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World Cotton Contract – Blueprint to the Next Big Change

GUEST COLUMN

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What started as the New York Cotton Exchange in the 1870's is now trotting towards its first ever truly global contract which heralds the beginning of a new era in cotton trading. Scheduled to start in the fourth quarter of 2014, this contract will incorporate growths other than the US. With the major growths like India, Australia, Brazil, Benin, Burkina Faso, Cameroon, Ivory Coast and Mali added as the deliverable origins and the delivery points to include Australia and Malaysia in addition to the earlier US delivery points, it opens a huge window of opportunity and will dare the traders to expand and alter their perspective of cotton trading. However, before going live with the contract, a number of issues and details need to be chalked out and discussed in great detail to make this contract a success especially the new deliverable origins.

Increased participation from the other parts of the world necessitates the presence of a global contract. India for long has been the second largest producer as well as the second largest exporter of cotton to the world. In spite of having local domestic futures market like MCX and ACE, they do not provide sufficient liquidity and have not been very ideal to provide the required hedge to the market participants. With the introduction of the world contract and an option to deliver Indian cotton, we should see an increased participation from countries like ours in the global market which in turn will increase the liquidity. Local merchants with deep pockets will be more confident in managing their position with a globally traded risk management tool by their side which will be highly liquid giving them the option to give delivery to the exchange. It will also encourage such merchants to enter other markets and trade at a global level. Especially with a country like India, where the government plays an important role in governing the extent of export, it will be a great opportunity for Indian traders to enter foreign markets like Australia and Africa, managing the risk at the same time through the world cotton contract and diversifying their portfolio giving them the option of switching crops in case of export bans. Moreover with the introduction of two major southern hemisphere crops, we might see an increased participation on the October delivery month.

With the introduction of this contract however, there could be a tectonic shift in the way cotton is handled and marketed now in India. If the contract is able to garner enough liquidity, it will push the Indian stakeholders to move towards international standards from the traditional marketing style. Today most of the cotton marketed in India is based on the earlier type sample names that have been

adapted like Shankar-6, J-34, and Mech, etc. With the world communications based on International standards, we might see these names getting obsolete in times to come. This would lead to standardisation of cotton contracts and will remove the ambiguity between the quality sold and the quality delivered. Today, the most famous Indian variety that is getting traded internationally is Shankar 6 which is mostly grown in the Gujarat region. This as such is a bit unfair to other similar varieties of cotton grown in other parts of India like Maharashtra and Andhra Pradesh, which trade at a discount to Shankar-6 because of its high demand, irrespective of the fact that the quality is just the same. The sellers in the Indian market will have a wider basket to choose from when delivering a 31-3-36 or any other deliverable HVI standard. Today we see a lot of seed cotton being moved from Maharashtra to Gujarat, in order to get that extra premium for getting labeled as a Gujarat Shankar-6. In future, when the buyers acceptability will be based on the HVI standards and not on the type name, we might see a reduction of such movements and a more homogenous pricing system.

With the option of delivering cotton from other origins, the issue of market squeeze can be avoided. Trading multiple growths as per the current standard makes it a very good sellers market. However the buyers have little to celebrate. With no choice of selecting the origin for take-up they have no option but to take delivery of whatever growth that is being put on the board. As far as the buyer is concerned, this will be a vital question since the quality that is being delivered on the board will be a mix of contaminated and contamination free cotton. Countries like India and Africa do not have machine-picked cotton and this brings in a huge disparity in terms of quality as compared to Australian and Brazilian cotton. The Indian and African cotton will be traded at a discount, but the buyer will always be doubtful about the quality until he receives it. Moreover, the price gap is sometimes as wide as 10 cents between Australian and Indian cotton. A mill which needs contamination free Australian cotton, will have nothing to do with the Indian cotton in case the seller delivers low priced Indian cotton, just because it was the cheapest available tenderable cotton at that time. This is not beneficial for the mills. At this point of time it seems fair to mills if only Brazilian and Australian cotton were selected for delivery to the exchange, as it would give more confidence to the mill buyers and would lead to an increased participation from their end. However it is yet to be seen as to how the whole system develops before giving a verdict.

