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Cotton and Products Update - July 2016

Report Categories:
Cotton and Products

Approved By:
Adam Branson
Prepared By:
Dhruv Sood

Report Highlights:
Post lowered its MY 2016/17 area and production forecasts to 11.2 million hectares and 27 million 480 lb. bales. Despite a good monsoon, farmers have shifted area to food crops owing to expected returns and continued risk of cotton pest pressure and associated input costs. As domestic arrivals slow, Indian ex-gin cotton prices have gone higher than Cotlook A prices and mills are importing. The Cotton Advisory Board revised its MY 2014/15 and MY 2015/16 estimates. The Government of India raised the minimum support price of cotton by 1 percent for MY 2016.

General Information:

Cotton	2014/2015		2015/2016		2016/2017	
Market Begin Year	Aug 2014		Aug 2015		Aug 2016	
India	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	-	-	-	-	-	-
Area Harvested	12,700	12,846	11,900	11,910	11,500	11,200
Beginning Stocks	11,459	11,459	13,486	14,479	11,186	11,945
Production	29,500	30,139	26,800	26,391	27,500	27,000
Imports	1,226	1,226	950	1,025	950	1,000
MY Imports from U.S.	-	-	-	-	-	-
Total Supply	42,185	42,824	41,236	41,895	39,636	39,945
Exports	4,199	4,199	5,800	5,800	4,200	4,500
Use	24,500	24,146	24,250	24,150	24,000	24,200
Loss	-	-	-	-	-	-
Total Dom. Cons.	24,500	24,146	24,250	24,150	24,000	24,200
Ending Stocks	13,486	14,479	11,186	11,945	11,436	11,245
Total Distribution	42,185	42,824	41,236	41,895	39,636	39,945
(1000 HA), 1000 480 lb. Bales						

Area and Production

FAS Mumbai revised the cotton area forecast for MY 2016/17 to 11.2 million hectares which is almost a 6 percent reduction from the previous year. Despite a good monsoon, farmers have shifted area to food crops. This is attributed to expected market revenue, support, and policy advocacy issued by central and state governments to plant pulses, oilseeds, maize, and other agro-forestry products. In addition, farmers report concern with persisting pest pressures and rising input costs.

The drop in planted area will be partially offset with anticipated higher yields, but not enough to increase overall production. As such, the FAS Mumbai production forecast is 27 million 480 lb. bales (34.5 million 170 kg bales/ 5.86 mmt) which is a 500,000 480 lb. bale reduction from the USDA official forecast. For MY 2016/17, crop yields are estimated at 524 kg/hectare, slightly higher than three year average.

North India

According to the state government of Punjab, planted area in 2016 is 256,098 hectares. This is a 42 percent reduction from MY 2015/16. Historically, Punjab was responsible for 4 percent of total cotton acreage. Last season the Punjab cotton area was affected by whitefly infestations and officials indicate that the pest pressure was responsible for turning out the lowest ever cotton crop yield in the state. This year, the Punjab government advised farmers to finish planting cotton before May 15 or risk creating conditions favorable for whitefly breeding. Fear of pest infestations, lack of pre-monsoon rains, and limited access to irrigation water discouraged farmers from planting cotton in the area. Sources suggested and recent FAS Mumbai travel confirms that farmers planted pulses and maize and as irrigation water was released, opted to plant rice.

During recent FAS Post travel, the cotton crop was at an early flowering stage. The crop indicated the presence of whiteflies, but the levels were below the threshold level of 6-8 whiteflies per leaf to cause alarm. Weekly advisories published by Central Institute of Cotton Research (CICR) – the nodal agency for cotton research – indicated whitefly incidence in certain Punjab districts and recommended insecticide and weeding control measures.

Cotton planting in Haryana concluded for the year and is estimated at 496,522 hectares. The area is 14 percent lower than last year. Overall, area shifted to pulses (pigeon pea) and maize, but farmers in some districts have continued planting cotton due to a lack of alternatives as the delayed monsoon restricted farmer options. According to the Haryana Agriculture Department, area under non-Bt cotton cultivation increased from 3 percent to 7 percent in 2016. In most areas, the crop was in the square and boll formation stage and farmers were focused on weeding operations.

In Rajasthan, the pace of planting is higher than last year, but overall area is expected to be lower as farmers shift area from cotton, soybeans, and cluster bean (Guar) to pulses and cereals.

