

Domestic Fundamentals:

Market Outlook: Cotton market noticed mostly firm tone.

In The News: According to the USDA, the China Cotton Association (CCA) modified its MY14/15 production to 6.66 million tonne based on an unchanged planted area of 4.29 million hectares on a lower yield due to high moisture during the month of September. The following table, CCA August report indicated that the Xinjiang planted area is based on the recent official survey which included additional area previously not included in official statistics. In contrast, a 22.7% area decline in all other provinces (19.5% decline in the Yangtze River and 26.7% in the Yellow River region) is expected to reduce their total production to 2.13 million tons.

| | National Total | | Xinjiang | | All Other Provinces | |
|--------------------|----------------|------------|----------|------------|---------------------|------------|
| | Area | Production | Area | Production | Area | Production |
| MY13/14 | 4,662 | 7,000 | 2,126 | 4,180 | 2,536 | 2,820 |
| MY14/15-Aug | 4,227 | 6,730 | 2,267 | 4,600 | 1,960 | 2,130 |
| MY14/15-Oct survey | 4,286 | 6,660 | | | | |

Source: China Cotton Association (CCA) Note: in 1000 Ha and 1,000 tons

China's Textile Sector Production/Investment Trends

| Year/Item | 2011 | 2012 | 2013 | 2014 (Jan-Jun) |
|--|-------|-------|------|----------------|
| Yarn Production (million tons) | 28.7 | 29.84 | 32.0 | 18.47 |
| Fabrics Production (billion meters) | 81.4 | 84.1 | 88.3 | 33.4 |
| Chemical Fiber Production (million tons) | 33.9 | 38 | 41.2 | 21.37 |
| Fixed Asset Investment in Textile Sector (RMB billion) | 366.9 | 397.1 | NA | NA |

Source: China Economic and Social Development Report by NSB;
(Exchange Rate: 2012-\$1=RMB6.3; 2013-\$1=RMB6.2; 2014-\$1=RMB6.2)
(Source-USDA)

According to Cotton Association of India (CAI) cotton output in the country would stand around 402 lakh bales in season 2014-15, slightly lower than the production of previous season when it was 407.25 lakh bales. The expected fall in production in Gujarat has been considered the reason for the fall in production in the country. Gujarat is projected to produce 122 lakh bales of cotton this season compared to 129.5 lakh bales previous season.

India has relaxed the rules applied to cotton and cotton yarn export in order to boost the export volume from country. The government of India has dispensed the requirement of registration to Directorate General of Foreign Trade (DGFT) for exports of cotton and cotton yarn which was earlier mandatory for the traders along with notification of their targeted export volume for the year. India is expected to produce 400 lakh bales of cotton this year, slightly higher than previous year, but enough to raise the availability as export would be on weaker side, causing demand deficit.

Around 18000 hectares of cotton crop in Jalgaon and 8560 hectares in Dhule have been diagnosed with Cotton wilt, locally known as "Mar" disease caused by Fusarium oxysporum fungus, as reported by Commissionerate of Agriculture, Pune, Government of Maharashtra. As the intensity of the disease is found to be below Economic Threshold Level (ETL), there are fewer chances of any significant losses to occur.

According to latest FAS report released by USDA, production of cotton in India would be around 392 lakh bales in season 2014/15. The yield estimated for the current season is 525 kg per hectare which is lower than the 538 kg per hectare, the average yield of three years. As farmers said, the fall in yield is the outcome of deficit rainfall, which led the lesser numbers of bolls per plant.

According to Cotton Corporation of India (CCI), total consumption of cotton in India during the season 2014-15 would be around 311 lakh bales, 4.1% higher when compared to the consumption of previous year, when the same was 298.88 lakh bales. Mill consumption and Small mill consumption would be around 275 and 26 lakh bales respectively and Non mill consumption is likely to be around 10 lakh bales.

India's minister of state for agriculture Mohanbhai Kundaria said that there is no proposal to increase the minimum support price (MSP) of cotton. According to the minister, Cotton Corporation of India (CCI) has geared up for procurement of cotton at MSP in 341 centers in 92 districts from the 11 cotton growing states.

Heated conversation took place in Rajya Sabha few days back over the drastically falling cotton and Paddy prices. The opposition parties i.e. Congress and Samajwadi Party (S.P.) put forward the issue of falling prices which has led the farmer's distress and the rise in the suicide figures. It also claimed that no instruction to Cotton Corporation of India (CCI) has made to purchase cotton at the right price, as it was in the period of UPA government. The opposition party also reminded the promise of Prime Minister Narendra Modi of paying farmers a price that is 50% more than the cost of production, is not being fulfilled as MSP of cotton is Rs. 3750 per quintal for medium staple and Rs. 4050 for long staple.

