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Cotton and Products Update - January 2016

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Cotton and Products

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Report Highlights:
Post's production estimate for MY 2015/16 is lowered to 27.8 million 480 lb. bales. While mill consumption remains sluggish, the announcement of various government schemes and a weaker rupee are expected to provide a boost to the domestic textile industry. Too, the pace of cotton exports has slowed. Several policy announcements; including, an order on seed sales prices were announced by the Government of India.

General Information:

Cotton	2013/2014		2014/2015		2015/2016	
Market Begin Year	Aug 2013		Aug 2014		Aug 2016	
India	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	-	-	-	-	-	-
Area Harvested	11,700	11,960	12,700	12,900	11,800	11,800
Beginning Stocks	11,795	11,795	11,459	10,901	13,486	12,769
Production	31,000	31,000	29,500	29,600	28,000	27,800
Imports	675	675	1,226	1,226	1,000	800
MY Imports from U.S.	-	-	-	-	-	-
Total Supply	43,470	43,470	42,185	41,727	42,486	41,369
Exports	9,261	9,261	4,199	4,199	5,800	5,200
Use	23,250	23,308	24,500	24,759	25,000	24,800
Loss	(500)	-	-	-	-	-
Total Dom. Cons.	22,750	23,308	24,500	24,759	25,000	24,800
Ending Stocks	11,459	10,901	13,486	12,769	11,686	11,369
Total Distribution	43,470	43,470	42,185	41,727	42,486	41,369
(1000 HA) ,1000 480 lb. Bales						

MY 2015/16 Production Lowered on Pest and Weather Factors

FAS Mumbai's production forecast is lowered to 27.8 million 480 lb. bales (35.6 million 170 kg bales/6 mmt). Yields are down in Punjab and Haryana due to a high incidence of sucking pest (white fly) and pink bollworm in Gujarat (refer IN5142). Gujarat also was affected by heavy rains during the first month of planting and endured a long dry spell during the boll formation stage. The southern state of Karnataka has experienced lower arrivals but sources indicate that yields have not been as badly affected as in the north. Rather, the lower arrivals are largely attributed to a significant reduction (32 percent) in planted acreage.

Arrivals are Slowest Rate of the Past Three Years as Farmers Hold Cotton for Higher Prices and Production Forecast Cut Back

As of January 27, 2016, CCI reported nationwide MY 2015/16 arrivals at 11.24 million 480 lb. bales (14.4 million 170 kg bales/ 2.4 mmt). Daily arrivals are estimated at 121,415 480 lb. bales (155,500 170 kg bales/26,435 mt). This is the slowest that arrivals have been in the past three years. At present, arrivals are lagging by almost 30 percent compared to the previous year (refer Table 1 and 2). Trade sources indicate that farmers are holding cotton in anticipation of higher prices. Also, the lag in arrivals is attributable to late sowing, inadequate rains, and high levels of pest incidence during growth stages which subsequently affected boll maturation.

Table 1. India: Cotton Arrivals (in 170 kg bales) as of January 27, 2016

States	2013/14	2014/15	2015/16	Percentage Change Y-o-Y
Punjab	1,415,000	870,000	436,000	-50%
Haryana	1,280,000	1,448,000	728,600	-50%
Rajasthan	778,000	1,253,000	1,132,700	-10%
North	**3,473,000**	**3,571,000**	**2,297,300**	**-36%**
Gujarat	4,619,000	4,698,000	3,449,700	-27%
Maharashtra	3,066,000	4,154,000	3,209,750	-23%
Madhya Pradesh	1,093,000	1,000,000	1,094,700	9%
Central	**8,778,000**	**9,852,000**	**7,754,150**	**-21%**
Andhra Pradesh	3,804,000	1,611,000	866,000	-46%
Telangana		3,941,000	2,724,100	-31%
Karnataka	746,000	1,340,000	562,150	-58%
South	**4,550,000**	**6,892,000**	**4,152,250**	**-40%**
Orissa	86,000	138,000	129,000	-7%
Others	169,000	223,000	75,000	-66%
Total	**17,056,000**	**20,676,000**	**14,407,700**	**-30%**

