



# Trade Research Report

## COTTON

### HIGHLIGHTS, MARKET TRENDS AND RECOMMENDATIONS

**Periodicity: Daily**

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### HIGHLIGHTS

- **Domestic Cotton Prices Remained Steady**
- **NYBOT Cotton Lower on Fund Selling; China Cotton Futures Settled Mixed Today; Cotton Trading Remained Dull 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 2<sup>nd</sup> May)**

<b>Particulars</b>	<b>2003-04</b>	<b>2004-05</b>	<b>2005-06</b>
<b>Production</b>	95.09	119.3	108.10
<b>Consumption</b>	98.07	106.00	108.60
<b>Exports</b>	33.43	32.60	36.40
<b>Ending stocks</b>	35.66	47.60	47.00
<b>Cotlook A index*</b>	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
<b>Supply</b>						
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
<b>Demand</b>						
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

Cotton prices at the North Indian markets witnessed a slight improvement today. After remaining weak for several days the prices found some demand support. The prices in kapaskhali and cottonseed continue the up trend.

#### Gujarat market

Cotton spot prices in Gujarat remained almost unchanged. The weak international cotton prices kept the exporters out of the markets. The demand from the mills also weakened. The arrival is coming down particularly for Shankar variety of cotton. This is helping prices of cottonseed and raw cotton to remain strong. Today the arrival in Gujarat was recorded at around 7-8000 bales, of which V-797 contributed for around 5-6000 bales.

#### Maharashtra and MP Market

Lack of buying interests kept the cotton prices unchanged in Madhya Pradesh and Maharashtra. Today the auction by the CCI has taken place in Akola, Maharashtra. Market sources pointed towards the good response from the mill buyers. However, if the mills cover their positions it would put pressure on the market prices. The auction of 30000 bales of cotton by the Maharashtra state federation is scheduled tomorrow. However, the participants are not worried about that due to bad quality. In Maharashtra 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, while Y1 fetched Rs 13500 to 13700 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
<b>Sirsa</b>				
1. Cotton Lint	3187	4062	-	-
2. Raw Cotton	-	-	-	-
<b>Sri Ganganagar</b>				
1. Cotton Lint	3375	3850	-	-
2. Raw Cotton	-	-		
3. Cottonseed	940	850	-	-
<b>Ahmedabad/Kadi</b>				
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 opened on the higher side. The June contract remained in the positive territory throughout the day. However, prices show very rang-bound movement. The contract closed the day at the higher side than the previous closing.

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

Contract	Prev. Set	High	Low	LTP*	Change
<b>June</b>	4539.00	4585.00	4545.00	4560.00	<b>+21.00</b>
<b>August</b>	4625.00	4640.00	4640.00	4640.00	<b>+15.00</b>

\*As on 5.00 pm.

### International Markets:

#### USA

Cotton futures at the New York Board of Trade (NYBOT) settled mixed as the late fund selling offset the buying at the early hours. The benchmark July contract settled five points lower at 48.59 cents a pound. However, strong demand for cotton continues to be seen below the market. The participant pointed towards the higher export demand. 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. The damage has not yet been assessed in West Texas but it was noted that some parts of the Mississippi Delta region were getting dry. The U.S. Department of Agriculture will release its weekly export sales report on Friday at 8:30 a.m. EDT. The report was delayed a day due to the Memorial Day holiday on Monday. Higher exports may help cotton futures to recover some losses.

### Cotton Futures at the NYBOT as on 01/06/05 (cents/pound)

Contract	Open	High	Low	Close	Change
July	48.36	48.70	47.65	48.59	<b>-0.05</b>
December	51.30	52.20	50.85	52.09	<b>-0.40</b>

## China

The China cotton futures settled mixed today with a weak undertone. The China Cotton Index (CCI) also witnessed loss today. Turnover on CNCE e-market totaled 6170 tonnes, down by 1370 tonnes than the previous session. Domestic Type 428 reached 90 tonnes, the balance was domestic Type 229. The open interests totalled 99720 tonnes, down by 600 tonnes. The open interests of MD contracts totalled 2080 tonnes, up by 50 tonnes. Most traders proved to wait and see in view of the various uncertainties on market. Trading was rather light. Mills are proved cautious with regards to the uncertain outlook, and yarn prices have been adjusted downward. The present scenario suggests that the cotton futures in China would remain under pressure tomorrow also.

## Pakistan

Cotton trading remained dull at the Karachi cotton market due to strike called by an organization. Only 300 bales changed hands during the session. The spot rate remained unchanged at Rs 2225 per maund. The leading mills purchased cotton of Punjab. Leading spinners remained on the sidelines and waited for Trading Corporation of Pakistan (TCP)'s June 4 auction for 60,000 bales. The ginner of upper Sindh offered fine lots. The deals for fine lots were made around Rs 2,340 per maund. The leading spinners were keen to deal with the TCP rather than to make deal with the ginner. Unsold stocks with the ginner were fast depleting. Having a fair idea of the requirements of textile mills they hope to get better price for their lots in coming weeks. The cotton prices are likely to go slightly up in the days to come, as mills would cover their forward positions.

## 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
<b>World</b>	<b>32.45</b>	<b>35.92</b>	<b>638</b>	<b>723</b>	<b>95.12</b>	<b>119.32</b>	<b>24.2</b>	<b>25.44</b>

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

Source: USDA

**Exchange Rate: 1 USD = Rs 43.76; 1 Euro = 53.50**

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