



ECOM DAILY MARKET

Futures higher, choppy in two sided session Weekly classing, loan activity Reports from Origin

Friday 03/04/05

Futures were initially called some 20-30 higher this morning which proved to be the first correct call of the week as light spec buying on the open took prices 30 higher from the get go. With a large swag of the locals missing in action (Florida) and with a relatively subdued fund sector, the market was really left to it's own devices for most of the session. As such an oscillating range between 50.40 and 50.80 eventuated for most of the session, amidst light volume and little interest from anyone concerned. The session rounded out a fairly active week of consolidation, as the market and it's participants generally became accustomed to current prices. Late in the session the lack of any real selling above the market prompted a quick spike up through 51 cents on May, on the back of what was only considered to be about 150 contracts worth of buying. By the close there were an additional 350 May contracts wanted to buy MOC. This enabled prices to round out in positive territory and for longs to paint a pretty picture for the week end. Estimated volume was a light at 5,500 contracts and will need to improve for the market to continue it's aggressive upwards acceleration.

Options trading today provided little relief from the boredom of the futures market, with generally light activity leading to a softening in implied volatility. Locals traded the Dec 63 / 2 x 70 call spreads for 20 points around 300 times throughout the session, and along with one for the main merchants selling 200 of the July 55 calls for 200 and 100 of the May 55 calls for 70 points, there was really very little to speak of. With just 40 days to go till expiry on the May option contracts, it will be interesting to see if implied volatility can stay up as high as it is. On saying this it did soften today, in from 33% yesterday to a touch under 32% today.

Weekly classing results for the US continued the poor quality of Texas classings still being received. For the week 197,419 bales were classed, with 17.9% tenderable to the NY contract. For the season there has now been 22.15 million bales classed (including Pima) of which 64.7% is of tenderable quality.

CCC loan stocks for the week ending Tuesday March 1st show a net decrease in stocks of 1.1 million bales. This has resulted in a relatively empty loan stock of 3.6 million bales, and judging by the amount of equities trading domestically in both Texas and the Delta area during this week, it is a reasonably safe bet that around half of this remaining stocks is being processed by the CCC and on the way out currently.



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- In **China**, hardly a single day goes by without domestic spot prices increasing. Prices increased sharply this week, led by Middling T/328 and T/329 qualities, which have now broken past the 12,000RMB/MT level after languishing in the 11,200-11,500RMB/MT over most of the crop year to date. T/329 is now being sold at 58.00cts/lb (equivalent CIF) which represents an approximate 1.00cts/lb premium over equivalent EMOT Mid 1.1/8 offers. T/229 and T/129 prices also increased significantly and are now trading at approximately 62.00cts/lb and 60.00cts/lb respectively. With Uzbek offers being seen at around the 57-58cts/lb level we are now seeing a significant discount developing for imported cotton. This, together with 1,000,000MT of new quotas supposedly being issued later this month, should lead to increased demand for imports in the coming weeks.

-Domestic cotton has been selling well over the past week. Hebei and Shandong traders have revealed that business has been good - mills are in general happy to buy at current levels but are not really rushing into the market as yet because yarn prices have remained fairly constant and has not priced in the latest increase in raw cotton prices.

-We are seeing increased levels of inquiry over the past week for cotton either already landed or for prompt shipment but actual business concluded does not seem particularly heavy. Price ideas tend to be about 100-200pts/lb below current market offers. It appears that mills are in general not well covered past Mar/April and despite relatively high NYF levels, will be forced to buy soon even if NYF remains strong.

-Seed cotton prices have increased sharply along with lint prices after the lunar new year holidays. Farmers are now selling seed cotton that they accumulated and appear happy with current prices. Grade 3 seed cotton is now being sold at 2.31rmb/half kilo compared to 2.20rmb/half kilo before the holidays. With break even at around 11,388RMB/MT and allowing 300RMB/MT for transportation, ginners are now seeing approximately a 400-500RMB/MT profit which is probably the healthiest level since current crop procurement started.

- We overheard that Xinjiang acreage for new crop will be largely unchanged whilst Shandong might experience a 10% reduction in acreage. So far, the biggest decrease appears to be for Hebei, with acreage supposedly due for a 30% decrease. Current rising spot lint prices along with rising Zhengzhou futures (which are now close to 13,900RMB/MT for May) could change this outlook in a hurry though.

-No cotton was tendered to the State Reserve this week. The price for domestic T/328 is now averaging 12,000RMB/MT which is far higher than the auction price of 11,500RMB/MT. To date, 31,700MT has been tendered since the tendered opened on Nov 9th, but with domestic prices increasing on a daily basis, it appears that the auction has served its purpose of supporting domestic cotton prices - further action will be very unlikely.

-The state planning committee apparently held a meeting 3 days ago in Beijing and sources have divulged that the upcoming quotas to be released have increased from 500,000MT to 1,000,000MT. This new allocation will be made very soon, probably in March itself. With 894,000MT released last year, the 1,894,000MT total should be sufficient to see China through any shortfalls caused by increased usage for this crop year.

The **Australian** harvest is well under way in Emerald, the northernmost growing region of Australia. Ideal conditions for defoliating and picking prevail and early indications are promising. The season has been viewed positively in Emerald, with Bollgard II cotton requiring only one application of herbicide in many cases.

-Yield predictions are favorable with an average of 3.2 – 3.7 bales per acre; some Emerald growers are calling this the best crop since 1993, with projections of up to 140,000 bales for the area.

-The performance of the earliest Australian crop is important for merchants who are anxious to fill April shipments of Australian high grade (Type Andy). A late crop could create timing issues with the mills. The presence of defoliated fields and pickers working overtime is encouraging.