Trading Indian cotton on the international exchange comes with its own set of caveats. Till date the Cotton No 2 contract has been a US based contract and the USDA has taken great measures in assessing the quality standards that have been delivered. 100% bale by bale HVI assures the delivery of right quality of every bale of cotton. The Indian market however has not yet matured to that level. A 2% manual sampling is still the norm for physical trade. ACE came up with a set of rules for the sampling process of cotton bales for delivery wherein the sample size is 5%. The homogeneity of the remaining 95% remains a question, for which the seller has to give a legally binding indemnity to the warehouse at the time of depositing the cotton bales. However, ICE cannot rely on such measures while trading internationally. Moreover, there is no standardisation of bale size, weight and packaging globally. This needs to be addressed by the ICE since every country has its own set of standards. With the Indian and African cotton comes the problem of contamination and extraneous matters. The Growth PND needs to take these into account. A 100% HVI for delivery of Indian crop could make it very costly for Indian merchants and might not be a very good proposition. In case the HVI needs to be done in Malaysia, it would be very risky for the seller to ship the cotton all the way down to Malaysia and in case the bales get rejected it would be an additional loss to the merchant. Therefore, it becomes very important to devise a system wherein the HVI testing for futures delivery could be done at the origin. This brings in the question of tagging the bales for delivery and making sure that the ones that are getting tagged and tested are the ones that are actually getting delivered. ICE needs to develop a robust delivery and testing system in line with the ones that are being practiced in the US like the EWR to make the contract a success. An origin based delivery might be helpful as far as HVI testing and tagging are concerned, but again in case of an export ban by the Indian government renders this option unviable. Therefore, more discussion needs to go into the delivery system before adapting one.

To conclude, the industry cheers and welcomes the new cotton contract, but only time will tell whether this contract is a success or proves to be another lost cause. The market participants do understand the importance of a world contract and ICE needs to collaborate and understand the requirements of each and every participant. They also need to make sure that it is supported by large hedgers and at the same time should not suck out the liquidity from the Cotton No. 2 contract. The key to a successful contract is to garner liquidity within the early stages of its launch and to garner liquidity means to have the approval of the complete supply chain from the grower to the end user. World cotton contract is the change that industry needs today and I hope that ICE is successful in its endeavor.

(The views expressed in this column are of the author and not that of Cotton Association of India)

The Challenges in 2015

(Dr. K.R. Kranthi, Director of Central Institute for Cotton Research (CICR), Nagpur has completed his Ph.D in Entomology from IARI, New Delhi. He has more than 20 years of experience in the field of cotton research.)

What is in store for cotton in 2015? The cotton acreage in India was 38% of the global cotton area (33.4 million hectares) in 2014. Reports predicted that India would replace China as the world's largest cotton producer. This did not come as a surprise. India's cotton area was increasing during the past 12 years to reach a record 12.9 million hectares in 2014. In stark contrast, cotton area was shrinking progressively every year in major cotton growing countries such as China and US. The area decline across the globe could probably be due to the following reasons. Australia has been experiencing drought on and off; Brazilian farmers realised that the profits were shrinking; China continued to pile huge stocks through imports mainly from India; production costs in Africa were increasing and cotton exports from US declined. Market prices in 2015 are not likely to surge upwards due to the Chinese slowdown of cotton imports, though imports by other countries are expected to reach 5.9 million tonnes. Production costs are increasing in India and elsewhere in the world. Despite the increased cost of cultivation in India, the seven year period from 2007 to 2013 was good for cotton producers primarily because of the good market prices, thanks to the imports by China, Bangladesh, Turkey, Vietnam and Indonesia. But, will the cotton story continue to be as rosy this year, as it has been in the recent immediate past?

EXPERT's Column

Dr K.R. Kranthi

Cotton is likely to encounter the following challenges this year:

Challenge No. 1: Cotton, cotton everywhere

The year 2014-15, was characterised by uncertainties for the cotton farmer in India. The onset of monsoon was delayed by a month. Drought was predicted. Nevertheless, cotton area touched an all-time record of 12.9 million hectares. Why did the area under cotton increase to a record level? Why did farmers prefer cotton over other Kharif crops despite the drought predictions? The CACP (Commission for Agricultural Costs and Prices, Ministry of Agriculture) 'Price policy for Kharif crops -2014' states that out of the 14 Kharif crops (paddy, maize, jowar, bajra, ragi, tur, moong, urad, groundnut, soyabean, sunflower, sesame, nigerseed and cotton) cotton has the maximum absolute profit at Rs. 31,790/ha, followed by tur at Rs. 19,260/ha and paddy at Rs.15,679/ha. Therefore, it is not surprising that farmers prefer cotton over other Kharif crops, especially in the wake of weather concerns. It must be mentioned here that, cotton is basically a drought resistant crop and adapts itself to moisture-stress conditions, if seedlings survive the initial stress. Under moisture stress, young seedlings develop deep roots that help them to overcome drought stress. Nevertheless, drought stress pulls down yields significantly, depending on the stage of the crop which suffers the stress. Moisture stress during boll formation stage causes maximum yield losses.

