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India

Cotton and Products Update

Arrivals Slow and with Lower Prices… MSP Operations Underway

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Report Highlights:
Post's MY 2014/15 production forecast is 30.6 million 480 lb. bales, marginally lower than the USDA forecast. Inadequate rains and some damage have led to reports of yield loss in the states of Maharashtra and Gujarat. As international market prices are attractive in comparison with Indian cotton prices, imports are forecast slightly higher. Consumption is forecast lower as sources report textile mills have built up inventories. MSP procurement operations are underway across southern India.

Post:
New Delhi

Commodities:
Cotton

Author Defined:

Cotton India	2012/2013		2013/2014		2014/2015	
	Market Year Begin: Aug 2012		Market Year Begin: Aug 2013		Market Year Begin: Aug 2014	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	0	0	0	0	0	0
Area Harvested	12,000	12,000	11,700	11,700	12,750	12,700
Beginning Stocks	10,869	10,819	11,969	10,808	11,319	9,893
Production	28,500	28,500	31,000	31,000	31,000	30,600
Imports	1,200	1,187	750	675	800	1,000
MY Imports from U.S.	0	0	0	0	0	0
Total Supply	40,569	40,506	43,719	42,483	43,119	41,493
Exports	7,750	7,761	9,400	9,255	5,000	6,000
Use	21,850	21,937	23,500	23,335	24,500	23,400
Loss	-1,000	0	-500	0	0	0
Total Dom. Cons.	20,850	21,937	23,000	23,335	24,500	23,400
Ending Stocks	11,969	10,808	11,319	9,893	13,619	12,093
Total Distribution	40,569	40,506	43,719	42,483	43,119	41,493
1000 HA, 1000 480 lb. Bales, PERCENT, KG/HA						

Production

Delayed Sowing and Weak Price Signals Appear to be Causing Slow Arrivals in Major Growing Regions

On November 26, marketing year (MY) 2014/15 cotton arrivals, as reported by the Cotton Corporation of India (CCI), had reached 3.58 million 480 lb. bales (4.58 million 170 kg bales/779,000 MT), 12 percent lower compared to the previous year. The major lag in arrivals appears to be in the central cotton growing states of Gujarat and Maharashtra. Arrivals in Gujarat and Maharashtra are slower by more than 50 percent compared to the previous year. Per day arrivals are averaging around 125,000 480 lb. bales (160,000 170 kg bales / 27,200 MT).

Trade sources indicate that farmers in Gujarat are holding cotton in anticipation of higher prices, but the delay in arrivals can be attributed largely to the late sowing and inadequate rains during the growth stage and subsequent effects on boll maturation. The seed cotton price continues declining (see figure 1b) and, although behind last year's levels, the pace of arrivals across the country is accelerating.

Production Down Slightly on Weaker Yields and Inadequate Rains

FAS Mumbai forecasts MY 2014/15 production at 30.6 million 480 lb. bales (39.2 million 170 kg bales / 6.7 MMT). The cotton yield is forecast at 525 kg per hectare which is lower than the three year average of 538 kg per hectare. Trade sources indicate the yields have dropped in Maharashtra and in a few areas of Gujarat. Additionally, recent Post interactions with farmers in these states indicates yield losses in certain regions are due to inadequate rains which has reduced the number of bolls per plant by between 5 to 10 percent. MY 2013/14 and MY 2012/13 production estimates are unchanged.

Consumption

Domestic Consumption Forecast Weak as Inventories Growing and IntBuying Weak

Post's MY 2014/15 consumption forecast is 23.4 million 480 lb. bales (30.0 million 170 kg bales / 5.1 MMT). Although monthly consumption in September remained strong at 1.9 million 480 lb. bales (2.4 million 170 kg bales / 408,000 MT), mill buying remains weak on account of poor demand for seed cotton and cotton yarn. Global demand for Indian cotton, too, remains sluggish as ex-gin prices have now become higher than the Cotlook A Index. Trade sources indicate that textile mills have built up considerable inventories and are limiting their purchases of seed cotton. Post's MY 2013/14 and MY 2012/13 consumption estimates are revised to 23.3 million and 21.9 million 480 lb. bales; respectively, based on official data (see table 3).

