

## COTTON

6<sup>th</sup> July 2005

### MAJOR HIGHLIGHTS

- Domestic Cotton Prices Maintain the Firmness
- NYBOT Cotton Futures Higher on Speculative Buying
- China Cotton Futures Shows Weakness
- Pak Prices Remain Stable

### NEWS ANALYSIS

#### Cotton: Brazil may Complain against US over WTO Issue

Brazil plans to ask the World Trade Organization (WTO) for permission to penalize the U.S. for its failure to comply with a WTO ruling against U.S. subsidies for cotton growers by the July 1 deadline. Brazil may file a formal complaint in which it will ask the WTO to allow it to increase import duties on certain U.S. goods to penalize the U.S. for failing to sufficiently alter its export programs, reports said. The Bush administration has proposed ending a cotton subsidy program that has provided \$1.58-billion (U.S.) since 2001 to exporters such as Cargill Inc., complying with a World Trade Organization ruling that found such payments illegal. The U.S. Department of Agriculture Secretary Tuesday it proposed to end the Step 2 cotton-marketing program that pays shippers and exporters to use more expensive U.S. cotton for their needs. The USDA will also remove a 1% cap on fees that can be charged under the export credit programs and it will terminate the Intermediate Export Guarantee Program, commonly known as GSM-103. The United States in March lost an appeal of a WTO ruling backing Brazil's complaint that \$2.7-billion in annual aid intended to boost demand for U.S. cotton breaks spending commitments signed in 1994. Brazil's government estimates its cotton farmers have lost more than \$600-million because of the U.S. aid. Brazil's government estimates its cotton farmers have lost more than \$600-million because of the U.S. aid. As part of a draft WTO accord reached Aug. 1 last year, the United States has already agreed to negotiate scaling back cotton payments after years of pressure from farmers in Chad, Mali and Burkina Faso. More than 10 million people in West Africa rely on cotton for their livelihood, according to the British-based aid agency Oxfam.

#### China: Cotton Crop Progress in Xinjiang

The temperature was slightly higher than the average level since June, so the crop developed satisfactorily. And now the condition in Northern Xinjiang and Southern Xinjiang is different. In the North, farmers in Shawan, Yili and Shi Hezi planted the cotton earlier than other districts, and the young plants are growing very well now. The crop is 10-15 days ahead of the previous years. If the weather remains fine in

July and August, the new cotton would come into the market ahead of the schedule. In the South, the upland cotton's height in A Kesu and Ku'Erle was 40.6-52.2cm in June, which was 6.59 cm higher than that in the same period of last year. The crop grew quickly in squaring period in view of the higher temperature, but the flower settled later than the previous years. Moreover, to some extent, the bolls of some long staple cotton had fell off, and the boll's quantities in the single plant was less than last year.

### FUNDAMENTAL ANALYSIS

#### DOMESTIC MARKET

##### NORTH INDIAN MARKETS

The prices of cotton in the North Indian markets remained almost unchanged today. Light rainfall still continues in these states. According to the market sources the rainfall would help the cotton crop greatly. Prices are expected to stay at these levels.

##### GUJARAT MARKET

In the state of Gujarat cotton prices maintained the stable tend. It was earlier thought that the cotton prices would go down after the rain stops, which would attract sellers. But the re-sowing and delay in crop harvest offset that. As a result the prices maintained the firmness. Today the weather saw an improvement. The prices are not likely to change from this level in the near-term.

##### MAHARASHTRA AND MP MARKET

Sowing is progressing in Maharashtra and almost 50 per cent sowing has been completed. However, in MP the lack of rain in cotton belts restricted the sowing activities in the state. The prices however, remained at the same level. 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 15200-16200 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 274.20 per 50 kg. Prices of cotton oil in Mumbai remained at Rs 374 per 10 kg.

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

MARKET	Bengal desi	J-34	Shankar	V-797
Sirsa				
1. Cotton Lint	3187	4050	-	-
2. Raw Cotton	-	-	-	-
Sri Ganganagar				
1. Cotton Lint	3462	3925	-	-
2. Raw Cotton	-	-	-	-
3. Cottonseed	1030	950	-	-
Ahmedabad/Kadi				
1. Cotton Lint	-	-	4274-4800	3233-3458
2. Raw Cotton	-	-	-	-
3. Cottonseed	-	-	975	800

## VAYDA BAZAAR

The medium staple cotton futures at the NCDEX opened on the lower side today. However, after that the futures maintained the steady tone and went up smoothly. The price movement was not so frequent however. The August contract closed the day at the day's high.

