

## COTTON

July 25-30 2005

### MAJOR HIGHLIGHTS

- Domestic Cotton Prices Remained Steady this Week
- NYBOT Cotton Futures Continued the Gain this Week
- Pak Trading Dominated by the TCP
- Chinese Cotton Prices Remained Weak this week
- USDA Reported Bullish Export Sales for the Period July 15 July 21

### NEWS ANALYSIS

#### Flood may not Cut Down Target Cotton Production in Pakistan

Continuous heavy rainfall caused flood in Punjab province of Pakistan. Floods and heavy rains have washed away over 200,000 cotton bales mainly in Punjab. However, it is expected that those are much lesser than the feared losses and would not hit the crop production target. The June-July floods, which badly hit the standing crops in Sindh and Punjab had damaged almost 250,000 acres of the cotton-sowing area and the arrangements were being made to compensate such losses. In Pakistan one acre are is more or less similar to one bale cotton. The market players are expecting more losses in other crops however and the ginneries are set to operate as per the schedule. The federal government earlier this year fixed the cotton production target at 12 million bales, but encouraged by the growth in cotton production during 2004-05, it revised the target to 15 million bales. The target area in Punjab has been set at 2.55 million acres for the current season against the 2.54 million while sowing in Sindh has been fixed at 638,000 acres against last year's 635,000 acres. The authorities are optimistic that farmers are going to beat the target again. The farmers are advised to take care of the crop to protect against the pests for ensured production. The higher production areas may compensate the losses in some parts.

#### Cotton: US Crop Highlights

US cotton conditions improved slightly to 61% good to excellent in the week ended July 24, from 60% the previous week, as beneficial rains fell over key Delta and South-eastern growing areas. Twenty-seven percent of the crop was fair, while 9% was poor and 3% very poor. Eighty-nine percent of the crop was squaring, compared to 82% the previous week, while 49% was setting bolls, up from 35% the previous week. The U.S. cotton crop continues to do well, although down a bit from last year's record yields, with no major weather problems in sight.

#### China: Cotton Cloth and Yarn Imports Up over the Year

China cotton yarn imports totalled 68,800 tonnes in June, which was slightly down by 2800 tonnes or 3.89 per cent from the previous month. It was up by 12,500 tonnes or 22.13 per cent compared with the same period of last year. For the same period, cotton yarn exports totalled 45,100 tonnes, which was down by 3400 tonnes or 7.06 per cent from May, but up by 18.51 per cent from year-ago levels. From September 2004 to now, cumulative cotton yarn imports reached 613,900 tonnes, down by 4.62 per cent (29,800 tonnes) from year-ago levels, cumulative exports totalled 380,600 tonnes, down by 9.44 per cent (39,700 tonnes) from year-ago levels.

Also according to Customs General Administration of China, China imported cotton cloth of 0.133 billion meter, up by 3.34 percent from May, but down by 1.87 percent compared with the same period of last year. For the same period, cotton cloth exports totalled 0.464 billion meter, up by 7.48 percent from May, also up by 19.64 percent from year-ago levels. From September 2004 to now, cumulative cotton cloth imports reached 1.35 billion meter, up by 4.06 percent on year-ago levels, cumulative exports totalled 4.426 billion meter, up by 11.59 percent on year-ago levels. The higher imports may pressurise the cotton prices in China.

#### Latest Cotton Acreage Scenario in China

**Xinjiang:** According to the Xinjiang Municipality Cotton Office, the producers had planted 17,217,200 mu in the field in this municipality by June 30. Which has increased 691,400 (+4.2%) mu than last year. The new crops develop well now.

**Shangdong:** The farmers had planted 13,159,000 mu cotton this year, down by 27.3 million mu (-17.2%) than last year. It is the blooming stage for most of the cotton now.

**Henan:** It is investigated by some researchers that the acreage in this province amount to 11,922,000 mu, which had declined by 17% than last season. It is the least in the recent three years.

**Jiangsu:** From the information from Jiangsu Agricultural Office, there is 5,450,000 mu (-11% than last year) new cotton has been planted in this area now. The plants grow

in a rapid pace now. If the weather condition is ideal, the production would reach 0.4-0.45 million tonnes this season.

**Shanxi:** The total acreage was 1.41 million mu, compared to 1.7 million mu(-17.1%) last year. The main district Yuncheng's proportion occupied 89% of the whole province, which was around 1,255,000 mu. And the crop is better than last year.

Therefore, overall the cotton acreage declined in china this year. This may remain price supportive in the country.