Trade

Traders Looking at New Markets as Year-to-Date Chinese Lint Buying Lower

MY 2014/15 year-to-date exports (Aug to Nov) are considerably lower than the same period last year (see tables 1a and 1b, below) as demand from China is down. Nevertheless, the pace of year-to-date exports is now climbing as exporters are engaging smaller markets in Vietnam, Pakistan, and Bangladesh. Post forecasts MY 2014/15 exports at 6 million 480 lb. bales (7.7 million 170 kg bales / 1.3 MMT). MY 2013/14 and MY 2012/13 export estimates are revised according to official data.

Post's MY 2014/15 import forecast has been raised by 200,000 480 lb. bales (256,000 170 kg bales / 43,500 MT) to 1 million 480 lb bales (1.2 million 170 kg bales). Imported cotton prices are competitive now with Indian ex-gin prices (see figure 1a) and mills could be disadvantaged buying Indian cotton. MY 2013/14 and MY 2012/13 import estimates are revised according to official data.

Policy

Minimum Support Price (MSP) Operations Accelerating but a Fraction of Forecast as Southern Producers Call for GOI Support

The Cotton Corporation of India (CCI) has initiated MY 2014/15 procurement of seed cotton under minimum support price (MSP) operations in central and southern cotton growing regions. As of November 27, CCI procured almost 900,000 480 lb. bales (1.15 million 170 kg bales) with almost 80 percent of the crop procured from the states of Telangana and Andhra Pradesh. There has been limited procurement in other cotton growing regions as arrivals have been delayed and altogether sluggish prices has encouraged farmers to hold back arrivals. In Maharashtra and Gujarat, it is estimated that CCI MSP procurement has been around 98,000 480 lb. bales (125,000 170 kg bales) and 51,000 480 lb. bales (65,000 170 kg bales), respectively. CCI is expected to procure enough seed cotton to account for around 4.7 million 480 lb. bales (6 million 170 kg bales /1 MMT) during the season.

CCI Procurements and the MSP Procurement Process

CCI procures seed cotton through market yards in an open auction whether or not prices are at MSP levels. In other words, CCI is in the cotton market at all times. Most of the time, CCI operates like a normal, for profit, business.

However, this year, CCI could be a larger cotton buyer under the MSP procurement process. In the MSP procurement process, the Government of India announces the MSP levels for cotton varieties at specified parameters during the cotton growing season. If market prices for those varieties go below the established MSP levels in certain production areas, CCI branches are directed to procure seed cotton at the MSP level provided that the commodity meets the established quality parameters (e.g., trash content, moisture, etc.).

Once the seed cotton has been procured by a CCI branch under market or MSP conditions, the seed cotton is transported to a storage center. From there, CCI invites tenders from ginning and pressing units (GPUs) for processing. The GPUs are located closer to the cotton storage centers so as to also cut down on transportation costs. The processed cotton lint is sold via an electronic auction system. Usually, the MSP processed cotton lint is sold at a loss. Note: the cottonseed from market and MSP operations is sold, as well, via auction at prevailing market prices. The losses incurred by CCI on seed cotton procured under MSP operations are reimbursable by the Government of India, Ministry of Textiles on an accrual basis.

