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## India

**Post:** New Delhi

### Cotton Market Update

**Report Categories:**

Agricultural Situation

Agriculture in the Economy

Cotton and Products

Trade Policy Monitoring

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**Report Highlights:**

With concerns persisting about the late arrival of the Indian, 2012/13 area planted to cotton is expected to drop 200,000 hectares to 10.6 million hectares, significantly lower than the record 12.2 million hectares that were planted in 2011/12. If rains do not improve during August, area could drop further. 2012/13 production is forecast at 30.0 million 170 kg bales, down 700,000 bales from the current USDA estimate. Indian cotton continues to trade at a premium to the international market, prompting mills to increase their imports of cotton and exporters to sell stocks in the domestic market. Strong spinning margins are leading to robust mill consumption. 2012/13 exports are forecast 600,000 170 kg bales lower at 5.4 million 170 kg bales due to lower production prospects.

## **General Information:**

### **Area and Production Forecast Lower**

According to official reports, cotton sowing had reached 8.3 million hectares across India as of July 20, 2012. The pace is 700,000 hectares slower than the year-ago pace when Indian farmers planted a record 12.2 million hectares. The Government of India is currently projecting planted area of 11.5 million hectares, significantly higher than the current USDA estimate of 10.8 million hectares.

Within India, two-thirds of cotton is produced in the central cotton growing zone in the states of Maharashtra, Madhya Pradesh, Gujarat and Odisha where much of the crop is rain-fed. The northern zone, which consists of the states of Punjab, Haryana and Rajasthan, produces cotton under irrigated conditions and accounts for about 15 percent of production. In the south, the states of Andhra Pradesh, Karnataka and Tamil Nadu account for 20 percent of production.

Trade and official sources indicate that farmers in Gujarat and Maharashtra (India's largest cotton producing states) could still increase area if rains materialize in August, but yields will likely be affected due to late planting. Recent field travel to Gujarat indicates that cotton area is down by over 50 percent due to dry conditions. Farmers are shifting to guar and are waiting to see if rains materialize in early August before deciding to plant castor, cotton or more guar. A significant shift to groundnuts is not expected because the crop requires relatively significant levels of water.

While August rains could spur farmers to plant more cotton, persistent dry conditions at this late stage suggest that planted area will drop further and 2012/13 area is now estimated 200,000 hectares lower at 10.6 million hectares based on lower estimated area in Gujarat and Maharashtra. Yields are also expected to drop further to 480 kg per hectare, lowering production to 30 million 170 kg bales (23.4 million 480 bales), down 700,000 170 kg bales (547,000 480 lb bales) from the current USDA estimate.

### **Monsoon Weather Update**

Rains had been 30 percent below average from June 1 to July 4 and now that deficit has narrowed to 22 percent below average as of July 18, 2012. Dry conditions persist in the states of Maharashtra and Gujarat and certain areas of Karnataka. Andhra Pradesh and Tamil Nadu are the only states among the cotton growing belt that have received normal rainfall. The Northern belt consisting of Punjab and Haryana have largely remained unaffected by rainfall as most of the land is irrigated and less dependent of rainfalls. **For the latest monsoon report refer to [IN2099](#).**

## **Exports and Imports**

The estimate of 2011/12 (August/July) exports is unchanged at 12.68 million 170 kg bales (9.9 million 480 lb bales) as Indian cotton continued to trade at a premium to the international market during July, see Table 1 for more detail. Exporters have started to sell their stocks of cotton in the domestic market where prices are higher than the international market, a development that points to limited exports during the balance of the local (October/September) marketing year. 2012/13 exports are now forecast at 5.4 million 170 kg bales (4.2 million 480 lb bales) based on lower production prospects. The Government of India has not announced any changes to the current export policy.

