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India Lifts Cotton Export Ban

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Report Highlights:

On April 30, 2012, The Government of India lifted its March 5, 2012, cotton export and indicated that it will reassess the cotton situation in three weeks. The move came as a surprise in light of the tight supply situation that is currently reflected in the Cotton Advisory Board's balance sheet. Some analysts have indicated that supplies in India are larger than the balance sheet indicates. The accuracy of the balance sheet will likely be tested over the next few months as exporters resume shipments. Assuming a relatively tight supply scenario, FAS Mumbai estimates that additional exports of 1.0 million 170 kg bales will be shipped prior to the end of the current August/July marketing year.

General Information:

India Lifts the Cotton Export Ban

The Government of India has lifted its March 5, 2012, cotton ban according to a press release from the Ministry of Textiles. The press release indicates that the decision was made by the Minister of Agriculture, the Minister who currently heads both the Commerce and Textile ministries and the Chairman of the Prime Minister's Economic Advisory Council, a group also known as the Informal Group of Ministers. The press release indicates that the ministers will meet again in three weeks to assess the cotton supply situation. The announcement also directs the publically-run Cotton Corporation of India (CCI) to procure an additional 1.0 million 170 kg bales of cotton as a buffer stock, which is equivalent to approximately two weeks of consumption by the textile sector.

The ban has undergone several modifications since it was first announced. The Government subsequently allowed additional exports of 1.9 million 170 kg bales (325,000 mt, 1.5 million 480 lb bales) that had been registered for export at the time the ban was announced. It also directed CCI to purchase 2.5 million 170 kg bales of cotton at commercial rates to build a buffer stock, but operations were quickly halted because market prices were significantly higher than the minimum support prices the Government of India establishes as a price floor at which CCI would normally intervene in the market with procurement operations.

Supplies Still Extremely Tight According to Local Estimates

The announcement came as a surprise considering the tight 2011/12 (October/September) cotton supply situation that India's Cotton Advisory Board (CAB) is currently projecting with ending stocks of 2.5 million 170 kg bales (the lowest since 2003/04) on September 30 and what is likely a record-low stocks-to-use ratio of 10 percent. The press release indicates that the ministers considered the Ministry of Agriculture's current production estimate of 35.2 million 170 kg bales (6.0 mmt, 27.5 million 480 lb bales) bales, but that estimate is only 500,000 bales higher than the estimate adopted by the CAB and does little to add to estimated exportable supplies.

India Cotton Advisory Board Balance Sheet

October/September Marketing Year
Million 170 kg bales
As of April 18, 2012

	2010/11	2011/12
Beginning Stocks	4.05	3.91
Production	33.9	34.7
Imports	0.5	0.6
Total Supply	38.45	39.21
Mill Consumption	22.07	21.1
Small Mill Consumption	2.47	2.1
Non-Mill Consumption	2.2	2.0
Total Domestic Consumption	26.74	25.2
Exports	7.8	11.5
Total Use	34.54	36.7
Ending Stocks	3.91	2.5
Stocks-to-Use Ratio (percent)	14.6	10

Arrivals improving, but will they continue?

After lagging throughout much of the marketing year, 2011/12 (October/ September) cotton arrivals have shown some strength of late, averaging nearly 1.0 million 170 kg bales per week for the four weeks from March 25 through April 22, possibly supporting the CAB and Ministry of Agriculture's production estimates. Nevertheless, at 28.9 million 170 kg bales, arrivals are still four percent behind the year ago pace with 5.8 million more bales needed to reach the CAB production estimate. As reported previously, the slow pace of arrivals has been attributed to factors such as farmer holding, lower cotton quality, the late onset of harvest, weaker demand from the textile sector and farmer disappointment with prices following the record high prices of 2010/11. The accelerated pace of arrivals over the past few weeks suggests that the notion that "the cotton is out there" may be accurate, but India's 2011/12 cotton harvest was finished months ago and arrivals will have to be stronger than usual to support the current CAB production estimate and even stronger to support a significant volume of additional exports using current CAB estimates. Current indications point to a slowdown in daily arrivals, which is not surprising given how long ago the crop was harvested. However, with export restrictions lifted, the market may get a better sense for how much cotton is currently on farm.

