

COTTON

June 27-July 02 2005

MAJOR HIGHLIGHTS

- **Domestic Cotton Prices this Week Improved Marginally**
- **NYBOT Cotton Futures Continued the Gain this Week**
- **Pak Trading Dominated by the TCP's Auction this Week**
- **Chinese Cotton Futures Remained Weak this Week**
- **USDA Reported Strong Export Sales for the Period June 17 June 23**

NEWS ANALYSIS

India may become Second Largest Cotton Producer

The East India Cotton Association (EICA) expects India's cotton production to reach to 250 lakh bales in the near future. The effective working of the technology missions on cotton is indicating that India would soon become second largest cotton producer in the world after China. From about 300 kg per hectare three years ago, cotton lint productivity has gone up to 450 kg/ha currently. World average is, however, much higher at 740 kg/ha. Highlighting the urgent need to upgrade quality of domestic extra-long staple (ELS) cotton which are currently being imported by mills the EICA urged seed producers and scientists to improve varieties such as Suvin and DCH and also introduce other ELS cottons that are in great demand in the country. The main trust areas in this regard are scientific farm management practices, development of infrastructure facilities and price risk management. This would help the domestic cotton industries to remain in competition in the international front. For 2004-05, the crop size has been estimated at 240 lakh bales, considerably up from 177 lakh bales of the previous year. With an opening stock of 21 lakh bales and import of 7 lakh bales, total availability is placed at 268 lakh bales. Mill consumption is higher this year at 160 lakh bales and exports are an estimated 11 lakh bales. After taking into account consumption by SSI units (17 lakh bales) and non-mill use (13 lakh bales), the closing stock for the year is estimated at a new high of 67 lakh bales.

Weather to Remain Mostly Dry in US Cotton Belts

While dry conditions are a concern in central areas of the Mississippi Delta, sources said it is still early in the season. Mostly dry weather is seen Tuesday in western Mississippi Delta areas, with chances for isolated late-day showers and thunderstorms possible in the east, the Meteorlogix weather service said. Mostly dry conditions with a few isolated late-day showers and thunderstorms are possible each day this week, with temperatures mostly above normal Wednesday through Friday. In the Southeast, mostly dry weather with scattered to isolated afternoon and evening showers and thunderstorms are expected each day this week. Temperatures are seen near to above normal. Dry conditions are expected to continue this week

over much of Texas, with above-normal temperatures. Mostly dry conditions are seen over California's central valley this week. Meteorlogix said warmer temperatures are needed, however, to benefit the cotton crop.

Cotton: Production to Go Down in Tajikistan

According to the Foreign Agricultural Service (FAS) of the US Department of Agriculture the cotton production of Tajikistan for the year 2005 is expected to decrease. The lower production is attributed to the less planted area and poor weather conditions. The maturation of plants has been delayed 8-12 days. Weather will play a major factor in final production levels. Good weather conditions during the harvest could benefit overall production. The lack of good quality inputs remains a problem. Exports are expected to decrease as a result of the drop in production. The USDA report said that cool and wet weather in early spring delayed cotton sowing in Tajikistan. As a result of the heavy rains, about 28,000 hectares had to be replanted. In addition, the average temperature during the early germination period was lower than normal, which consequently delayed maturation of plants for about 8-12 days. This may result in a delayed harvest in some areas and possible lower quality due to damage from autumn precipitation. Total planted area is expected to decrease in MY 05/06. Although the planned planted area is reported at 288,000 hectares, independent sources indicate that planted area will be almost 10,000 hectares less. According to official announcement, production of seed cotton is expected to be 550,000 metric tonnes, however unofficial sources believe production will be 40,000 metric tonnes lower. Lint production is forecast at 160,000 metric tonnes. The average yield in Tajikistan is 1.8-1.9 tonnes per ha (seed cotton). Last years crop was on average about 14-20 days earlier than in 2003. Official 2004 production data for seed cotton have been slightly lower than originally reported and is almost 10 per cent lower than the state plan. Lint production was 173,000 in MY 2004-05 tonnes towards the higher end of the forecast. The expected lower production of cotton almost world wide in the coming season is expected to support the prices to remain firm.