Table 1a. India: Estimate of 2013/14 Cotton Exports

	170 kg	Metric Tons	480 lb
August Exports 1\	260,571	44,297	203,455
September Exports 1\	132,941	22,600	103,801
October Exports 1\	140,806	23,937	109,942
November Exports 1\	1,915,982	325,717	1,496,006
December Exports 1\	2,460,212	418,236	1,920,943
January Exports 1\	2,055,653	349,461	1,605,062
February Exports 1\	1,419,624	241,336	1,108,448
March Exports 1\	1,308,347	222,419	1,021,562
April Exports 1\	956,671	162,634	746,972
May Exports 1\	661,053	112,379	516,153
June Exports 1\	401,882	68,320	313,791
July Exports 1\	139,312	23,683	108,775
Total Aug-Jul	**11,853,054**	**2,015,019**	**9,254,910**

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

Table 1b. India: Estimate of 2014/15 Cotton Exports

	170 kg	Metric Tons	480 lb
August Exports 1\	94,965	16,144	74,149
September Exports 2\	124,000	21,080	96,820
October Exports 2\	180,000	30,600	140,545
November Exports 2\	550,000	93,500	429,442
Preliminary Total Aug-Nov	**948,965**	**161,324**	**740,956**

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

Table 2a. India: Estimate of 2013/14 Cotton Imports

	170 kg	Metric Tons	480 lb
August Imports 1\	107,824	18,330	84,189
September Imports 1\	96,906	16,474	75,664
October Imports 1\	113,382	19,275	88,529
November Imports 1\	55,024	9,354	42,963
December Imports 1\	17,624	2,996	13,761
January Imports 1\	38,959	6,623	30,419
February Imports 1\	41,576	7,068	32,463
March Imports 1\	48,841	8,303	38,135
April Imports 1\	65,582	11,149	51,207
May Imports 1\	59,471	10,110	46,435
June Imports 1\	71,353	12,130	55,713
July Imports 1\	148,218	25,197	115,729
Total Aug-Jul	**864,760**	**147,009**	**675,207**

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

Table 2b. India: Estimate of 2014/15 Cotton Imports

	170 kg	Metric Tons	480 lb
August	161,735	27,495	126,283
September	338,000	57,460	263,912
October Estimated Imports 2\	191,000	32,470	149,134
November Estimated Imports 2\	135,000	22,950	105,409
Preliminary Total Aug-Nov	**825,735**	**140,375**	**644,737**

2\ FAS Mumbai estimate

Table 3. India: Monthly Cotton Consumption by the Textile Sector (Million 170 kg bales)

Month	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Aug	1.859	2.173	1.864	2.207	2.423	2.415
Sep	1.829	2.143	2.170	2.146	2.370	2.424
Oct	1.812	2.209	1.776	2.185	2.403	
Nov	1.847	2.110	1.834	2.109	2.296	
Dec	1.949	2.257	2.013	2.264	2.516	
Jan	1.954	2.210	2.033	2.330	2.519	
Feb	1.881	2.023	2.030	2.224	2.323	
Mar	2.001	2.176	2.038	2.361	2.507	
Apr	2.053	2.017	2.031	2.322	2.431	
May	2.093	1.864	2.128	2.285	2.439	
Jun	2.071	1.823	2.117	2.251	2.410	
Jul	2.211	1.900	2.213	2.411	2.449	
Loss*	1.700	1.338	*0.500*	*0.783*	*0.800*	*1.000*
Total	**25.260**	**26.243**	**24.747**	**28.095**	**29.886**	