Will reduced consumption lead to larger exportable supplies?

Some have pointed to the possibility of lower consumption by the textile sector as a source of additional exportable supplies. As reported previously, mills in Tamil Nadu and Andhra Pradesh, which account for 40 percent of cotton consumption, have faced power cuts and have had to reduce operations beyond levels seen during previous power shortages. However, with the resumption of monsoon winds expected to improve the supply of wind energy in Tamil Nadu in a few weeks, power supplies are expected to improve. The textile industry has also faced challenges raising operating capital following widespread losses during 2010/11. Nevertheless, consumption has been relatively robust and mill balance sheets are generally thought to be improving, at least in central and northern India. Since the export ban was announced on March 5, ex-gin cotton prices have dipped while yarn prices have remained steady, suggesting better spinning margins over the past two months. How prices will be affected by the lifting of the ban remains to be seen, but ex-gin prices are up nearly two percent in the brief period since the ban was announced and further gains could trim spinning margins if yarn prices do not increase.

In order to free significant volumes of cotton for export, a million bales for example, before the end of July, monthly mill consumption of domestic cotton would have to drop by 330,000 170 kg bales per month to the lowest levels since 2008/09, a prospect that seems unlikely. Similarly, one factor that seems to be hindering domestic demand that could also affect export demand is quality. Quality concerns stemming from lower than average micronaire values, particularly in the central and western areas where most export cotton is sourced, continues to be a concern. In short, while reduced consumption by mills could free some exportable supplies of cotton, the prospect for volumes in excess of a few hundred thousand bales seems unlikely at this stage given the already conservative estimates for March to July outlined in the table below.

Monthly Cotton Consumption by the Textile Sector
Million 170 kg Bales

	2009/10	2010/11	2011/12
Aug	1.859	2.173	1.807
Sep	1.829	2.143	2.170
Oct	1.812	2.209	1.770
Nov	1.847	2.110	1.816
Dec	1.949	2.257	2.003
Jan	1.954	2.210	2.034
Feb	1.881	2.023	2.012
Mar	2.001	2.176	*1.950*
Apr	2.053	2.017	*1.950*
May	2.093	1.864	*1.950*
Jun	2.071	1.808	*1.950*
Jul	2.211	1.883	*1.950*
Total	23.56	24.87	*23.36*

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

Could imports increase?

2011/12 August/July imports are currently estimated at 800,000 170 kg bales, higher than CAB the CAB estimate and reflect imports of cotton from Pakistan to mills in northern India in addition to the usual imports of long staple varieties. Under the current CAB balance sheet, it seems that a significant rise in exports over the next few months would likely lead to an increase in cotton imports by textile mills. However, thus far at least, Indian cotton prices have been low enough to counter significant import volumes. The relatively weak rupee, which has depreciated from Rs. 44 per dollar to Rs. 51 per dollar over the past eight months, could also act as an import deterrent.

How much cotton can India export?

Perhaps the first question that arises is how long exporters believe that the current policy of unrestricted exports will be in place. The press release indicates that the cotton situation will be assessed again in three weeks. Indian exporters have been known to register large volumes of exports over short periods of time. However, current penalties for failure to perform on an export registration are high, which may deter some from the previous practices of making large paper registrations. The government called for the ban on March 5 in part because it was concerned that exporters, who were likely anticipating export restrictions based on the pace of exports, were reportedly starting to make paper export registrations in an effort to facilitate future exports in the event restrictions were put in place. In short, it may be too early to tell how exporters will react in the short term, but it seems likely that some additional exports will take place, particularly from gins that are located near ports in Gujarat. As reported previously, there are logistical issues within India that make it easier and cheaper to ship cotton from Gujarat and Maharashtra (India's two largest cotton producing states) than to ship cotton to textile mills in southern India. If the current policy remains in place for any length of time, the next question will be how much more cotton can India export.

It seems that there are two general export scenarios.