Source: The Cotton Corporation of India

Table 2. India: Cotton Arrivals (in 480 lb bales) as of January 27, 2016

States	2013/14	2014/15	2015/16	Percentage Change Y-o-Y
Punjab	1,104,837	679,299	340,430	-50%
Haryana	999,429	1,130,604	568,894	-50%
Rajasthan	607,465	978,347	884,417	-10%
North	**2,711,732**	**2,788,251**	**1,793,741**	**-36%**
Gujarat	3,606,533	3,668,216	2,693,539	-27%
Maharashtra	2,393,945	3,243,459	2,506,185	-23%
Madhya Pradesh	853,419	780,804	854,746	9%
Central	**6,853,896**	**7,692,479**	**6,054,470**	**-21%**
Andhra Pradesh	2,970,178	1,257,875	676,176	-46%
Telangana		3,077,148	2,126,988	-31%
Karnataka	582,480	1,046,277	438,929	-58%
South	**3,552,657**	**5,381,300**	**3,242,093**	**-40%**
Orissa	67,149	107,751	100,724	-7%
Others	131,956	174,119	58,560	-66%
Total	**13,317,390**	**16,143,900**	**11,249,588**	**-30%**

Minimal MSP Intervention as Prices Remain Strong

MSP operations in MY 2015/16 are underway across India with close to 625,083 480 lb. bales (800,563 170 kg bales) purchased as of January 27. Almost 80 percent of the CCI procured cotton under MSP is from the southern states of Telangana and Andhra Pradesh followed by the central cotton growing state of Maharashtra. Seed cotton prices remain firm (refer figure 1b) and continue trading above MSP prices in most of the cotton growing states.

Stocks

CCI has auctioned most of the 2014/15 crop purchased under the MSP program last season, and are holding around 19,500 480 lb. bales (25,000 170 kg bales/ mt).

Consumption

The FAS Mumbai consumption forecast for MY 2015/16 is lowered to 24.8 million 480 lb. bales; 200,000 480 lb. bales lower than the USDA forecast. Only data through November 2015 is published, but average monthly mill consumption for the months of August through November of MY 2015/16 is 1.92 million 480 lb. bales (2.46 million 170 kg bales/418,000 mt). Though mill consumption for MY 2015/16 could pick up with support from certain Government of India issued export benefits for the textile sector, the year-to-date consumption trend is down and it may be difficult to regain ground over the remainder of the season. The Textile Commissioner's office revised its consumption estimates and Post has adjusted the MY 2014/15 estimate accordingly.

Although Indian ex-gin prices are lower than the Cotlook A Index (figure 1a) and make Indian cotton very competitive, mill demand remains sluggish. Cotton yarn prices also came down during January as exports slowed.

Trade

The FAS Mumbai MY 2015/16 import forecast is 800,000 480 lb. bales (1 million 170 kg bales/ 174,000 mt). Trade sources indicate that mills will begin limiting imports as newer crop arrivals pick up. In the meantime, new crop cotton from Australia followed by Pima from the United States is still regularly imported. Historically imports pick up during latter part of the season as market arrivals for cheaper lower grade cotton dries up. But sources indicate that mills may import intermittently during the season as Indian crop is reportedly facing quality issues and mill demand for specific grades and parameters needs to be covered.

The FAS Mumbai MY 2015/16 export forecast is 5.2 million 480 lb. bales (6 million 170 kg bales/1 mmt) and reflects a decrease from the USDA official forecast. Even with a weaker Indian rupee, due to anticipated reductions in buying by neighboring markets, exports are expected to be lower than the current official forecast. While shipments to Bangladesh and Pakistan remained strong, trade sources indicate that Indian exports to Bangladesh market may see a drop in the coming months as Bangladesh mills face liquidity issues, and Pakistan reaches its limited buying capacity while covering its immediate shortfall. Exports primarily consisted of new crop Shankar 6 and MCU 5 cotton varieties. Vietnam and China were the other major export markets. Indian currency has weakened against the dollar by more than two percent since December 2015 providing much needed incentive to the exporters to explore newer markets.

Policy

Gujarat Government MSP Bonus Announcement

On December 16, 2015, the state of Gujarat announced an additional bonus of Rs. 110 per 20 kg of seed cotton to cotton farmers over and above MSP. This means that farmers will receive Rs. 920 per 20 kg of seed cotton or Rs. 4,600 per 100 kg (quintal) when they sell their crop to the Cotton Corporation of India (CCI). Farmers have to submit their bill of sale received from CCI and the receipt from the market yard of delivery to get the bonus from the agriculture market board.

