

USDA Foreign Agricultural Service

# GAIN Report

Global Agricultural Information Network

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## India

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### Cotton Market Update

**Report Categories:**

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**Report Highlights:**

Weak foreign demand, a more stringent export registration policy and relatively firm prices have combined to limit India's cotton exports since the export ban was lifted on April 30. 2011/12 exports are estimated at 9.9 million 480 lb bales, down nearly a million bales from the May estimate. The Government of India has significantly increased the minimum support price for cotton. The higher support prices could lead to a resumption of large scale procurement operations by the Cotton Corporation of India and affect market dynamics during 2012/13.

## **Tougher Export Registration Policy**

On May 4 and May 8, 2012, shortly after lifting its ban on cotton exports, the Government of India (GOI) outlined new procedures for the registration of new cotton export contracts. The new policy limits the amount of each registration certificate (RC) to 10,000 170 kg bales (1,700 mt) of cotton for established exporters and to 1,500 170 kg bales for exporters who have not exported previously. In addition, exporters must submit evidence of having exported 50 percent of the RC amount before applying for a second RC. The process, which appears to be designed to prevent exporters from registering large volumes of cotton for export, is reportedly quite cumbersome for exporters and adds significantly to the administrative process of exporting.

The GOI has continuously refined its cotton export registration policies over the past three years in an effort to better monitor the pace of exports and export registrations. With each revision, exporters have found ways to work within the policy parameters to adjust to market conditions, at times registering significant volumes for export. India's most recent ban was, at least in part, due to GOI concerns about the volume and pace of export registrations during February. Aside from an outright ban or quota, the latest registration requirements may be the most restrictive policy the government has implemented since 2010. It is too early to tell if the policy will continue into the 2012/13 (Oct/Sep) local marketing year, but the GOI has generally adjusted its export policy at the start of a new marketing year and may do so again for 2012/13.

A listing of official notifications and public announcements following the lifting of the export ban is provided at the end of this report.

## **Exports Slow to a Trickle on Higher Relative Prices**

The degree to which the current registration process might limit export volumes has been largely untested, because Indian cotton prices, despite the weak rupee, have generally traded at an effective premium to competing origins in dollar terms since the ban was lifted. Note that while Indian cotton has traded at a discount to the Cotlook A Index, factors such as internal freight, port charges and international freight (estimated at an additional 3-5 cents per pound) must be considered along with the general market tendency to discount Indian cotton relative to other origins when making this comparison.

**Table 1: Indian Cotton Prices Compared to International Prices  
(cents/lb)**

	<b>India Ex-Gin*</b>	<b>ICE Futures Nearby</b>	<b>Difference ICE vs. Ex-Gin*</b>	<b>Cotlook A Index</b>	<b>Difference Cotlook vs. Ex-Gin*</b>
January 20	89	99	+10	102	+13
January 27	87	96	+9	101	+14
February 3	86	96	+10	102	+16
February 10	86	90	+4	100	+14
February 17	85	92	+7	101	+16
February 24	83	90	+7	98	+15
March 2	83	88	+5	99	+16
March 9	77	89	+8	98	+21
March 16	80	90	+10	100	+20
March 23	79	90	+11	99	+20
March 30	82	94	+12	103	+21
April 6	83	89	+6	100	+17
April 13	80	92	+12	100	+20
April 20	80	90	+10	100	+20
April 27	80	89	+9	101	+21
May 4	83	87	+4	98	+15
May 11	84	79	-5	90	+6
May 18	80	78	-2	85	+5
May 25	75	74	-1	83	+8
June 1	77	69	-8	82	+5
June 8	74	73	-1	84	+10
June 15	76	78	+2	83	+7

\*Indian ex-gin prices are from the Cotton Association of India.

