

COTTON

30th July 2005

MAJOR HIGHLIGHTS

- Domestic Cotton Markets See Lack Lustre Trading
- NYBOT Cotton Futures Higher on Speculative Buying
- Cotton Trading Remains Dull in Pakistan

NEWS ANALYSIS

Huge Cotton Production Results in Loss Ultimately

Huge production does not always benefit the farming community. Last year's (2004-05) cotton production is the evidence of this fact. Cotton production in India reached the record level last year supported by good monsoon. Cotton production was recorded to an estimated level of 240 lakh bales in 2004-05. This has caused the prices to come down sharply and the farmers have lost an estimated amount of Rs 8000-10000 crores. However, the government could not do anything significant to safeguard the farmers. The demand to increase the import duty from 10 per cent to 40 per cent was not entertained by the finance ministry. Even the agriculture ministry also remained quiet except giving hopes. The current cotton season will come to an end in less than a month in abroad and in India in less than three months. On the other hand, global consumption was estimated to rise by just about 9 per cent, indicating a situation of glut. The current season is thus expected with a huge end stock of 105 lakh tonnes. In view of this, international prices of cotton (Cotlook "A") plummeted 30 per cent between May and December 2004, while Indian prices crashed 36 per cent between July 2004 and January 2005. Though the Cotton Corporation of India (CCI) and Maharashtra State Co-operative Cotton Marketing Federation bought cotton to support the farmers, the situation would have been better had the government taken the price supporting mechanism more efficiently.

FUNDAMENTAL ANALYSIS

DOMESTIC MARKET

NORTH INDIAN MARKETS

Very little activities were noticed in cotton markets in North India. The weather remains cloudy in Haryana and there was some rain in Rajasthan. The firmness in Bengal deshi and J-34 varieties became easy now. However, the demand for Bengal deshi may improve again.

GUJARAT MARKET

Rainfall started again in some parts of Gujarat. It is being considered as good for the crop if not in excessive. Thus,

there is some selling intentions in the market that helped the market tone to remain easy. The buyers are still reluctant to purchase at this prices. If the international prices continue to improve the exporters may enter into the market.

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

MARKET	Bengal deshi	J-34	Shankar	V-797
Sirsa				
1. Cotton Lint	3375	4062	-	-
2. Raw Cotton	-	-	-	-
Sri Ganganagar				
1. Cotton Lint	3475	3950	-	-
2. Raw Cotton	-	-	-	-
3. Cottonseed	10500	950	-	-
Ahmedabad/Kadi				
1. Cotton Lint	-	-	4274-4808	3233-3458
2. Raw Cotton (New)	-	-	2175	-
3. Cottonseed	-	-	-	775

MAHARASHTRA AND MP MARKET

There were no significant changes in the prices of cotton in Madhya Pradesh. The Maharashtra state federation remains as the sole selling agency and the prices are therefore remained at the same level. The state is likely to fulfill its cotton acreage. However, the acreage in MP may fall due to insufficient rainfall. In Maharashtra prices of Y1 were recorded at Rs 13700-14000 per candy and 28 mm fetched Rs 16200-600 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 320.4 per 50 kg. Prices of cotton oil in Mumbai remained at Rs 382 per 10 kg.

VAYDA BAZAAR

The medium staple cotton futures at the NCDEX continued the weakness and opened unchanged today. The futures then went down smoothly. There was no strength in the market. Good acreage is pressurising the futures prices.

The contract closed near the day's low. The weakness is likely to continue.

Medium Staple Cotton Futures At NCDEX (Rs/Quintal)

Contract	Prev. Set	High	Low	LTP*	Change
August	4451.00	4451.00	4427.00	4427.00	-24.00

INTERNATIONAL MARKET

USA

The cotton futures at the New York Board of Trade (NYBOT) settled higher on heavy speculative buying and short covering. Month-end trade adjustments were also felt in the market, marked by volatile trading at the end of the day. The most-active December cotton settled 72 points higher at 52.48 cents and October ended 88 points higher at 50.99 cents a pound. The price movement was mainly due to technical factors. December cotton shot higher out of the gate as speculative buying took prices to a 52.80 session high, activating buy stops along the way. Trade selling then dragged prices back down to the 51.85 session low, so the day's range was set in the first 20 minutes of the trading day. For the week, December cotton gained 72 cents to finish at 52.48 cents a pound and extended the recent rally from last week's lows. The U.S. Department of Agriculture will issue its first survey-based U.S. crop production estimate on Friday, Aug. 12, and traders will be anxious to see if the government raises its 19.8 million-bale July projection that was based on trend line yields. With timely rains in Texas this week and the Southeast receiving beneficial rains, most traders and analysts expect the production estimate to rise. This may put weight on the cotton prices in the coming week.

Cotton Futures at the NYBOT as on 29/07/05 (cents/pound)

Contract	Open	High	Low	Close	Change
December	52.20	52.80	51.85	52.48	+0.72

CHINA

The China cotton forward trading remains closed on Saturday and Sunday.

PAKISTAN

Dullness continues in the Karachi cotton market in Pakistan. Leading mills made very few deals for September delivery. The KCA spot rate remained unchanged at Rs (Pak) 2350 per maund. The market players said Trading Corporation of Pakistan (TCP) would receive better rates for its next auction of 82,000 bales, as the demand of mills and spinners has increased. However, the growers in southern Punjab have accelerated picking of new crop. According to the market information some 100 bales from old crop of Sindh station were traded at Rs 2,450 per maund. The ginner in Sindh are reluctant to accelerate

their picking activity due to bad weather conditions. The prices of cotton might go up in the coming days if the current weather condition persists.

WEATHER WATCH (IMD)

Forecast Valid For Next 72 Hours

NORTH : Rain/thundershowers likely at a few places in the region

EAST : Rain/thundershowers likely at most places over Orissa and Chhattisgarh; at many places over Gangetic West Benga, Jharkhand and East Madhya Pradesh ; at a few places in the rest region. Increase in rainfall activity over East Madhya Pradesh on 1st August.

SOUTH : Rain/thundershowers likely at many places over north Coastal Andhra Pradesh, Coastal Karnataka, Kerala and Andaman & Nicobar Islands ; a few places in the rest region outside Tamil Nadu & Pondicherry where it may be isolated. Rainfall activity likely to increase over Telangana on 1st August.

WEST : Rain/thundershowers likely at many places in Konkan & Goa, Madhya Maharashtra and Vidarbha and at a few places in the rest region. Rainfall activity likely to increase over Maharashtra & Goa, West Madhya Pradesh on 1st August..

WARNING

Heavy to very Heavy rainfall likely at a few places over Orissa and Chhattisgarh . Isolated heavy rainfall also likely over, Konkan & Goa, Madhya Maharashtra, Vidarbha, Coastal Karnataka, Gangetic West Bengal, Jharkhand, East Madhya Pradesh and Kerala.

OUTLOOK for subsequent two days based on NCMRWF and other numerical weather products

i) Further increase in rainfall activity over central India and Maharashtra & Goa..

ii) Slight increase in rainfall activity over Gangetic Plains and north peninsular India.

iii) Subdued rainfall activity likely to continue over northeastern States.

EXCHANGE RATE: 1 USD = Rs 43.49;

1 Euro = Rs 52.73

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

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