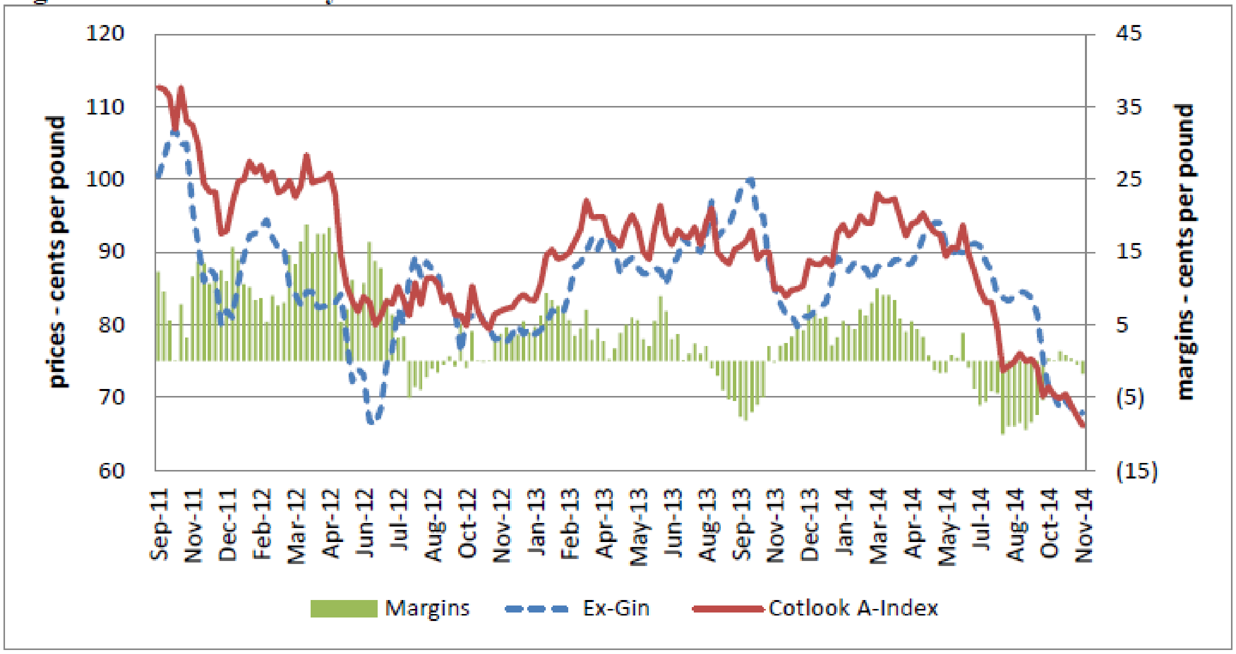
*Loss estimate from the Cotton Advisory Board
Source: Textile Commissioner

Table 4. India: Cotton Yarn Export Registration Data

Month	Quantity (Million kg)	Month	Quantity (Million kg)	Month	Quantity (Million kg)	Month	Quantity (Million kg)
Aug-11	97.734	Aug-12 (P)	83.055	Aug-13 (P)	104.913	Aug-14 (P)	96.535
Sep-11	77.157	Sep-12 (P)	64.269	Sep-13 (P)	109.640		
Oct-11	43.69	Oct-12 (P)	94.462	Oct-13 (P)	125.885		
Nov-11	76.362	Nov-12 (P)	100.769	Nov-13 (P)	108.520		
Dec-11	83.005	Dec-12 (P)	100.778	Dec-13 (P)	118.736		
Jan-12	79.148	Jan-13 (P)	117.143	Jan-14 (P)	143.813		
Feb-12	60.518	Feb-13 (P)	103.955	Feb-14 (P)	103.124		
Mar -12 (P)	64.227	Mar-13 (P)	88.685	Mar-14 (P)	111.738		
Apr -12 (P)	62.811	Apr-13 (P)	115.960	Apr-14 (P)	99.926		
May -12 (P)	74.455	May -13 (P)	90.152	May-14 (P)	88.442		
Jun -12 (P)	82.419	Jun-13 (P)	142.297	Jun-14 (P)	84.949		
Jul -12 (P)	94.507	July-13 (P)	139.745	July-14 (P)	98.808		
Total	**896.033**	**Total**	**1,241.270**	**Total**	**1,298.494**		