Relatively firm Indian prices coupled with weak international demand have helped to slow the pace of exports considerably since the export ban was lifted. Some Indian cotton is being shipped to nearby Bangladesh, but few others are purchasing Indian cotton at current prices and demand levels. With the August/July marketing year coming to a close, 2011/12 exports are now estimated at 9.9 million 480 lb bales, nearly a million bales lower than our May 2012 estimate of 10.8 million bales. Similarly, export prospects for the months of August and September, the remainder of the local October/September marketing year, appear dim in light of anticipated weak foreign demand and the current export registration procedure.

**Table 2: Estimate of 2011/12 Cotton Exports**

	<b>170 kg</b>	<b>Metric Tons</b>	<b>480 lb</b>
August 2011 1\	441,476	75,051	344,609
September 2011 1\	939,758	159,759	733,560
October 2011 1\	698,358	118,721	545,127
November 2011 through April 2012 2\	10,300,000	1,751,000	8,040,008
May 2012 through June 2012 exports 3\	500,000	85,000	187,340
Total	12,879,592	2,354,342	9,850,644

1\ Official estimates from the Directorate General of Foreign Trade, for Harmonized Tariff Schedule code 5201 – raw cotton.

2\ Based on May 7, 2012 statement from the Ministry of Commerce that exports from October through April had reached 11.0 million 170 kg bales, less the official export figure for October.

3\ FAS Mumbai estimate

### **Minimum Support Price Increased**

On June 14, 2012, the Government of India increased the minimum support price (MSP) for medium staple cotton by 29 percent from Rs. 2,800 per 100 kg to Rs. 3,600 per 100 kg and the price for long staple by 18 percent from Rs. 3,300 per 100 kg to Rs. 3,900 per 100 kg. The increase was on the lower side of what many in the trade were anticipating, but comes early enough in the crop cycle to affect planting decisions—something that has not always happened in the past. Much of the crop has been planted in northern India, which accounts for 15-20 percent of India’s production, farmers in central and southern India will have the opportunity to react to the increase. Support prices for other crops were also increased (some much higher than cotton), but, except in the case of paddy (rice), the increases are largely indicative of a market floor because there is no procurement mechanism. For cotton, the increase raised a number of issues that merit watching over the next few months.

- **Will the increase be enough to raise cotton area over the current forecast of 10.9 mha?** The current forecast assumes that farmers will shift to competing crops such as soybeans, peanuts, pulses and guar. The higher MSP is still below the open market prices that farmers were getting as recently as January 2012; prices which reportedly disappointed farmers at the time. Consequently, the increase could lead to a marginal increase in area, but is not expected to change planting expectations significantly.
- **What will happen to arrivals from the current crop?** Arrivals as of May 27 had reached 32.1 million 170 kg bales, slightly behind the year-ago pace and 2.6 million bales below the current CAB and FAS Mumbai production estimate of 34.7 million 170 kg bales. Arrivals have met or exceeded production estimates for most states, but the pace continues to lag in Gujarat and Maharashtra. While ex-gin prices are currently trading at a premium to foreign origins, prices offered to farmers are trading at the 2011/12 MSP level. Farmers who still have stocks of cotton

on hand may opt to hold onto their cotton until the fall and market their remaining 2011/12 cotton at the higher 2012/13 MSP level. This could slow the pace of arrivals over the next few weeks, obfuscating the 2011/12 production estimate which is typically based on the final arrivals figure.

- **Will Indian cotton be priced out of international markets?** It may be too early to tell, but with India's tight supply situation, large global supplies and expected weak global demand, the increase in the MSP could create a floor that prices Indian cotton out of foreign markets. While admittedly a crude comparison, 2011/12 market prices that were comparable to the new MSP levels translated to an ex-gin price of 80-85 cents per pound, 13-14 cents per pound higher than current ICE futures levels for December 2012 and March 2013.
- **Will the Cotton Corporation of India (CCI) have to ramp up procurement operations in 2012/13?** This seems like a good bet unless there is a significant increase in world cotton prices. Even with the tight supply situation in India, weak international prices are expected to depress Indian prices and the higher MSP could result in a return to large scale procurement operations by CCI.
- **Will spinning margins be squeezed and lower consumption?** Much will depend on yarn prices, but the higher MSP could create a price floor that will squeeze margins to some degree. For example, if the MSP translates to an ex-gin price floor of 80 to 85 cents/lb (assuming no change in ginning margins), spinning margins at current yarn prices would drop by about 10 percent (see Table 3), enough to squeeze margins, but perhaps not enough to lead to a drop in consumption from current levels.

