

COTTON

July 11-16 2005

MAJOR HIGHLIGHTS

- **Domestic Cotton Prices Remained Stable this Week**
- **NYBOT Cotton Futures Declined Sharply this Week**
- **Pak Trading Remained Dull, Spot Prices Improved Significantly**
- **Chinese Cotton Prices Saw Marginal Improvement**
- **USDA Released Bearish Supply-Demand Report for the Month**
- **USDA Reported Bearish Export Sales for the Period July 01 July 07**

NEWS ANALYSIS

Flood may Damage Cotton Crop in Pakistan

The area under cotton in Pakistan for 2005-06 season has been reported marginally up by 2.1 per cent at 3.2 million bales against the last year's figure. Many prominent cotton producing countries, including China (29.0 million bales), USA (23.0 million bales), India (16.6 million bales), Pakistan (11.25 million bales of 480 lb each) and also the world (116.0 million bales) set ever high production records in 2004-05 mostly because of very cotton-friendly weather conditions. The per hectare productivity also improved with China at 1109 kg, USA 917 kg, India 440 kg and Pakistan at 740 kg. Pakistan's ever high production record was set in 1991-92 at 10.0 million bales of 480 lb or 12.8 million local weight bales, but in the following two years--in 1992-93 and 1993-94--Pakistan produced less than 9.0 and 8.0 million local bales, respectively. The new season (2005-06) has taken start from heavy rains and floods caused by melting of snow on mountains and release of excessive water, around 400,000 cusecs, in Rivers Chenab and Sutlej by India. The market players fear on possible damage of cotton crop due to flood. Earlier, TCP wanted to hold up some 600,000 bales as buffer stock as also to avail the chance of even better price in coming months. The local spinners, under the impression of late and damaged crop, are showing great interest in buying cotton from TCP and have increased the price even beyond Rs 2,400 per maund for some good quality stocks.

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.

Cotton Situation In China vis-à-vis India

According to the ShanDong Agriculture Office in China, the acreage of Shandong Province will reach around 2139918 acres in this season, which declined by 18% than last year.

The crops develop well, and it is estimated that the new cotton will enter into the market 15 days ahead of the schedule. It has few rains before June 25th in the areas. From the end of June to the early July, it had slight rains in most areas, so the dry condition is released. The harvest will commence around August 20th. Some observers indicated that it would have frequent rains from August and early September in accordance with the regular situation (Regularly, if there were few rains in Spring, it should have a plenty of rains in autumn in Shandong). The weather is the key factor for the final production and quality. According to the official website of Hebei province, the farmers in Cangzhou District are facing heavy pests problems. The quantity of the moths and eggs was several times than the last two years. The larvae's volume was in the high level as well. The producers were quite busy for the crop-dusting, which almost every 2 days even everyday implemented once. At present, the grave condition went slightly better.

Coming to India, cotton sowing is at present down 31.3 per cent on year to 3.15 million hectares. A major shortfall has been reported in Marathwada region of Maharashtra due to delayed onset of the south-west monsoon. Sowing is down 73 per cent at 477,000 hectares, as of June 29, compared with 1.8 million hectares last year. 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. Sowing in Gujarat is also seeing a huge shortfall at 579,000 hectares compared with 1.12 million hectares last year. In MP due to lack of sufficient rain the sowing did not get the full momentum. It is expected that except MP cotton acreage in other producing states would go up this year.