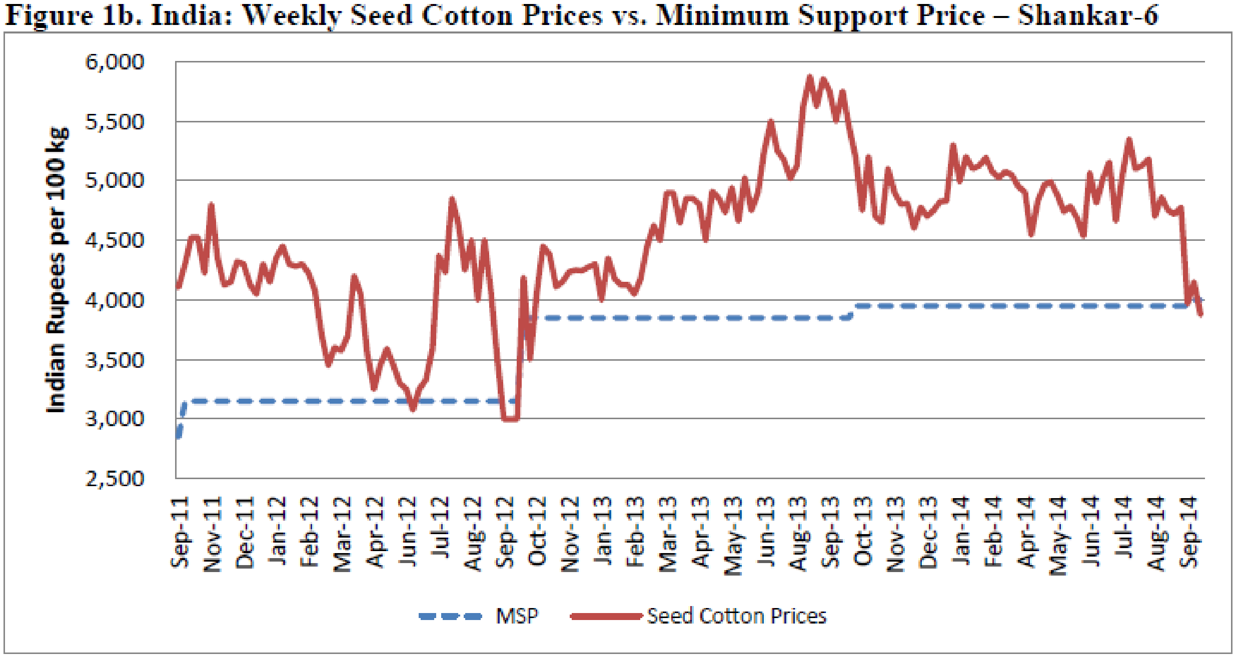
(P) – Provisional
Source: Directorate General of Foreign Trade, Export Cell

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



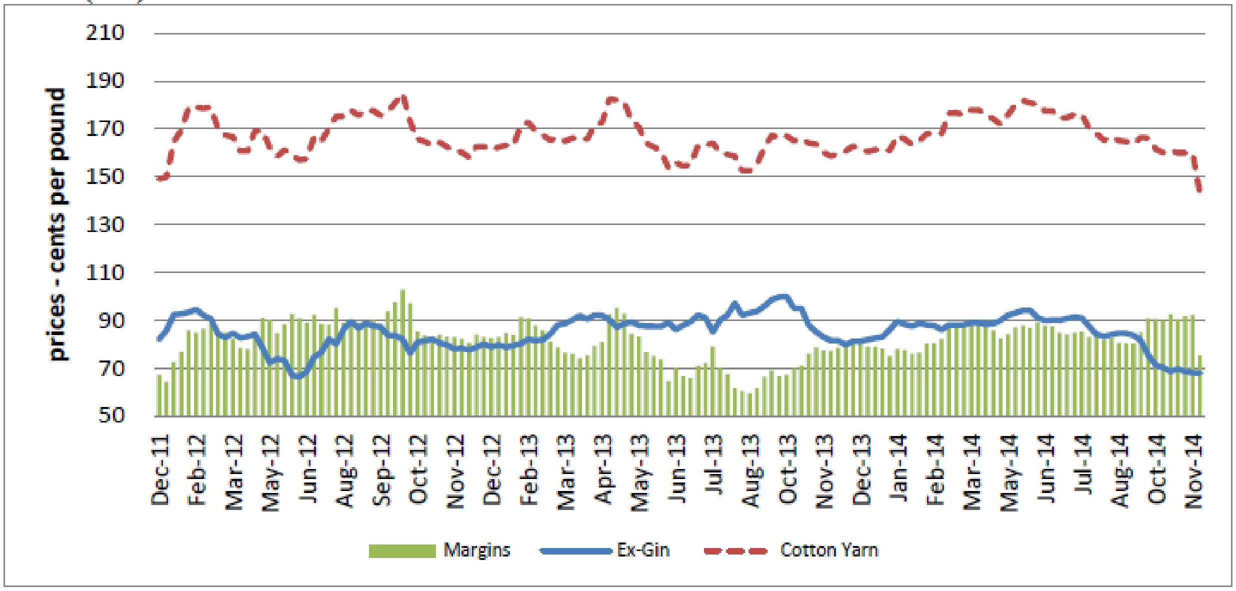
Source: Cotton Association of India
Cotlook A-Index