Central India

FAS Mumbai forecasts Gujarat planted area to be lower than last year by 14 percent. As of July 29, 2016, sowing in Gujarat reached over 2.0 million hectares. The state has received below normal (i.e., deficit) rainfall during the monsoon in most of the cotton growing districts. Recent FAS travel to Gujarat indicated that a large area shifted away from cotton to groundnut and pulses. The delayed monsoon left farmers with limited water for irrigation and spraying, but there are no pest incidences reported. Though yields are expected to be higher than last year when the crop was affected by the pink bollworm, the crop yield is forecast to be lower than the five-year average.

In Gujarat, farmers report shifting towards groundnut and pulses as these crops result in greater price realization and are considered less risky with a shorter crop cycle, reduced irrigation requirements, and have much lower input costs. Weather forecasts indicate more than 45 percent deficit rainfall in the three districts covered during the Post crop survey. While precipitation levels have been below normal, forecasts through mid-August indicate light to moderate rainfall.

According to CICR advisories, farmers were advised not to plant any cotton after July 15, as a late sown crop will need to be managed for pink bollworm infestations. Farmers are being advised to monitor for pink bollworm, remove and destroy crop residues/ground cover, and install pheromone traps.

FAS Mumbai forecasts the cotton area in the state of Maharashtra to be higher than last year as the cotton growing districts have received excess rainfall; especially, in eastern Maharashtra. Recent FAS travel to the region indicated favorable crop conditions with adequate soil moisture and no pest pressure. As of July 29, 2016, planted area reached 3.62 million hectares. Other crops with increased planted area included soybean and pulses.

Area in Madhya Pradesh is expected to be higher than last year as farmers shift area to cotton from soybean. Floods in Madhya Pradesh affected the central and eastern parts of the state while the cotton growing districts in western Madhya Pradesh received normal rainfall.

South India

In Telangana, though planting continues, the cotton planted area as of July 29, 2016 was lower by 26 percent from last year. FAS Mumbai forecasts area in Telangana to be lower by 12 percent from last year once sowing is complete. The major cotton growing districts in northern Telangana received excess rainfall, but the sowing is slower than last year as farmers shifted to rice, maize, and pulses (red gram and green gram). The state government discouraged farmers from planting cotton and encouraged a shift to alternate crops such as soybeans.

In the neighboring state of Andhra Pradesh, favorable weather conditions have led to higher cotton planting area across cotton growing districts. Cotton is at the sowing to vegetative stage. There are also large area increases under rice, pearl millet, pulses (red gram and black gram), groundnut and other oilseeds (including, sesame and castor).

In Karnataka, the cotton area is slightly lower than last year as the area has increased land to pulses (tur), maize and sorghum. FAS Mumbai forecasts the cotton area in Karnataka to be lower by 2 percent compared to last year. The cotton crop in most districts of Karnataka is at a seedling stage, while cotton is in a boll development stage in the state of Tamil Nadu where area is expected to remain unchanged.

2015 Crop Arrivals Near Complete

Cotton Corporation of India (CCI) arrivals by July 27 reached 26.17 million 480 lb. bales (33.52 million 170 kg bales/5.69 mmt). Arrivals are almost 99 percent of the total MY 2015 production estimate of the Cotton Advisory Board with another two months remaining in the season. CCI is estimated to be holding around 19,520 480 lb. bales (25,000 170 kg bales). In MY 2015, CCI procurement under MSP program was around 659,126 480 lb. bales (844,163 170 kg bales /143,508 mt).

On July 16, 2016, the Ministry of Textiles issued a press release informing that the recent spurt in cotton prices has resulted in higher input costs for the spinning sector. Consequently the Cotton Corporation of India will sell its existing stock, purchased under MSP, to spinning mills in the Micro, Small and Medium Enterprises (MSME) category only. This would be for such MSME spinning textile units registered with the Office of Textile Commissioner. For details refer here. Small mills typically do not have the capacity to maintain stocks and procure small quantities of cotton on a daily basis. Keeping in view the current market prices, CCI has been mandated to sell its remaining stock to these small units.

Cotton Advisory Board revised MY2014 & MY2015 estimates

On July 13, 2016, the Cotton Advisory Board (CAB) revised the MY 2014 and MY 2015 cotton balance sheet. FAS Mumbai has updated the area and production estimates to reflect the CAB figures for MY 2014 and MY 2015.

Trade

FAS Mumbai MY 2016/17 exports are forecast at 4.5 million 480 lb. bales (5.7 million 170 kg bales/ 980,000 mt). Exports in MY 2016 are expected to be lower than MY 2015 as buyers in traditional markets of Pakistan and China look towards their respective domestic supplies for consumption. Indian merchants and exporters however are increasingly diversifying trade to newer markets such as Indonesia, Taiwan, Turkey and Thailand though their dependence on Bangladesh and Vietnam remains high.