TCP Likely to Dispose Stocks by Early August

The Trading Corporation of Pakistan (TCP) is optimistic that it will succeed in selling its total cotton stock by early August well ahead of the government-set deadline of August 15. The aggressive buying by the mills is raising hope for the TCP to dispose its stocks. The TCP had a total stock of 1.57 million bales of which it has already sold around 972000 bales in the last three months. The remaining stock is around 0.6 million bales. The state-run commodity trading agency intervened in the local market last September on the directives of the federal government to halt the decreasing trend in prices which had dropped below Rs 2,000 per maund on the back of a bumper-crop. The TCP lifted a total of 1.6 million bales from the local market, which it decided to export rather than sell to local mills. However, lower international prices pushed the government to stop exporting in January and after over four months of deliberation it decided to sell the bales in May. TCP estimates suggest that local textile mills may lead buying with 0.8 million bales. The local sale of cotton was fetching good prices and on an average a maund of each bale was costing around Rs 2,400 from local millers, which was more than the existing open market price. The country last year produced a bumper crop of around 14.6 million bales against the target of 10.72 million bales. However, the delayed decision to sell cotton to local mills by the government resulted in a Rs 1 billion loss as carrying cost which it paid as the carrying cost of around 1.6 million bales lying in warehouses across the country. The activities by the TCP have been dominating the cotton trading in Pakistan for last several days.

Cotton Subsidy: Brazil may Take Strong Steps against US

Brazil has urged the World Trade Organisation (WTO) to allow it to suspend \$3 billion US patents, trademarks and financial services unless the US government stops illegal subsidies to its cotton farmers. The WTO earlier gave the US July 1 deadline to decide over the issue. The WTO said that the US exports credits for cotton farmers and other aid encouraging domestic industry to use their output as illegal under international trading rules. Although the target date for obeying the ruling was missed, The Bush administration has proposed eliminating the Step 2 program that pays exporters and mills to buy more expensive U.S. cotton for their needs. Congress will still need to pass the legislation for it to take effect, however. At the earliest, Congress may vote on it this fall, though many observers expected no action until next year. As a result, Brazil agreed with the US ahead of Friday's meeting of the Dispute Settlement Body (DSB) that WTO consideration of the sanctions request should be suspended. According to Oxfam, the US spends more – around \$4 billion – on propping up its 25,000 cotton farmers than it does on aid to the whole of Africa in a year. Friday's deal only covered those parts of the WTO ruling referring to the export credits and the so-called Step 2 programme of assistance to US cotton users. The worst victims of the US cotton subsidies are the African countries. At the present circumstances it would be interesting to see what steps the US take for supporting the cotton farmers. It is likely that the US would not stop all the supports to the farmers. However, there is a good chance for Brazil to become the major exporters of cotton in the world.

USDA Reported Bearish Export Sales

The USDA yesterday reported the weekly export sales data for the period July 1 to 7. The report remained bearish for the market. Net Upland sales of 142,900 running bales (RB) were 55 percent below the prior week and 43 percent under the previous 4-week average. China (56,500 RB) was the major buyer, with smaller quantities to Taiwan (24,700 RB), Mexico (24,100 RB), Turkey (20,600 RB), and Indonesia (11,800 RB). Net sales of 26,800 RB for delivery in 2005/06 were primarily for El Salvador (10,000 RB), Pakistan (9,900 RB), and South Korea (5,000 RB). Exports of 340,700 RB were 34 percent above the previous week and 21 percent over the prior 4-week average. The primary destinations were China (104,300 RB), Mexico (78,000 RB), Turkey (75,500 RB), Indonesia (16,900 RB), and South Korea (13,000 RB). Also on Tuesday, the USDA raised China's 2005-06 ending stocks by 2.6 million bales, upped its production by 500,000 bales and lowered China's imports by 1 million bales, all of which produced a huge bearish reaction at the New York Board of Trade since the U.S. market has become dependent on demand from Beijing. Slowing import demand and comments from Chinese officials that there are already 3.2 million bales of cotton in the national reserve guided the USDA to its conclusions that the earlier estimates were too low.

USDA Released Bearish Supply Demand Data

The USDA yesterday released the monthly supply demand data for the month of July. The estimates show unexpected increase in the production and ending stocks. The world 2005-06 forecasts include an 11- percent increase in ending stocks. Approximately half of the increase is attributable to higher beginning stocks resulting from

adjustments to the historical China balance sheet beginning in 1994-95 these adjustments are based mainly on recent information from Chinese officials. Production is raised in India, China, the United States, Pakistan, Turkmenistan, Uzbekistan, and the African Franc Zone, partially offset by a reduction for Brazil. Consumption is raised in India, Pakistan, and Turkey, with reductions in Brazil and Uzbekistan. World trade is reduced 2 percent, as a 1.0-million-bale reduction in China's imports is partially offset by increases for India and Turkey. China's imports are lowered because of larger production and because new information indicates that discrepancies in the China balance sheet, first identified in May 2005, are larger than previously indicated. World ending stocks are now forecast