The monsoon predictions for 2015 are almost similar to that of last year for the cotton rain-fed regions in India. The ICAC predicted that the cotton acreage in India could decrease to 11.6 million hectares in 2015. On the face of it, this appears to be a fairly good estimate, considering the fact that the record Indian cotton acreage in 2014 was also influenced by the good market prices in 2013. However, in my view, the acreage in 2015 would depend on the arrival of monsoon. With predictions of late arrival and erratic distribution of rainfall, it is only likely that Indian farmers may prefer cotton over other Kharif crops and area might easily reach 12.0 million hectares.

The greatest challenge would be in rain-fed states such as Maharashtra and Telangana where the production costs are high and yields are low. With stagnant yields, high production costs, low exports and low market prices, the large acreage in India will be a big challenge to contend with.

Challenge No. 2: Late arrival of monsoon and deficit rainfall

For the 2015 Kharif season, monsoon arrival is predicted to be delayed by 8-10 days. The IMD predicted an overall -12% deficit monsoon in India. El-Nino effects are likely to cause uncertain monsoon deficits and erratic rainfall distribution in central India. Cotton sowings in north India were delayed by a fortnight. In Maharashtra and Telangana more than 90% of cotton is grown under rain-fed conditions. The two states account for 50% of India's cotton area. Sowing in rain-fed area depends on the onset of monsoon. Farmers wait for a good rain to start sowing. It is generally recommended that sowing in rain-fed regions should be taken up only after receiving at least 80 mm rainfall. This leads to delay in sowing when monsoon arrives late. Many a

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times, erratic rainfall leads to poor germination and the need for re-sowing. The cost of Bt-cotton hybrid seed ranges at Rs. 4000 to 5000 per hectare. Moreover under conditions of erratic monsoon, higher seed rates are recommended. This escalates economic stress early in the season itself and influences the subsequent expenditure on inputs. Moreover, cotton crop sown between mid-July to late-July in rain-fed regions such as Maharashtra, Telangana and MP would invariably suffer moisture stress during the peak boll formation stage, more so in long duration varieties/hybrids, especially if the rains recede before mid-September. Thus, late sown cotton is a big challenge, especially for late maturing varieties and hybrid cotton. Majority of the Bt-cotton hybrids available in the market are of late duration. Late arrival of monsoon and deficit rainfall, are challenges that are likely to have a strong impact on how the season shapes. Under the current circumstances, the best way forward would be to choose early maturing varieties/hybrids and take up early sowing, just after the onset of monsoon.

Challenge No. 3: Cotton leaf curl virus disease in north

Late sown cotton crop is more prone to severe infestation by whiteflies and the most dreaded CLCuD (Cotton leaf curl virus disease) that is transmitted by the whiteflies. Cotton sowing in north India is generally completed by 20th May. But, this season, sowing in north India was delayed by about 15 days due to the delayed wheat harvest. Estimates show that about 20-25% of the area may have been under late sown crop. Such late sown crop serves as a reservoir of whiteflies and the virus, thereby escalating the possibilities of the insect and the disease. The Ministry of Agriculture, Government of India did a commendable job in issuing guidelines to the State Agricultural Departments not to permit Bt-cotton hybrids that were declared by CICR as susceptible to the leaf curl virus. The State departments did their best to regulate the hybrids. If such steps were not taken, yields could have plummeted in north India. However, despite these initiatives, the 2015 cotton yields in north India could be 5-10% less than 2014. Cotton in north India needs the support of all stakeholders to contain the dreaded leaf curl virus disease. Though research institutions and Government agencies are trying their best to restrict the cultivation of susceptible hybrids, the responsibility of seed companies is paramount, because only they can ensure that their 'CLCuD-susceptible' Bt-cotton hybrids are voluntarily pulled out of the market.

Challenge No. 4: Leaf reddening and sudden wilt

Rain-fed cotton is more prone to environmental stress factors such as high temperatures, soil moisture and nutrient deficit at critical times and cloudy weather. These factors negatively affect photosynthesis and thereby result in nutrient deficit to the developing bolls. Bt-cotton hybrid plants need more nutrients when they retain a fairly large number of bolls due to efficient protection from bollworms. Moisture and nutrient stress at this stage generally results in leaf reddening and sudden wilt.