For MY 2015, exports are forecast unchanged from the USDA official estimate at 5.8 million 480 lb. bales (7.42 million 170 kg bales/ 1.26 mmt) based on trade data (refer table 2a). In June almost half of the total cotton shipments exported were from ports in Gujarat. Shipments mostly consisted of the current year's crop of 29 mm Shankar-6. Top export destination for June shipments were Bangladesh followed by Vietnam and China.

The FAS Mumbai MY 2016/17 import forecast is 1 million 480 lb. bales (1.2 million 170 kg bales/ 218,000 mt). Trade sources indicate large orders have been placed for imported cotton as domestic supplies tighten and the available domestic cotton is priced higher than imported cotton.

In MY 2015, imports are forecast at 1.025 million 480 lb. bales (1.31 million 170 kg bales/ 223,000 mt) based on trade data (refer table 3). June imports consisted of large volumes of West African cotton (45 percent) followed by American pima cotton (28 percent) and the new 2016 Australian cotton crop (11 percent). July shipments were slightly higher than the previous month. More than 65 percent of imported shipments were destined for southern India indicating mills needed to cover their near term requirements. Most shipments into southern India were West African cotton (70 percent) followed by American and Australian cotton.

Consumption

FAS Mumbai forecasts MY 2016 consumption slightly higher than the USDA official forecast at 24.2 million 480 lb. bales. With global demand for cotton products not keeping pace with man-made fibers, consumption is expected to be essentially flat from the previous marketing year.

Since August 2015, seed cotton prices have climbed 44 percent. In addition, ginned cotton prices rose 31 percent from 68 cents per pound in August 2015 to 89 cents per pound. Industry sources report this is affecting the profitability of the industry. As a result, mills will need to import cotton from the world market rather than wait for the Indian crop that is harvested in late October. Small to medium-sized mills that typically don't have coverage for more than a few weeks report that they are not sourcing domestically as buying at current prices is not viable. Instead, these small and medium-sized mills are opting to import from West Africa, United States and Australia.

Based on a year-on-year comparison of textile consumption data, there is a reduction of 1 percent from the August to May period. The average monthly consumption for 2015 remains at 1.9 million 480 lb. bales (2.49 million 170 kg bales). Even the most traded 30s count spun cotton yarn prices since October 2015 have risen by 19 percent.

Minimum Support Price for Cotton Increased by 1 percent

On June 1, 2016, the Government of India announced the Minimum Support Prices (MSP) and bonus for Kharif crops for the MY 2016/17 season. To promote planting, bonuses were announced by Government of India for pulses and oilseeds. The MSP and bonus for pulses resulted in an average increase of 8 percent while the MSP and bonus for oilseeds resulted in an increase of 5 percent over previous MSPs. The MSP increase for cotton was 1 percent.

Table 1: India. Kharif 2016 - Cotton Sowing Position (area in 100,000 hectares)

State	2015/16 as on July 29, 2015	2016/17 as on July 29, 2016	Difference
Andhra Pradesh	2.78	2.85	3%
Gujarat	23.48	20.38	-13%
Haryana	5.81	4.98	-14%
Karnataka	3.69	3.60	-2%
Madhya Pradesh	5.42	5.27	-3%
Maharashtra	36.10	36.27	0%
Odisha	1.19	1.26	6%
Others	-	-	-
Punjab	4.50	2.56	-43%
Rajasthan	3.49	3.74	7%
Tamil Nadu	0.03	0.03	0%
Telangana	15.21	11.22	-26%
Uttar Pradesh	0.21	0.17	-19%
All India	**101.91**	**92.33**	