US Cotton Crop Condition and Weather Updates

The U.S. cotton in good-to-excellent condition fell slightly to 62% for the week ended on June 26, from 63% the previous week, the U.S. Department of Agriculture reported Monday. Cotton in very poor to poor condition increased to 11%, from 9% the previous week. However, that could not support prices. Texas, Missouri and Oklahoma cotton crops are all below what is considered normal development for this time of year. For the 14-state average, the U.S. crop is 100.9% of normal, up from 99.8% last week but down from the year-ago figure of 102.3%. A value of 100 is considered normal. Parts of the Mississippi Delta are forecast to receive beneficial rains this week, with chances for late-day showers and thunderstorms occurring much of this week. It remains to be seen how much rain these systems actually produce, however, one source said. Hot, dry conditions are expected to persist across Texas growing areas, while conditions remain mostly favourable for crop development over the Southeast.

Bt Cottonseeds Seized in Andhra Pradesh

Bt cottonseeds worth around Rs 2.13 lakh were seized by the Andhra Pradesh Agricultural officials at Tuni in East Godavari district. The Genetic Engineering Approval Committee (GEAC) earlier issued banning cultivation of Bt cotton in the state of Andhra Pradesh. However, the GEAC approved Bt cottonseeds in North India. Despite banning the Bt cottonseeds remained on high demand in Andhra Pradesh. The three varieties of GM seeds viz. MECH-162, MECH-12 and MECH-184 introduced by the Mahyco-Monsanto particularly saw good demand as these are more pest resistant helping to reduce the cost of cultivation. In some parts these are reportedly being cultivated also. The government wants the sellers of these seeds to book under the Essential Commodities Act.

Cotton Weather Watch in US and India

After mostly dry conditions Wednesday and Thursday in the Mississippi Delta, Friday and Saturday are forecast to bring partly cloudy conditions with scattered afternoon and evening showers and thunderstorms. Mostly dry weather is seen again on Sunday with a few isolated late-day showers. Above-normal temperatures are expected Friday through Sunday, the Meteorlogix weather service said. In the Southeast, where conditions have been much more beneficial to cotton, chances for scattered showers and thunderstorms are possible for much of this week and into the weekend. On the other hand, cotton prices in India fell in the week to Wednesday as concerns over monsoon rains faded. Gujarat, the largest cotton-producing province, has seen heavy showers for the last four to five days. Heavy monsoon rains have also been seen in cotton-growing regions of Maharashtra and Tamil Nadu. North Indian states also stated receiving good rain. Sowing is going on in Gujarat, and Maharashtra. In North Indian states sowing has been completed. In MP scattered rainfall was recorded and the sowing activities are yet to state. However, such massive rainfall if continues in Gujarat it would ultimately affect the crop.

Rain is Helping Cotton Sowing in India

Cotton sowing in India's major producing states of Gujarat and Maharashtra has been progressing well after monsoon rains, with farmers showing much interest in transgenic seeds after reaping a record crop last year. Scattered rains in the southern state of Andhra Pradesh and central India had slowed the process, but the plantings would pick up in the coming days with good showers, traders said. Traders

said about one-third of plantings in Maharashtra, the country's second-largest producer, had been completed with coastal areas getting bountiful rains, but some interior parts have not received enough rainfall, delaying plantings. A weather office statement late on Wednesday said heavy rainfall was expected in the entire eastern state of Orissa, eastern parts of Madhya Pradesh in central India and the western state of Gujarat. The southwest monsoon has covered almost all of the country ahead of schedule and the rains in June are now expected to be only 10 to 15 percent below normal, compared with 49 percent deficiency in the first three weeks, a weather official said. It may be early enough but the country could harvest another record crop because of widespread sowing of genetically modified (GMO) cotton that boosts yields. According to the market sources the heavy rainfall will ultimately help the better growth of cotton by enriching the soil.