Cotton exports from India are likely to fall by 45% this season from major importers China and Bangladesh. During the current season 2014-15, India is likely to export 6.5 to 7 million bales (of 170 kg. each) of cotton, which was 11.8 million bales last year, said Cotton Advisory Board (CAB).

International Fundamentals:

Cotton output in China is expected to be lower what was earlier expected by USDA. Cotton crop in China suffered due to deficit rain in early days and too much rains in later days. Cotton crop which was earlier expected to be around 30 million bales (if bale of 218 kilograms) would stand around 29.31 million bales in the current season.

On reduced acreage this season, cotton output in Australia is expected to fall by almost half in 2014-15, as estimated by Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES). Area under summer crop is estimated 13% lower for 2014-15 at 974000 hectares which would lead to fall in production and hence cotton output in Australia from the summer crop is likely to be around 3.2 million tonnes in 2014-15.

World cotton imports are expected to notice a fall of 15.5% as China, the major consumer, will import lesser this season. China is likely to cut its imports drastically this season due to its increasing cotton stockpiles. Share of China in World ending stocks recorded 62% by the end of previous season.

Outlook

We expect domestic prices to remain weak to in near term.

NCDEX Kapas Futures*: (Prices in Rs/20kg)

| Contract | +/- | Open | High | Low | Close | Volume | Change | OI | Change |
|----------|-----|-------|------|-------|-------|--------|--------|-------|--------|
| Apr-15 | 1 | 808.5 | 817 | 807.5 | 810 | 7003 | 4813 | 15508 | 5 |

| Spread | Apr-15 | | |
|--------|--------|---|---|
| Spot | 41 | - | - |

(NB: Spread was done by taking avg. spot prices at Rajkot – B.T. Cotton market. Basis = Spot- Near Month Future)

*Updated at 5:00 pm on 12-12-2014

MCX Cotton Futures*: (Prices in Rs/170 kgs)

| Contract | +/- | Open | High | Low | Close | Volume | Change | OI | Change |
|----------|---------|-------|-------|-------|-------|--------|--------|------|--------|
| Dec-14 | +30.00 | 16070 | 16150 | 16010 | 16040 | 1252 | 770 | 4312 | -254 |
| Jan-15 | +50.00 | 16070 | 16230 | 16070 | 16100 | 1567 | 943 | 3699 | 338 |
| Feb-15 | +40.00 | 16130 | 16280 | 16130 | 16150 | 468 | 275 | 2372 | 167 |
| Mar-15 | 0 | 16250 | 16370 | 16220 | 16230 | 295 | 185 | 1886 | 163 |
| Apr-15 | +120.00 | 16450 | 16450 | 16360 | 16360 | 106 | 57 | 424 | 86 |

| Spread | Dec-14 | Jan-15 | Feb-15 | Mar-15 | Apr-15 | |
|--------|--------|--------|--------|--------|--------|--|
| Spot | -- | | | | | |
| Dec-14 | | -60 | | | | |
| Jan-15 | | | -50 | | | |
| Feb-15 | | | | -80 | | |
| Mar-15 | | | | | -130 | |
| Apr-15 | | | | | | |

*Updated at 5:00 pm on 12-12-2014

DOMESTIC PRICES AND ARRIVALS
Cotton Prices at Key Spot Market:

| Centre | Variety | Prices | | Change |
|------------------------|-----------------|-----------------------------------|-----------|-------------|
| | | 12-Dec-14 | 11-Dec-14 | |
| | Kapas | (Rs./Qtl) | | |
| Amravati | Mech-1 | 4050 | 4075 | -25 |
| Khandwa | Mech-1 | NA | 4000 | - |
| Khargaon | Mech-1 | NA | 4000 | - |
| | Kapas | | | |
| Mahesana(Kadi) | B.T. Cotton | 4375 | 4300 | 75 |
| Rajkot | B.T. Cotton | 4255 | 4205 | 50 |
| Patan | B.T. Cotton | 4260 | 4225 | 35 |
| Deesa | B.T. Cotton | 4085 | 4075 | 10 |
| Muktsar | B.T. Cotton | 4050 | 4050 | Unch |
| Fazilika | B.T. Cotton | 4060 | 4060 | Unch |
| Bhiwani | B.T. Cotton | 4060 | 4030 | 30 |
| Adampur | B.T. Cotton | 3965 | NA | - |
| Fatehabad | B.T. Cotton | 3975 | 3975 | Unch |
| Dabwali | B.T. Cotton | 3970 | 3970 | Unch |
| Jind | B.T. Cotton | 4040 | 4040 | Unch |
| Uchana (Jind) | B.T. Cotton | 3900 | 3900 | Unch |
| Rawatsar (Hanumangarh) | B.T. Cotton | 3850 | 3855 | -5 |
| Hubli | B.T. Cotton | 4167 | 4149 | 18 |
| Hathras | B.T. Cotton(US) | 4200 | NA | - |
| Hanumangarh | B.T. Cotton | 3950 | 3950 | Unch |
| | Kapas | | | |
| Ahmedabad | Shankar-6 | 4300 | 4250 | 50 |
| Gondal | Shankar-6 | 4225 | 4180 | 45 |
| | Kapas | | | |
| Hathras | Desi | 3600 | NA | - |
| Bijapur | Bunny | 4213 | 4166 | 47 |
| Hubli | D.C.H. | 4389 | 5039 | -650 |
| Raichur | H-44 Cotton | 4120 | 4210 | -90 |
| Guntur | Un-Ginned | NA | NA | - |
| Kurnool | Un-Ginned | NA | NA | - |
| Krishna | Un-Ginned | NA | NA | - |
| East Godavari | Un-Ginned | 4000 | 4000 | Unch |
| | Lint | Rs./Maund of 37.32kg each) | | |
| Abohar | J-34 | 3420 | 3420 | Unch |
| Muktsar | J-34 | 3420 | 3430 | -10 |
| Fazilika | J-34 | 3425 | 3425 | Unch |
| Bhatinda | J-34 | 3435 | 3425 | 10 |
| Mansa | J-34 | 3425 | 3425 | Unch |
| Sirsa | J-34 | 3320 | 3310 | 10 |
| Sri-Ganganagar | J-34 | 3126 | 3126 | Unch |

Cotton Arrivals in Key Centers:

| Centre | Variety | Arrivals (Qtl) | | Change |
|------------------------|-----------------|----------------|-----------|--------------|
| | | 12-Dec-14 | 11-Dec-14 | |
| Amravati | Mech-1 | 2200 | 2500 | -300 |
| Khandwa | Mech-1 | NA | 1200 | - |
| Khargaone | Mech-1 | NA | 6000 | - |
| | | | | |
| Mahesana(Kadi) | B.T. Cotton | 30000 | 25000 | 5000 |
| Rajkot | B.T. Cotton | 2900 | 2950 | -50 |
| Patan | B.T. Cotton | 7745 | 10040 | -2295 |
| Deesa | B.T. Cotton | 2475 | 2000 | 475 |
| Fazilika | B.T. Cotton | 1200 | 1500 | -300 |
| Muktsar | B.T. Cotton | 680 | 680 | Unch |
| Bhiwani | B.T. Cotton | 4000 | 3000 | 1000 |
| Adampur | B.T. Cotton | 2380 | NA | - |
| Fatehabad | B.T. Cotton | 2500 | 2800 | -300 |
| Dabwali | B.T. Cotton | 2800 | 3000 | -200 |
| Jind | B.T. Cotton | 1190 | 1020 | 170 |
| Uchana (Jind) | B.T. Cotton | 3765 | 3820 | -55 |
| Rawatsar (Hanumangarh) | B.T. Cotton | 200 | 500 | -300 |
| Hubli | B.T. Cotton | 78 | 152 | -74 |
| Hathras | B.T. Cotton(US) | 500 | NA | - |
| Hanumangarh | B.T. Cotton | 3000 | 2000 | 1000 |
| | | | | |
| Ahmedabad | Shankar-6 | 59500 | 56100 | 3400 |
| Gondal | Shankar-6 | 1084 | 1500 | -416 |
| | | | | |
| Hathras | Desi | 15 | NA | - |
| Bijapur | Bunny | 3044 | 4240 | -1196 |
| Hubli | D.C.H. | 84 | 550 | -466 |
| Raichur | H-44 Cotton | 1942 | 2100 | -158 |
| Guntur | Un-Ginned | NA | NA | - |
| Kurnool | Un-Ginned | NA | NA | - |
| Krishna | Un-Ginned | NA | NA | - |
| East Godavari | Un-Ginned | NA | NA | - |
| | | | | |
| Abohar | J-34 | 2550 | 3400 | -850 |
| Bhatinda | J-34 | 59500 | 59500 | Unch |
| Mansa | J-34 | 2550 | 3400 | -850 |
| Sirsa | J-34 | 3400 | 3470 | -70 |
| Sri-Ganganagar | J-34 | 17000 | 17000 | Unch |