Cabinet Approves Amended Technology Upgrade Fund Scheme (ATUFS) for Textiles

On December 30, 2015, the Government of India approved the "Amended Technology Upgrade Fund Scheme (ATUFS)" Scheme for technological improvements in the textiles industry. The amended scheme targets employment generation by promoting exports, promoting technical textiles, and supports the upgrading of looms, and processing in the garment sector. Under ATUFS, there are two broad categories. The first is for "apparel, garment and technical textiles". This category will be provided a 15 percent subsidy on capital investments, subject to a ceiling of $4.4 million (Rs. 30 crore) per establishment over a period of five years. The remaining categories will be eligible for a 10 percent of capital subsidy with a ceiling of $2.9 million (Rs. 20 crore) on similar terms.

Before being amended, the Technology Upgrade Fund Scheme (TUFS) was introduced by the Government in 1999. TUFS facilitated new technological investments by reducing the capital cost for the textile industry. The scheme was amended previously for continuation during the 12th Five year Plan (2012-2017). However, the amount set aside by the government has been exhausted and the Ministry of Finance increased the allocation.

Government of India issues Cotton Planting Seed Price (Control) Order 2015

On December 7, 2015, the Government of India published an order that fixes the sale price of cotton seeds for sowing. Though this order aims to ensure that farmers receive a fair, reasonable, and affordable price, according to information published by the Ministry of Agriculture and received from industry sources, seed prices account for only 5 to 9 percent of the total cost of cultivation with greater variability attributed to production style (irrigated/non-irrigated), chemical usage, and seeding intensity.

The order calls for the price to be fixed on or before March 31 and to extend through the following Indian fiscal year which runs April 1 through the following March 31. Since issuing the order, the Government formed a committee to determine the maximum retail price that farmers will need to pay to seed retailers. The order establishes that it will set the price of the seed licensing and royalty fees, as well. A few cotton growing states issued similar price control orders in the past but the new order is binding and covers the entirety of India.

Table 3a. India: Estimate of 2014/15 Cotton Exports

	170 kg	Metric Tons	480 lb.
August Exports 1\	99,671	16,944	77,824
September Exports 1\	128,129	21,782	100,044
October Exports 1\	185,618	31,555	144,931
November Exports 1\	733,559	124,705	572,766
December Exports 1\	1,013,571	172,307	791,400
January Exports 1\	670,765	114,030	523,736
February Exports 1\	672,494	114,324	525,086
March Exports 1\	758,306	128,912	592,088
April Exports 1\	382,882	65,090	298,956
May Exports 1\	235,476	40,031	183,861
June Exports 1\	208,412	35,430	162,729
July Exports 1\	288,318	49,014	225,120
Total Aug-Jul	**5,377,200**	**914,124**	**4,198,539**

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

Table 3b. India: Estimate of 2015/16 Cotton Exports

	170 kg	Metric Tons	480 lb.
August Exports 1\	277,253	47,133	216,480
September Exports 1\	345,118	58,670	269,469
October Exports 1\	445,082	75,664	347,522
November Estimated Exports 2\	1,248,000	212,160	974,443
December Estimated Exports 2\	1,664,000	282,880	1,299,258
January Estimated Exports 2\	650,000	110,500	507,522
Preliminary Total Aug-Jan	**4,629,453**	**787,007**	**3,614,695**

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

2\ FAS Mumbai estimate

Table 4a. India: Estimate of 2014/15 Cotton Imports

	170 kg	Metric Tons	480 lb.
August Imports 1\	161,735	27,495	126,284
September Imports 1\	329,041	55,937	256,917
October Imports 1\	197,712	33,611	154,374
November Imports 1\	125,018	21,253	97,614
December Imports 1\	50,094	8,516	39,114
January Imports 1\	52,071	8,852	40,657
February Imports 1\	72,382	12,305	56,516
March Imports 1\	73,094	12,426	57,072
April Imports 1\	81,824	13,910	63,888
May Imports 1\	98,547	16,753	76,946
June Imports 1\	121,929	20,728	95,203
July Imports 1\	207,035	35,196	161,654
Total Aug-Jul	**1,570,482**	**266,982**	**1,226,239**

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

Table 4b. India: Estimate of 2015/16 Cotton Imports

	170 kg	Metric Tons	480 lb.
August Imports 1\	177,141	30,114	138,312
September Imports 1\	182,641	31,049	142,607
October Imports 1\	99,800	16,966	77,924
November Estimated Imports 2\	53,000	9,010	41,383
December Estimated Imports 2\	43,500	7,395	33,965
January Estimated Imports 2\	34,000	5,780	26,547
Preliminary Total Aug-Jan	**590,082**	**100,314**	**460,738**

