

COTTON

5th July 2005

MAJOR HIGHLIGHTS

- Domestic Cotton Spot Prices Stable; Futures Up
- China Cotton Futures settled Mixed Today
- Pak Trading Dominated by TCP's Auction

NEWS ANALYSIS

ICAC Forecasts Firm Cotton Prices

In its latest report released on 1st July the International Cotton Advisory Committee (ICAC) has reported that the season-average Cotlook A-Index will be 65 cents per pound in 2005-06, 13 cents more than the average expected for 2004-05.

Global cotton production in 2005-06 is anticipated to decline by over 10 per cent from the record output in the previous year, while consumption would continue to be driven by economic growth and rising Asian demand, especially from China. World cotton output is forecast to decline to below 24 million tonnes in 2005-06, down 2.4 mt, but still the second largest crop ever. Consumption is expected to rise to a new high of 23.8 mt (23.3 mt in 2004-05), with use in Asia likely to witness a big expansion. World trade in cotton during 2005-06 is poised to reach a new high of 8.1 mt (7.3 mt). China will be the main driver of world trade growth. Import requirement of the country is projected by ICAC at an unprecedented 2.8 mt. China's imports may end up at 2.5 mt, a record nonetheless.

Depending on levels of precipitation, it may be safe to expect a crop size of anything from 220 lakh bales to 250 lakh bales, as compared with 240 lakh bales produced in 2004-05 in India. Steady domestic prices in the wake of large production for the second season in a row coupled with firm global prices would open a window of opportunity for exporting Indian cotton next season.

According to ICAC, initial projections for 2006-07 indicate that production will rise to 24.7 mt, slightly above consumption and that the season-average Cotlook A-Index is expected to remain between 60 and 70 cents per pound for a second season.

Cotton Subsidies Pressurising the Prices

Cotton subsidies given by the developed countries have been a controversial issue over the time. Recently the developing and under developed countries have shown strong protest against the subsidies given by the US. The WTO also asked the US to take necessary measures against the huge subsidies. The most affected nations are the poor African countries, the economy of which is largely dependant on cotton. In the latest news the trade minister of Mozambique said that the subsidies given to cotton farmers in developed countries are ruining African peasant

farmers. The minister emphasised the need for the revival of the industry. Poor countries had to export raw cotton to rich countries, and then import from those countries shirts, trousers, linen and other items made from cotton. According to documentation the world market price of cotton has slumped by 54% since the mid-1990s, posing a serious threat to 3 million cotton producers in southern Africa. Prices are depressed essentially because farmers in the developed world, subsidised by their governments, dump ever-larger amounts of cotton on the international market.

FUNDAMENTAL ANALYSIS

DOMESTIC MARKET

NORTH INDIAN MARKETS

Cotton prices at the North Indian markets maintained the stable undertone today. The markets are receiving the rainfall these days. The prices of J-34 improved today in Sri Ganganagar market. The Bengal deshi variety continued the strong undertone. Not very significant movements are likely in these states.

GUJARAT MARKET

Cotton prices in Gujarat continued the firmness amid lack of significant selling pressure. Rain has stopped the sellers to come to the market with their stocks. This helped the prices to remain higher. The prices of kapaskhali went up significantly. The severe rain delayed the sowing activities and thereby crop duration. Now the crop is expected to delay by around 15-20 days.

MAHARASHTRA AND MP MARKET

Finally heavy rainfall in MP caused a flood situation. However, that did not help the cotton crop as, the cotton belts in MP still remained water deficient. The cotton belts received only 40 per cent rain. The sowing activities are being hampered due to this. The prices here did not see any significant change. In Maharashtra sowing activities are going on. 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 15200-16200 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 268.30 per 50 kg. Prices of cotton oil in Mumbai remained at Rs 378 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	3925	-	-
2. Raw Cotton	-	-	-	-
3. Cottonseed	1030	950	-	-
Ahmedabad/Kadi				
1. Cotton Lint	-	-	4274-4780	3233-3458
2. Raw Cotton	-	-	-	-
3. Cottonseed	-	-	975	790

VAYDA BAZAAR

The medium staple cotton futures at the NCDEX opened on the higher side today. The futures maintained a strong trend throughout the day. The August contract made a significant high today. After remaining positive throughout the day the contract closed near the day's high. Tomorrow the prices are likely to remain strong.