Lead reddening is a problem, more frequently reported in late-sown long-duration cotton hybrids. Varieties are less vulnerable to leaf reddening. Studies showed that leaf reddening can be caused by a combination of factors such as nutrient stress, moisture stress at the critical stage of peak boll-formation, when plants need these inputs the most. The problem becomes acute during boll formation stage if the crop has suffered leaf hopper damage in the preceding vegetative stage. Other factors such as, salinity, UV-B radiation and high temperature were also reported to cause leaf reddening. Studies have shown that nitrogen deficiency in north India, low night temperatures and strong winds in central and south India contributed to leaf reddening. The problem has been more frequently reported in Bt-cotton hybrids during the past 10 years in India. High yielding cultivars, especially hybrids developed by crossing American cotton species x Egyptian cotton species were found to be more prone to leaf reddening. Economic losses are caused if the crop is affected with leaf reddening in the vegetative phase and peak boll-formation stage of the crop. This season, leaf reddening is likely to be high in Telangana and Maharashtra during October, in view of the late sowing and erratic rainfall, that leads to nutrient and moisture stress at the peak-boll formation stage. It was observed that older leaves were most affected. The red leaves were found to have nitrogen and magnesium deficiency. Therefore, foliar sprays of 1% DAP and 1% Urea plus Magnesium were found to slow-down the process of further aggravation in reddening. Foliar sprays of nutrients in late September and mid-October can help reduce the reddening problem.

Para-wilt or sudden wilt can also cause problems this season. Prolonged dry spell with high temperature and sunlight followed by high rainfall especially in black cotton soils results in sudden-wilting. The problem is generally isolated to a few plants in the fields. A combination of factors such as high sunshine, high temperature and soil moisture saturation causes wilt, more so in plants which bear a larger number of bolls. The leaves are shed after they dry due to reddening or desiccation. Plants generally do not recover and die if proper care is not taken in time. Plants at flowering and early boll development stages are more susceptible to para-wilt than younger plants. The problem generally occurs in late sown crop under conditions of drought followed by rainfall during the boll-formation stage. Remedial measures such as proper drainage

of fields, enhancing soil structure and texture with green manures can be helpful. Excessive nitrogenous fertilizers should be avoided, especially in black cotton soils where high nitrogen can aggravate wilt under erratic rainfall conditions. Spraying of cobalt chloride at 10 mg/ litre at the initial stages of wilting helps and drenching the root zone of plants with a mixture of Copper Oxychloride 25 g and 200 g of Urea in 10 litres of water or Carbendazim 1g/litre of water to avoid secondary infections from soil borne pathogens helps the plants to revive.

This season, both the problems of lead reddening and para-wilt can be expected in rainfed regions of MP and Gujarat and majority of the regions in Maharashtra and Telangana.

Challenge No. 5: Bollworm returns?

Bt-cotton varieties/hybrids are genetically modified (GM) to conatin cry (crystal) genes derived from a soil bacterium, Bacillus thuringiensis (Bt). Bt-cotton hybrids produce Cry proteins that are highly toxic to the three cotton bollworms, (American bollworm, Pink bollworm and Spotted bollworm), when the insect larvae consume plant parts of Bt-cotton. The American bollworm is most damaging, followed by pink bollworm and the spotted bollworm.

Until 2008, Bt-cotton was very effective in controlling all the three bollworm species. However, resistance monitoring reports published by Monsanto and IARI (Indian Agricultural Research Institute, New Delhi) showed that the pink bollworm had started to evolve resistance to the Bt-toxin Cry1Ac in 2008 as was confirmed with insect populations collected from Amreli district in Gujarat. Data published in 2011 by Monsanto and IARI showed that resistance was significantly higher at 44-fold resistance for insects derived in 2008 from Amreli than for any of the other field populations tested from four locations in India. This was the first confirmed case of bollworm resistance to Bt cotton in India.

Recently, over the past 2-3 years, crop damage due to pink bollworm has been reported to be increasing even on Bollgard-II which contains a potent combination of two Bt genes, cry1Ac+cry2Ab. Surveys conducted by CICR during the past two years clearly showed that the pink bollworm was able to survive and cause damage to Bollgard-II which contains two genes (Cry1Ac + Cry2Ab) in some parts of Gujarat. All the plant samples of the crops from Gujarat were examined and found to be genuine Bollgard-II. Studies confirmed pink bollworm resistance to Bollgard-II. It is quite likely that the resistance problem can get aggravated during the ensuing seasons, especially if the crop is extended beyond the normal six-seven months duration. Pink bollworm samples collected from other states did not show resistance thus far.