Source: Ministry of Agriculture, Government of India

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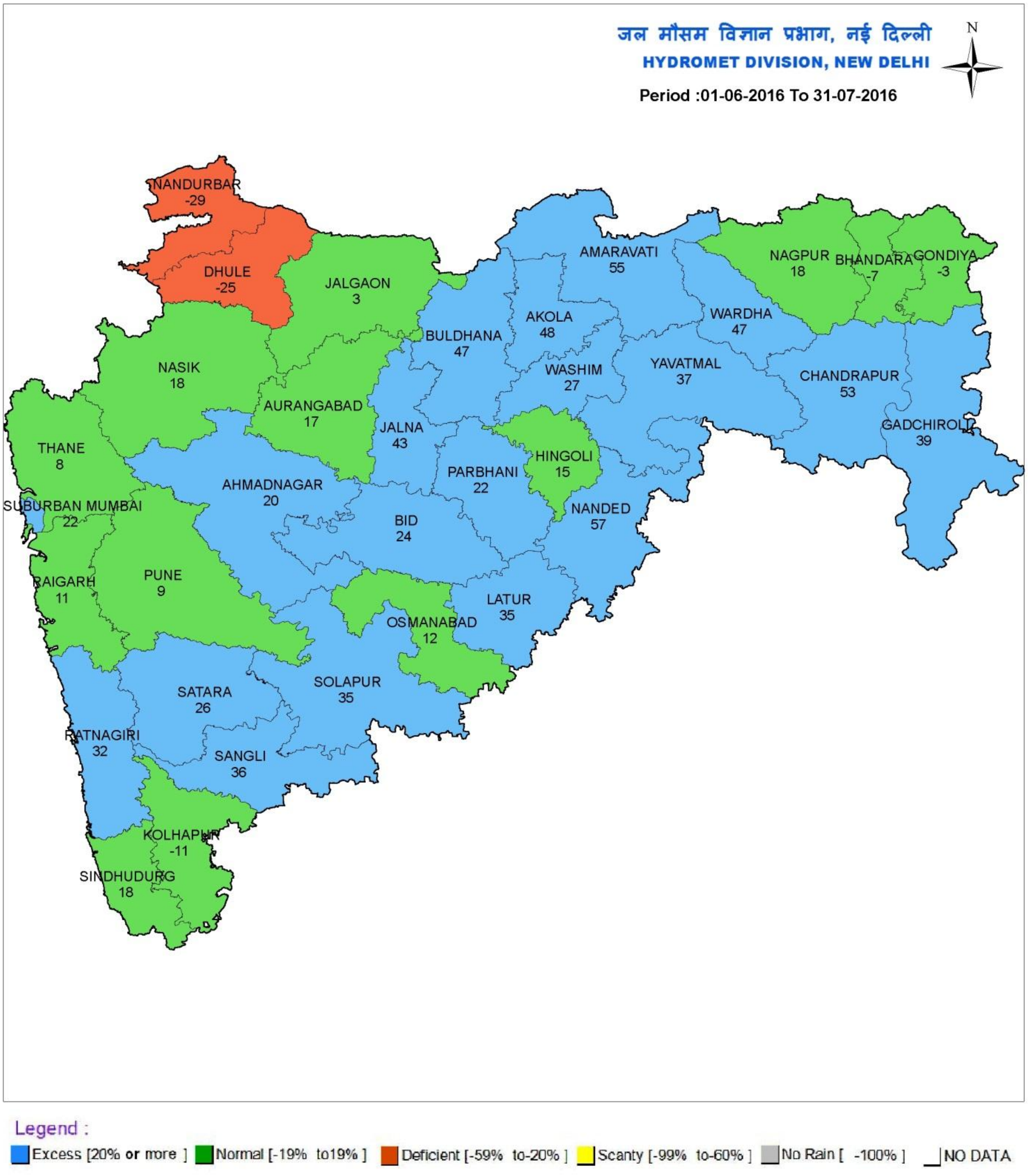
INDIA METEOROLOGICAL DEPARTMENT