-Options for 2006 marketing are dampened by uncertainty about water allocations, soil degradation from over farming and prevailing poor prices



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- **Paraguay** received good rains of 15 to 40mm this week over a wide area, very welcome for cotton sown around the November period needing moisture at this time of the development phase. Additional moisture is badly needed and possibly 20% to 30% of the crop is directly affected by drought as very high (40°C) temperatures combine with south winds to dry the land. That said, current ginning yields are being maintained at acceptable levels. Seed cotton prices have risen significantly over and above the rise in international prices and leading to grower retention. Approx 30% of the crop is now harvested, with 15% sold onward to ginners. Ginning output is currently 60% SM, mic 4.0-4.2 and good strength at 29-31GTX. Export shipments remain extremely slow thus far this season and recently announced ocean sea freights continue last season's trend of being significantly higher than from other origins.

-In **West Africa**, fair amounts have changed hands from origin to the trade in the last week, with prices ranging from 50.50 usc/lbs FOB for Mali Kati to 54 c/lbs Fob for Cameroon Plebe. This means 55 to 58.5 usc/lb CIF Far East values.

-We believe that about 40-50% of the crops remains however unsold at this stage. Ginning is entering its final stage, whilst shipments are speeding up with more intense activity being reported towards Chinese ports lately. We estimate that about 20-25% of the 1 million plus crop ton crop has been shipped so far.

- The **Greek** market has been on standstill this week with sellers firming up their price ideas in consequence of NY futures moves upwards. Some ginners almost hesitate to give new offers in the hope to speculate on eventual further raises for the remaining stocks. Turkish spinners have only investigated prices in Greece but no real demand is foreseen at least within end of April.

Ginning mills are anyway holding stocks of a wide range of qualities with the most desired Box 4,5 or HVI 31 reported pretty scarce whilst relevant quantities are recorded for Box 4,5 to 5 or HVI 41. Huge premiums are ideally asked for the top grades with small transactions indicated at over 52.00 cts/lb fca over average prices of 50.00/50.50 for the lower grade HVI 41.

Negative news are again coming from the spinning sector where the financial difficulties of the major local spinning group have been reported worsening from year 2003.

-Demand continues to be dull in **Turkey** with almost no US cotton being lately traded. Mills are mentioned covered thru to May/Jun therefore a new demand raise is expected not earlier than around end Apr/beg May. The massive presence of stocks of both local cotton and imported origins (mainly US cotton, plus some Turkmen and Greek) is negatively influencing prices of South East qualities. Particularly for the lowest grades prices have been attractive; Std 2 and Std 2 HB have encountered interest at level between 41.00 and 42.50 cts/lb Fob, however for the higher varieties i.e. Std 1 and Std 1 to Extra, prices have been ranging more in the area 49.50/50.50 Fob.

The strength of Turkish Lira this week at around 1,2790 YTL/USD has also helped conclusion of some export trades with some Intl merchants taking Urfa qualities.



Technical Analysis—CTK5 Weekly chart



-The May weekly chart, which is soon going to replace the March contract on the continuous charts has continued it's strong showing having broken above trend line resistance on Feb 25th. The inability for the contract to back and fill the breakaway gap at 46.60—46.80 adds further strength to the move and implies that shorts will continue to buy minor corrections having given up the idea that a full retracement of the move is imminent.

-Moving averages are still falling for the longer term (40 and 50 week), whilst the short term (9 weeks) are following prices up at a quick clip.. The MACD chart is akin to the daily chart in it's bullish position, showing a healthy trend up as well.

-The slow stochastics are currently overbought at 86.35, and it is unlikely that this condition will continue for any extensive time frame.

-Nearby support for May is located at 48.53, 47.76 then 45.70 and 44.50

-Weekly resistance lies ahead at 52.20, 53.30 and then at 55.00. These levels are all considered major targets for spec longs, and profit taking will undoubtedly take place around them.

Price Page—

Symbol	Open	High	Low	Last	Change	Yday's Volume	Yday's OI	%Change
CTH5	50.75	50.75	49.75	50.75	1.60	12	376	3.26
CTK5	50.90	51.25	50.35	51.23	0.71	6945	79197	1.41
CTN5	51.90	52.50	51.50	52.47	0.82	1520	18820	1.59
CTV5		54.40	54.40	54.40	0.60	7	1474	1.12
CTZ5	55.30	55.60	54.80	55.56	0.63	727	8770	1.15
CTH6		57.65	57.65	57.65	0.60		1576	1.05
CTK6	58.30	58.50	58.30	58.50	0.55	65	612	0.95
CTN6	59.50	59.50	59.30	59.50	0.55	68	280	0.93
CTV6	59.50	59.50	59.50	59.50	0.65			1.10
CTZ6	59.50	61.00	61.00	61.00	1.15		131	1.92
Spot Gold		434.20	434.20	434.20	4.30		9	1.00
Dow Jones Index	10834.00	10962.00	10834.00	10944.00	111.00	1735791		1.02
S&P 500	1210.47	1224.76	1210.47	1223.02	12.55			1.04
US Dollar Index	83.29	83.41	82.41	82.50	-0.78			-0.94
USD / EURO	0.76	0.76	0.75	0.76	-0.01			-1.01
A Index				55.75	unch			
B Index				53.25	0.10			
Official AWP				40.37	1.80			
Daily AWP				50.67	0.07			
Today's estimated volume				5,500	3,844			
Yesterday's OI				111,236	998			
Cert Stocks				154,133	2,863			

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