

COTTON

4th July 2005

MAJOR HIGHLIGHTS

- Domestic Cotton Prices Remain Less Moved
- China Cotton Futures Settled Higher Today
- Pak Cotton Trading Opens the Week with Dullness

NEWS ANALYSIS

ICAC Forecasts Firm Cotton Prices

In its latest report released on 1st July the International Cotton Advisory Committee (ICAC) has reported that the season-average Cotlook A-Index will be 65 cents per pound in 2005-06, 13 cents more than the average expected for 2004-05.

Global cotton production in 2005-06 is anticipated to decline by over 10 per cent from the record output in the previous year, while consumption would continue to be driven by economic growth and rising Asian demand, especially from China. World cotton output is forecast to decline to below 24 million tonnes in 2005-06, down 2.4 mt, but still the second largest crop ever. Consumption is expected to rise to a new high of 23.8 mt (23.3 mt in 2004-05), with use in Asia likely to witness a big expansion. World trade in cotton during 2005-06 is poised to reach a new high of 8.1 mt (7.3 mt). China will be the main driver of world trade growth. Import requirement of the country is projected by ICAC at an unprecedented 2.8 mt. China's imports may end up at 2.5 mt, a record nonetheless.

Depending on levels of precipitation, it may be safe to expect a crop size of anything from 220 lakh bales to 250 lakh bales, as compared with 240 lakh bales produced in 2004-05 in India. Steady domestic prices in the wake of large production for the second season in a row coupled with firm global prices would open a window of opportunity for exporting Indian cotton next season.

According to ICAC, initial projections for 2006-07 indicate that production will rise to 24.7 mt, slightly above consumption and that the season-average Cotlook A-Index is expected to remain between 60 and 70 cents per pound for a second season.

Cotton Acreage Went Up in Pakistan

The cotton sowing area has increased by around eight percent in Sindh and 0.6 percent in Punjab at the close of the cotton sowing season across the country according to the market information. An area of 2,559,000 hectares has been targeted in Punjab for cultivation this season against the 2,547,000 hectares set last season. 638,000 hectares have been targeted in Sindh against last year's target of 635,000 hectares. The area targeted for Balochistan remained unchanged at 40,000 hectares. However, the target for the NWFP was increased by 3, 000 hectares to

10,000 hectares this year to help the government achieve the target. A total of 3.247 million hectares had been targeted for cotton sowing in the Kharif season against last year's sown area of 3.229 million hectares, which is an area-wise increase of 0.55 percent. Earlier the federal committee on agriculture (FCA) had targeted the cotton production at 12 million bales for the year 2005-06. However, the government revised the area and increased the target to 15 million bales for the same period. The Ministry of Food, Agriculture and Livestock (MINFAL) formed a cotton production strategy. Under this strategy, the estimated cotton production will remain at 11,650,000 bales in Punjab this fiscal year against the production of 11,500,000 bales in the last fiscal year. According to MINFAL estimates, Sindh will produce 3,250,000 bales in 2005-06 against the production of 3,000,000 bales in 2004-05. The production expected from Balochistan and NWFP will remain unchanged at 90,000 bales and 10,000 bales in the fiscal year 2005-06. The strategy pointed out that yield per hectare is expected to be 773 kg per hectare in Punjab against the 768 kg per hectare achieved in 2004-05. In Sindh, the expected yield is 866 kg/hectare against the yield of 804 kg per hectare achieved in the last fiscal year. Though the target is being seen as more ambitious the government would try to achieve this as cotton contributes significantly to the country's foreign exchequer.

FUNDAMENTAL ANALYSIS

DOMESTIC MARKET

NORTH INDIAN MARKETS

The North Indian states are receiving good rainfall these days. The prices in almost all the markets maintained a stable tone today. While the prices of J-34 variety remained almost unchanged the prices of Bengal deshi variety continued the improvement amid lower stocks and good demand from local as well as international markets. There is not much possibility of a significant price movement in these states.

GUJARAT MARKET

There is no stop for rain in Gujarat. The ginneries are closed. The sellers kept themselves on the sidelines

waiting for the improvement in weather conditions. According to the market sources around 50 per cent area under cotton will have to undergo re-sowing due to heavy rainfall and a waterlogged condition. The prices of both Shankar and V-797 remained firm in this backdrop. Until the clouds get clear the prices of cotton here would maintain the firmness.