Cotton: Weather Watch for US and India

Weather conditions are mostly favourable for U.S. cotton, and even dry areas of the Mississippi Delta are expected to get much-needed rain. The Meteorlogix weather service said there are chances for scattered afternoon and evening thunderstorms Friday and Saturday, with mostly dry conditions or a few isolated late-day showers Sunday and Monday. In the Southeast, scattered to widely scattered showers and thunderstorms are expected Friday through Sunday, with near to above-normal temperatures. Dry conditions and above-normal temperatures are expected to persist into the weekend in Texas cotton areas. California's central valley is expected to remain dry and temperatures are seen rising to near or a bit above normal Friday through Sunday, according to Meteorlogix.

Meanwhile, cotton planting is progressing in India's major growing states of Gujarat and Maharashtra after delayed monsoon rains arrived a few days ago. Plantings are reportedly around 50% complete in Gujarat and one-third complete in Maharashtra. However, torrential rain may force the farmers for re-sowing the cotton crop in Gujarat. The sowing has been completed in North Indian states. Another cotton producing state of Madhya Pradesh is still waiting for good rain after which sowing is likely to start.

Latest US Cotton Planting Progress Report

The U.S. planted area for all cotton in 2005 is estimated at 14.0 million acres, up 3% from 2004, according to the USDA seeded area estimates for 2005. Upland cotton acreage totalled 13.8 million acres, also up 3%. Growers intend to increase American-Pima cotton planted area 7% from 2004, to 266,000 acres. Upland growers in the Southeastern States (Alabama, Florida, Georgia, North Carolina, South Carolina, and Virginia) planted 2.99 million acres of upland cotton, an increase of 1% from the previous year and 2% more than they had originally intended in March. After a cool, wet early spring, an extended period of dry weather moved across most of the Southeast. By early-June, all States were the same as or slightly ahead of the normal planting pace. In the Delta States (Arkansas, Louisiana, Mississippi, Missouri, and Tennessee), producers planted 3.88 million acres, an increase of 13% and 1% more than they had originally intended in March. Nearly all planting was complete by the end of the May. All States, except Louisiana, reported at least 65% of the crop in good or excellent condition. In Louisiana, only 46% of the crop was rated good or excellent, due to thrips infestations migrating from mature wheat fields. Pesticide applications

increased the condition of the crop the following week to 67% good to excellent.

USDA to Alter Export Credit Guarantees Programme

The U.S. Department of Agriculture announced late Thursday that it would alter three export credit guarantee programs as of midnight Friday in an attempt to comply with a World Trade Organization ruling against U.S. subsidies for cotton producers. The midnight deadline was set by the WTO to stop illegal export subsidies and domestic payments. The USDA said it would implement a new fee structure for the Export Credit Guarantee Program, or GSM-102, and its Supplier Credit Guarantee Program. It will discontinue the Intermediate Export Credit Guarantee Program, or GSM-103. However, the USDA didn't address the government's Step 2 cotton program, which compensates exporters and U.S. mill users for buying higher-priced U.S. cotton.

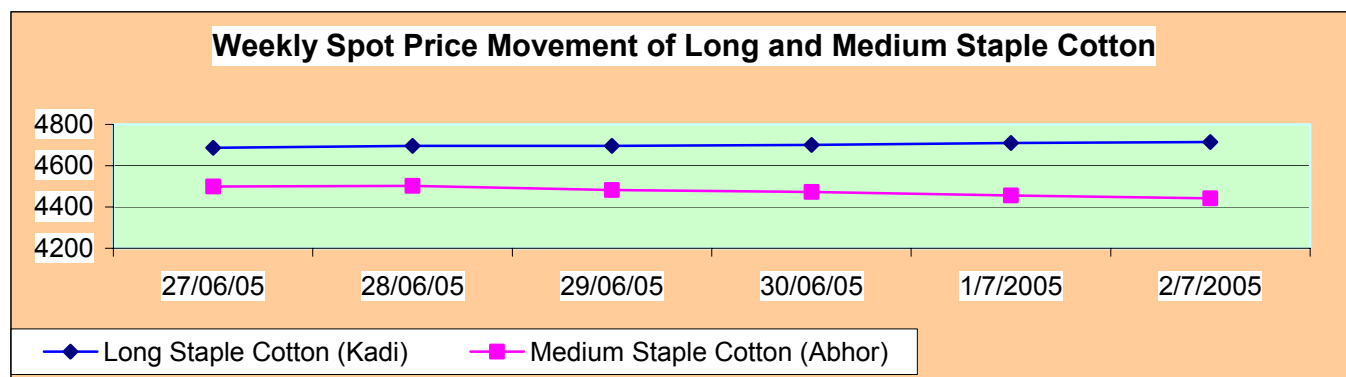
Cotton: USDA Reported Strong Export Sales

