

## COTTON

8<sup>th</sup> July 2005

### MAJOR HIGHLIGHTS

- Domestic Cotton Remained Firm Today
- NYBOT Cotton Higher on Likely Hurricane Damage
- China Cotton Futures Settled Higher Today
- Pak Spot Prices Improved

### NEWS ANALYSIS

#### Cotton: Recent US Trade Scenario

A second round of trade talks between China and the U.S. is going to start Friday in Beijing, though China's Ministry of Commerce informed Thursday on its Web site that it was uncertain about the outcome of talks with the U.S. on bilateral textile trade issues. However, the ministry pointed out to the successful recent agreement between the European Union and China on textiles issues. Meanwhile, the National Cotton Council criticized the U.S. Department of Agriculture's proposal to eliminate Step 2 subsidies for U.S. cotton exporters and domestic mills. The NCC said the approach would alter a fundamental piece of the sales and marketing structure for cotton and thereby harm U.S. cotton merchants and textile manufacturers. The USDA made the proposal to satisfy a World Trade Organization ruling against the Step 2 program. USDA is making changes in three export credit guarantee programs as the first step on the long road to complying with the World Trade Organization ruling in the case brought by Brazil against the U.S. cotton program.

#### Cotton: USDA Reported Strong Export Sales

USDA reported strong export sales for the period of June 24-30. However, the exports declined during this period. Net Upland sales of 318,400 running bales (RB) were 4 percent above the prior week and 63 percent over the previous 4-week average. China (231,600 RB) was the dominant buyer, with smaller quantities to Turkey (33,900 RB), Mexico (17,700 RB), and Taiwan (8,400 RB). Net sales of 29,200 RB for delivery in 2005/06 were primarily for Mexico (19,700 RB) and South Korea (5,200 RB). Exports of 254,100 RB were 16 percent below the previous week and 11 percent under the prior 4-week average. The primary destinations were China (75,700 RB), Turkey (73,700 RB), Mexico (24,100 RB), Thailand (16,500 RB), and Indonesia (13,100 RB). Also, U.S. cotton in good-to-excellent condition declined to 57% for the week ended July 3, from 62% the previous week, the U.S. Department of Agriculture said Tuesday afternoon. Cotton in fair condition increased to 30%, from

27% previously, while very poor-poor cotton rose to 13%, compared to 11% the prior week. The USDA said 55% of the crop was squaring, up from 41% the previous week, while 13% of the cotton was setting.

### FUNDAMENTAL ANALYSIS

#### DOMESTIC MARKET

##### NORTH INDIAN MARKETS

Prices of cotton in the north Indian markets today also remained strong amid buying supports and lower stocks. In Sirsa the prices remained almost unchanged and in Sri Ganganagar the prices of J-34 improved slightly. The prices of cottonseeds and kapaskhali however, declined today marginally.

##### GUJARAT MARKET

The firm tone of the cotton prices today also continued in the markets of Gujarat. Re-sowing is going on in major parts of Gujarat due to heavy rain in last few days here. This remains as the supportive factor for the cotton prices. Exporters are also there in the markets due to improved international prices- again a factor that provided strong support. Moreover, the sellers are reluctant to sell their produce instead they want to wait for more time. These factors are indicating towards the strong trend in prices in near terms.

##### MAHARASHTRA AND MP MARKET

Cotton prices improved today in the markets of Madhya Pradesh. The sowing activities are going on slowly in the state. The players are expecting that after some more rains in the cotton belts the sowing will start in full fledge. In Maharashtra 60 percent sowing has almost completed. The prices here did not change significantly. 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 15200-16300 per candy, while Y1 fetched Rs 14000 to 14100 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 284.50 per 50 kg. Prices of cotton oil in Mumbai remained at Rs 376 per 10 kg.

### 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	3950	-	-
2. Raw Cotton	-	-	-	-
3. Cottonseed	1040	940	-	-
Ahmedabad/Kadi				
1. Cotton Lint	-	-	4274-4920	3233-3514
2. Raw Cotton	-	-	2200	-
3. Cottonseed	-	-	-	810

### VAYDA BAZAAR

The medium staple cotton futures at the NCDEX today opened almost unchanged, thereafter the futures maintained the firm tone. The August contract tried to go up marginally. Today also the price movement remained very low. The contract ended the day higher than the yesterday's close.