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

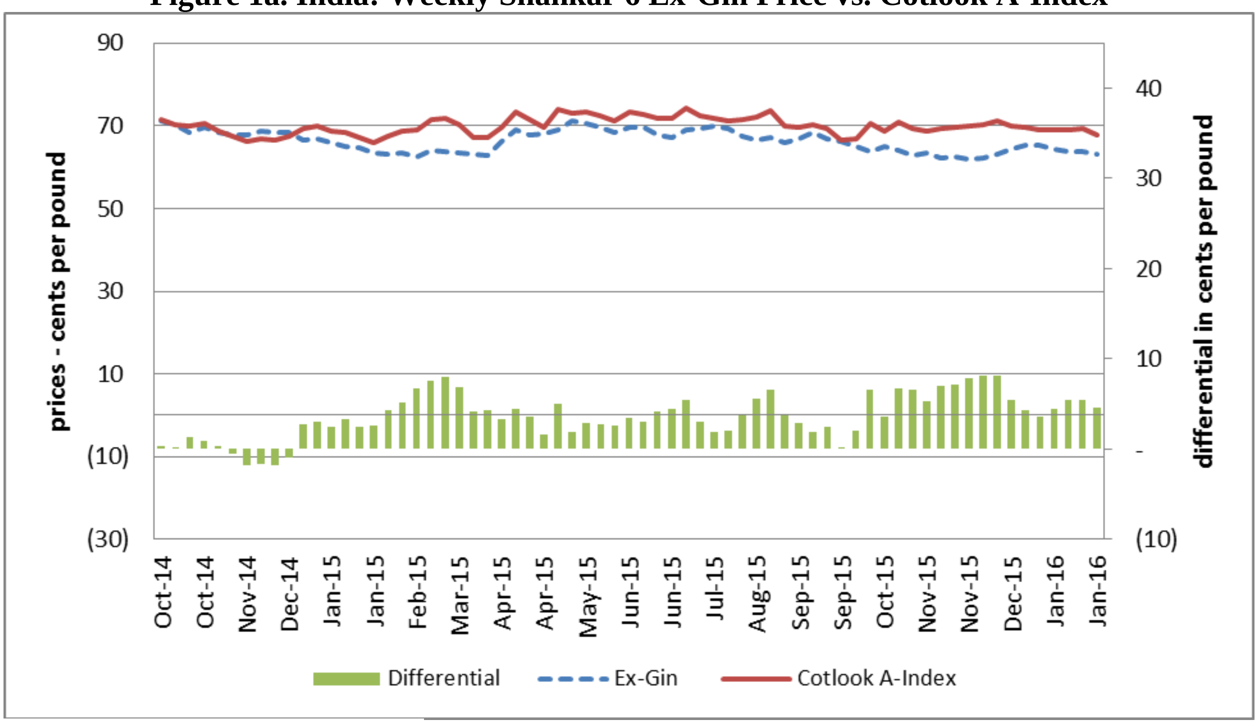
2\ FAS Mumbai estimate

Table 5. India: Monthly Cotton Consumption by the Textile Sector (Million 170 kg bales)

Month	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
Aug	2.173	1.864	2.207	2.423	2.446	2.587
Sep	2.143	2.170	2.146	2.370	2.581	2.454
Oct	2.209	1.776	2.185	2.403	2.416	2.449
Nov	2.110	1.834	2.109	2.296	2.504	2.374
Dec	2.257	2.013	2.264	2.516	2.589	
Jan	2.210	2.033	2.330	2.519	2.577	
Feb	2.023	2.030	2.224	2.323	2.458	
Mar	2.176	2.038	2.361	2.507	2.618	
Apr	2.017	2.031	2.322	2.431	2.557	
May	1.864	2.128	2.285	2.439	2.562	
Jun	1.823	2.117	2.251	2.410	2.561	
Jul	1.900	2.213	2.411	2.454	2.556	
Loss*	*1.338*	*0.500*	*0.783*	*0.632*	*1.284*	*1.100*
Total	**26.243**	**24.747**	**27.878**	**29.723**	**31.709**	

