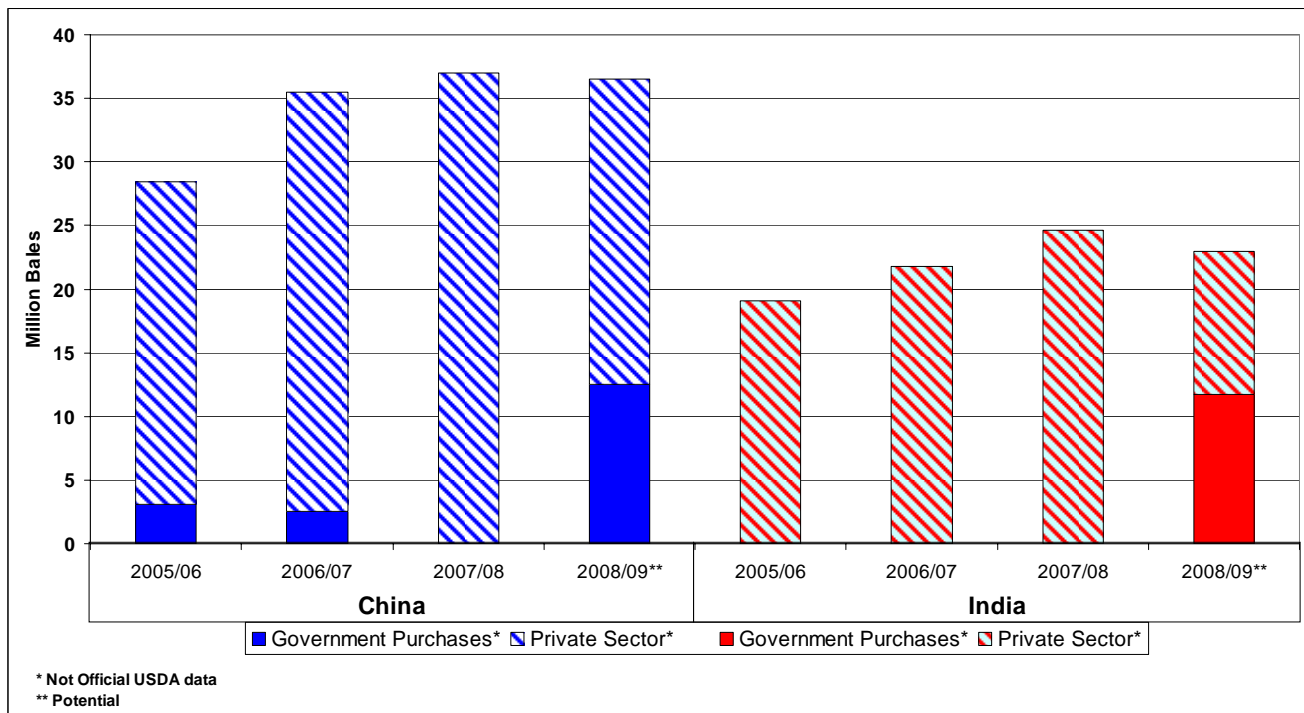




Cotton: World Markets and Trade

Government Stocks in China and India Add Uncertainty to Market Situation



In order to protect their farmers' income, China and India have dramatically increased government purchases to drive up domestic farm prices. The disposition of these recent aggressive government purchases adds a new element of uncertainty and potential price volatility to global cotton markets. Although there have been no official statements from either government regarding how these stocks will be managed, their disposition will certainly affect US exports and prices.

If significant portions of stocks are held off the market, demand could shift to other suppliers, including the United States. However, release of these stocks could further dampen demand, particularly for US cotton.

China and India are on track to acquire nearly 25 million bales of government-controlled stocks in the next couple of months. Industry sources indicate that the Cotton Corporation of India (CCI) has authorization to purchase up to 11.7 million bales, half the 2008 crop. CCI has bought about 3.6 million bales, 40 percent of the cotton sold by farmers to date.

China has already purchased over 7.3 million bales of the 12.5 million it intends to buy. Continued weakening domestic demand has offset some of the effect of the purchases and farm prices have responded only moderately. According to industry sources, China already holds 4 to 6 million bales of state reserves carried over from the previous season.

These policies raise the question of how many government-stocks will be carried over into the next marketing year, and what impact the policies will have on production in 2009 in these countries.

