

COTTON

July 18-23 2005

MAJOR HIGHLIGHTS

- **Domestic Cotton Prices Improved this Week**
- **NYBOT Cotton Futures Posted Overall Gain this Week**
- **Pak Trading Remained Dull, Spot Prices Remained Unchanged**
- **Chinese Cotton Prices declined this Week**
- **USDA Reported Bullish Export Sales for the Period July 08 July 14**

NEWS ANALYSIS

Cotton Sowing Till Date Less than Last Year

According to the latest data from the Agricultural ministry the sowing of cotton crop is going on in a slow progress. To the date cotton crop has been sown on an area of 51.58 lakh hectares, down by 13.7 per cent. A major shortfall was reported in Marathawada region of Maharashtra. The reason behind this was the late onset of south-west monsoon. However, the state government still maintains that the cotton acreage target of 3 million hectares this year on hopes that monsoon current in the region is likely to strengthen. In MP also a major part of the cotton belts is still in need of rain for growing better cotton crop. Overall, this year cotton crop is likely to surpass the last year's figure.

US Cotton Weather Watch

Weather plays a big role in Agriculture particularly in crops like cotton. This time is very crucial for cotton in the US. Several hurricanes affect the cotton crop in the US. Last year Hurricane Ivan made a great damage to the US cotton crop. This year so far Hurricanes did not cause any significant damage. Meanwhile, Hurricane Emily strengthened to a category two hurricane with maximum sustained winds near 100 miles per hour. Emily is expected to make landfall near Mexico's northeastern coast by Wednesday morning. The lower Rio Grande River Valley is expected to see significant rains and flooding, which will impact the cotton harvest according to the DTN Meteorlogix. Cotton areas in western Texas aren't expected to receive rains from Emily and conditions there are expected to remain dry this week into Saturday. Meanwhile according to the US Department of Agriculture cotton in good-to-excellent condition improved to 60% in the week ended July 17, from 58% the previous week. Twenty-eight percent of the crop was fair while 12% was poor to very poor.

CCI Remains Active in Tamil Nadu

This last cotton year (2004-2005) saw a huge output worldwide. In India also cotton crop set a record. For this the prices in the international markets and in India as well

declined significantly. To protect the interest of the farmers and to stabilise the market prices the Cotton Corporation of India (CCI) started its operation in the domestic markets in different cotton producing states. The CCI has procured 2,400 quintals of seeded cotton from the growers in Tamil Nadu under its minimum support price (MSP) operation in the last one month. Bulk of this quantity came from its purchases from the Tamil Nadu's delta region as the CCI purchase centre operating at Kumbakonam alone has accounted for a quantity of 2,250 quintals of kapas cotton bought, according to the CCI sources here. Besides the Kumbakonam purchase centre, the CCI has also opened two other purchase centres in the State at Rajapalayam and Paramakudi. Among the varieties procured at these centres are Bunny, LRA, NHH and MCU-5. The sources said with the entry of CCI in the market, the kapas procurement price had improved across the State for the summer crop, with the average per quintal price crossing the Rs 2,000/2010-band at some primary cotton market centres such as Villupuram. The MSP quotes for the Bunny, LRA and NHH (equivalent grade to MCU-5) reported in these centres were Rs 1,884, Rs 1,683/Rs 1,734 and Rs 1,570 per quintal. The operation of the CCI has been effective to maintain the cotton prices at a standard level.

USDA Released Bullish Weekly Export Sales

The US Department of Agriculture (USDA) released the weekly export sales data for the period July 8 to 14. This week the exports figures came at higher levels after a bearish weekly data for the previous week. Net Upland sales of 271,700 running bales (RB) were 90 percent above the prior week and 19 percent over the previous 4-week average. China (218,700 RB) was the major buyer, with smaller quantities to Mexico (22,900 RB), Turkey (8,600 RB), and Indonesia (7,300 RB). Net sales of 129,300 RB for delivery in 2005/06 (which begins Aug. 1) were primarily for China (68,900 RB), Mexico (15,800 RB), South Korea (11,900 RB), and Turkey (10,400 RB). Optional origin sales of 88,000 RB for delivery to China were declared U.S. origin. Of the total, 50,000 RB were reported for delivery in 2004/05 and 38,000 RB for delivery in 2005/06. Exports of

365,600 RB were 7 percent above the previous week and 26 percent over the prior 4-week average. The primary destinations were China (140,600 RB), Mexico (75,700 RB), Turkey (65,700 RB), Indonesia (17,600 RB), and

South Korea (9,400 RB). The export data may support the NYBOT futures tomorrow.