Cotton Association of India Spot Rates:

| Trade Name | Staple | Micronaire | Strength/ GPT | Rs. Per Candy | Rs. Per Candy | Change |
|---------------------------------------|------------|------------|------------------|------------------|------------------|-------------|
| | | | | 11-Dec-14 | 10-Dec-14 | |
| Bengal Deshi (RG)/Assam Comilla (101) | Below 22mm | 5.0 - 7.0 | 15 | 31800 | 32200 | -400 |
| Bengal Deshi (SG)(201) | Below 22mm | 5.0 - 7.0 | 15 | 32300 | 32700 | -400 |
| J-34(202) | 26mm | 3.5 - 4.9 | 23 | 31000 | 31100 | -100 |
| H-4/ MECH-1(105) | 28mm | 3.5 - 4.9 | 27 | 32700 | 32700 | Unch |
| Shankar-6(105) | 29mm | 3.5 - 4.9 | 28 | 33200 | 33200 | Unch |
| Bunny/ Brahma(105) | 31mm | 3.5 - 4.9 | 30 | 34200 | 34200 | Unch |
| MCU-5/ Surabhi(106) | 32mm | 3.3 - 4.9 | 31 | 35100 | 35100 | Unch |
| DCH-32(107) | 34mm | 3.0 - 3.8 | 33 | 43900 | 43900 | Unch |

INTERNATIONAL PRICES AND INDICES
China Cotton Index: As on 12/12/2014

| Index | RMB/Ton | Change |
|--------------|---------|------------|
| CCIndex(328) | 13641 | -59 |
| CCIndex(527) | 12749 | -17 |
| CCIndex(229) | 14335 | -25 |

RMB - Renminbi, 1RMB = 0.16 \$U.S.

Cotlook Index: As on 11/12/2014

| Cotlook Indices | Cents/Pound | Change |
|-----------------|-------------|--------------|
| A-Index | 67.60 | -0.25 |

USDA Cotton Spot Rates: As on 11/12/2014

| Growth Area | Leaf 4 to Staple 34 | Leaf 3 to Staple 35 | Arrivals |
|-------------|---------------------|---------------------|--------------|
| | cents/lb. | | bales |
| Southeast | 63.48 | 60.73 | 10220 |
| North Delta | 62.48 | 59.73 | 187 |
| South Delta | 62.48 | 59.73 | 1746 |
| East TX-OK | 59.50 | 58.50 | 6641 |
| West Texas | 59.50 | 59.25 | 24365 |
| Desert SW | 65.23 | 58.48 | 1500 |
| SJ Valley | 69.13 | 59.23 | NIL |

Spot quotations are for cotton equal to the official standards, net weight, in mixed lots. Upland quotations are FOB car/truck, which includes compression and any brokerage charges. The upland base quality is color 41, leaf grade 4, staple 34 (1.05 to 1.07), mike 3.5, 3.6 and 4.3 to 4.9, strength 26.5 to 28.4 grams per Tex and uniformity 80.5 to 81.4

ICE Cotton Futures (Prices in cents/lb.): As on 11/12/2014

| Contract | Open | High | Low | Close | Change |
|---------------|-------|-------|-------|-------|-------------|
| Dec-14 | 59.57 | 61.08 | 59.57 | 60.48 | 0.91 |
| Mar-15 | 60.22 | 61.63 | 60.22 | 61.02 | 0.84 |

| | | | | | |
|---------------|-------|-------|-------|-------|-------------|
| May-15 | 61.15 | 62.35 | 61.14 | 61.66 | 0.74 |
| Jul-15 | 63.07 | 63.07 | 63.07 | 63.07 | 0.72 |
| Oct-15 | 63.89 | 65.08 | 63.88 | 64.40 | 0.75 |
| Dec-15 | 65.53 | 66.13 | 65.46 | 65.60 | 0.91 |

Pakistan Cotton Spot rates: As on 11/12/2014 (in Pakistan Rupees)

| Product | Rate for | Ex-Gin Price | Up Country Sales | Spot Rate Karachi |
|----------------|-----------------|---------------------|-------------------------|--------------------------|
| Cotton | 37.32 Kgs | 4650 | 150 | 4800 |
| Equivalent | 40 Kgs | 4983 | 160 | 5143 |

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 © 2014 Indian Agribusiness Systems Pvt. Ltd.