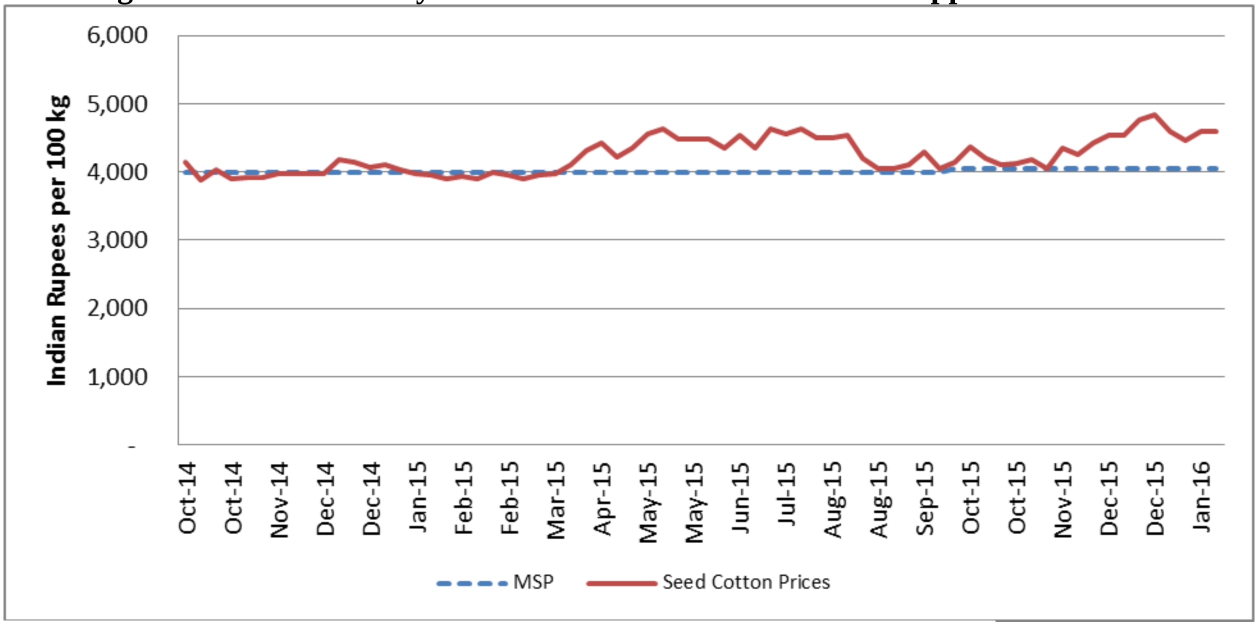
*Loss estimate from the Cotton Advisory Board
Source: Textile Commissioner

Figure 1a. India: Weekly Shankar 6 Ex-Gin Price vs. Cotlook A-Index



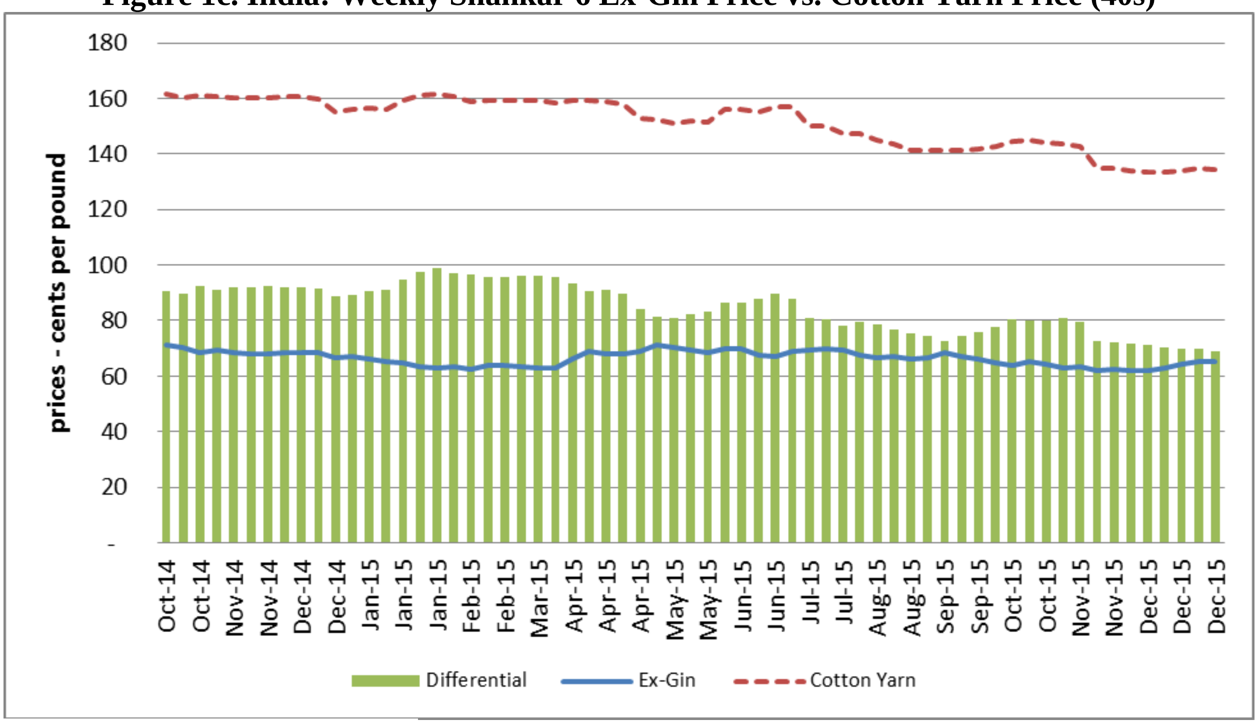
Source: Cotton Association of India
Cotlook A-Index