Compounding the problem, resistance to Bollgard-II was observed more recently in a few field populations of the American bollworms collected from different parts of the country. But the levels of resistance in these two populations were low and not adequate to cause immediate economic damage. The American bollworm is a bigger menace and can cause immense concern with Bt-resistant larvae. It is likely that some parts of Gujarat may experience pink bollworm damage in Bollgard-II this year. Bollworm resistance will be the biggest challenge to Bt-cotton.

Resistance threat to Bt cotton is extremely acute in India because of the fact that 'refugia' strategy of cultivating the recommended 20% 'non-Bt-cotton' as five rows around Bt-cotton to dilute resistance, was not properly followed in India, coupled with the fact that India's cotton area got almost saturated with Bt cotton in the country with the overall area being above 90% under Bt cotton after 2009. In the absence of proactive resistance management strategies, it is imminent that bollworm resistance to Bt cotton would develop soon and can lead to economic damage and crop failures.

Elsewhere in the world, resistance in the cotton bollworm to Bt cotton was confirmed in field populations collected from mid-southern region of the United States. In China two populations of the cotton bollworm collected from north-western China in 2011 were found to have developed resistance to Bt cotton.

Challenge No. 6: Shrinking net profit

What drives profit margins? Not a very difficult question to answer. Production costs, market prices and yields determine the net returns. But, what drives the market prices? And, what influences the production costs? These questions can be tricky indeed. Analysis of the official data published by the Ministry of Agriculture showed that the 16 year period (1999 to 2014) in India can be divided into two distinctly different phases based on the net profit (net returns). From 1999 to 2006, during the eight year period, cotton farmers experienced 'economic stress' because of low net returns, followed by a 'comfort zone' in the next eight years from 2007 to 2014 mainly because of high market prices. During 1999 to 2006, the eight year period was characterised with low net returns. The first four years were more stressful due to rainfall deficit of -4.0 to -8.3% during 1999 to 2001 culminating in a severe drought of -19.2% deficit in rainfall in 2002. Except Rajasthan all other cotton growing states suffered from negative net returns in one or more years during the eight year period from 1999 to 2005. The national average production (seed-cotton) of 9.1 million tonnes during 1999-2006 almost doubled to an average of 17.9 million tonnes in 2007-2014 and the yields (productivity per hectare) increased by 52%. The national average

CAI urges CCI to push sales internationally also

The Cotton Association of India (CAI) released its May estimate of the cotton crop for the season 2014-15. The CAI has further scaled down its cotton crop estimate for the season 2014-15 beginning on 1st October 2014 and placed the same at 382.75 lakh bales of 170 kgs each.

The projected Balance Sheet drawn by the CAI for the year 2014-15 estimates total cotton supply at 453.65 lakh bales while domestic consumption is estimated at 310.00 lakh bales thus leaving an available surplus of 143.65 lakh bales. A statement containing the State-wise estimates of the crop and Balance Sheet for the season 2014-15 with the corresponding data for the previous year is given below.

Prediction of a below normal rainfall is a cause of concern but not a cause of panic.

The Cotton Corporation of India should be liquidating their stock faster than their current speed. If the CCI continue liquidating their stock at the current pace, they would be stuck with a stock of about 30 lakh bales at the end of the season. This augurs very badly for the new season as it will trigger off a massive support price operation in the new season also. This will result in a big hit to the cotton farmer. Until now, CCI has not sold a single bale in the international market. In order to liquidate their stock, it is necessary for the CCI to sell atleast some cotton to the international market.

CAI's Estimates of Cotton Crop as on 31st May 2015 (in lakh bales)

State	Production *		Arrivals as on 31.05.15 (2014-15)
	2014-15	2013-14	
Punjab	13.00	15.00	12.40
Haryana	23.50	23.50	22.50
Upper Rajasthan	6.50	5.50	6.00
Lower Rajasthan	10.50	8.25	10.50
Total North Zone	**53.50**	**52.25**	**51.40**
Gujarat	108.00	129.25	99.50
Maharashtra	78.50	87.00	76.50
Madhya Pradesh	18.00	19.50	17.15
Total Central Zone	**204.50**	**235.75**	**193.15**
Telangana	55.25	78.00	55.25
Andhra Pradesh	25.75		25.50
Karnataka	30.50	29.00	28.45
Tamil Nadu	7.25	7.25	6.00
Total South Zone	**118.75**	**114.25**	**115.20**
Orissa	4.00	3.00	3.75
Others	2.00	2.00	2.00
Total	**382.75**	**407.25**	**365.50**

