

COTTON

16th July 2005

MAJOR HIGHLIGHTS

- Domestic Cotton Prices Remain Unchanged
- NYBOT Cotton Lower on Selling Pressure
- Spot Prices Improve in Pakistan

NEWS ANALYSIS

Cotton Subsidy: Brazil may Take Strong Steps against US

Brazil has urged the World Trade Organisation (WTO) to allow it to suspend \$3 billion US patents, trademarks and financial services unless the US government stops illegal subsidies to its cotton farmers. The WTO earlier gave the US July 1 deadline to decide over the issue. The WTO said that the US exports credits for cotton farmers and other aid encouraging domestic industry to use their output as illegal under international trading rules. Although the target date for obeying the ruling was missed, The Bush administration has proposed eliminating the Step 2 program that pays exporters and mills to buy more expensive U.S. cotton for their needs. Congress will still need to pass the legislation for it to take effect, however. At the earliest, Congress may vote on it this fall, though many observers expected no action until next year. As a result, Brazil agreed with the US ahead of Friday's meeting of the Dispute Settlement Body (DSB) that WTO consideration of the sanctions request should be suspended. According to Oxfam, the US spends more – around \$4 billion – on propping up its 25,000 cotton farmers than it does on aid to the whole of Africa in a year. Friday's deal only covered those parts of the WTO ruling referring to the export credits and the so-called Step 2 programme of assistance to US cotton users. The worst victims of the US cotton subsidies are the African countries. At the present circumstances it would be interesting to see what steps the US take for supporting the cotton farmers. It is likely that the US would not stop all the supports to the farmers. However, there is a good chance for Brazil to become the major exporters of cotton in the world.

FUNDAMENTAL ANALYSIS

DOMESTIC MARKET

NORTH INDIAN MARKETS

No fundamental changes were seen in the North Indian states. The cotton prices also remained almost at the same level. However, the Bengal deshi variety in the major markets continues to improve amid good demand. The prices of J-34 also improved in the Sirsa mandi of Haryana.

GUJARAT MARKET

Cotton prices in Gujarat remained firm today also. The demand for Kalyan is still there from the local markets. Shankar has been seeing demand from the exporters too. The sellers are still reluctant to sell their produce providing support to the prices. It is likely that the cotton prices would not change in the nearby days.

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

MARKET	Bengal deshi	J-34	Shankar	V-797
Sirsa				
1. Cotton Lint	3287	4050	-	-
2. Raw Cotton	-	-	-	-
Sri Ganganagar				
1. Cotton Lint	3450	3850	-	-
2. Raw Cotton	-	-	-	-
3. Cottonseed	1025	940	-	-
Ahmedabad/Kadi				
1. Cotton Lint	-	-	4274-4864	3233-3514
2. Raw Cotton	-	-	-	-
3. Cottonseed	-	-	925	765

MAHARASHTRA AND MP MARKET

The market tone remained easy in Maharashtra and Madhya Pradesh amid lack of market activities. The sowing activities in some of the cotton belts in MP paused due to lack of rain. Cotton prices here are not likely to change significantly. 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 15200-16500 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 285.0 per 50 kg. Prices of cotton oil in Mumbai remained at Rs 378 per 10 kg.

VAYDA BAZAAR

The medium staple cotton futures at the NCDEX remain unmoved today. No trading activities reported. The ask prices however indicate slight strength in the market.

Medium Staple Cotton Futures At NCDEX (Rs/Quintal)

Contract	Prev. Set	High	Low	LTP*	Change
August	4515.00	0.00	0.00	4515.00	0.00

INTERNATIONAL MARKET

USA

The cotton futures at the New York Board of Trade (NYBOT) settled lower amid speculative selling and improvement in the weather conditions. The trading remained thin. The most-active December cotton settled 39 points lower at 51.45 cents a pound and October ended 66 points lower at 49.54 cents. Scattered showers and thunderstorms are now moving through much of the Mississippi Delta and Southeastern cotton areas, improving cotton conditions and putting pressure on futures prices. The showers are expected to continue into Saturday in the Delta, with drier conditions in the Southeast by Saturday and Sunday according to the DTN Meteorlogix. In news, Brazil has asked the World Trade Organization to allow it to suspend \$3 billion in U.S. trademarks, patents and financial services unless the US government stops illegal subsidies to American farmers, reports said. Meanwhile, the higher dollar against the world's major currencies also put pressure on cotton.

Cotton Futures at the NYBOT as on 15/07/05 (cents/pound)

Contract	Open	High	Low	Close	Change
December	51.70	52.05	51.05	51.45	-0.39

CHINA

The cotton forward trading in China remains closed on Saturday and Sunday.

PAKISTAN

Due to reluctance of the market players the trading activities at the Karachi cotton market of Pakistan remained thin. The spot rate however, improved by Rs 25 to Rs 2350 per maund. The participants attributed the dullness to almost nil availability of cotton stocks in the market. However, this in turn helped the prices to surge up. The prices are not improving fast because most of the buyers prefer to wait for the auction by the Trading Corporation of Pakistan (TCP). The market players also think that the recent flood might have hit the cotton crop but again the

slowing down of yarn manufacturing by the mills due to poor demand remains as the opposite factor however. It is being expected that the TCP would offer more stocks than it had announced to auction on next Monday in order to dispel the impression that enough buffer stocks might not be there to meet urgent needs in the coming months. The new crop may start coming from Sindh within a couple of weeks. In Punjab however, the farmers are reluctant to bring the crop to the markets due to flood. The strength in the prices is expected to continue in the coming days also.

WEATHER WATCH (IMD)

North: Rain/thundershowers likely at many places over Jammu & Kashmir, Uttaranchal, east Uttar Pradesh and Himachal Pradesh and at few places in the rest region.

East: Rain/thundershowers likely at most places over northeastern states, Bihar and West Bengal & Sikkim and at many places in the rest of the region.

South: Rain/thundershowers likely at a many places in the region.

West: Rain/thundershowers likely at many places over east Rajasthan and west Madhya Pradesh at a few places in the rest region outside west Rajasthan where it may be isolated.

Outlook for subsequent two days

Ongoing rainfall activity over northeastern states, West Bengal & Sikkim, Bihar, east Uttar Pradesh and peninsular India is likely to continue. Current rainfall activity over plains of northwest India and western Himalayan region is likely to decrease.

Warning: Heavy to very heavy rainfall likely at a few places over West Bengal & Sikkim. Isolated heavy rainfall is also likely over northeastern states, Uttaranchal, Himachal Pradesh, Bihar, Jharkhand, Orissa, west Madhya Pradesh, east Rajasthan, Kerala, Lakshadweep and coastal Karnataka.

EXCHANGE RATE: 1 USD = Rs 43.52;
1 Euro = Rs 52.78

Latest ICAC Estimates on Global Cotton Scenario (As on 1st 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

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