DISTRICT RAINFALL DEPARTURE MAP - MAHARASHTRA



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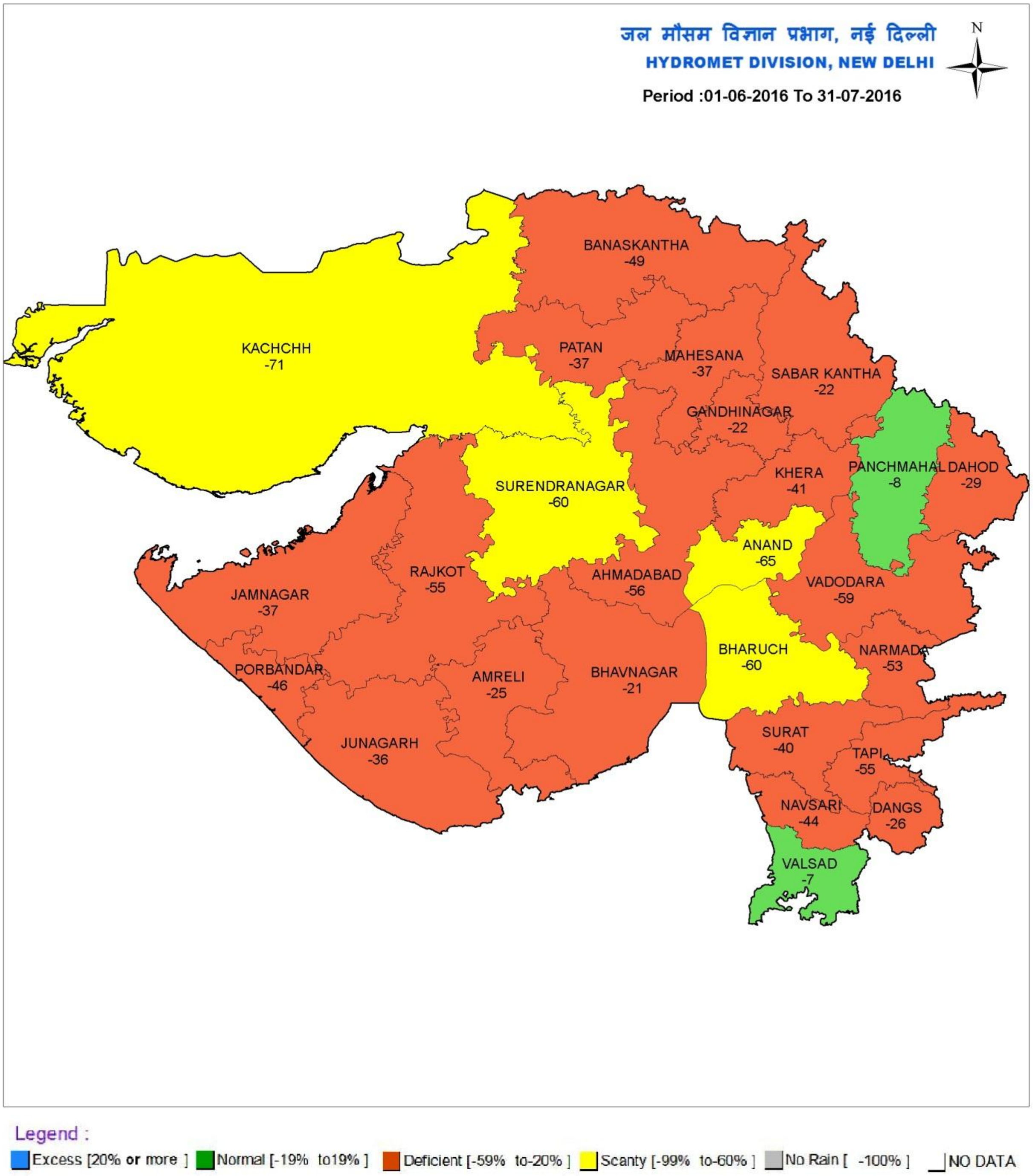