*Note: (1) * Including loose*
(2) Loose figures are taken for Telangana and Andhra Pradesh separately as proportionate to the crop for the purpose of accuracy

The Balance Sheet drawn by the Association for 2014-15 and 2013-14 is reproduced below:-

(in lakh bales)

Details	2014-15	2013-14
Opening Stock	58.90	52.58
Production	382.75	407.25
Imports	12.00	11.75
Total Supply	**453.65**	**471.58**
Mill Consumption	274.00	266.68
Consumption by SSI Units	26.00	24.00
Non-Mill Use	10.00	10.00
Exports		112.00
Total Demand	**310.00**	**412.68**
Available Surplus	143.65	
Closing Stock		58.90

The Challenges in 2015 *(Contd. from page 7)*

production cost increased by 183%, but the gross returns increased by 263% due to the combined increase in yields and market prices. Net returns increased substantially. With the low cotton imports to China, the market prices could be low. Hope that this trend changes and the market prices increase so that farmers get high net returns.

Conclusion

It would be most important in 2015 to recognise the challenges that are likely to cause problems mainly to cotton farmers in India. Efforts should be made to bring down the cost of production especially by resorting to optimum use of balanced fertilizers, which would also help in reduction of sucking pest infestation and thereby fewer insecticide applications. Other remedial measures as suggested above, can help in tiding over the impending crisis of erratic monsoon, high cost of production and low market prices. It is gratifying to see that the Government is proactive and farmers are being assisted in every possible manner to ensure that they are least affected with the weather aberrations.

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World Cotton Trade to Recover in 2015/16

In 2011/12, Chinese imports more than doubled from the previous season to 5.3 million tons and surpassed the total volume of imports by the rest of world, which reached only 4.4 million tons. However, in the following seasons, Chinese imports declined while imports outside of China have steadily grown. In 2014/15, imports outside of China are likely to increase 6% to 5.9 million tons, but will not offset the 45% decline in Chinese imports to 1.6 million tons. As a results world imports are projected down 12% to 7.5 million tons in 2014/15. However, in 2015/16 world cotton imports may recover modestly, increasing 2% to 7.7 million tons with imports outside of China rising by 3% to 6.1 million tons. Bangladesh, Vietnam and Indonesia are expected to be the three largest importers outside of China in 2015/16 due to the continued growth in their spinning sectors that rely primarily on imported cotton. Bangladesh's imports are forecast at just under 1 million tons in 2014/15 and are expected to remain stable in 2015/16. Vietnam's imports are projected up 6% to 927,000 tons in 2015/16 and Indonesia's imports up 4% to nearly 800,000 tons. U.S. exports which experienced good demand for much of 2014/15, are expected to remain stable in 2015/16 at 2.3 million tons. On the other hand, India's exports are projected down 50% in 2014/15 to 1 million tons, but could recover partially in 2015/16 to 1.2 million tons.

World cotton area is expected to decrease 7% to 31.3 million hectares in 2015/16 due to low prices in 2014/15. Area under cotton in China has declined in the last three seasons, and the announcement of a lower subsidy for 2015 is expected to lead to another season of decline with area projected down 12% to 3.8 million hectares. Production in China could fall to 5.4 million tons in 2015/16. Area in India reached a record 12.3 million hectares in 2014/15, but will likely decrease 5% to 11.6 million hectares in 2015/16. Applying the average yield in the last three years would result in a 2% decline in production to 6.4 million tons, and in India overtaking China as the world's largest cotton producer. Area in the United States is forecast to fall 15% to 3.3 million hectares due to low international prices and adverse weather conditions. The far western region is experiencing severe drought conditions, while excessive rains in Texas, the largest cotton producing state in the United States, have significantly delayed planting. Assuming a yield of 912 kg/ha, production in the United States is projected down 14% to 3 million tons. After achieving one of the highest volumes of production and record yields in 2014/15, Pakistan's production is expected to decrease 11% to 2.1 million tons due to a 6% decrease in area to 2.7 million hectares and a lower yield closer to the recent four-year average.

