

## COTTON

2<sup>nd</sup> July 2005

### MAJOR HIGHLIGHTS

- Domestic Cotton Prices Remain Marginally Firm
- NYBOT Cotton Lower on Late Selling Pressure
- Cotton Prices Remain Unchanged in Pakistan

### NEWS ANALYSIS

#### 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.

#### US Cotton Weather Watch

Showers and thunderstorms rumbled through parts of the Mississippi Delta Thursday, bringing much-needed rain to some locations. Showers look to become more widespread on Saturday, with chances for scattered afternoon and evening showers and thunderstorms. A return to mostly dry conditions is expected Sunday through Tuesday, the Meteorologix weather service said. In the Southeast, after scattered showers on Friday afternoon and evening, scattered afternoon and evening showers and thunderstorms are forecast for Saturday. Scattered to widely scattered showers and thunderstorms are expected Sunday through Tuesday. Mostly dry conditions and above-normal temperatures are expected remain in place over Texas cotton areas through next Tuesday.

### FUNDAMENTAL ANALYSIS

#### DOMESTIC MARKET

##### NORTH INDIAN MARKETS

Cotton prices at the North Indian markets remained almost unchanged. Rain is falling on these states for over two to three days. The overall market tone remained easy. In the next week also the market tone is expected to remain same.

##### GUJARAT MARKET

Continuous rainfall over last few days resulted into flood in many areas of Gujarat. The heavy rainfall has already delayed the sowing activities in the state. The market sources said the sowing would be delayed for another few days, which in turn would delay the crop. This boosted the prices up again.

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

MARKET	Bengal desi	J-34	Shankar	V-797
Sirsa				
1. Cotton Lint	3150	4050	-	-
2. Raw Cotton	-	-	-	-
Sri Ganganagar				
1. Cotton Lint	3487	3900	-	-
2. Raw Cotton	-	-	-	-
3. Cottonseed	1030	925	-	-
Ahmedabad/Kadi				
1. Cotton Lint	-	-	4274-4724	3233-3430
2. Raw Cotton	-	-	-	-
3. Cottonseed	-	-	975	775

#### MAHARASHTRA AND MP MARKET

The state of MP is seeking rain in its cotton belts. The prices here are therefore maintaining the strength. In Maharashtra the federation remains only seller. The quality of cotton with the federation is poor and thus it is selling cotton with a lower price. 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 15300-16300 per candy, while Y1 fetched Rs 14200 to 14500 per candy. Prices of MCU-5 (30mm) were recorded at Rs 17000 to Rs 17500 per candy. Prices of cotton khal in Akola remains at Rs 259.50 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 remained marginally strong throughout the day after opening on a

lower side. The price movement remained very slow. The August contract closed the day at the day's high however. The contract closed up Rs 9 per quintal over the day.

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

Contract	Prev. Set	High	Low	LTP*	Change
August	4451.00	4460.00	4448.00	4460.00	+9.00

## INTERNATIONAL MARKET

### USA

The cotton futures at the New York Board of Trade (NYBOT) closed lower yesterday amid late trade selling that offset the early speculative buying. The market participants also seemed to be cautious before the holiday weekend. The US market will remain closed on Monday on US Independence day holiday. The Most-active NYBOT December cotton settled 24 points lower at 56.15 cents a pound and July ended 15 points higher at 52.15 cents. The rains in Delta boosted speculative buying at the early hours. Opposing forces from outside markets, with crude oil and soybean futures markets sharply higher and the gold market lower, then pulled the cotton market. After a recent climb to eight-week highs, September cotton had reached overbought conditions, so market participants weren't surprised to see a small setback. In fact, December cotton received good buying support at the lows, and even with a weak close managed to settle near the day's highs, which may have been encouraging for market bulls, one source said. The news that the USDA would alter three export credit guarantee to comply with the recent WTO ruling also put weight on the market sentiments. In this situation the cotton prices are likely to remain weak in the first half of the next week.

#### Cotton Futures at the NYBOT as on 01/07/05 (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

The China cotton futures remain closed on Saturday and Sunday.

### PAKISTAN

Thin trading activity was witnessed at the Karachi cotton. The mills participated in the dealing with ginners for August-September delivery. The spot rate stayed unchanged at Rs 2,300 per maund. According to the traders the Trading Corporation of Pakistan (TCP) was to hold a second auction today. They said TCP's strategy of

selling its stocks quickly through more auctions would satisfy the local lint requirements of textile industry. The spinners and mills were, in particular, eager to purchase TCP's fine variety. The TCP, on the other hand, is going to wind up its market activity by August 14. But it would keep buffer stocks to meet any shortfall in the future. The local spinners and mills want to purchase the lots offered by TCP at prices below Rs 2,400 per maund. The exporters remained on the sidelines, as the international price did not match their export parity level. Some improvement was seen in the New York cotton, which were higher by around 1.14 cents per pound for October contracts. It is expected that the TCP could sell around 400,000 bales to China in case a good new crop arrives. The TCP still holds around one million bales in its warehouses. Quantity and quality of yarn production is also improving because of uninterrupted supply of lint.

### WEATHER WATCH (IMD)

Rain/thundershowers are likely at most places in east Madhya Pradesh and at many places over the rest region. Rain/thundershowers are likely at many places over coastal Karnataka and Kerala and at few places in the rest region outside Andhra Pradesh and Tamil Nadu & Pondicherry where it may be isolated. rain/thundershowers likely at most places over Konkan & goa and Gujarat state and west Madhya Pradesh and at a few places over rest region.

Ongoing rainfall activity over central parts of the country is likely to continue and may extend to northwestern parts of the country. the heavy rainfall activity over Gujarat state is likely to decrease.

**Warning:** Heavy to very heavy rainfall likely at a few places over Madhya Pradesh, Konkan and Goa and Gujarat state. Isolated heavy rainfall is also likely over Gangetic West Bengal, Orissa, East Rajasthan, Uttar Pradesh, Madhya Maharashtra and coastal Karnataka.

**EXCHANGE RATE:** 1 USD = Rs 43.53;  
1 Euro = Rs 52.38

### Latest ICAC Estimates on Global Cotton Scenario (As on 1<sup>st</sup> June)

Particulars	2003-04	2004-05	2005-06
Production	95.1	120.0	107.0
Consumption	97.7	106.7	109.0
Exports	33.3	33.1	37.0
Ending stocks	36.3	48.3	47.0
Cotlook A index*	68.3	53.0	68.0

(Figures in million bales)

\*- US cents per pound

## 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.