at nearly 49 million bales, up 4.9 millions bales from last month. This month's 2005-06 forecasts for the United States include a 500,000-bale increase in ending stocks resulting from lower projected exports. Beginning stocks are reduced 300,000 bales; however, the lower carry-in is offset by slightly larger production, leaving the total supply unchanged. Production is increased to 19.8 million bales, as the Acreage report indicated higher planted area. The export forecast is reduced to 14.5 million bales, due to higher foreign production and reduced imports by China. Ending stocks are forecast at 6.7 million bales, or 33 percent of total use. The data was seen as bearish for the cotton futures at the NYBOT.

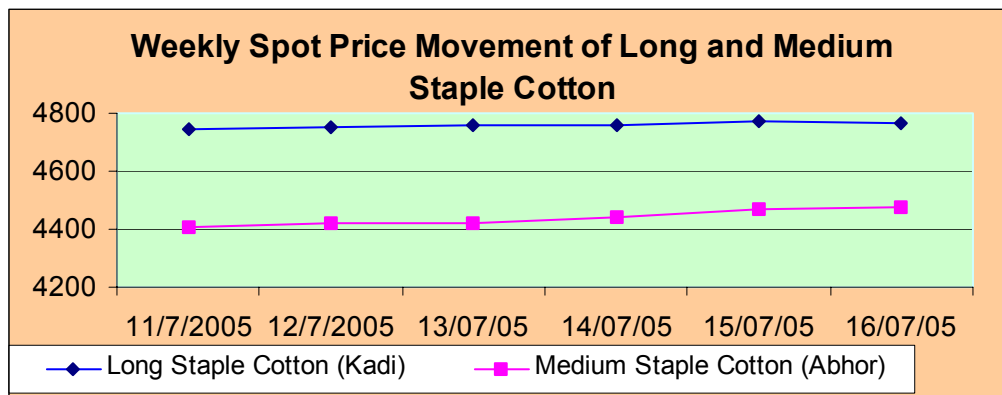
PRICES

Spot (Domestic)

Date	Rates (Rs/Quintal)	
	Long Staple Cotton (Kadi)	Medium Staple Cotton (Abohar)
11/07/05	4748.25	4406.25
12/07/05	4752.35	4422.00
13/07/05	4756.35	4417.40
14/07/05	4757.05	4438.20
15/07/05	4772.40	4465.60
16/07/05	4766.30	4477.00

Futures: December contract (NYBOT CTZ5)

Contract	Open	High	Low	Close	Change
11/07/05	54.70	55.25	54.45	55.01	-0.46
12/07/05	52.50	53.25	52.01	52.01	-3.00
13/07/05	51.05	51.90	50.65	51.56	-0.45
14/07/05	51.54	51.90	50.90	51.84	0.28
15/07/05	51.70	52.05	51.05	51.45	-0.39



FUNDAMENTAL ANALYSIS

INTERNATIONAL MARKETS

USA

The cotton futures at the New York Board of Trade (NYBOT) remained weak and declined overall this week. On the very first day the cotton futures settled lower on subdued market sentiments. On the next day the futures crashed on bearish supply demand data. The Most-active December cotton lost 5.45% of its value from Tuesday's close and settled 300 points lower at 52.01 cents a pound. Global cotton production was estimated at 108.6 million bales, from 106.2 million in June, bolstered by increases in China, India, Pakistan and other Asian countries, the U.S. Department of Agriculture said Tuesday in its July crop production and supply-demand reports. With only minor adjustments made to consumption, the world ending stocks