After a season of no growth, world cotton consumption increased 3% in 2014/15 to 24.3 million tons and is projected to grow another 2% in 2015/16 to 24.9 million tons. After four consecutive seasons of decline, China's consumption recovered 2% in 2014/15 to 7.7 million tons, though still nearly 3 million tons less than four years ago. Domestic cotton prices in China fell from an average of 139 cents/lb in 2013/14 to just under 100 cents/lb in the first five months of 2015 due to the ending of China's reserve policy and a shift toward a more market-oriented policy. Assuming prices remain around the same level in 2015/16, cotton consumption is unlikely to grow in 2015/16. Instead, consumption is expected continue growing in nearby countries. Consumption in India, the second largest consumer of cotton lint, is projected up 3% to 5.4 million tons in 2015/16. After a slow start at the beginning of the season due to electricity shortages, mill use in Pakistan has picked up, increasing 2% to 2.5 million tons in 2014/15. Pakistan's consumption is expected to grow 3% in 2015/16, reaching just over 2.6 million tons despite strong competition from yarn imports.

World ending stocks are forecast to decrease for the first time since 2010/11, falling 5% to 20.8 million tons in 2015/16. Although China's ending stocks are projected down 6% to 11.8 million tons, it would still hold 56% of the world's stocks at the end of 2015/16. After increasing 19% in 2014/15 to 9.4 million tons, ending stocks held outside of China are expected to decline 3% to 9.1 million tons in 2015/16. In 2014/15, India's ending stocks are projected up 29% to 2.2 million tons, making it the country with the second largest volume of stocks and representing 10% of total world stocks.

Source: ICAC COTTON THIS MONTH, June 01, 2015

SUPPLY AND DISTRIBUTION OF COTTON

June 01, 2015

Seasons begin on August 1 — Million Metric Tons

	2010/11	2011/12	2012/13	2013/14 Est.	2014/15 Proj.	2015/16 Proj.
BEGINNING STOCKS						
WORLD TOTAL	9.277	10.074	15.091	17.673	20.00	21.82
China (Mainland)	2.688	2.087	6.181	9.607	12.09	12.47
USA	0.642	0.566	0.729	0.903	0.65	1.08
PRODUCTION						
WORLD TOTAL	25.425	27.820	26.667	26.295	26.17	23.90
India	5.865	6.239	6.205	6.770	6.54	6.38
China (Mainland)	6.400	7.400	7.300	6.929	6.44	5.40
USA	3.942	3.391	3.770	2.811	3.55	3.05
Pakistan	1.948	2.311	2.002	2.076	2.31	2.05
Brazil	1.960	1.877	1.310	1.734	1.51	1.48
Uzbekistan	0.910	0.880	1.000	0.940	0.94	0.92
Others	4.401	5.722	5.080	5.036	4.89	4.62
CONSUMPTION						
WORLD TOTAL	24.588	22.780	23.585	23.755	24.36	24.93
China (Mainland)	9.580	8.635	8.290	7.517	7.70	7.74
India	4.470	4.231	4.817	5.042	5.27	5.43
Pakistan	2.170	2.121	2.216	2.476	2.53	2.60
East Asia	1.832	1.776	2.133	2.302	2.46	2.60
Europe & Turkey	1.550	1.498	1.560	1.611	1.55	1.62
Brazil	0.958	0.897	0.910	0.871	0.84	0.85
USA	0.849	0.718	0.762	0.773	0.79	0.82
CIS	0.577	0.550	0.561	0.590	0.60	0.60
Others	2.601	2.353	2.336	2.574	2.62	2.67
EXPORTS						
WORLD TOTAL	7.725	9.827	10.114	8.884	7.52	7.68
USA	3.130	2.526	2.836	2.293	2.33	2.33
India	1.085	2.159	1.685	2.014	1.01	1.18
Australia	0.545	1.010	1.305	1.037	0.56	0.42
Brazil	0.435	1.043	0.938	0.485	0.79	0.73
CFA Zone	0.476	0.597	0.828	0.927	0.84	0.98
Uzbekistan	0.600	0.550	0.653	0.650	0.61	0.59
IMPORTS						
WORLD TOTAL	7.726	9.785	9.614	8.676	7.52	7.68
China	2.609	5.342	4.426	3.075	1.65	1.63
East Asia	1.825	1.998	2.355	2.342	2.62	2.70
Europe & Turkey	0.973	0.725	0.833	1.077	0.98	0.90
Bangladesh	0.843	0.680	0.631	0.987	0.96	0.97
Pakistan	0.314	0.190	0.411	0.271	0.34	0.46
TRADE IMBALANCE 1/	0.001	-0.042	-0.501	-0.209	0.00	0.00
STOCKS ADJUSTMENT 2/	-0.041	0.018	0.001	0.000	0.00	0.00
ENDING STOCKS						
WORLD TOTAL	10.074	15.091	17.673	20.004	21.82	20.79
China (Mainland)	2.087	6.181	9.607	12.088	12.47	11.76
USA	0.566	0.729	0.903	0.651	1.08	0.97
ENDING STOCKS/MILL USE (%)						
WORLD-LESS-CHINA (M) 3/	53	63	53	49	56	53
CHINA (MAINLAND) 4/	22	72	116	161	162	152
COTLOOK A INDEX 5/	**164**	**100**	**88**	**91**		