Figure 1b. India: Weekly Seed Cotton Prices vs. Minimum Support Price – Shankar-6



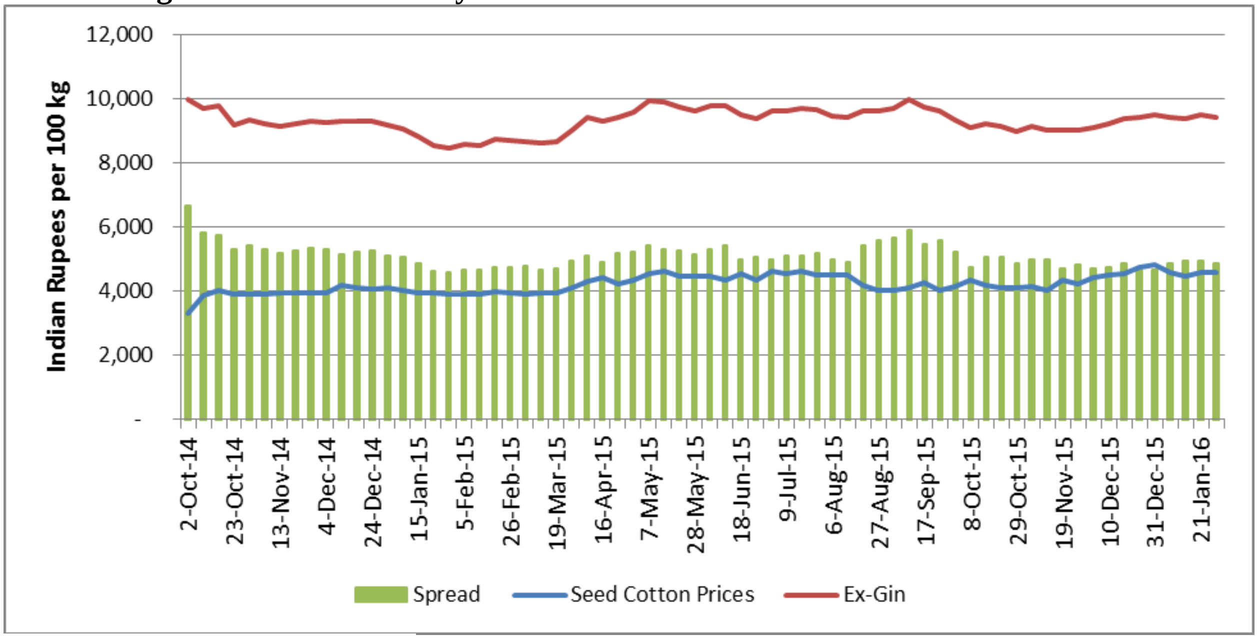
Source: Agriculture Marketing Information Network, Ministry of Agriculture

Figure 1c. India: Weekly Shankar 6 Ex-Gin Price vs. Cotton Yarn Price (40s)



Source: Cotton Association of India
Tecoya Trend

Figure 1d. India: Weekly Seed Cotton Prices vs. Shankar 6 Ex-Gin Prices



Source: Cotton Association of India

Agriculture Marketing Information Network, Ministry of Agriculture