-to-mill basis. The private sector exporters also offered quality lint to mills. It is being anticipated that the ginners with very little fine lots were still in a position to sell their stocks on higher rates in coming weeks before arrival of the new crop by mid August. According to the KCA TCP would hold next auction for selling 87,200 bales on Monday. The TCP's auction may help the price discovery of cotton.

WEATHER WATCH (IMD)

Rain/thundershowers are likely at many places over Uttar Pradesh and at a few places over Uttaranchal, Haryana & Delhi and isolated in the rest region outside Jammu & Kashmir where weather will be mainly dry. Rain/thundershowers are likely at many places over coastal Karnataka and Kerala and at a few places in the rest of the region outside Tamil Nadu & Pondicherry where it may be isolated. Rain/thundershowers are likely at most places in north Konkan, Saurashtra and Gujarat region at many places over south Konkan & Goa, and at a few places in the rest region out side west Rajasthan where isolated dust storm is likely.

Rainfall activity over northeastern and eastern parts of the country and over Konkan & Goa and south Gujarat is likely to continue.

Warning: Heavy to very heavy rainfall is likely at a few places over coastal Orissa, north Konkan & south Gujarat region. Isolated heavy rainfall is also likely over Northeastern states Sub-himalayan West Bengal & Sikkim north Bihar, Saurashtra and south Konkan & Goa.

EXCHANGE RATE: 1 USD = Rs 43.56;
1 Euro = Rs 52.42

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

Disclaimer

The information and opinions contained in the document have been compiled from sources believed to be reliable. The company does not warrant its accuracy, completeness and correctness. Use of data and information contained in this report is at your own risk. This document is not, and should not be construed as, an offer to sell or solicitation to buy any commodities. This document may not be reproduced, distributed or published, in whole or in part, by any recipient hereof for any purpose without prior permission from the Company. IASL and its affiliates and/or their officers, directors and employees may have positions in any commodities mentioned in this document (or in any related investment) and may from time to time add to or dispose of any such commodities (or investment). Please see the detailed disclaimer at <http://www.agriwatch.com/Disclaimer.asp>

© 2005 Indian Agribusiness Systems Pvt Ltd.