

COTTON

15th July 2005

MAJOR HIGHLIGHTS

- Domestic Cotton Prices Maintained the Slow Progress
- NYBOT Cotton Recovered on Speculative Buying
- China Cotton Forward Prices Improve Today
- Pak Trading Continues with Firm Undertone

NEWS ANALYSIS

USDA Reported Bearish Weekly Export Sales

The USDA yesterday reported the weekly export sales data for the period July 1 to 7. The report remained bearish for the market. Net Upland sales of 142,900 running bales (RB) were 55 percent below the prior week and 43 percent under the previous 4-week average. China (56,500 RB) was the major buyer, with smaller quantities to Taiwan (24,700 RB), Mexico (24,100 RB), Turkey (20,600 RB), and Indonesia (11,800 RB). Net sales of 26,800 RB for delivery in 2005/06 were primarily for El Salvador (10,000 RB), Pakistan (9,900 RB), and South Korea (5,000 RB). Exports of 340,700 RB were 34 percent above the previous week and 21 percent over the prior 4-week average. The primary destinations were China (104,300 RB), Mexico (78,000 RB), Turkey (75,500 RB), Indonesia (16,900 RB), and South Korea (13,000 RB). Also on Tuesday, the USDA raised China's 2005-06 ending stocks by 2.6 million bales, upped its production by 500,000 bales and lowered China's imports by 1million bales, all of which produced a huge bearish reaction at the New York Board of Trade since the U.S. market has become dependent on demand from Beijing. Slowing import demand and comments from Chinese officials that there are already 3.2 million bales of cotton in the national reserve guided the USDA to its conclusions that the earlier estimates were too low.

Cotton: Spinning Output Surged in China

The plant development is progressing in some part of China at a rapid pace under the support of the good weather condition. Now the new crop is in the flowering stage in some areas. Some locals estimated that the new cotton would come into the market around August 20. The spinning mills have little stocks of cotton. After 10-15 days, all the stocks can be used up. So the mills are hurry to purchase cotton. On the other hand the spinning production of China surged up significantly. China's production of spinning reached to 1,200,000 tonnes in June, which had formed the record in history. By June, this cotton year's (from September 2004 to right now) domestic spinning production accumulated to 10,415,000 tonnes, and cotton consumption for spinning totalled to 7,065,200 tonnes. China had imported 782,800 tonnes cotton in June. Given all this cotton was entirely used up, the spinner sectors had consumed 6,280,000 tonnes domestic cotton in June. Thus,

the present scenario is pointing towards the improvement in the prices in the coming days.

FUNDAMENTAL ANALYSIS

DOMESTIC MARKET

NORTH INDIAN MARKETS

Cotton prices at the North Indian markets remained almost unchanged. The fundamentals remain unchanged. The new crop is expected to hit the market by September first week. The overall market tone remained easy. There may further improvement in the J-34 prices.

GUJARAT MARKET

No change in the prices was observed in Gujarat. Both the Shankar and Kalyan varieties maintained the firmness in the spot markets. The weather is now clear and sowing activities are going on. Unless there is strong selling intentions from the sellers the prices would not change from the current level.

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	-	-	925	765

MAHARASHTRA AND MP MARKET

In MP and Maharashtra the prices of cotton remained at the same level without any change. The market tone however, maintained the easiness. In Maharashtra the federation is the only agency to sell cotton. Thus there is little chance of a change in the cotton prices. 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 285.0 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 maintained the slow progress and opened higher today. The futures remains highly range-bound as it is trading for the last few days. The steady tone in the spot markets however, providing some support to the prices. The contract closed at the day's low prices.

Medium Staple Cotton Futures At NCDEX (Rs/Quintal)

Contract	Prev.	Set High	Low	LTP*	Change
August	4513.00	4517.00	4515.00	4515.00	+2.00

INTERNATIONAL MARKET

USA

The cotton futures at the New York Board of Trade (NYBOT) recovered some of the losses amid speculative buying at the lows. The most active December cotton settled 28 points higher at 51.84 cents a pound. October led the gainers, adding 60 points to 50.20 cents on ideas that Hurricane Emily may disrupt the Rio Grande Valley harvest in South Texas. Earlier the USDA released the weekly export sales report, which was bearish for the market. The report generated some selling pressure again at first however improved buying interests later offset that to take the futures up. While shipments totalled 340,700 running bales in the week ended July 7, up from 254,100 RB the previous week, most of the market players were looking for 400,000 or more given the fact there are only about three weeks left in the 2004-05 marketing year for exporters and mills to take advantage of the government's Step 2 cotton incentive. Total shipments for the 2004-05 marketing year are 11.048 million RB, down from 11.845 million the previous year. Thus, the fundamentals are bearish at present. The weakness therefore, in the cotton futures is likely to continue.

Cotton Futures at the NYBOT as on 14/07/05 (cents/pound)

Contract	Open	High	Low	Close	Change
December	51.54	51.90	50.90	51.84	+0.28

CHINA

The cotton futures in China settled higher today. The volume today was also good. The China Cotton Index (CCI) also improved marginally. The turnover also improved today. Almost all the contracts gained today. The volume today for all the contracts totalled 5560 mt. This took the

cumulative volume to 560540 mt. The open interest however, declined today by 2300 mt and the cumulative open interest stood at 86590mt. The improvement in the NYBOT futures also helped the Chinese cotton futures to go up. The strength in Chinese cotton futures should continue.

PAKISTAN

Cotton trading activities lack lustre at the Karachi cotton market in Pakistan. The spot rate also remained unchanged at Rs 2325 per maund. Every participant wants to purchase the stocks held by the Trading Corporation of Pakistan (TCP). The stocks with the ginners almost ended. The buyers' eagerness for TCP's stocks could be gauged from the fact that TCP had planned to sell only 86,000 cotton bales in its last auction, but it received bids for more than 300,000 bales. It sold 201,000 bales in the local market and 10,000 to the foreign buyers. Although the international market prices have slid during the previous two sessions, but the US cotton is still expensive when compared to the rates on which TCP is offering its stocks. Meanwhile, first deal of the new cotton season was finalised on Thursday at Rs 2600 per maund from Chicha Watni area. The government is considering to fix the support price of seed cotton at Rs 1100 per maund. Last year the price was Rs 980 per maund. The increased support price would be beneficial for the growers. Thus seeing the strong demand from the buyers the prices are expected to remain strong in the coming days.

WEATHER WATCH (IMD)

North: Rain/thundershowers likely at many places over Uttaranchal, east Uttar Pradesh and Himachal Pradesh and at few places in the rest region.

East: Rain/thundershowers likely at most places over northeastern state, Bihar, Jharkhand and West Bengal & Sikkim and at many places in the rest of the region.

South: Rain/thundershowers likely at a many places in the region outside Telangana, coastal Andhra Pradesh, north interior Karnataka where it may be at a few places.

West: Rain/thundershowers likely at many places over east Rajasthan and west Madhya Pradesh at a few places in the rest region outside Gujarat state and west Rajasthan where it may be at isolated places.

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 and Bihar is likely to continue. Current rainfall activity over plains of northwestern parts of India and western Himalayan region is likely to decrease.

Warning: Heavy to very heavy rainfall likely at a few places over northeastern states, West Bengal & Sikkim. Isolated heavy rainfall is also likely over Uttaranchal, Himachal Pradesh, Bihar, Jharkhand, Orissa, west Madhya Pradesh and east Rajasthan.

EXCHANGE RATE: 1 USD = Rs 43.52;
1 Euro = Rs 52.78

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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