A. The Tight Supply Scenario

If one adopts the current supply and demand situation as published by India's Cotton Advisory Board, export prospects appear to be quite limited. Following on some of the previous discussion in this report, an estimate of maximum additional exportable supplies follows:

Production: If the Ministry of Agriculture's production estimate is accurate, an additional 500,000 170 kg bales would be available for export on an October/September year.

Consumption: If textile mills scale back their cotton consumption by an average of 200,000 170 kg bales per month in response to higher cotton prices, lower margins or slack demand for yarn, an additional 1.0 million bales would be available for export an October/September year.

These calculations would result in approximately the same ending stocks level of 2.5 million 170 kg bales, while making 1.5 million 170 kg bales available for export on an October/September year. If exports proceed without a larger crop or reductions in mill consumption, Indian textile mills could turn to imports for cotton supplies. Given the cost of internal freight in India, cotton imports could be a viable option for mills, particularly southern mills, depending on prices. However, given government efforts to regulate cotton exports over the past three years and what seems to be a general policy aversion to importing large volumes of a commodity that is normally readily available in India, it seems likely that the government would step in to regulate the market in some way before allowing large export volumes to result in large import volumes.

B. The Ample Supply Scenario

Using a statistical adjustment, USDA Washington analysts recently added 4.5 million 170 kg bales to the Indian supply. Under this scenario, where weak Indian prices are symptomatic of large internal supplies, India would seem to have sizeable exportable quantities of cotton available for export before the new crop; the only significant limiting factors would be pricing and foreign demand. Exportable supplies under this scenario could be 3.5 million 170 kg bales just from the additional supply that USDA analysts are estimating. Add in a larger crop (USDA's production estimate is 34 million 170 kg bales compared to the CAB estimate of 34.7 million and the Ministry of Agriculture's estimate of 35.2 million) and exportable supplies could exceed 4.0 million additional 170 kg bales under this scenario with sufficient demand.

Which Scenario is it?

The lifting of the export ban came as a surprise to many in India given the tight local balance sheet. If the current export policy remains in place, the next few months will likely shed light on the amount of cotton that is currently in India. Large export volumes with little or no slow down in textile consumption will support the notion that there are large volumes of cotton that are currently unaccounted for on Indian balance sheets. While a limited volume of exports and a rapid rise in prices would suggest that local balance sheets are representative of the supply situation. However, if exports proceed with alacrity over the next few weeks, government officials may decide to again manage exports, thus halting the opportunity to test just how much cotton is in India.

USDA Mumbai analysis is currently based on the tight supply scenario, but not quite as tight as the CAB given the different marketing years and some historical differences in trade numbers. The estimate of 2011/12 (August/July) cotton exports is provided in the table below. It is not entirely clear where additional exports will go, but Bangladesh is reportedly a ready buyer and exporters will likely move to conclude as much business as possible as soon as possible. Significant exports beyond July appear doubtful given the supply situation under this scenario.

	170 kg	Metric Tons	480 lb (total)
August 2011 1\	516,000	87,868	
September 2011 1\	833,076	141,623	
October 2011 through April 2012 2\	11,500,000	1,955,000	
Post-ban exports 3\	1,000,000	170,000	
Total	13,849,076	2,354,342	10,814,000

1\ Provisional estimates from the Ministry of Commerce, DGCIS
2\ Exports and approved export registrations according to Ministry of Textile Press Releases
3\ FAS Mumbai estimate

The latest version of the USDA Mumbai supply and demand situation follows:

Thousand 480 lb Bales	2010/11 (Aug/Jul)	2011/12 (Aug/Jul)	2012/13 (Aug/Jul)

Area (ha)	11,142,000	12,191,000	10,920,000
Beginning Stocks	6,872	7,134	4,238
Production	26,469	27,094	25,228
Imports	187	625	390
Total Supply	32,858	33,853	30,856
Exports	5,255	10,814	4,685
Consumption	21,139	19,801	20,301
Ending Stocks	7,134	4,238	4,870
Disappearance	32,528	34,853	29,856
Stocks-to-Use %	34.0	21	24