estimate rose 4.9 million bales to 48.95 million in July, from 44.05 million in the USDA's June crop report. Calculations based on the options trade indicate a synthetic price of \$51.15 as it corresponds to the December futures contract. Synthetic prices indicate where the futures contract might have traded if there had been no limits to halt the activity. On Wednesday the cotton futures continued the downfall on selling left over from Tuesday's crop report-inspired losses, though trade buying lifted prices off the day's lows. The expected good cotton crop in India supported by likely good June-September monsoon rains also remained a matter of concern for the market players. On the Thursday the futures tried to recover some losses amid improved

buying at the lower prices. However, the weekly export sales reported by the USDA remained bearish for the market. On the last trading day the futures again declined amid weather conditions. Scattered showers and thunderstorms were moving through much of the Mississippi Delta and Southeastern cotton areas, improving cotton conditions and putting pressure on futures prices. Overall, the situation remains bearish for the cotton futures in the coming too.

China

The cotton prices in China remained strong overall this week. On the very first day the cotton prices improved with a good buying support. The activities however, remained subdued. The traders were awaiting some sort of market direction. The cotton forward prices declined for a single day only despite sharp decline in the NYBOT cotton futures. In some province there is gap between supply and demand. The spinning output reached to a record high, which fuelled the demand for cotton by the mills. This remained supportive for the cotton prices. The nearby contracts were stronger than the long ones. Thus, it is expected that the cotton futures in China would remain strong in the coming too.

Pakistan

Irregular trading in cotton due mainly to TCP presence witnessed, though higher demand perception later kept prices firm during the week ended on July 16, 2005. Spot rate opened firm at Rs 2325 without upcountry expenses, but short supply fears led to rise of another Rs 25 to Rs 2375 on Friday. However, during the last week very thin activity was witnessed at the cotton market throughout the week owing to absence of sellers. There were almost no stocks left with ginners. The spinners and mills purchased stocks offered by Trading Corporation of Pakistan during the week. Due to the thin supply and greater demand in the market the prices continued to rise during the week. The spot prices saw another increment of Rs 25 to close this week at Rs 2375 per maund. It is expected that production is likely to remain lower than consumption in days to come. The recent rains are also seen to affect the smooth supply besides affecting the crop. Thus, the cotton prices in Pakistan is expected to remain with the firmness in the coming too.

DOMESTIC MARKET

Domestic cotton prices this week maintained the steadiness. The spot prices in North Indian states improved at the later half of this week. In Gujarat cotton prices remained with a strong undertone. The NCDEX futures gained marginally overall throughout the week however, with a less movement.

North Indian Markets

Cotton prices this week at the North Indian markets showed an improvement at the later half. Spot prices in Rajasthan, Haryana and Punjab remained firm for the Bengal deshi variety in particular. J-34 variety also improved in Rajasthan and Haryana. There was some buying interest from the millers. The rainfall may determine the prices in the coming days. The price of J-34 was recorded between Rs 1590-1630 per mon in Sirsa and Bengal deshi fetched Rs 1275-1310 per mon. Price of J-34 cotton in Sri Ganganagar market of Rajasthan was quoted between Rs

1540 to Rs 1570 per mon whereas Bengal deshi fetched Rs 1380-95 per mon.

Gujarat Market

The prices of Shankar and Kalyan varieties of cotton in Gujarat this week maintained the firmness. Strong demand from the local mills and presence exporters kept the market tone at the higher level. The sowing has not been completed due as still there is some excess water in some parts. However, at the later half of the week the market indicated a soft sentiment and an easy undertone. The sellers are likely to bring their stocks to the markets, which may put pressure on the prices in the coming week. The prices of Shankar were recorded between Rs 15000 to Rs 17500 per candy. Price of Shankar (28 mm) remained between Rs 16500-17200 per candy. Prices of V-797 were quoted between Rs 11600-12500 per candy for ready delivery.

Maharashtra and MP Market

There was no change in the prices of cotton in the states of Maharashtra and Madhya Pradesh this week. However, the tone of the market remained easy. In Maharashtra good rainfall helped to complete the sowing. In MP however, still there are some cotton belts, which are waiting for more rain for better sowing. The sellers here are likely to come out to the market and that may bring down the prices 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 15000-16500 per candy. Prices of cotton khal in Akola remains between Rs 284.5-91.0 per 50 kg. Prices of cotton oil in Mumbai remained between Rs 374 to Rs 378 per 10 kg.