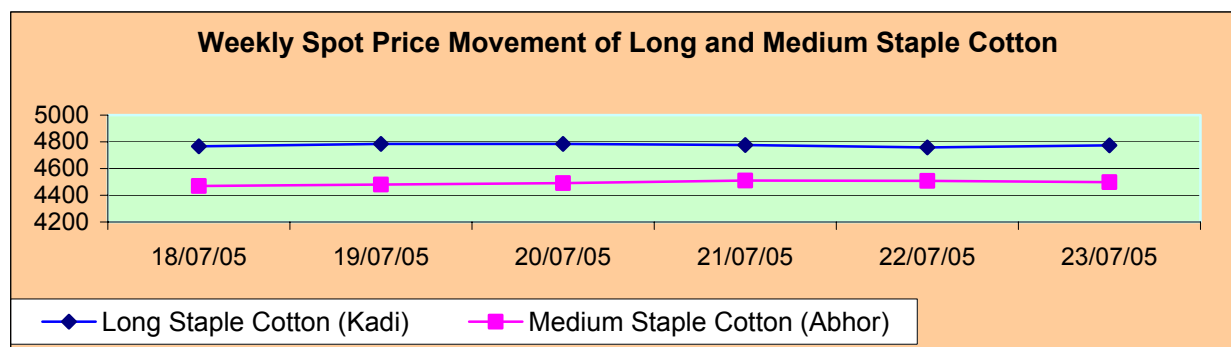
PRICES

Spot (Domestic)

Date	Rates (Rs/Quintal)	
	Long Staple Cotton (Kadi)	Medium Staple Cotton (Abohar)
18/07/05	4766.30	4469.75
19/07/05	4784.35	4480.60
20/07/05	4784.40	4491.55
21/07/05	4775.80	4510.20
22/07/05	4757.70	4508.10
23/07/05	4772.85	4498.30

Futures: December contract (NYBOT CTZ5)

Contract	Open	High	Low	Close	Change
7/18/2005	51.11	51.35	50.15	50.8	-0.65
7/19/2005	50.1	50.3	49.4	49.79	-1.01
7/20/2005	49.86	50.45	49.36	49.89	+0.10
7/21/2005	50.32	50.65	49.4	50.6	+0.71
7/22/2005	50.15	51.8	50.15	51.76	+1.16



FUNDAMENTAL ANALYSIS

INTERNATIONAL MARKETS

USA

The cotton futures at the New York Board of Trade (NYBOT) posted overall gain this week. However, the futures for the first couple of days declined on speculative selling. On the first day of the week some weather concerns also put pressure on the cotton futures. Tuesday also the futures continued the downfall and fell to five-month lows on fund selling of a strong US dollar. Technically, Tuesday's close represents an 86.5% move from the 69.50 contract high to the 46.25 contract low, which leaves prices only about 3.5 cents from contract lows. Speculative accounts decreased their net long position to 14.6% of open interest in the week ended July 15, from 21.2% the previous week. The cotton futures settled mixed on Wednesday amid lack of clear direction. Speculative selling coupled with trade buying kept the market tone subdued. The weather conditions could not have any significant effects in either direction. The market got support from short covering and bullish export sales on Thursday to settle higher. The market got off to a firm start on news of stronger-than-expected weekly export sales and reports that China had revalued its currency, the yuan. Net upland sales of 2004-05 cotton were 271,700 running bales, up 90% from the previous week and 19% stronger than the previous four-week average. China was the largest buyer at

218,700 RB, the U.S. Department of Agriculture reported Thursday. Net 2005-06 sales were 129,300 RB, of which 68,900 went to China. Total shipments were strong at 365,600 RB, up 7% from the previous week and 26% over the previous four-week average. On the last day of the trading at the NYBOT the cotton futures got technical support to go up sharply higher. The technical factors and strong fundamentals are indicating the cotton prices to remain higher in the coming too.