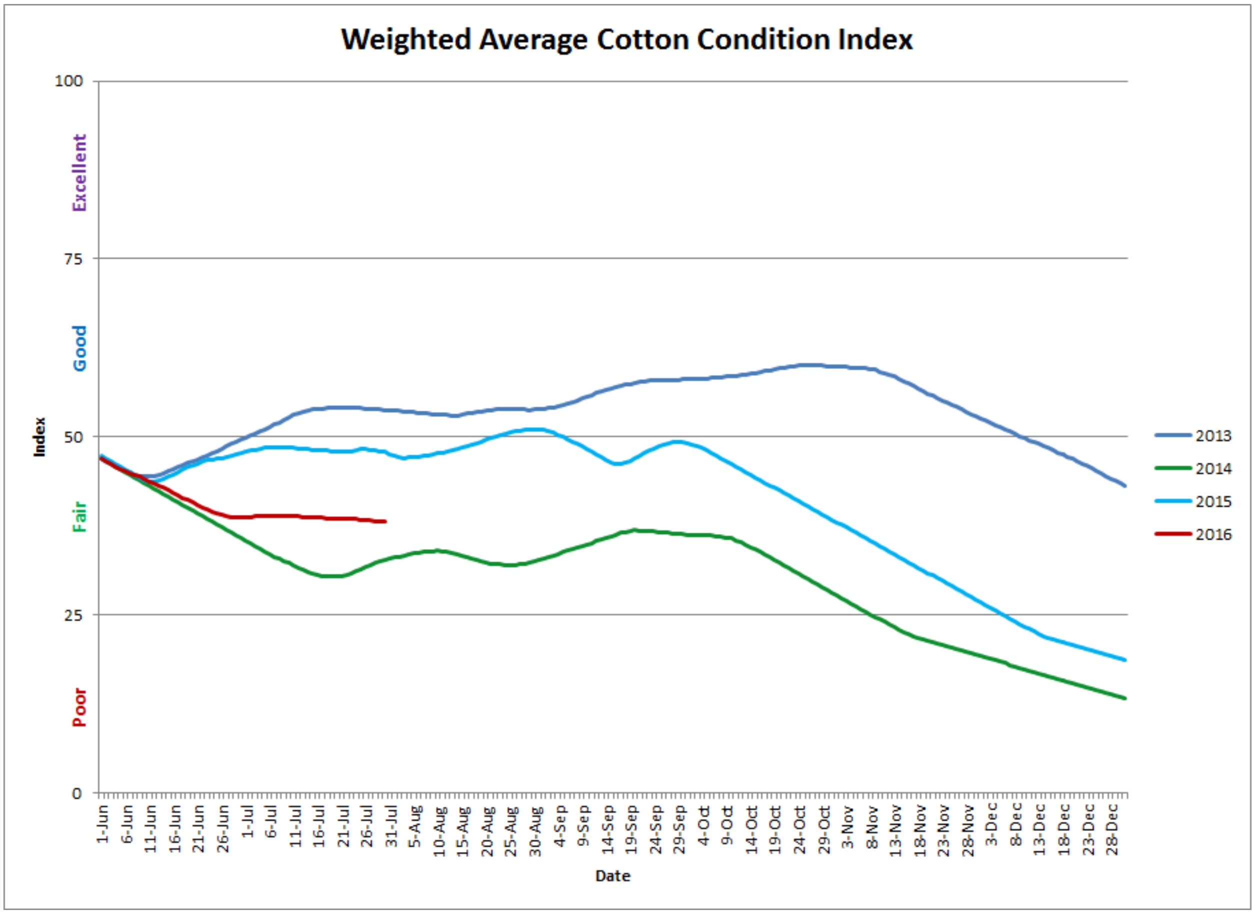
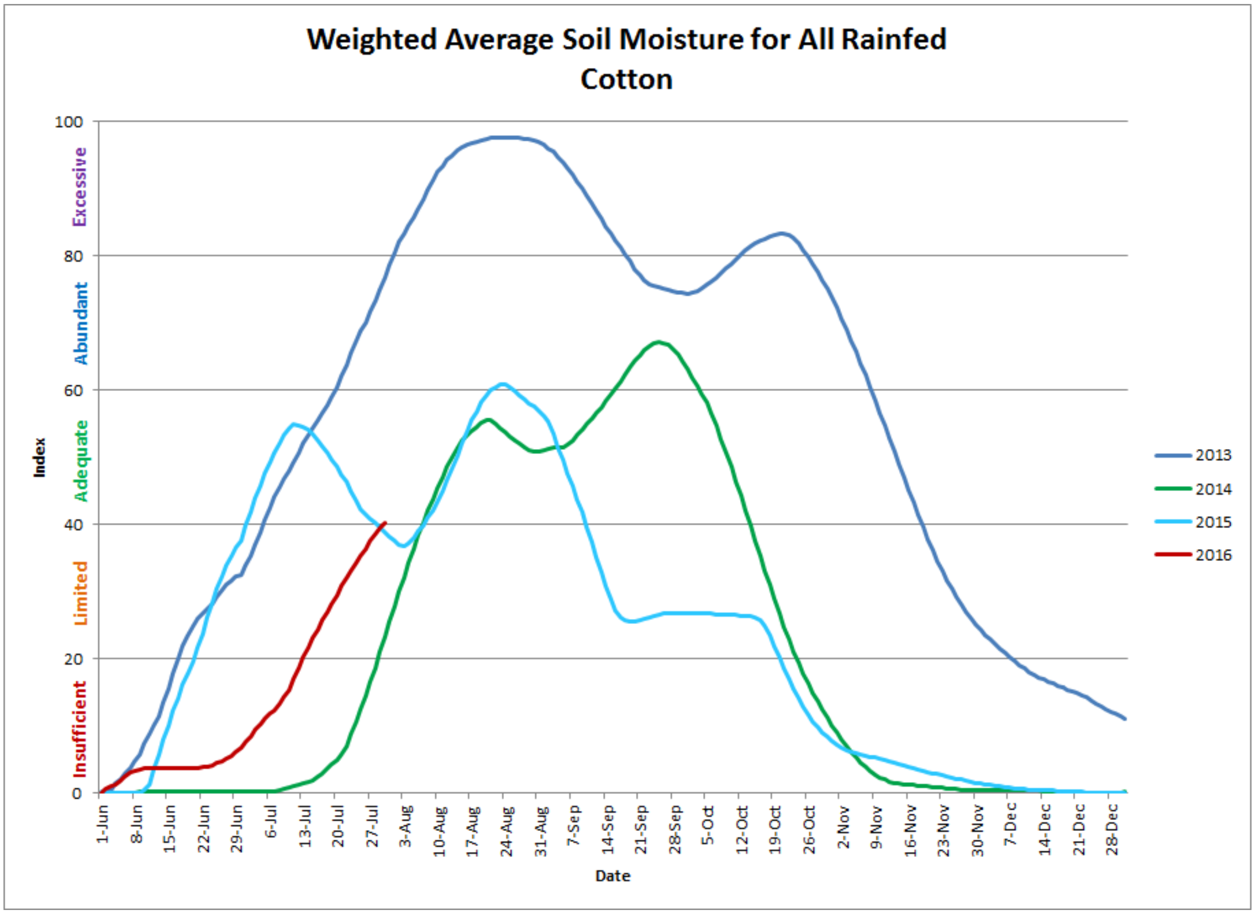
DISTRICT RAINFALL DEPARTURE MAP - GUJARAT





