

## COTTON

14<sup>th</sup> July 2005

### MAJOR HIGHLIGHTS

- Domestic Cotton Prices Remain Almost Unchanged
- NYBOT Cotton Futures Settled Lower on Speculative Selling
- China Cotton forward Trading Settled Mixed
- Thin Activities Continue in Pakistan

### NEWS ANALYSIS

#### Latest USDA 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.

#### 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.

### FUNDAMENTAL ANALYSIS

#### DOMESTIC MARKET

##### NORTH INDIAN MARKETS

Cotton prices at the North Indian markets today maintained the slow movement like the past several days. Bengal deshi variety remained on demand in both Sirsa mandi of Haryana and in Sri Ganganagar mandi of Rajasthan as well. However, the J-34 variety saw some weakness amid low demand. The CCI is active in the North Indian markets and selling stocks of different grades of J-34 variety. Prices of deshi variety are likely to remain strong in near future.

##### GUJARAT MARKET

Same undertone prevailed in the cotton markets of Gujarat. The prices of both the varieties of Shankar and Kalyan remained firm today also. There were some buyers in the markets for last few days. However, today the buyers kept themselves on the sidelines. The sowing activities are

going on and around 60 per cent sowing has been completed so far. There are stocks of around 2.5 lakh bales of Shankar and 1.5 lakh bales of Kalyan in Gujarat. It is likely that if the sellers enter the market the prices may come under pressure.

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

MARKET	Bengal desi	J-34	Shankar	V-797
Sirsa				
1. Cotton Lint	3250	4025	-	-
2. Raw Cotton	-	-	-	-
Sri Ganganagar				
1. Cotton Lint	3450	3850	-	-
2. Raw Cotton	-	-	-	-
3. Cottonseed	1025	940	-	-
Ahmedabad/Kadi				
1. Cotton Lint	-	-	4274-4864	3233-3514
2. Raw Cotton	-	-	-	-
3. Cottonseed	-	-	950	775

#### MAHARASHTRA AND MP MARKET

Cotton prices in MP and Maharashtra remained almost unchanged today. There is still deficiency of rain in some of the cotton belts in MP. Almost 80 per cent sowing has been completed however. There is around 1.25 lakh bales of stocks lying with the private players in MP. Now this may be burdensome ahead of new crop season. In Maharashtra cotton sowing has been completed and the area under cotton is expected to rise by 10 per cent. Taking all the factors no supportive factors for the prices are seen at present. 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 15200-16500 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 285.5 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 against the previous closing but remained highly range bound. The August contract remained in the positive territory. There was almost no movement in the futures. Less activity at the spot markets kept the undertone in the futures markets at the lower side. However, the August contract closed today at the day's high. The slow movement in the futures is likely to continue tomorrow also.

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

Contract	Prev. Set	High	Low	LTP*	Change
August	4510.00	4513.00	4512.00	4513.00	+3.00

#### INTERNATIONAL MARKET

##### USA

The cotton futures at the New York Board of Trade (NYBOT) closed lower on speculative selling left over from

Tuesday's crop report-inspired losses, though trade buying lifted prices off the day's lows. The most-active December cotton settled 45 points lower at 51.56 cents a pound. October settled 55 cents lower at 49.60 cents. The market is adjusting to the shock of much higher-than-expected world production and ending stocks as reported Tuesday by the U.S. Department of Agriculture in its July crop production and supply-demand reports. The USDA raised its 2005-06 global cotton production estimate to 108.6 million bales from 106.2 million in June. World ending stocks rose 4.9 million bales to 48.95 million in July. 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. The USDA pegged India's production at 16.75 million bales. In weather, dry conditions with episodes of light showers are expected in the Mississippi Delta for the rest of this week. Scattered to widely scattered showers and thunderstorms are expected Friday and Saturday according to the DTN Meteorlogix. Dry conditions with a few light showers are expected on Sunday. In the Southeast, scattered showers and thunderstorms are expected Wednesday and Thursday, while mostly dry conditions with a few light showers are seen over the weekend, Meteorlogix said. Thus, the weakness in the NYBOT futures is likely to continue.

#### Cotton Futures at the NYBOT as on 13/07/05 (cents/pound)

Contract	Open	High	Low	Close	Change
December	51.05	51.90	50.65	51.56	-0.45

#### CHINA

The forward trading in China settled mixed today with light volume of trade seen. The lower closing of the NYBOT futures also remained a bearish factor for the market. The cotton market seems to take a rest at this moment and waits for a clearer direction. The China Cotton Index (CCI) also remained unchanged today. Turnover on CNCE e-market totalled 4900 tonnes, down by 3100 tonnes than the previous session. Domestic Type 428 reached 430 tonnes and the balance was Type 229. The open interests totaled 88890 tonnes, down by 1540 tonnes. The open interests of MD contracts totaled 1540 tonnes, down by 120 tonnes. There may be a recovery in the prices again.

#### PAKISTAN

Trading activities at the Karachi cotton market in Pakistan remained quiet as ginnners were reluctant to offer their stocks in low rates. Leading players made forward contracts. The spota rate remained unchanged at Rs 2325 per maund without upcountry expenses. Leading mills made few deals for August and September delivery by offering slightly higher price for fine stocks. Due to low seasonal demand for yarn in the international markets the mills have slowed down their production. The ginneries in upper Sindh are likely to start getting new crop in a couple of weeks from the growers. In southern Punjab, some growers are reluctant to continue supply due to flood. The recent floods might have hit crop, but they hoped it would not provide any opportunity to manipulators to affect lint prices. The physical market stood between Rs 2,450 per maund and Rs 2,500 per maund. Leading mills and spinners also made some deals for new crop of upper Sindh on slightly higher prices. The TCP is likely to offer more stocks in its next auction on Monday. Overall, the situation is pointing out towards the firmness of the prices to continue currently.

## WEATHER WATCH (IMD)

**North:** Rain/thundershowers likely at many places over Uttaranchal, north Uttar Pradesh and Himachal Pradesh and at few places in the rest region. Decrease in rainfall activity over Haryana, Punjab and south Uttar Pradesh after 15th.

**East:** Rain/thundershowers likely at most places over northeastern states, Bihar and West Bengal & Sikkim and at many places in the rest of the region outside Chhattisgarh, Jharkhand and east Madhya Pradesh where it may be at a few places. Decrease in rainfall activity over Gangetic West Bengal, east Madhya Pradesh and Chhattisgarh after 15th.

**South:** Rain/thundershowers are likely at a few places over coastal Karnataka; Kerala, coastal Tamil Nadu and Lakshadweep and isolated in the rest region. Further increase in rainfall activity over Tamil Nadu, south Andhra Pradesh, Kerala and south interior Karnataka after 15th.

**West:** Rain/thundershowers likely at many places over west Madhya Pradesh at a few places over east Rajasthan and Konkan & Goa and at isolated places in the rest region. Decrease in rainfall activity over west Madhya Pradesh and east Rajasthan after 15th.

### Outlook for subsequent two days

Further increase in rainfall activity over southern parts of peninsular India. Current rainfall activity over northeastern states, sub-himalayan West Bengal & Sikkim, Bihar, north Uttar Pradesh and western himalayan region likely to continue.

**Warning:** Heavy to very heavy rainfall likely at a few places over northeastern states, West Bengal & Sikkim. Isolated heavy rainfall likely over Uttaranchal, Himachal Pradesh, Jammu & Kashmir, Bihar and north Uttar Pradesh.

**EXCHANGE RATE:** 1 USD = Rs 43.53;  
1 Euro = Rs 52.54

### 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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