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

Contract	Prev. Set	High	Low	LTP*	Change
August	4490.00	4519.00	4490.00	4495.00	+5.00

### INTERNATIONAL MARKET

#### USA

The cotton futures at the New York Board of Trade (NYBOT) rose Thursday on concerns Hurricane Dennis may produce flooding in Southeastern growing areas. The most-active December cotton futures settled 92 points higher at 55.88 cents, and July, which expired Thursday, went off the board 20 points lower at 50.90 cents. Hurricane Dennis is projected to make U.S. landfall on Sunday or Monday somewhere along the Gulf Coast from the Florida Panhandle west to Alabama or Mississippi, according to projections on the U.S. National Hurricane Center Web site. However, forecasters warn not to read too much into projections at this point since the storm is a long ways off and can easily change course in three to four days. Expectations for solid weekly export sales also boosted cotton futures, as exporters try to book shipments before July 31 to take advantage of the government's Step 2 payments. At present cotton crop is showing a steady growth all over the world, a bearish factor for cotton and on the other hand the weather condition is indicating a possible damage. Thus, the short-term scenario is a bit uncertain. However, the strength is likely to continue for more days.

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

Contract	Open	High	Low	Close	Change
July	51.40	52.05	50.90	50.90	-0.20
December	55.06	56.35	54.82	55.88	+0.92

### CHINA

The cotton futures in China today settled higher today with a heavy volume. The China Cotton Index (CCI) also improved today significantly. The futures got support from the rise in the NYBOT futures. Turnover on CNCE e-market totaled 8430 tonnes, down by 3570 tonnes than the previous session. Domestic Type 428 reached 190 tonnes and the balance was Type 229. The open interests totaled 93960 tonnes, down by 580 tonnes. The open interests of MD contracts totaled 1850 tonnes, up by 140 tonnes. The average prices of each contract had increased 2-49 Yuan, except MA0511, which had, fell 40 Yuan. The total turnover was 1.7 times than last session. As the offset and delivery, the actual open interests of MA0507 had gone up 220 tonnes. The trade on MD was slight. The improvement may continue in near future.

### PAKISTAN

Trading activities remained dull at the Karachi cotton market in Pakistan. Leading mills made a few future contracts. The spot rate increased by Rs 25 per maund to Rs 2,325 per maund. Leading mills and spinners made deals for new crop of upper Sindh and southern Punjab with slightly higher prices. Rains in Punjab's cotton growing areas have contributed to the increase in the lint price. The market sentiment is likely to be guided by the rain. The Trading Corporation of Pakistan (TCP) has contributed to the market's stability by holding weekly auctions. The rise in the lint prices would benefit the growers. Around 1,000 bales of new crop has arrived in the market so far. The leading spinners were eyeing the Trading Corporation's next auction to be held on Monday. The prices in the near-term are likely to remain firm in the present situation.

### WEATHER WATCH (IMD)

**North:** Rain/thundershowers likely at many places over Himachal Pradesh and Jammu & Kashmir; at a few places in the rest region outside east Uttar Pradesh where it may be isolated. The rainfall activity over these areas is likely to decrease further.

**East:** Rain/thundershowers likely at many places over Orissa and at a few places in the rest region outside Bihar and Jharkhand where it may be isolated. Increase in rainfall activity over Orissa and Chhattisgarh on 10th July.

**South:** Rain/thundershowers likely at many places over north coastal Andhra Pradesh and Telangana and at a few places in the rest region outside south interior Karnataka, Tamil Nadu & Pondicherry where it may be isolated. The rainfall activity will increase over Telangana and coastal Andhra Pradesh on 9th onwards.

**West:** Rain/thundershowers likely at a few places over the region outside Gujarat state and Rajasthan where it may be isolated.

### Outlook for subsequent two days

Rainfall activity over north peninsular India including Maharashtra is likely to increase slightly. Rainfall activity over northeastern states, plains of northwest and northern India is likely to remain subdued.

**Warning:** Isolated heavy rainfall likely over Jammu & Kashmir, Himachal Pradesh and Orissa.

**EXCHANGE RATE:** 1 USD = Rs 43.63;  
1 Euro = Rs 52.02

**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 tonnes)

\*- US cents per pound

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