### Cotton Scenario Looks Bullish in the Current Season

The demand for cotton is expected to grow in India in the next season due to improved demand for cotton textiles worldwide. It is expected that cotton prices may extend 2005's 15% gain as demand accelerates in India. Prices reached a 10-month high of 57.59 cents in April on signs of increased demand in China, the world's largest cotton buyer. The low labour cost advantage in India is giving the foreign market players opportunity for buying manufactured cotton products from India. The expiry of quota regime proved to be very beneficial for Indian textile sector. Adding to this the restrictions on textile imports from China by the US and the Europe has been providing further support to the Indian textile sector. The USDA in its last monthly supply-demand outlook on July 12 estimated that India is likely to consume 16 million bales (1 bale = 480 lb) in the season starting from today, August 1. This is up 6.7 per cent on the year. Global cotton supply will drop 9.4% in the season starting August 1 to 108.6 million bales, falling short of consumption by 3.16 million bales, the USDA said. Output exceeded use by 11.71 million bales in the current season. Meanwhile, the acreage in China has declined for the current season and this is indicating towards the improvement in demand for cotton from China, the world's largest cotton producer and consumer. The currency revaluation is also likely to support the purchasing capacity of the Chinese players. Thus, overall, the scenario looks bullish for cotton in the current season.

## PRICES

### Spot (Domestic)

Date	Rates (Rs/Quintal)	
	Long Staple Cotton (Kadi)	Medium Staple Cotton (Abohar)
25/07/05	4740.95	4502.75
26/07/05	4746.55	4474.65
27/07/05	---	---
28/07/05	---	---
29/07/05	4740.85	4456.60
30/07/05	4757.85	4445.35

## USDA Released Bullish Weekly Export Sales

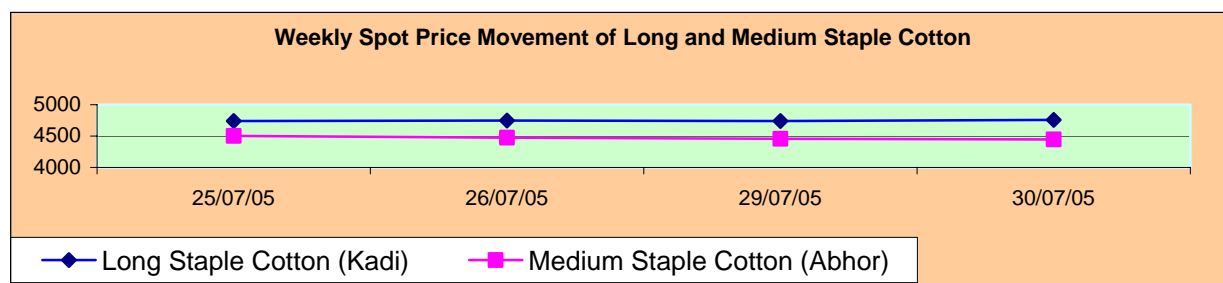
The US Department of Agriculture (USDA) released the weekly exports sales for the period July 15 to July 21. The report shows significant increase in the sales as well as shipment numbers. The report remains bullish for the market and NYBOT settled higher yesterday. The net Upland sales of 38,700 running bales (RB) were 85 percent below the prior week and the previous 4-week average. Major increases for China (83,400 RB), unknown destinations (29,300 RB), Turkey (17,900 RB), and Thailand (6,400 RB) were partially offset by decreases for Pakistan (54,500 RB), Taiwan (30,200 RB), Bangladesh (7,500 RB), and Canada (7,300 RB). Net sales of 230,500 RB for delivery in 2005/06 (which begins Aug. 1) were primarily for unknown destinations (87,400 RB), Pakistan (25,700 RB), China (22,900 RB), Turkey (22,800 RB), South Korea (16,100 RB), and Indonesia (14,000 RB). Exports of 694,400 RB--a marketing-year high--were 90 percent above the previous week and two and one-fifth times the prior 4-week average. The primary destinations were China (460,600 RB, including late reporting of 286,400 RB), Turkey (67,600 RB), Mexico (66,200 RB), Indonesia (24,800 RB), and Thailand (11,100 RB).

In other news, U.S. textile mills used cotton at a seasonally adjusted annual rate of 6.2 million 480-pound bales in May, down from the year-ago figure of 6.3 million bales, according to the National Cotton Council.

Meanwhile, in India the kharif sowing progress shows that the cotton sowing is down 6 per cent on year for the same period to 63.52lakh hectare. A shortfall has been reported in Maharashtra's Marathwada region due to delayed onset of monsoon this 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. Of the total coverage under cotton, the Bt Cotton is likely to be around 3.75 lakh hectares, about 6 per cent.