China

The cotton prices at the CNCE forward trading in China remained weak throughout the week. Prices continued to decline this week amid low buying interest. Meanwhile, the US government's acceptance of a petition by US manufacturers seeking limits on imports of curtains from China was criticized by China. Last week, U.S. manufacturers petitioned the government to impose quotas on additional imports of Chinese textiles and clothing. China said this the acceptance of the petition was against the WTO rule. In this scenario there may be some uncertainties. Again the revaluation of its currency by China also is likely to put pressure on the Chinese cotton prices, as it would help China to import more. However, the technical indicators are indicating a trend reversal soon

according to the candlestick pattern. Thus, in the coming week there may be some improvement in the cotton prices in China.

Pakistan

Volume of cotton trade at Karachi Cotton Association (KCA) during six sessions of the past week remained thin. Trading Corporation of Pakistan (TCP) dominated market activity through weekly auction. The spot rate stayed intact to Rs 2,375 per maund on a week-on-week basis. Weekly auction by Trading Corporation of Pakistan (TCP) largely benefited the mills. During the past week TCP received tender for 153,500 bales opened on Monday July 18. Local mills lifted more than 75 percent of the TCP's stocks and consolidated their positions. The leading ginneries of upper Sindh and southern Punjab remained subdued during the session. However they offered very limited lint to local mills. The ginneries of upper Sindh and southern Punjab also received lint of fresh season from growers around 1,200 bales. The fine lots changed hands on maximum price from Rs 2,450 per maund to Rs 2,475 per maund. The leading mills and spinners also made future contracts for poor grade lint during past week. Poor grade lint of upper Sindh and southern Punjab during six sessions on average changed hands between Rs 2,150 per maund to Rs 2,230 per maund in the market. On Saturday, the last session of trading in the past week the market players remained busy matching prices with the TCP next auction on Monday. The previous trading week witnessed low volumes on rising prices because of consistent demand of lint of all grades especially from mills. The spinners also made deals with mills of their poor quality stocks on reports of future contracts for fresh crop in the market. It is likely that the auction of the TCP would continue to dominate the cotton trading in Pakistan. The firmness of the prices also are expected to remain for more times.

DOMESTIC MARKET

Domestic cotton prices this week improved overall. The spot prices at the North Indian markets continued the improvement. Prices in Gujarat remained stable. The cotton prices in Maharashtra and MP remained at the unchanged level. The medium staple cotton futures at the NCDEX also posted a slight gain this week.

North Indian Markets

In the North Indian markets this week prices of different varieties of cotton remained firm. In the major mandi of Sirsa in Haryana and Sri Ganganagar mandi in Rajasthan cotton prices improved this week. Prices of Bengal deshi variety in Sirsa remained strong amid improved demand from the local mills. Prices of J-34 improved in Sri Ganganagar also improved. The firm tone is likely to continue in the coming week too. The price of J-34 was recorded between Rs 1620-1635 per mon in Sirsa and Bengal deshi fetched Rs 1320-45 per mon. Price of J-34 cotton in Sri Ganganagar market of Rajasthan was quoted between Rs 1560 to Rs 1580 per mon whereas Bengal deshi fetched Rs 1380-95 per mon.

Gujarat Market

Cotton prices in Gujarat remained strong and stable throughout the week without any significant movement. The buyers were reluctant to take part at these prices. The sellers on the other hand preferred to wait for better prices.

The weather remains clear at present. Thus, the sellers are not coming to the market with their stocks. Meanwhile, forward contracts are being made by the players for November delivery of Shankar kapas. This is likely to pressurise market in the coming week. The prices of Shankar were recorded between Rs 15000 to Rs 17000 per candy. Price of Shankar (28 mm) remained between Rs 16600-17000 per candy. Prices of V-797 were quoted between Rs 11700-12500 per candy for ready delivery.

Maharashtra and MP Market

Cotton prices in Maharashtra and MP this week remained at the same level. The market tone remained easy. In Maharashtra sowing has completed. In MP still some parts are remaining for sowing. MP may be only one state where cotton area is going to decrease this year. The prices in these states are not likely to change in the coming week. This week in Maharashtra MCU-5 fetched Rs 17500-18500 per candy. Price of H-4 cotton in MP was quoted between 15000-16200 per candy. Prices of cotton khal in Akola remains between Rs 289-305 per 50 kg. Prices of cotton oil in Mumbai remained between Rs 382 to Rs 385 per 10 kg.

