

## COTTON

12<sup>th</sup> July 2005

### MAJOR HIGHLIGHTS

- Domestic Cotton Prices Maintain the Firmness
- NYBOT Cotton Futures Lower on Choppy Trading
- China Cotton Futures Settled Mixed Today
- Trading Activities Remained Thin in Pakistan

### NEWS ANALYSIS

#### Punjab Likely to See Huge Cotton Production

Production of cotton this year is likely to surpass even the last year's huge figures across the country. The increase in the Bt cotton area in the North Indian states may help Punjab to set a new record of production. In 2004-05, the per acre yield of cotton has also shattered the previous best of 5.84 quintals recorded in 1991-92, by registering an output of 6.97 quintals of lint cotton. The highest production of 24.69 lakh cotton bales was recorded during 1991-92, when 7.19 lakh hectares were covered, sources revealed. The prevalence of Bt cotton is indicating towards the higher production even if the area covered could not reach the figure in fiscal 1991-92. However, the Punjab Agricultural University targeted the production of 19.42 lakh bales covering about 6 lakh hectares. But the market players are expecting higher numbers. According to official sources, the production of cotton in the state during previous crop season registered 20.87 lakh bales covering 5.09 lakh hectares against 14.78 lakh bales covering 4.49 lakh hectares in 2003-04. However, last year the department has estimated a production of 17.50 lakh bales covering 5.09 lakh hectares in previous crop season. The increase in production of cotton is being attributed to the higher yield capacity of the Bt cotton. The agriculture department generally make a less than expected estimates keeping in mind various factors viz. weather concern, diseases, farmers' investments and inputs etc. Whatsoever, the cotton production in the state of Punjab along with other major producing states is bound to rise unless there is some drastic change.

#### Cotton Textile Industry Under Threat in West Bengal

Financial problems and low production affected the textile industry in West Bengal drastically. At present only five of the 19 mills in the private sector and three of the 12 units in the public sector are operational. The government has closed down nine cotton textile mills in the public sector, run by the National Textile Corporation Ltd, on the ground of non-viability. The main problems facing by the textile industries here due to age old and outdated machineries, lower production and huge financial problems. Cotton textile industry used to play a very vital role in the economy in the eastern region since the establishment of different mills before and after independence. While five private mills

are in operation at present, conciliation proceedings are continuing for lifting suspension of work in eight other mills in the same sector.

### FUNDAMENTAL ANALYSIS

#### DOMESTIC MARKET

##### NORTH INDIAN MARKETS

Cotton prices in the North Indian states maintained the stable trend today, as the fundamentals remained unchanged. However, the market tone indicated some easiness. There is expectation that the prices of kapaskhali and cottonseed may improve in near future however, the cotton prices would not witness any significant change.

##### GUJARAT MARKET

Cotton prices in Gujarat remained with the firmness that is continuing for last few days. Kalyan variety of cotton found good buying supports from the local buyers. Shankar also witnessed demand from the exporters as well as local traders. Sowing is going on in the state slowly. Prices of cotton in the state are likely to remain strong.

#### Variety wise Spot Prices in Major Domestic Markets (Rs/Quintal)

| MARKET         | Bengal<br>desi | J-34 | Shankar   | V-797     |
|----------------|----------------|------|-----------|-----------|
| Sirsa          |                |      |           |           |
| 1. Cotton Lint | 3187           | 4025 | -         | -         |
| 2. Raw Cotton  | -              | -    | -         | -         |
| Sri Ganganagar |                |      |           |           |
| 1. Cotton Lint | 3450           | 3900 | -         | -         |
| 2. Raw Cotton  | -              | -    | -         | -         |
| 3. Cottonseed  | 1035           | 935  | -         | -         |
| Ahmedabad/Kadi |                |      |           |           |
| 1. Cotton Lint | -              | -    | 4274-4864 | 3233-3514 |
| 2. Raw Cotton  | -              | -    | -         | -         |
| 3. Cottonseed  | -              | -    | -         | 810       |

## MAHARASHTRA AND MP MARKET

Cotton prices in Madhya Pradesh remained same today with a strong undertone. In Maharashtra the prices maintained the same tone. The Maharashtra federation remains the sole seller of cotton in the state. Unless there is significant change in the market sentiments the cotton prices would remain same here. 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 15000-16500 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 291.0 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 today opened higher amid buying support. The futures maintained the strong undertone throughout the day. The august contract however, did not see wide movement today. The contract closed at the day's high. Tomorrow also the movement is likely to remain strong.