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	3462	3900	-	-
2. Raw Cotton	-	-	-	-
3. Cottonseed	1030	925	-	-
Ahmedabad/Kadi				
1. Cotton Lint	-	-	4274-4780	3233-3458
2. Raw Cotton	-	-	-	-
3. Cottonseed	-	-	975	790

MAHARASHTRA AND MP MARKET

Rainfall remains deficient in the cotton belts of Madhya Pradesh. The prices of cotton in the states however, maintained steady tone today. The federation is selling cotton at a reduced rate due to its huge stock and poor quality. Market sources said that there were some selling intentions in the markets. In Maharashtra MCU-5 (31 mm) fetched a price of Rs 18000-18500 per candy. Price of H-4 (27 and 28 mm) cotton in MP was quoted between 15200-16200 per candy, while Y1 fetched Rs 14000 to 14200 per candy. Prices of MCU-5 (30mm) were recorded at Rs 17500 to Rs 18000 per candy. Prices of cotton khal in Akola remains at Rs 266.30 per 50 kg. Prices of cotton oil in Mumbai remained at Rs 378 per 10 kg.

VAYDA BAZAAR

The medium staple cotton futures at the NCDEX remained with a very slow intra-day movement. The contract opened unchanged at the previous closing prices. After that the August contract went down slightly and maintained the weakness. The contract closed the day at the day's low. Tomorrow the prices are likely to remain weak with a less movement.

Medium Staple Cotton Futures At NCDEX (Rs/Quintal)

Contract	Prev. Set	High	Low	LTP*	Change
August	4460.00	4460.00	4452.00	4452.00	-8.00

INTERNATIONAL MARKET

USA

The NYBOT futures remain closed on Saturday and Sunday. It will remain closed on Monday too on US Independence Day holiday.

Cotton Futures at the NYBOT as on 0/07/05 (cents/pound)

Contract	Open	High	Low	Close	Change
July	52.00	52.15	51.50	52.15	+0.15
December	56.10	56.50	55.00	56.15	-0.24

CHINA

The cotton futures in China rebounded today with increased volume. The China Cotton Index (CCI) however, remained unchanged today. Turnover on CNCE e-market totalled 7340 tonnes, up by 570 tonnes than the previous session. Domestic Type 428 reached 390 tonnes and the balance was Type 229. The open interests totalled 93750 tonnes, down by 260 tonnes. The open interests of MD contracts totalled 1660 tonnes, up by 320 tonnes. The average prices of each contract has risen around 100 Yuan in today's session. MA's open interest decreased, and MA0509 has less volume than recent level. The open interests of MD had increased a lot. It is expected that the CNCE future would maintain the strength tomorrow also.

PAKISTAN

The week opening day for cotton trading in Pakistan was marked sluggish as leading mills and exporters were busy in auction. The spot rate remained unchanged at Rs 2300. New arrival, though in a modest way was quoted much higher at Rs 2500. The TCP's cotton is likely to remain in great demand, as mills and spinners have received more orders for cloth and yarn as compared to last year. The demand for cotton would move further up in the coming days due to higher demand of garments by the local markets. The ginnerers are however, still waiting for a better price in the coming days. Higher trend in the prices of cotton in the overseas markets encouraged both the ginnerers and the TCP to ask for higher rates for their unsold stock. However, the TCP did not get good bids from the foreign buyers and thus is likely to continue its open market operation for more days. Thus, the cotton prices are likely to remain firm in Pakistan.

WEATHER WATCH (IMD)

North: Rain/thundershowers likely at many places in the region outside Jammu & Kashmir where it may be at a few places.

East: Rain/thundershowers likely at most places in east Madhya Pradesh and at many places over the rest region outside Jharkhand and interior Orissa where it may be at a few places.

South: Rain/thundershowers likely at many places over Andaman & Nicobar islands, coastal Karnataka, Kerala and Lakshadweep and at few places in the rest region outside Andhra Pradesh and Tamil Nadu & Pondicherry where it may be isolated.

West: Rain/thundershowers likely at most places over Konkan & Goa and west Madhya Pradesh, at many places over rest of the region outside west Rajasthan and Saurashtra & Kutch where it may be at a few places.

Outlook for subsequent two days

Ongoing rainfall activity over central parts of the country is likely to continue and may extend to northwestern parts of the country. The heavy rainfall activity over Gujarat state is likely to decrease further. Rainfall activity over Gangetic West Bengal is likely to increase.

Warning: Heavy to very heavy rainfall likely at a few places over east Rajasthan and Madhya Pradesh. Isolated heavy rainfall is also likely over west Uttar Pradesh, Haryana, Himachal Pradesh, Uttaranchal, Gujarat region, Konkan & Goa, madhya Maharashtra, Kerala and Andaman & Nicobar Islands.

EXCHANGE RATE: 1 USD = Rs 43.56;
1 Euro = Rs 51.95

Latest ICAC Estimates on Global Cotton Scenario (As on 1st July)

Particulars	2004-05	2005-06	2006-07
Production	120.6	110	114
Consumption	106.8	109	113
Exports	33.4	37	38
Ending stocks	49.2	50	51
Cotlook A index*	52*	65*	65*

(Figures in million tonnes)

* - US cents per pound

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