The USDA reported the export sales for the period June 17 to June 23 that showed strong export sales. The higher payments would be applied only upto 31st July and this prompted the shippers to take the benefit. Net Upland sales of 305,700 running bales (RB) were two and one-tenth times the prior week and the previous 4-week average. China (248,200 RB) was the major buyer, followed by Turkey (34,100 RB), and Mexico (21,400 RB). Net sales of 49,900 RB for delivery in 2005/06 were primarily for South Korea (17,400 RB) and Guatemala (9,900 RB). Exports of 301,900 RB were 12 percent above the previous week and 10 percent over the prior 4-week average. The primary destinations were China (116,100 RB), Turkey (54,700 RB), Mexico (26,300 RB), Indonesia (20,600 RB), Thailand (17,700 RB), South Korea (9,700 RB), and Taiwan (9,500 RB). The strong exports sales helped the cotton futures to rally.

PRICES

Spot (Domestic)

Date	Rates (Rs/Quintal)	
	Long Staple Cotton (Kadi)	Medium Staple cotton (Abohar)
27/06/05	4686.60	4499.35
28/06/05	4695.90	4502.05
29/06/05	4696.00	4481.95
30/06/05	4700.25	4473.25
01/07/05	4710.00	4455.40
02/07/05	4714.80	4441.10



Futures: December contract (NYBOT)

Contract	Open	High	Low	Change	Close	
6/27/2005		54.90	55.48	54.70	55.43	+0.64
6/28/2005		55.25	55.40	53.85	53.99	-1.44
6/29/2005		53.85	55.65	53.85	55.15	+1.16
6/30/2005		55.30	56.75	55.20	56.39	+1.24
7/01/2005		56.10	56.50	55.00	56.15	-0.24

FUNDAMENTAL ANALYSIS

INTERNATIONAL MARKETS

USA

This week the cotton futures at the New York Board of Trade (NYBOT) remained with a strong undertone overall. The futures at the NYBOT posted a gain this week over the past week. On the very first day the contract went up significantly on strong fund buying. According to the traders no fresh news was cited for the gains. However, prices continue to make new highs, despite the lack of supportive fundamental factors. Weather conditions also are not seen as price supportive. Only the elimination of the lower priced Memphis/Eastern cotton quote from the Step 2 payment calculation is a supportive fundamental development for the market and may have helped boost prices by effectively making U.S. cotton more valuable. In this situation the futures dropped on the very next day amid technical corrections from the overbought region. Bearish news contained in the spec/hedge report seemed to set the early tone for the market. While the report showed speculative accounts increased their net long position to 8.6% of open interest, the increase was due to short covering and not new longs in the market. The report also showed a build up of 7,000 new short positions. But the short covering helped the futures to move up again. A bullish tone was set in the market when the U.S. Department of Agriculture issued strong export sales and shipments data, sources said. Net 2004-05 upland cotton sales for the week ended June 23 were 305,700 running bales. Total shipments of 301,900 bales were up 12% from the previous week and 10% higher than the previous four-week average. However, the cotton futures a lower on the last trading day amid late trade selling that offset the early speculative buying. The weather conditions did little to the futures. The NYBOT will remain closed on Monday on US Independence Day holiday. It is likely that the cotton NYBOT futures would maintain the strength in the coming too.