Vayda Bazaar

The medium staple cotton futures at the NCDEX this week posted a marginal gain over the last week. The August contract improved significantly at the first half of the week however, could not remain at the peak level. On the last trading day of the week the August contract closed at Rs 4527 per quintal, up by Rs 7 against the previous week's closing. The slow improvement is likely to continue in the coming week too.

WEATHER WATCH (IMD) (Latest)

Monsoon Watch

Monsoon rainfall activity remained subdued over most parts of NW India, East and Central India during the week except over the West Himalayan region, Sub-Himalayan West Bengal & Sikkim, Bihar, East UP, East Rajasthan, Interior Karnataka where in its activity was found to be active to vigorous. While monsoon rainfall activity was found to be active for 1-2 days only during the week over parts of Gangetic West Bengal, Orissa, Jharkhand, Haryana and West Madhya Pradesh, West Rajasthan, Coastal Karnataka, Rayalseema and Coastal Andhra Pradesh, its activity was largely found to be moderate over most parts of NE India. Hence, All India weekly rainfall scenario was found to be below normal by 6% and cumulative seasonal rainfall till 20th July, 2005 was found to be near normal of the seasonal quantum of rainfall. The All India rainfall for the period 1June-20 July has come to 0% from 1% above normal during the previous week.

Monsoon Outlook for Next Week

A monsoonal low pressure area that has formed over North Bay of Bengal off Gangetic West Bengal and Orissa coast yesterday has further intensified in to a well marked low today thus bringing the monsoon trough to its normal position. This system is expected to intensify further in to a monsoon depression over the same region during next 24-48hours. Subsequently, it is expected to move slowly in west-northwesterly direction. Under the influence of these circulation features, most parts of central India and

peninsular India are likely to experience enhanced rainfall activity in coming 4-5 days.

A mid-tropospheric cyclonic circulation is likely to form over NE Arabian Sea and adjoining regions of Sourashtra and Kutch around 28 July, 2005. Subsequent to its formation rainfall activity may enhance over north Konkan and adjoining regions as well.

Zone-wise weather forecast for next 5 days

North & North-West India [J&K, HP, Uttranchal, Punjab, Haryana, west UP]

The region is likely to receive scattered rainfall over Himachal Pradesh and Uttranchal during next 3-4 days. Over the remaining sectors of J&K, Punjab, Haryana, Delhi and West UP are likely to experience isolated showers.

East and NE India [East UP, Bihar, Jharkhand, West Bengal, Orissa, NE states]

Fairly wide spread rainfall with isolated heavy rain spells is expected over Orissa and Gangetic West Bengal during next 4-5 days.

Scattered to fairly widespread rainfall activity is likely over Bihar, Jharkhand, sub-Himalayan West Bengal and NE states during next 3 days.

Central India [MP, Chattisgarh, Vidarbha]

With the revival of monsoon, fairly wide spread rainfall is likely over the areas of Chattisgarh and East Madhya Pradesh during next 4 days. Vidharbha and West Madhya Pradesh may experience scattered rainfall activity.

South India [Tamilnadu, AP, Kerala, Karnataka, Andaman & Nicobar Islands, Lakshadweep]

Widespread rainfall activity is likely over coastal Karnataka, south interior Karnataka and Telangana and fairly

widespread over Kerala and North Interior Karnataka during next 3 days. Isolated to Scattered rainfall is likely over Tamilnadu and Rayalseema for coming 5 days.

West India [Maharashtra other than Vidarbha, Gujarat, Rajasthan]

Scattered rainfall is likely over Konkan & Goa, Madhya Maharashtra, and Marathwada during next 2 days that is likely to get enhanced in to a fairly widespread rainfall activity starting from 28th July, 2005. Isolated to scattered rainfall is likely over north Gujarat and Rajasthan during next 3 days.

Exchange Rate in INR

Currency	18/07	19/07	20/07	21/07	23/07
1 USD	43.54	43.56	53.54	53.51	43.39
1 Euro	52.56	52.34	52.53	52.84	52.85
1 GBP	76.39	75.91	75.62	75.82	76.14
100 Yen	38.86	38.81	38.48	38.61	39.11

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 bales)

*- US cents per pound

TECHNICAL ANALYSIS

Due to insufficient data technical analysis for Medium Staple Cotton (NCDEX - August contract) has not been included in this report.

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.