### Futures: December contract (NYBOT CTZ5)

Contract	Open	High	Low	Close	Change
7/252005	51.35	51.83	51.10	51.80	+0.04
7/26/2005	51.75	52.90	51.40	51.89	+0.09
7/27/2005	50.95	51.80	50.95	51.46	-0.43
7/28/2005	51.75	52.20	51.40	51.76	+0.30
7/29/2005	52.15	52.80	51.85	52.48	+0.72



## FUNDAMENTAL ANALYSIS

### INTERNATIONAL MARKETS

#### USA

The NYBOT cotton futures remained firm this week. For the most of the days the cotton futures gained this week. The cotton futures started this week with a steady note. On the very first day though speculative buying and selling both were there the market could not find any clear direction. The latest futures-only Commitments of Traders Report from the Commodity Futures Trading Commission showed funds increased shorts by 8,004 positions, while they raised long positions by just 348 contracts. Next day the futures gained on buying activities. Meanwhile, the crop condition in US improved. However, the People's Bank of China said Tuesday it won't revalue its currency, the yuan, again in the "foreseeable future," going against what many market players had said last week about future revaluations further appreciating the yuan versus the dollar, thus making U.S. cotton exports more attractive to Beijing. The futures declined on the next day on weather concerns. Western and southern Texas cotton-growing areas received beneficial rains Tuesday night and Wednesday. Lubbock received 0.60 inch of rainfall, while other areas received anywhere from a trace to 1.5-2 inches. The futures rebounded on the supportive export sales data released by the USDA on Thursday. The shipments were a 2004-05 high 694,400 running bales for the week ended July 21, of which 460,600 RB went to China. Total shipments for the 2004-05 marketing year climbed to 12.108 million bales. The futures ended the week with a strong note also amid heavy speculative buying and short covering. For the week, December cotton gained 72 cents to finish at 52.48 cents a pound and extended the recent rally from last week's lows. The U.S. Department of Agriculture will issue its first survey-based U.S. crop production estimate on Friday, Aug. 12, and traders will be anxious to see if the government raises its 19.8 million-bale July projection that was based on trend line yields. With timely rains in Texas this week and the Southeast receiving beneficial rains, most traders and analysts expect the production estimate to rise. This may put weight on the cotton prices in the coming week.

#### China

Cotton prices in China cotton trading continued to decline throughout the week. The volume of trading remained dull for the first half of the week and there was an improvement in the volume in the next week. The China Cotton Index (CCI) remained almost unmoved for the week. The cotton acreage declined in China this year. This would be a bullish factor in the coming days. However, in the short-term the cotton prices saw weakness due to less demand and revaluation of the Chinese currency. In the coming week there may be some improvement in the cotton prices in China.

#### Pakistan

Trading volume remained thin for all the six sessions in the Karachi cotton market in Pakistan. The spot rate declined by Rs 25 per maund on the first session and remained at Rs 2,350 per maund afterwards. The activities of the Trading Corporation of Pakistan (TCP) had been the dominating factor throughout the week. Weekly auction by

Trading Corporation of Pakistan (TCP) largely benefited the mills. During the week TCP received bids for 69,500 bales by local mills and the exporters. Bids were received from 30 local mills and three exporters. Local mills lifted more than 80 percent of the TCP's offered stocks and consolidated their positions, the dealers said. Three foreign buyers, Eternal Fortron, Wersons and Plexus Cotton, bid for 5,000 bales, each at 44.75 USC/lb, 46.06 USC/lb and 42.75 USC/lb respectively. Most of the ginneries kept themselves on the sidelines. The spinners are waiting for the new crop, which would reach the market within a couple of weeks. Thus, the buyers are likely to prefer the new crops and there is a possibility for the TCP to remain with an unsold stock of 500,000 bales. The cotton prices thus, may continue the steadiness in the coming week.

### DOMESTIC MARKET

Domestic cotton prices remained steady this week. The cotton prices in North Indian markets maintained the easy tone throughout the week. In Gujarat also cotton prices saw some selling intentions. The NCDEX futures declined overall throughout the week.

#### North Indian Markets

Cotton prices in North India remained easiness throughout the week. The firmness that was prevailed last week weakened this week. The demand declined from the mills. However, the prices did not decline significantly and maintained a range-bound movement. The demand may again boost up the prices of Bengal deshi variety in the coming week. The price of J-34 was recorded between Rs 1620-1635 per mon in Sirsa and Bengal deshi fetched Rs 1340-50 per mon. Price of J-34 cotton in Sri Ganganagar market of Rajasthan was quoted between Rs 1570 to Rs 1590 per mon whereas Bengal deshi fetched Rs 1370-85 per mon.