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



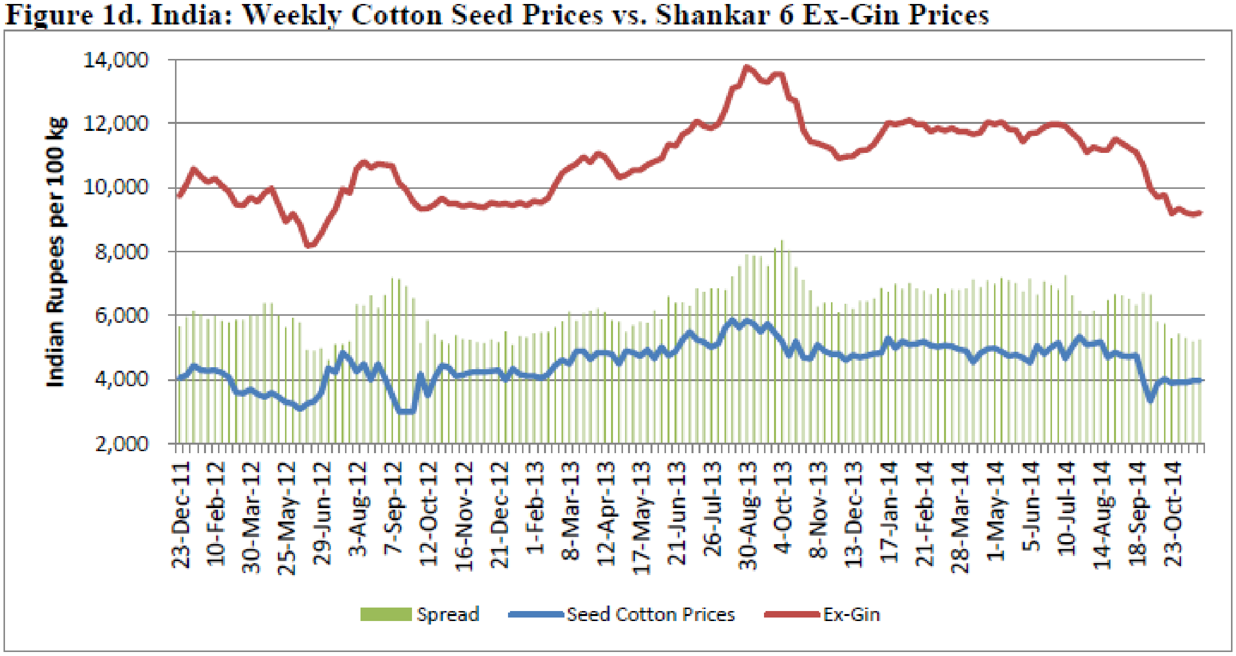
Source: Agriculture Marketing Information Network, Ministry of Agriculture

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



Source: Cotton Association of India
Tecoya Trend

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



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