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

Contract	Prev. Set	High	Low	LTP*	Change
August	4480.00	4490.00	4475.00	4490.00	+10.00

## INTERNATIONAL MARKET

### USA

The cotton futures at the New York Board of Trade closed higher Tuesday on speculative buying and crop concerns in Texas. The most-active NYBOT December cotton settled 92 points higher at 57.07 cents a pound. July, which expires after Thursday's session, settled 10 points higher at 52.25 cents. Speculative buying supported by the technical factors helped the futures go up smoothly. The weather conditions also remained supportive for the prices. The Tropical Storm Cindy was strengthening and moving toward the Gulf Coast states. Cindy had sustained winds of 60 miles an hour but was not expected to reach hurricane status. Tropical Storm Dennis is in the southeastern Caribbean and gaining strength and could turn into a Category 1 or 2 hurricane by the time it enters the Gulf of Mexico. Dennis isn't expected to enter the Gulf until around Friday. The market ignored the subsidy issue. There is expectation that the cotton futures at the NYBOT would remain strong tomorrow also.

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

Contract	Open	High	Low	Close	Change
July	52.00	52.90	51.50	52.25	+0.10
December	55.80	57.20	55.60	57.07	+0.92

### CHINA

The cotton futures in China remained weak today despite the sharply higher NYBOT futures. The China Cotton Index

(CCI) did not witness any change today. Turnover on CNCE e-market totalled 7220 tonnes, down by 2050 tonnes than the previous session. Domestic Type 428 reached 1050 tonnes and the balance was Type 229. The open interests totalled 94780 tonnes, up by 1360 tonnes. The open interests of MD contracts totalled 1890 tonnes, up by 210 tonnes. The average prices of each contract had fell except MD0507. The turnover went down a lot, but the open interests of nearby contracts all increased except MA0507, which had curtailed 260 tonnes because the offset and delivery in advance. The MD0507's actual open interests had rose 370 tonnes. China cotton futures are expected to remain strong tomorrow.

## PAKISTAN

Trading activities at the Karachi cotton market remained dull when majority of the market players stood on the sidelines. Trading Corporation of Pakistan (TCP) accepted bids for 208,000 bales, which were received in its last auction. Around 400 bales of various qualities changed hands at prices between Rs 2,400 per maund and Rs 2,425 per maund. The spot rate stayed stable at Rs 2,300 per maund. TCP accepted bids for 194,000 bales from local bidders. It also accepted bids by foreign buyers for 14,000 bales. Deals were also made for imported lint by mills, which are eager to pile up stocks of good quality lint for manufacturing fabric and yarn. The TCP would dominate the market activity and might continue its activity even after August 15, which had been the deadline for it to suspend sale of its stocks. The TCP's weekly auction has reinforced buyers' position and local mills have been the major beneficiaries of its activity. Though the trading may remain dull however, the prices are likely to maintain the firmness.

## WEATHER WATCH (IMD)

**North:** Rain/thundershowers are likely at most places over west Uttar Pradesh, Uttaranchal, Haryana including Chandigarh & Delhi and Himachal Pradesh; at many places in the rest region.

**East:** Rain/thundershowers are likely at many places in the region with increase in rainfall activity over Gangetic West Bengal & Orissa and decrease over northeastern states on 7th & 8th July.

**South:** Rain/thundershowers are likely at many places over Andaman & Nicobar Islands, coastal Karnataka and Kerala and at few places in the rest region outside Tamil Nadu & Pondicherry where it may be isolated.

**West:** Rain/thundershowers are likely at most places over east Rajasthan, Konkan & Goa and west Madhya Pradesh, at many places over rest of the region outside Gujarat state, Marathwada and Vidarbha where it may be at a few places.

### Outlook for subsequent two days

Rainfall activity over peninsular India including Maharashtra is likely to increase. Rainfall activity over western Himalayan region is likely to decrease.

**Warning:** Heavy to very heavy rainfall is likely at a few places over west Madhya Pradesh, west Uttar Pradesh, Himachal Pradesh, Uttaranchal, Haryana including Chandigarh & Delhi and east Rajasthan. Isolated heavy rainfall also likely over West Bengal & Sikkim, Orissa, Punjab, Jammu & Kashmir, Konkan & Goa, coastal Karnataka and Kerala.

**EXCHANGE RATE:** 1 USD = Rs 43.57;  
1 Euro = Rs 52.05

**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 tonnes)

\* - US cents per pound

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