### **Consumption Defies Expectations**

Despite all of the predictions that power shortages in southern India would lead to a significant drop in consumption, consumption in both March and April exceeded two million 170 kg bales as spinning units in central and northern India compensated for lower output in the south. While mill buying generally continues to be for nearby needs, spinning margins are up nearly 10 percent over the past few weeks, suggesting that consumption remains strong. 2011/12 consumption is now estimated at 26 million 170 kg bales, up 600,000 bales from our May estimate.

On June 15, 2012, the textile industry got some good news when the government announced that the "Technology Upgradation Fund Scheme" known as TUFSS would be extended through March 31, 2013 (the end of the current fiscal year) as the "Restructured" –TUFSS. The scheme provides a range of incentives and subsidies to the industry and should help to ease some of the persistent fiscal burden from 2010/11 losses.

**Table 3: Indian Spinning Margins**  
(cents/lb)

	<b>India Cotton Ex-Gin*</b>	<b>India 40s Warp Yarn**</b>	<b>Spinning Margin</b>
January 20	89	159	70
January 27	87	159	72
February 3	86	164	78
February 10	86	164	78
February 17	85	164	79
February 24	83	164	81
March 2	83	164	81
March 9	77	164	87
March 16	80	161	81
March 23	79	161	82
March 30	82	161	79
April 6	83	161	78
April 13	80	161	81
April 20	80	161	81
April 27	80	161	81
May 4	83	161	78
May 11	84	169	85
May 18	80	169	89
May 25	75	169	94
June 1	77	166	89
June 8	74	166	92
June 15	76	164	88

\*Source: Cotton Association of India

\*\*Source: Local industry

**Table 4: Monthly Cotton Consumption by the Textile Sector  
(million 170 kg bales)**

	2009/10	2010/11	2011/12
Aug	1.859	2.173	1.806
Sep	1.829	2.143	2.167
Oct	1.812	2.209	1.768
Nov	1.847	2.110	1.817
Dec	1.949	2.257	2.007
Jan	1.954	2.210	2.039
Feb	1.881	2.023	2.026
Mar	2.001	2.176	2.028
Apr	2.053	2.017	2.022
May	2.093	1.864	2.100
Jun	2.071	1.823	2.100
Jul	2.211	1.898	2.100
Total	23.56	24.90	23.98

1. 2011/12 Figures in red (May-Jul) reflect FAS Mumbai estimates.
2. Does not include annual loss estimates of 2.2, 2.0 and 2.0 million bales respectively.

**A complete list of documents since the lifting of the export ban follows:**

DGFT Policy Circular <a href="#">61(RE-2010)/2009-14</a>	May 1, 2012
DGFT Notification <a href="#">113(RE-2010)/2009-14</a>	May 4, 2012
DGFT Notification <a href="#">114(RE-2010)/2009-14</a>	May 4, 2012
DGFT Trade Notice <a href="#">No.01/2012</a>	May 8, 2012
DGFT Trade Notice <a href="#">No.02/2012</a>	May 10, 2012
DGFT Trade Notice <a href="#">No.03/2012</a>	May 24, 2012

<a href="#">Ministry of Textiles Press Release</a>	April 30, 2012
<a href="#">Ministry of Textiles Press Release</a>	May 7, 2012
<a href="#">Ministry of Textiles Press Release</a>	May 9, 2012
<a href="#">Ministry of Textiles Press Release</a>	May 16, 2012
<a href="#">Ministry of Textiles Press Release</a>	May 21, 2012
<a href="#">Ministry of Agriculture Press Release</a>	June 14, 2012