Vayda Bazaar

The medium staple cotton futures at the NCDEX this week posted a marginal gain over the last week. The intra-day price movement throughout the week remained dull. On the last trading day the August contract at the NCDEX closed at Rs 4515 per quintal, up by Rs 25 against the last week's closing. The strength in spot price helped the futures to remain strong. In the coming week too the prices of cotton at the NCDEX are likely to remain firm. However, the movement is expected to remain subdued.

WEATHER WATCH (IMD) (Latest)

Weather Systems:

The active monsoon conditions prevailed over most parts of northwest India and central India due to the prevalent monsoon depression. During the week, monsoon rainfall activity has been quite extensive and in excess of normal over the Arunachal Pradesh,

West Uttar Pradesh, Haryana/Chandigarh/Delhi, Punjab, Himachal Pradesh, J&K, Marathwada, Vidarbha, Telangana, North Interior Karnataka and Lakshadweep that resulted in contributing about 3% above normal rainfall and 32% of the seasonal quantum of rainfall for the country. The All India rainfall scenario has transformed from deficit regime to the above normal rainfall regime during the week thus raising the total quantum of monsoon rain for the period 1June-13 July to 1% above normal from 2% below normal during the previous week.

Forecast for next 5-6 days

The upper air cyclonic circulation over north-interior Karnataka and neighbourhood is likely to cause scattered to fairly widespread rains in South Peninsula viz. Kerala, Tamilnadu, Andhra Pradesh and Karnataka during next 2-3 days.

The interaction between the upper air cyclonic circulation over west Uttar Pradesh and the Western disturbance in the form of an upper air cyclonic circulation over Punjab, is expected to cause scattered to fairly widespread rains over North West India during next 24-48 hours. The activity is expected to reduce thereafter.

NE and eastern parts of the country viz., NE States and, West Bengal, Bihar, Jharkhand and Orissa are likely to receive widespread rains during next 4-5 days.

Zone-Wise Rainfall Forecast for Next 5 Days

NORTH & NORTH-WEST INDIA [J&K, HP, UTTRANCHAL, PUNJAB, HARYANA, WEST UP]: Scattered to Fairly widespread rainfall is likely over many parts of NW India viz., West Uttar Pradesh, Haryana, Punjab, Uttranchal, and Himachal Pradesh during next 24-48 hours and reduce thereafter.

EAST AND NE INDIA [EAST UP, BIHAR, JHARKHAND, WEST BENGAL, ORISSA, NE STATES]: Scattered to fairly widespread rainfall is expected over East Uttar Pradesh, Jharkhand and Orissa and fairly wide spread to wide spread rainfall with isolated heavy rains over Bihar, West Bengal, and NE States during next 4 days.

CENTRAL INDIA [MP, CHATTISGARH, VIDARBHA]: Isolated to Scattered rainfall is expected over Chhattisgarh, Madhya Pradesh and Vidarbha during next 2 days.

SOUTH INDIA [TAMILNADU, AP, KERALA, KARNATAKA, ANDAMAN & NICOBAR ISLANDS, LAKSHADEEP]:

Scattered to fairly widespread rains are also likely over entire south peninsular India viz., Kerala, Karnataka, Andhra Pradesh and Tamilnadu. during next 2-3 days.

WEST INDIA [MAHARASHTRA OTHER THAN VIDARBHA, GUJARAT, RAJASTHAN]: Fairly widespread rains are expected over Konkan & Goa during next 2-3 days. Madhya Maharashtra, Marathwada Gujarat and West Rajasthan may receive isolated to scattered rains during above period. East Rajasthan may receive scattered to fairly wide spread rains during next 48 hours.

Exchange Rate in INR

Currency	11/07	12/07	13/07	14/07	15/07
1 USD	43.56	43.53	43.52	43.53	43.52
1 Euro	52.35	52.90	53.16	52.54	52.78
1 GBP	75.92	76.80	77.22	76.67	76.69
100 Yen	38.91	39.10	39.15	38.93	38.83

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.

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