#### Gujarat Market

In Gujarat the cotton belts started getting rain this week again. The prices of major varieties in major markets traded at the lower levels throughout the week. The buyers kept themselves on the sidelines. There were some selling intentions this week. However, due to lower stocks the prices did not fall sharply. The crop prospect is good and the rain is so far beneficial for the crop. The prices of Shankar were recorded between Rs 15000 to Rs 17000 per candy. Price of Shankar (28 mm) remained between Rs 16500-17000 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 maintained the same undertone. In MP the prices this week maintained the weak undertone. The cotton belts this week started getting rain at the last couple of days. The rain seems beneficial for the crop. However, delay in crop is still providing some supports to the crop. Maharashtra got huge rainfall this week. However, no crop damage was reported

still. This week in Maharashtra MCU-5 fetched Rs 17000-18500 per candy. Price of H-4 cotton in MP was quoted between 15000-16200 per candy. Prices of cotton khal in Akola remains between Rs 300-322 per 50 kg. Prices of cotton oil in Mumbai remained between Rs 382 to Rs 385 per 10 kg.

### Vayda Bazaar

The medium staple cotton futures at the NCDEX this week declined gradually throughout the week. The subdued market sentiments, low buying supports pulled the prices down in the NCDEX futures. NCDEX remained closed Thursday due to heavy rainfall in Mumbai. On the last trading day there were almost no activities. The weakness is likely to continue in the coming week too.

## WEATHER WATCH (IMD) (Latest)

**All India medium range weather forecast valid for next 5 days.**

### Monsoon Outlook

The deep depression over northwest Bay of Bengal off Orissa coast has moved in a westerly direction to inland and lay practically stationary close to Keonjhar of Orissa. The system is likely to move slowly in a west-northwesterly direction.

Models predictions suggest that another low pressure area is expected to form over northwest Bay of Bengal by 6th August 2005.

An upper air circulation lies over north Gujarat and adjoining southwest Rajasthan. It is likely to persist for another 2-3 days.

Under the influence of above systems, Central India, North Peninsular India, Gujarat Region & North Konkan & Goa are likely to receive fairly wide spread to wide spread rainfall with isolated heavy to very heavy rains during next 2-3 days.

Rainfall activity over eastern states viz. Orissa and Gangetic west Bengal may reduce to some extent during next 2-3 days but again increase after the formation of a fresh low pressure area around 6th August, 2005.

North & North-West India [ J&K, HP, Uttranchal, Punjab, Haryana, Delhi, West UP]

Scattered to fairly wide spread rainfall is likely over hilly regions of NW India. Isolated to scattered rainfall is likely over the plains of NW India during next 48 Hrs. With the west-north-westward movement of depression, the rainfall activity over NW India is expected to increase after 2-3 days.

East and NE India [East UP, Bihar, Jharkhand, West Bengal, Orissa, NE States]

Wide spread rainfall with isolated heavy to very heavy rains over Orissa, Jharkhand and gangetic West Bengal is likely during next 24 Hrs. and reduce thereafter. The region is again likely to receive wide spread rains with possible formation of low pressure area around 6 July 05.

Scattered to fairly widespread rainfall activity is likely over East UP, Bihar, sub-Himalayan West Bengal and NE states during next 3 days.

Central India [MP, Chattisgarh, Vidarbha]

Deep depression is likely to further move in a west-northwestward direction. With this movement of the system, widespread rainfall with isolated heavy to very heavy showers are likely over Chattisgarh, East and West Madhya Pradesh, and fairly widespread to widespread rainfall over Vidarbha during next 2-3 days.

South India [Tamilnadu, AP, Kerala, Karnataka, Andaman & Nicobar Islands, Lakshadweep]

Karnataka, Coastal A.P., Telangana and Kerala are likely to receive fairly widespread rainfall activity. Rest areas of the region are likely to receive isolated to scattered rains.

West India [Maharashtra other than Vidarbha, Gujarat, Rajasthan]

Konkan & Goa, Gujarat region and South East Rajasthan are likely to receive fairly widespread to wide spread rainfall activity with isolated heavy to very heavy amounts of rains during next 2-3 days. Scattered to fairly widespread rainfall is also likely over remaining parts of Gujarat, Madhya Maharastra and Marathwada, and isolated to scattered over remaining parts of Rajasthan during next 2-3 days.

### Local forecast for Delhi and NCR region for next 3 days

Monday (1 August,2005)

Partly cloudy sky with possibility of passing showers in certain areas. Day temperature will be around 36 degree °C.

Tuesday (2 August,2005)

Partly cloudy sky with possibility of rains in some areas. Day temperature will be around 37 degree °C.

Wednesday (3 August,2005)

Partly cloudy sky with chance of rains in some areas. Day temperature will be around 36 degree °C.

### Exchange Rate in INR

Currency	25/07	26/07	29/07
1 USD	43.50	43.52	43.49
1 Euro	52.43	52.42	52.73
1 GBP	75.56	75.91	76.34
100 Yen	38.95	38.94	38.82

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

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