Source**:** USDA/World Agricultural Outlook Board (WAOB)



Source**:** USDA/World Agricultural Outlook Board (WAOB)

Table 2a. 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\	235,553	40,044	183,921
June Exports 1\	208,412	35,430	162,729
July Exports 1\	288,318	49,014	225,120
Total Aug-Jul	**5,378,276**	**914,137**	**4,198,599**

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

Table 2b. 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 Exports 1\	1,301,412	221,240	1,016,147
December Exports 1\	1,773,165	301,438	1,384,494
January Exports 1\	986,776	167,752	770,478
February Exports 1\	815,424	138,622	636,686
March Exports 1\	564,876	96,029	441,057
April Exports 1\	330,047	56,108	257,702
May Exports 1\	283,765	48,240	221,565
June Estimated Exports 2\	162,000	27,540	126,490
July Estimated Exports 2\	75,000	12,750	58,560
Preliminary Total Aug-Jul	**7,359,918**	**1,251,186**	**5,746,652**

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 3a. 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 3b. 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 Imports 1\	52,259	8,884	40,804
December Imports 1\	46,912	7,975	36,629
January Imports 1\	41,988	7,138	32,784
February Imports 1\	45,129	7,672	35,237
March Imports 1\	97,265	16,535	75,945
April Imports 1\	140,047	23,808	109,349
May Imports 1\	126,988	21,588	99,153
June Estimated Imports 2\	150,000	25,500	117,121
July Estimated Imports 2\	153,000	26,010	119,463
Preliminary Total Aug-Jul	**1,313,170**	**223,239**	**1,025,328**

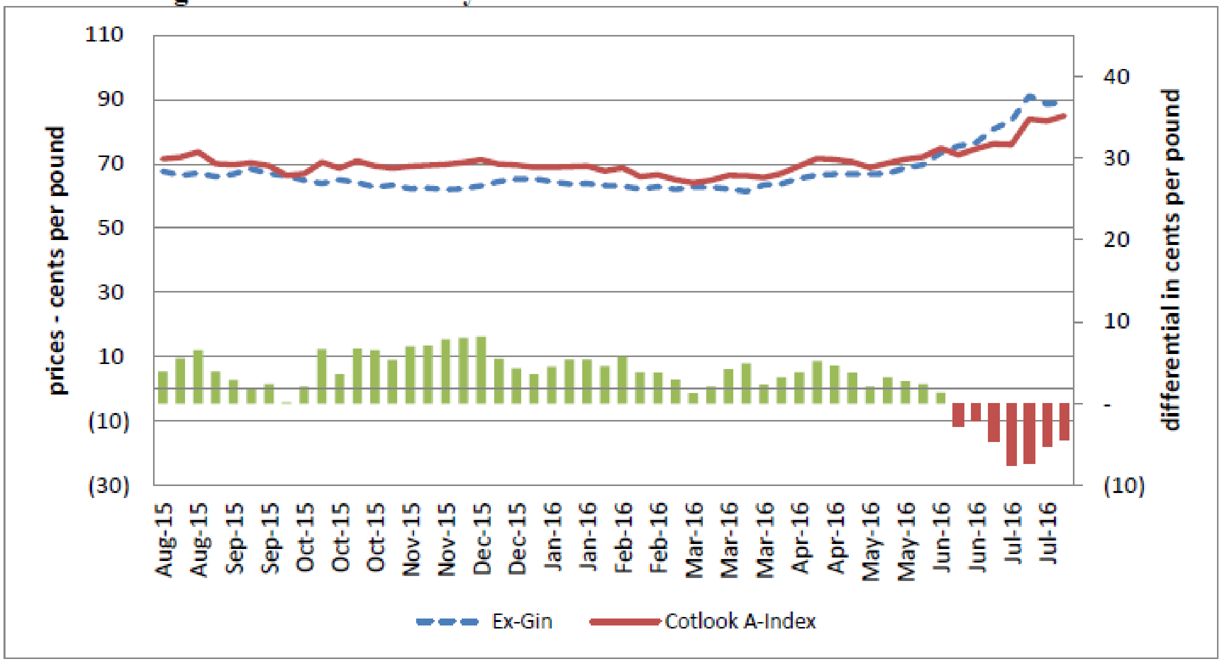
1\ Official total reflects estimates from the Directorate General of Foreign Trade, for Harmonized Tariff Schedule code 5201 – raw cotton.
2\ FAS Mumbai estimate