Medium Staple Cotton Futures At NCDEX (Rs/Quintal)

Contract	Prev.	Set High	Low	LTP*	Change
August	4452.00	4490.00	4461.00	4480.00	-28.00

INTERNATIONAL MARKET

USA

The NYBOT futures remained closed on Monday too on US Independence Day holiday.

Cotton Futures at the NYBOT as on 0/07/05 (cents/pound)

Contract	Open	High	Low	Close	Change
July	52.00	52.15	51.50	52.15	+0.15
December	56.10	56.50	55.00	56.15	-0.24

CHINA

Cotton futures in China settled mixed amid no significant market activities. The closing of NYBOT also added to the sluggish sentiments of the markets. The China Cotton Index (CCI) however, improved today. Turnover on CNCE e-market totalled 9270 tonnes, up by 1930 tonnes than the previous session. Domestic Type 428 reached 40 tonnes and the balance was Type 229. The open interests totalled 93420 tonnes, down by 330 tonnes. The open interests of MD contracts totalled 1680 tonnes, up by 20 tonnes. Today's market was mixed. MA0509 has increased by 42 Yuan, and MD0507 has fell by 44 Yuan. The turnover went

up a lot. Meanwhile, except for MA507, other contract's open interests went slightly higher, especially for MA0509.

PAKISTAN

The auction by the Trading Corporation of Pakistan (TCP) continues to dominate the cotton trading in Pakistan. Mills offered the highest bids for the stocks put on auction by the corporation. The spot rate of KCA stood firm at Rs 2,300 per maund. The TCP offered 93,000 bales to the buyers. The lint of Karachi warehouses fetched Rs 2,355 per maund for 2,500 bales. Chichwatni stocks fetched Rs 2,301 per maund for 1,000 bales and Rs 2,337 per maund was offered for 6,000 bales of Bahawalpur stocks. According to the traders said around 50,000 bales lying in Karachi warehouses were sold. The market players expect that the prices of lint would remain stable, but might increase in the coming sessions. The picking of new crop in Punjab and Sindh is getting momentum. According to the market information the international bidders, Version Trading, Beijing limited, Hong Kong, East West and Plexus of UK offered to buy 5,000 bales each at 45.81 USC/lb, 45.00 USC/lb, 44.26 USC/lb and 43.78 USC/lb, respectively. He said 400 bales of various qualities changed at Rs 2,425 per maund. The TCP would announce next auction within a couple of days. On the other hand 80 local mills and exporters made bids for buying 192,000 bales. Poor quality cotton fetched Rs 2,265 per maund to Rs 2,277 per maund.

WEATHER WATCH (IMD)

North: Rain/thundershowers are likely at most places over west Uttar Pradesh, Uttaranchal, Haryana including Chandigarh & Delhi and Himachal Pradesh; at many places in the region outside Kashmir division of Jammu & Kashmir where it may be at a few places.

East: Rain/thundershowers are likely at most places in Gangetic West Bengal and East Madhya Pradesh and at many places over the rest region.

South: Rain/thundershowers are likely at many places over Andaman & Nicobar Islands, coastal Karnataka, Kerala and Lakshadweep and at few places in the rest region outside Tamil Nadu & Pondicherry where it may be isolated.

West: Rain/Thundershowers are likely at most places over east Rajasthan, Konkan & Goa and west Madhya Pradesh, at many places over rest of the region outside west Rajasthan and Saurashtra & Kutch where it may be at a few places.

Outlook for subsequent two days

Rainfall activity over Gangetic West Bengal, Orissa and Jharkhand is likely to increase.

Warning: Heavy to very heavy rainfall is likely at a few places over Madhya Pradesh, west Uttar Pradesh, Himachal Pradesh, Uttaranchal and east Rajasthan. isolated heavy Rainfall also likely over Andaman & Nicobar Islands, west Bengal & Sikkim, east Uttar Pradesh, Haryana including Chandigarh & Delhi, Punjab, Konkan & Goa, Madhya Maharashtra, coastal Karnataka and Kerala.

EXCHANGE RATE: 1 USD = Rs 43.57;
1 Euro = Rs 51.84

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 tonnes)

* - US cents per pound

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