

COTTON

13th July 2005

MAJOR HIGHLIGHTS

- Domestic Cotton Prices Remained Steady
- NYBOT Cotton Crashed on Bearish US-Demand Supply Data
- Chinese Cotton Prices Declined Marginally
- Pak Trading Activities Maintained the Dullness

NEWS ANALYSIS

Cotton: 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.

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 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.

FUNDAMENTAL ANALYSIS

DOMESTIC MARKET

NORTH INDIAN MARKETS

The prices of cotton in the markets of North India remained with an easy undertone. The prices of J-34 in the Sirsa mandi of Haryana remained unchanged however, the Bengal deshi cotton found some improved demand by the local units and went up today. In Rajasthan also price of J-34 maintained a marginal weakness. But Bengal deshi variety in here also maintained the improvement. Tomorrow also the prices are likely to remain firm.

GUJARAT MARKET

Cotton prices in Gujarat maintained the strength today also. Kalyan variety continues to remain on demand by the local buyers. The sellers are reluctant to sell now. The mills on the other hand are slowly purchasing, as they are already well covered. The sowing activities are going on. There may be delay in crop by 15-20 days. All these are helping the cotton prices here to remain firm.

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	3875	-	-
2. Raw Cotton	-	-	-	-
3. Cottonseed	1035	950	-	-
Ahmedabad/Kadi				
1. Cotton Lint	-	-	4274-4864	3233-3514
2. Raw Cotton	-	-	-	-
3. Cottonseed	-	-	975	785

MAHARASHTRA AND MP MARKET

In Madhya Pradesh the prices remained at the same level. The cotton belts did not get sufficient rain for efficient sowing. In Maharashtra also the Marathwada region remained rain deficient. However, in Maharashtra almost 60-70 per cent sowing has been completed. The sate of MP is likely to see decrease in cotton acreage this year. 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 287.0 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 lower amid lack of market activities and sharp fall in the NYBOT futures yesterday. The futures at the NCDEX remained almost unmoved. The August contract tried to recover after weak opening. Though the contract remained negative against the previous closing, closed at the day's high. Tomorrow there may be a slight improvement.

Medium Staple Cotton Futures At NCDEX (Rs/Quintal)

Contract	Prev. Set	High	Low	LTP*	Change
August	4519.00	4510.00	4460.00	4510.00	-9.00

INTERNATIONAL MARKET

USA

The cotton futures at the New York Board of Trade (NYBOT) crashed yesterday to 2 1/2-week lows Tuesday

and halted at their daily trading limit of 300 points lower, on a surprisingly bearish rise in global production and ending stocks. 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. October cotton also locked limit-down at 50.15 cents. 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, which suggests the market could open 86 points lower on Wednesday. Synthetic prices indicate where the futures contract might have traded if there had been no limits to halt the activity. Thus, in short-term the cotton prices are expected to maintain the weakness.

Cotton Futures at the NYBOT as on 12/07/05 (cents/pound)

Contract	Open	High	Low	Close	Change
December	52.50	53.25	52.01	52.01	-3.00

CHINA

Cotton forward trading in China went down today amid lack of buying activities and sharply lower NYBOT futures. The volume however, went up heavily. Turnover on CNCE e-market totaled 8000 tonnes, down by 3500 tonnes than the previous session. Domestic Type 428 reached 180 tonnes and the balance was Type 229. The open interests totalled 90430 tonnes, down by 2140 tonnes. The open interests of MD contracts totaled 1660 tonnes, down by 150 tonnes. The market opened lower but tried to go up in the mid-session. The average prices of each contract went down within 12-72 Yuan. The nearby contracts went stronger than the following ones. There may be strength in the China cotton futures in the near by days.

PAKISTAN

Despite the presence of the Trading Corporation of Pakistan (TCP) the activities in the cotton markets remain thin. The spot rate at the Karachi cotton market in Pakistan remained unchanged at Rs (Pak) 2325 pr maund. Leading mills and spinners made few contracts for August delivery. Private sector exporters remained on the sidelines during the session. The market players attributed the sluggishness to the lack of interest shown by mills, as they have lifted fine stocks offered by Trading Corporation of Pakistan (TCP) a day earlier. The TCP has strengthened the position of mills by offering its stocks in the local market. The leading mills and spinners are only interested in the auction by TCP and like to wait for next Monday. The ginner remained active in picking in most parts of Sindh and Punjab despite bad weather. The next auction of around 83,000 bales by TCP on Monday is likely to determine the price outlook in the market. Some leading ginner made future deals for buying about 400 bales with the mills at around Rs 2,400 per maund. Therefore, the putlook is strong at present and the prices are likely to remain firm at this level.

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. Further decrease in rainfall activity over Haryana, Punjab and south Uttar Pradesh after 14th.

East: Rain/thundershowers likely at many places over northeastern states, Bihar and West Bengal & Sikkim and at a few places in the rest region. Decrease in rainfall activity over Gnagetic West Bengal, east Madhya Pradesh and Chhattisgarh on 15th.

South: Rain/thundershowers likely at a few places over costal Karnataka; Kerala and Lakshadweep and isolated in the rest region. Increase in rainfall activity over Tamil Nadu and south Andhra Pradesh after 14th.

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.

Outlook for subsequent two days

i) Slight increase in rainfall activity over eastern parts of peninsular India. ii) Current rainfall activity over northeastern states, Sub-Himalayan West Bengal & Sikkim, Bihar, north Uttar Pradesh and western Himalayan region likely to continue. iii) Further decrease in rainfall activity over central and plains of northwestern parts of India.

Warning: Heavy to very heavy rainfall likely over northeastern states, West Bengal & Sikkim, west Uttar Pradesh, Uttaranchal, Himachal Pradesh and Jammu & Kashmir. Isolated heavy rainfall is likely over east Uttar Pradesh.

EXCHANGE RATE: 1 USD = Rs 43.52;
1 Euro = Rs 53.16

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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