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

| Contract | Prev. Set | High    | Low     | LTP*    | Change |
|----------|-----------|---------|---------|---------|--------|
| August   | 4495.00   | 4519.00 | 4493.00 | 4519.00 | +24.00 |

## INTERNATIONAL MARKET

### USA

The cotton futures at the New York Board of Trade (NYBOT) settled lower on subdued market sentiments ahead of the USDA monthly supply demand data due for release today. The most active December cotton futures settled 46 points lower at 55.01 cents a pound, while October was down 65 points at 53.15 cents. Price pressure resulted from Hurricane Dennis - later downgraded to a tropical depression - dumping mostly beneficial rains on the eastern Mississippi Delta and Southeastern cotton crops. Egypt's Alexandria Cotton Exporters' Association, or Alcotexa, said Sunday it has made commitments to export 375 tons of cotton in the week ended July 16 at prices ranging from 90-99 cents a pound. So far in the 2004-05 season, Alcotexa has sold 139,842 tons of cotton. The spec/hedge report for the week ended July 5 showed speculators increased long positions by 4,009 contracts to a total 21,454, the Commodity Futures Trading Commission reported Friday. Specs decreased short positions by 5,839 to a total 12,076 contracts. The supply demand data to be released by the USDA is expected to show an average 2005-06 production of 19.7 million bales, slightly up against the earlier estimate of 19.5 million bales. U.S. ending stocks are expected to rise to an average 6.5 million, from the USDA's 6.2 million estimate. Exports were seen declining to 14.75 million, from the USDA's 15 million bales. Thus, for the short-term cotton futures may remain weak.

### Cotton Futures at the NYBOT as on 11/07/05 (cents/pound)

| Contract | Open  | High  | Low   | Close | Change |
|----------|-------|-------|-------|-------|--------|
| December | 54.70 | 55.25 | 54.45 | 55.01 | -0.46  |

### CHINA

The cotton futures in China settled mixed today amid lower volume and weakness in the NYBOT futures. The China

Cotton Index (CCI) also improved marginally. Turnover on CNCE e-market totalled 4500 tonnes, down by 1450 tonnes than the previous session. Domestic Type 428 reached 150 tonnes and the balance was Type 229. The open interests totaled 92570 tonnes, down by 760 tonnes. The open interests of MD contracts totaled 1810 tonnes. The market was mixed today. The average prices of all the MA contracts went down, but MD507 rose by 56 Yuan. The nearby contracts were stronger than the long ones. The turnover was in the low level in today's session. The traders were awaiting some sort of market direction. It is however, expected that the cotton futures in China would remain strong in the near-terms.

## PAKISTAN

Thin trading activity was witnessed at Karachi cotton market in Pakistan. Trading Corporation of Pakistan (TCP) opened tender for 85,000 bales. The spot remained intact at Rs 2,325 per maund. Leading mills offered highest bid of Rs 2,476 per maund for Bahawalpur stock. Bids were also made for Multan and Karachi stocks at Rs 2,425 per maund and Rs 2,405 per maund, respectively. Some mills also finalized deals for other stations at Rs 2,355 per maund. Rates at the physical market stood between Rs 2,450 per maund and Rs 2,500 per maund. Leading spinners purchased new stocks of southern Punjab. They offered slightly higher prices for the deals. The TCP also sold 25,000 bales to five foreign merchants. Lint of different grades fetched prices between 44.07 US cents per pound to 48.16 US cents per pound. The merchants from China, Hong Kong and England made the deals. The ginneries in southern Punjab and upper Sindh have slowed buying, as growers are reluctant to continue supply under bad weather conditions. In this situation the lint prices would move further up in the coming sessions due to greater demand and short supply on account of floods in Sindh and Punjab.

## WEATHER WATCH (IMD)

**North:** Rain/thundershowers likely at most places over Uttaranchal, west Uttar Pradesh and Himachal Pradesh and at many places in the rest region.

**East:** Rain/thundershowers likely at many places over northeastern states, Bihar, sub-himalayan West Bengal & Sikkim, east Madhya Pradesh and Chhattisgarh; and at a few places in the rest region.

**South:** Rain/thundershowers likely at many places over coastal Karnataka; at a few places in Rayalseema, south interior Karnataka, Kerala and Lakshadweep and isolated in the rest region.

**West:** Rain/thundershowers likely at many places over east Rajasthan, west Madhya Pradesh, Konkan & Goa and Vidarbha and at a few places in the rest region outside Gujarat state where it may be isolated. Decrease in rainfall activity over west Madhya Pradesh, Vidarbha, Haryana and Rajasthan after 13th July.

### Outlook for subsequent two days

Subdued rainfall activity over interior peninsula likely to continue. Current rainfall activity over northeastern states, sub-himalayan West Bengal & Sikkim, Bihar, Uttar Pradesh and western himalayan region likely to continue. Decrease in rainfall activity over central India.

**Warning:** Heavy to very heavy rainfall likely over northeastern states, Sub-Himalayan West Bengal & Sikkim,

west Uttar Pradesh, Uttaranchal, Himachal Pradesh and Jammu region of Jammu & Kashmir. Isolated heavy rainfall likely over east Uttar Pradesh, Haryana, north Rajasthan, north Madhya Pradesh, coastal Karnataka and Lakshadweep till 14th July.

**EXCHANGE RATE:** 1 USD = Rs 43.53;  
1 Euro = Rs 52.90

#### Latest ICAC Estimates on Global Cotton Scenario (As on 1<sup>st</sup> 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

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