China

China cotton futures this week maintained a weak undertone overall. On the very first day however the futures improved on strong buying interests and supports from NYBOT futures. However, thereafter the cotton futures at the China National Cotton Exchange (CNCE) started going down and the overall strength in the NYBOT futures also could not provide significant support. Selling pressure also put weight on the cotton prices. The China Cotton Index (CCI) however, improved continuously throughout the week. However, on the last trading day of the week the higher cotton prices at the NYBOT helped to the prices of cotton at the CNCE e-trading to increase by 4-70 Yuan. The open interests went up while the turnover continued to decline that happened for the whole week. In the coming week there may be some more recovery in the cotton prices.

Pakistan

Volume of cotton trade at Karachi Cotton Association (KCA) during the six sessions of the last week remained thin. The Trading Corporation of Pakistan (TCP) dominated the trade through its weekly auction. The spot rate remained unchanged at Rs 2,300 per maund. Over 2,700 bales were traded during the week. The mills and spinners strengthened their future positions. The leading ginneries of

upper Sindh and southern Punjab disposed off their stocks by selling to TCP and mills in order to avoid any price decline on arrival of the new crop. Fine lots changed hands at rates from Rs 2,375 per maund to Rs 2,475 per maund. The leading mills and spinners also made future contracts for poor grade lint during the week. Poor grade lint of upper Sindh and southern Punjab changed hands at Rs 2,050 per maund to Rs 2,175 per maund. The leading spinners also offered quality lint to mills, but on higher price. The TCP did not accept bids from foreign merchants, as they were offering very little prices. The private sector exporters also brought their stocks in the market to sell domestically, as the international prices had declined. The selling by the TCP in the local markets would strengthen the position of mills, as cotton would be available to local industry in sufficient quantity. According to the market information the growers of Sindh and Punjab have started picking the lint of new crop. The mills are still in need of lint, as they had received enhanced orders of yarn and cloth. The ginneries also brought out their low-grade stocks on reports of future contracts for fresh crop in the market. It is expected that the cotton prices in Pakistan in the coming too would remain firm.

DOMESTIC MARKET

The cotton prices this week in the spot markets remained stable in all the major markets. In North Indian states the prices for J-34 cotton remained steady whereas the Bengal deshi cotton maintained the strength. The medium staple cotton futures at the NCDEX remained quiet throughout the week with a weak undertone.

North Indian Markets

North Indian markets got rain in the middle of this week. However, the stockists did not come out to sell their cotton significantly. The lower stocks of cotton along with the improvement in demand for the Bengal deshi variety kept the undertone strong for that variety. However, the prices of J-34 remained steady throughout the week. It seems that the prices would neither go up nor decline significantly from this level. The price of J-34 was recorded between Rs 1600-1630 per mon in Sirsa and Bengal deshi fetched Rs 1260-85 per mon. Price of J-34 cotton in Sri Ganganagar market of Rajasthan was quoted between Rs 1550 to Rs 1560 per mon whereas Bengal deshi fetched Rs 1370-95 per mon.

Gujarat Market

Throughout the week the state of Gujarat received plenty of rainfall, which led to flood in many areas. Sowing of cotton had to postpone in many of the cotton belts. Earlier it was expected that cotton prices may come under pressure due to selling of by the stockholders however, the rain has washed out that possibility in the very short-term. The ginneries are closed in many parts waiting for improvement in the weather condition. The delayed sowing is indicating towards a delay in crop harvest. Until the weather improves the strength in the prices would continue. This week, the arrival of cotton in Gujarat remained negligible. The prices of Shankar were recorded between Rs 15000 to Rs 17200 per candy. Price of Shankar (28 mm) remained between Rs

16500-16800 per candy. Prices of V-797 were quoted between Rs 11500-12500 per candy for ready delivery.