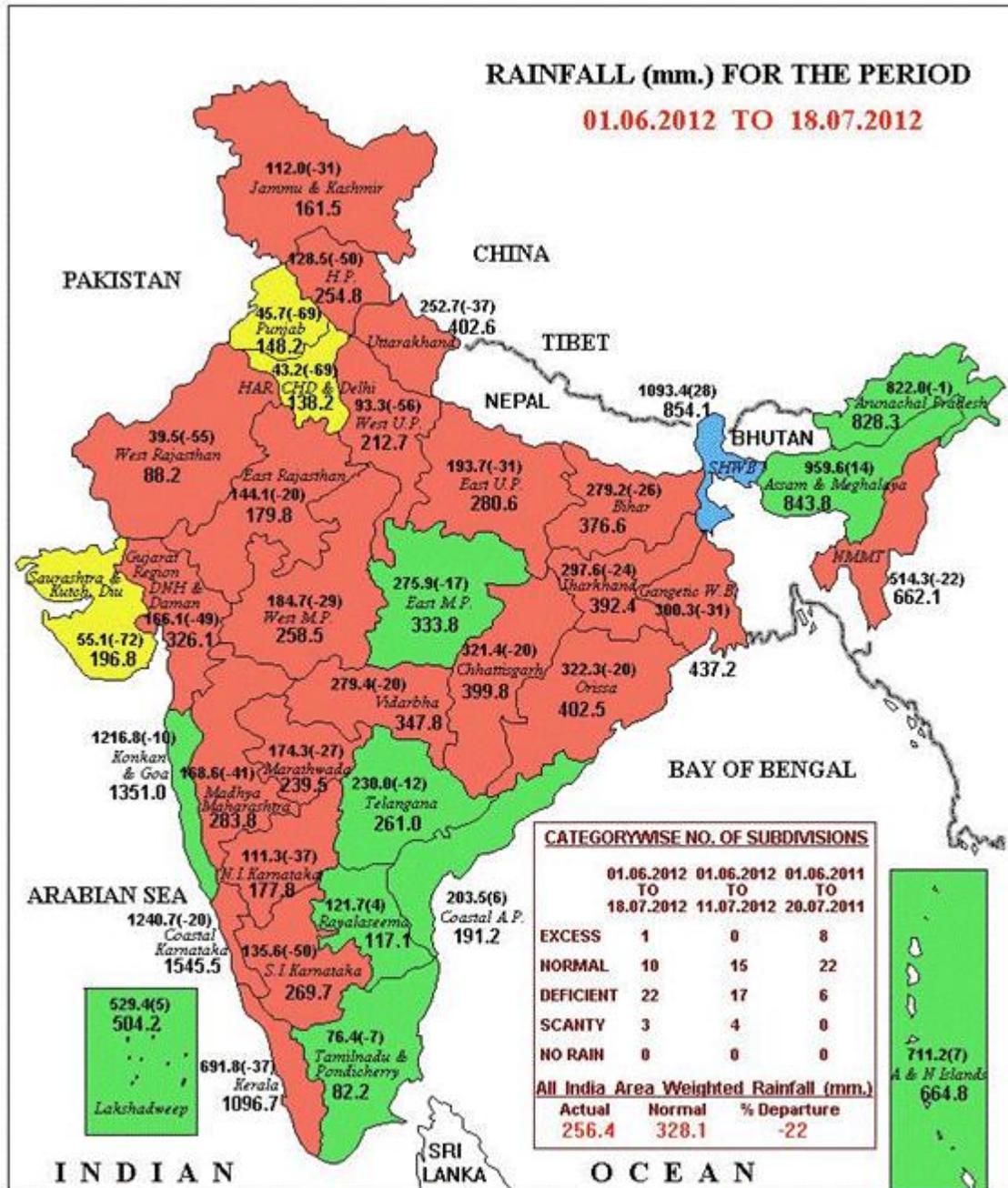
Textile mills are reportedly importing larger volumes of cotton and imports are expected to continue during the first two months of the 2012/13 (August/July) marketing year, lending support to the current USDA import forecast of 1.0 million 480 lb bales.

## **Consumption**

Mill consumption continues to remain strong, especially in Tamil Nadu. There is a high demand of cotton yarn from China. With relatively high spinning margins coupled with a better power situation, the consumption levels seem to be improving domestically. Consumption during June and July is now estimates at 2.15 million bales, bringing estimated 2011/12 consumption to 26.2 million 170 kg bales. Mills have reportedly increased their stock levels and are holding an average of 45 days of raw cotton as a buffer stock.

On July 21, 2012, the textile industry got some good news when the government announced that the “Technology Upgradation Fund Scheme” known as TUFS would be extended for the 12th five year plan (2012-17). 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.

Image 1: Rainfall (mm) for the period June 1, 2012 to July 18, 2012



**LEGEND:** ■ EXCESS (+20% OR MORE) ■ NORMAL (+19% TO -19%) ■ DEFICIENT [-20% TO -59%]  
■ SCANTY [-60% TO -99%] ■ NO RAIN [-100%]  NO DATA

**NOTES:**

- (a) Rainfall figures are based on operational data.
- (b) Small figures indicate actual rainfall (mm.), while bold figures indicate Normal rainfall (mm.)  
 Percentage Departures of Rainfall are shown in Brackets.

**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
June 22	78	74	-4	80	+2
June 29	80	71	-9	81	+1
July 6	82	71	-11	83	+1
July 13	83	73	-10	83	0
July 20	90	73	-17	85	-5
July 27	89	71	-18	83	-6

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

**Table 2: 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
June 22	78	164	86
June 29	79	166	87
July 6	82	169	87
July 13	83	169	86
July 20	89	173	84
July 27	89	181	92

\*Source: Cotton Association of India

\*\*Source: Local industry

**Table 3: 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	2.138
Jun	2.071	1.823	2.150
Jul	2.211	1.898	2.150
Total	23.56	24.90	24.20

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

**List of documents highlighting the cotton sowing progress:**

<a href="#">Ministry of Agriculture Press Release</a>	June 29, 2012
<a href="#">Ministry of Agriculture Press Release</a>	July 3, 2012
<a href="#">Ministry of Agriculture Press Release</a>	July 6, 2012
<a href="#">Ministry of Agriculture Press Release</a>	July 13, 2012
<a href="#">Ministry of Agriculture Press Release</a>	July 17, 2012
<a href="#">Ministry of Agriculture Press Release</a>	July 20, 2012
<a href="#">Ministry of Earth Science Press Release</a>	July 20, 2012
<a href="#">Ministry of Commerce &amp; Industry</a>	July 21, 2012