

## COTTON

7<sup>th</sup> July 2005

### MAJOR HIGHLIGHTS

- Domestic Cotton Spot Prices Improved; Futures Steady
- NYBOT Cotton Futures Sharply Lower on Weather Concern
- Chinese Cotton Futures Ended Mixed Today
- Pak Trading Maintains the Dullness

### NEWS ANALYSIS

#### Cotton: US may Find Some Alternative to Subsidies

The US is not going to stop the aid to its cotton farmers according to the chairman of the Senate Agriculture Committee. The subsidy issue is in news recently when Brazil opposed to the US export subsidies to the cotton farmers saying that it was the violence of the WTO rules. The WTO agreed with Brazil this year that U.S. subsidies violated trade rules. To comply with the ruling, the Bush administration this week proposed termination of the so-called Step 2 subsidy and long-term export credit guarantees. Step 2 gives exporters and millers an incentive to buy higher-priced U.S. cotton. At \$350 million, this year's payments would be a small part of overall U.S. cotton supports, estimated at \$3.5 billion this year. Ending Step 2 will reduce outlays by \$400 million for fiscal 2004-07 according to the Agriculture Department. According to the Oxfam America the US cotton dumping costs the poor African countries \$400 million in revenue from 2001 to 2003. It said full compliance with the WTO ruling will require reforms later this year that go beyond elimination of Step 2 and the long-term credits. In a procedural step to preserve its rights, Brazil asked for WTO approval on Tuesday for up to \$2.9 billion in retaliation against U.S. products. But no action will be taken while the United States re-works its cotton program as per the opinion of the U.S. officials. Without Step 2, cotton exports would drop by 200,000 to 250,000 bales a year, and the farm-gate price for cotton could drop by 2 to 3 cents per pound. Up to three-fourths of US cotton is exported, with China a leading buyer. Therefore, that would directly reduce the world cotton prices also.

### FUNDAMENTAL ANALYSIS

#### DOMESTIC MARKET

#### NORTH INDIAN MARKETS

Cotton prices in the markets of North India maintained the firm undertone. There was no significant change in the prices. The prices of cottonseed and kapaskhali improved significantly higher today. Some demands are still for

Bengal deshi cotton. Thus, the prices are likely to remain strong now.

#### GUJARAT MARKET

After maintaining almost unchanged with a firm undertone for last few days the cotton prices in Gujarat improved today. The delay in crop by around one month is supporting the prices. The sellers are still reluctant to sell their stocks. The weather gets clear now. Presence of some exporters also was reported by the market sources. The prices are expected to remain firm here.

#### 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	1050	960	-	-
Ahmedabad/Kadi				
1. Cotton Lint	-	-	4274-4920	3233-3514
2. Raw Cotton	-	-	2200	-
3. Cottonseed	-	-	-	810

#### MAHARASHTRA AND MP MARKET

No significant change was seen in the prices of cotton in the states of Maharashtra and MP. Maharashtra got significant rain and 50 per cent sowing has been completed in the state. In MP also cotton sowing has started as the cotton belts got just sufficient rain for sowing. 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 279.60 per 50 kg. Prices of cotton oil in Mumbai remained at Rs 374 per 10 kg.

## VAYDA BAZAAR

The medium staple cotton futures at the NCDEX today opened on the lower side however, the futures maintained the stable tone. The August contract tried to go up marginally. The movement was very little. Tomorrow the cotton futures may remain strong.

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

Contract	Prev. Set	High	Low	LTP*	Change
August	4490.00	4485.00	4480.00	4480.00	-10.00