Maharashtra and MP Market

This week cotton prices in Maharashtra and MP did not see any significant changes. The prices in MP however, maintained a marginal strong trend due to lack of selling interests by the stockists. MP is still waiting for rain in its cotton belts. Here also sowing is likely to delay. In Maharashtra cotton crop got good rain and sowing activities are going on. The prices here did not move significantly as the federation remains the sole seller, which however reduced its offer prices and succeeded to sell some of its stocks to the mills. This week in Maharashtra MCU-5 fetched Rs 17500-18500 per candy. Price of H-4 cotton in MP was quoted between 15000-16300 per candy. Prices of cotton khal in Akola remains between Rs 249.5-259.5 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 remained with a very less intra-day movement throughout the week. The August contract recovered after going down for the first couple of days. The contract closed this week with a marginal gain over the week. The sharply higher NYBOT cotton futures did little to the domestic cotton futures. In the coming week slight weakness is likely to remain in the domestic cotton futures.

WEATHER WATCH (IMD) (Latest)

Weather Systems:

Southwest monsoon has advanced over some more parts of Gujarat, entire east Madhya Pradesh and east Uttar Pradesh; most parts of west Madhya Pradesh and Uttranchal and some parts of south east Rajasthan, west Uttar Pradesh and Himachal Pradesh. The northern limit of monsoon passes through Nalia, Ahmedabad, Kota, Gwalior, Bareilly, Dehradun, Sundernagar, 32 deg. N/79 deg. E.

An upper air cyclonic circulation is developing over north Bay of Bengal. The circulation is likely to descend down and concentrate into a low pressure system within next 24 Hrs. With the formation of low pressure system, monsoon activity over Central India is likely to enhance during next 3 days.

Conditions are favourable for further advancement of monsoon over remaining parts of West Uttar Pradesh, Uttranchal, West Madhya Pradesh, Gujarat, Saurashtra and

Kutch, and some more parts of east Rajasthan, Himachal Pradesh and parts of Haryana (including Delhi), Punjab and Jammu & Kashmir during next 2-3 days.

A weak western disturbance is likely to approach J&K and adjoining area by during 30 June -1July05. Under the combined influence of this and monsoonal winds, scattered to fairly wide spread rainfall may occur over certain parts of hilly regions of NW India during 30June-1July.

Rainfall:

Fairly widespread rainfall is likely over Uttranchal, West Uttar Pradesh during next 24 hours. Scattered rains are also likely over Himachal Pradesh during next 24 hours.

Fairly wide spread to Widespread rains are expected over Konkan & Goa, Vidarbha, East Madhya Pradesh, Chattisgarh, Orissa, West Bengal and Northeastern States during next 3-4 days. Fairly wide spread rainfall is likely over Andaman & Nicobar Islands, Coastal and North Interior Karnataka, Kerala, North Coastal Andhra Pradesh, North Telanagana, Lakshadweep during the week.

Scattered to fairly wide spread rainfall is likely over West Madhya Pradesh, Jharkhand and Bihar, Madhya Maharashtra, Marathwada, Gujarat region, Saurashtra & Kutch and East Rajasthan and Haryana during later part of the week.

Isolated to Scattered rainfall is likely over Tamilnadu, Rayalaseema, South Interior Karnataka.

Exchange Rate in INR

Currency	27/06	28/06	29/06	30/06	01/07
1 USD	43.49	43.56	43.55	43.51	43.53
1 Euro	52.82	52.87	52.44	52.68	52.38
1 GBP	79.39	79.49	79.03	78.75	77.59
100 Yen	39.80	39.69	39.54	39.51	39.19

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.

Disclaimer

The information and opinions contained in the document have been compiled from sources believed to be reliable. The company does not warrant its accuracy, completeness and correctness. Use of data and information contained in this report is at your own risk. This document is not, and should not be construed as, an offer to sell or solicitation to buy any commodities. This document may not be reproduced, distributed or published, in whole or in part, by any recipient hereof for any purpose without prior permission from the Company. IASL and its affiliates and/or their officers, directors and employees may have positions in any commodities mentioned in this document (or in any related investment) and may from time to time add to or dispose of any such commodities (or investment). Please see the detailed disclaimer at <http://www.agriwatch.com/Disclaimer.asp>

© 2005 Indian Agribusiness Systems Pvt Ltd.