Table 4. 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	2.586
Sep	2.143	2.170	2.146	2.370	2.581	2.458
Oct	2.209	1.776	2.185	2.403	2.416	2.470
Nov	2.110	1.834	2.109	2.296	2.504	2.334
Dec	2.257	2.013	2.264	2.516	2.589	2.548
Jan	2.210	2.033	2.330	2.519	2.577	2.524
Feb	2.023	2.030	2.224	2.323	2.458	2.463
Mar	2.176	2.038	2.361	2.507	2.618	2.560
Apr	2.017	2.031	2.322	2.431	2.557	2.472
May	1.864	2.128	2.285	2.439	2.562	2.517
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*	*0.500*	*1.000*
Total	**26.243**	**24.747**	**27.878**	**29.723**	**30.925**	

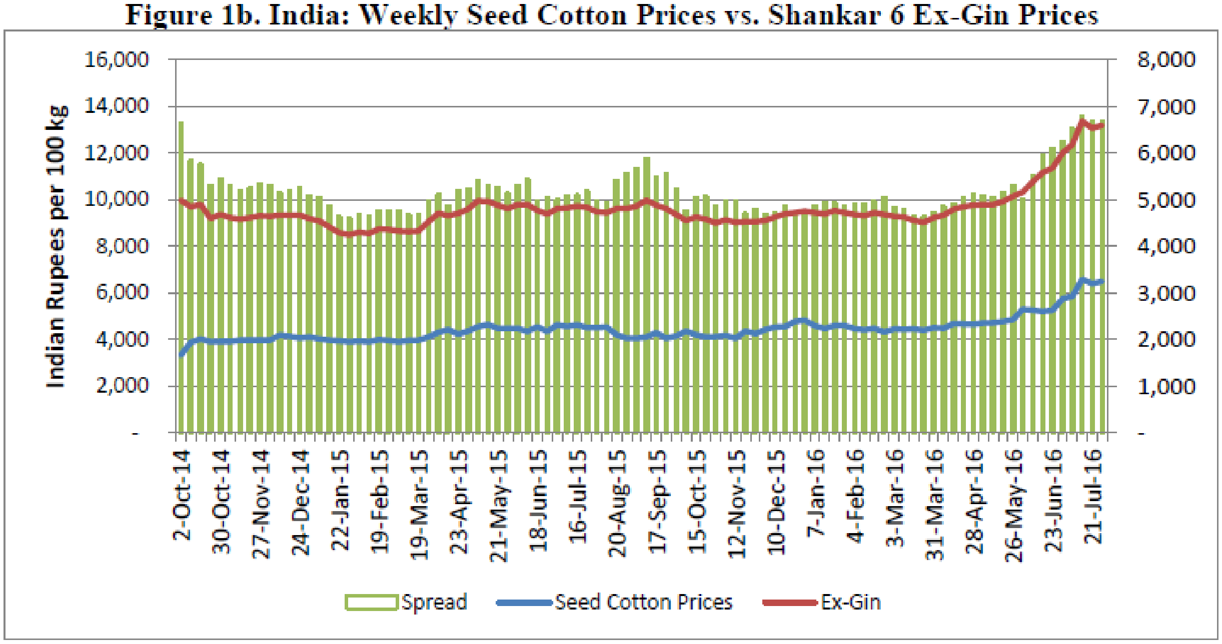
*Loss estimate from the Cotton Advisory Board
Source: Textile Commissioner

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. Shankar 6 Ex-Gin Prices



Source: Cotton Association of India
Agriculture Marketing Information Network, Ministry of Agriculture