## INTERNATIONAL MARKET

### USA

Cotton futures at the New York Board of Trade declined on weather concern and fund liquidation. The most active December cotton futures settled 211 points lower at 54.96 cents a pound and July ended 115 points lower at 51.10 cents. Tropical storm Cindy was earlier expected to be harmful however, it brought beneficial rain in some locations of the Southeast and West Texas. The storm blew over Louisiana and Alabama coastlines yesterday and caused 3-5 inches of rain, which was seen good for the crop in the stage of development. The storm also benefited the crop in Mississippi delta. Tropical Storm Dennis, which one forecaster called a "minimal hurricane," now threatens Haiti, the Dominican Republic, Jamaica and Cuba and may soon become an official hurricane. It is on a path projected to take it to either the Alabama coast or the Florida panhandle early Monday, according to information on the U.S. National Hurricane Center Web site. However, the path of Dennis is uncertain and is subject to change over the next several days. Cotton traders are also viewing Dennis as bringing beneficial rains to the Southeast. Meanwhile, options-related selling also pressured cotton. Speculative accounts were net long 20.3% of open interest, from 8.6% net long the previous week, according to NYBOT's spec/hedge report for the week ended July 1. Open interest for the same week increased 3,319 positions to 91,908 contracts. The report was a bit bearish, because it revealed that much of the recent gains were due to short covering. While open interest rose, it wasn't enough to keep up with the steep price climb during that week as the market saw it. Thus, the fundamentals are pointing towards a bearish outlook for the short-term.

### Cotton Futures at the NYBOT as on 06/07/05 (cents/pound)

Contract	Open	High	Low	Close	Change
July	51.80	51.80	50.90	51.10	-1.15
December	56.35	56.75	54.93	54.96	-2.11

### CHINA

The cotton futures in China remained mixed today with lower volume. The China Cotton Index (CCI) improved by 9 units to close at 13456. Turnover on CNCE's e-market totaled 4860 tonnes, down by 2360 tonnes than the previous session. Domestic Type 428 reached 300 tonnes and the balance was Type 229. The open interests totaled 94540 tonnes, down by 240 tonnes. The open interests of

MD contracts totaled 1990 tonnes, up by 100 tonnes. Today's market was mixed. MA0507 has increased by 4 Yuan, and MD0509 has fell by 64 Yuan. The turnover went down a lot, which fell by 33% than from the last session. As the offset and delivery, the actual open interests of MA507 augmented by 20 tonnes, and for MD507 it was by 200 tonnes. There was some pressure due to the sharp decline in the NYBOT futures.

## PAKISTAN

Despite the covering of the position by the mills and spinners the trading activities remained thin at the Karachi cotton market in Pakistan. The spot rate remained changed at Rs 2300 per maund. Leading mills made deals for quality lots of upper Sindh and southern Punjab in limited quantity. They offered slightly higher prices for the deals. According to the market information the growers of Sindh and Punjab have started selling fresh crop to ginneries. The leading spinners remained on the sidelines, as they were eyeing the Trading Corporation's next auction on Monday. The TCP has so far sold 685,371 bales to local buyers and 85,000 bales to foreign buyers. The local mills are eager for TCP's stocks, as they fear lower-than-expected yield this year due to bad weather. Lint of various stations also changed hands on mill-to-mill basis. The private sector exporters also offered limited quantity of quality lint to mills. In this scenario there is little chance of hectic trading with the presence of the TCP.

## WEATHER WATCH (IMD)

**North:** Rain/thundershowers likely at most places over Haryana including Chandigarh & Delhi, Punjab, Himachal Pradesh and Jammu & Kashmir; at many places in the rest region outside east Uttar Pradesh where it may be at a few places with decrease in rainfall activity over these areas after 8th July.

**East:** Rain/thundershowers likely at many places over Gangetic West Bengal, Orissa and at a few places in the rest region. Increase in rainfall activity over Gangetic West Bengal Orissa and Chhattisgarh and decrease over northeastern states on 9th & 10th July.

**South:** Rain/thundershowers likely at many places over coastal Karnataka and Kerala and at a few places in the rest region outside Tamil Nadu & Pondicherry where it may be isolated. Increase in rainfall over Telangana and coastal Andhra Pradesh on 8th onwards.

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

### Outlook for subsequent two days

Rainfall activity over peninsular India including Maharashtra is likely to increase slightly. Rainfall activity over western Himalayan region and plains of north India is likely to decrease further.

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

**EXCHANGE RATE:** 1 USD = Rs 43.64;  
1 Euro = Rs 52.01

### 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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