1/ The inclusion of linters and waste, changes in weight during transit, differences in reporting periods and measurement error account for differences between world imports and exports.
2/ Difference between calculated stocks and actual; amounts for forward seasons are anticipated.
3/ World-less-China's ending stocks divided by World-less-China's mill use, multiplied by 100.
4/ China's ending stocks divided by China's mill use, multiplied by 100.
5/ U.S. Cents per pound
(Source : ICAC Monthly June 2015)

UPCOUNTRY SPOT RATES

(Rs./Qtl)

Sr. No.	Growth	Grade Standard	Grade	Staple	Micronaire	Strength /GPT	Spot Rate (Upcountry) 2014-15 Crop JUNE 2015 1st	2nd	3rd	4th	5th	6th
	Standard Descriptions with Basic Grade & Staple in Millimetres based on Upper Half Mean Length [By law 66 (A) (a) (4)]											
1	P/H/R	ICS-101	Fine	Below 22mm	5.0-7.0	15	10011 (35600)	10011 (35600)	10011 (35600)	10011 (35600)	10011 (35600)	10011 (35600)
2	P/H/R	ICS-201	Fine	Below 22mm	5.0-7.0	15	10151 (36100)	10151 (36100)	10151 (36100)	10151 (36100)	10151 (36100)	10151 (36100)
3	GUJ	ICS-102	Fine	22mm	4.0-6.0	20	7002 (24900)	7002 (24900)	7002 (24900)	7002 (24900)	7030 (25000)	7002 (24900)
4	KAR	ICS-103	Fine	23mm	4.0-5.5	21	7986 (28400)	7986 (28400)	7986 (28400)	7986 (28400)	8014 (28500)	7986 (28400)
5	M/M	ICS-104	Fine	24mm	4.0-5.0	23	8464 (30100)	8464 (30100)	8464 (30100)	8464 (30100)	8492 (30200)	8464 (30100)
6	P/H/R	ICS-202	Fine	26mm	3.5-4.9	26	10095 (35900)	10067 (35800)	10151 (36100)	10151 (36100)	10011 (35600)	9954 (35400)
7	M/M/A	ICS-105	Fine	26mm	3.0-3.4	25	8548 (30400)	8548 (30400)	8577 (30500)	8577 (30500)	8577 (30500)	8577 (30500)
8	M/M/A	ICS-105	Fine	26mm	3.5-4.9	25	8942 (31800)	8942 (31800)	8970 (31900)	8970 (31900)	8970 (31900)	8970 (31900)
9	P/H/R	ICS-105	Fine	27mm	3.5.4.9	26	10151 (36100)	10123 (36000)	10208 (36300)	10208 (36300)	10067 (35800)	10011 (35600)
10	M/M/A	ICS-105	Fine	27mm	3.0-3.4	26	8858 (31500)	8858 (31500)	8886 (31600)	8886 (31600)	8886 (31600)	8886 (31600)
11	M/M/A	ICS-105	Fine	27mm	3.5-4.9	26	9195 (32700)	9195 (32700)	9223 (32800)	9223 (32800)	9223 (32800)	9223 (32800)
12	P/H/R	ICS-105	Fine	28mm	3.5-4.9	27	10348 (36800)	10320 (36700)	10404 (37000)	10404 (37000)	10264 (36500)	10208 (36300)
13	M/M/A	ICS-105	Fine	28mm	3.5-4.9	27	9561 (34000)	9561 (34000)	9589 (34100)	9589 (34100)	9645 (34300)	9617 (34200)
14	GUJ	ICS-105	Fine	28mm	3.5-4.9	27	9589 (34100)	9589 (34100)	9617 (34200)	9617 (34200)	9673 (34400)	9645 (34300)
15	M/M/A/K	ICS-105	Fine	29mm	3.5-4.9	28	9786 (34800)	9786 (34800)	9814 (34900)	9814 (34900)	9870 (35100)	9842 (35000)
16	GUJ	ICS-105	Fine	29mm	3.5-4.9	28	9758 (34700)	9758 (34700)	9786 (34800)	9786 (34800)	9842 (35000)	9814 (34900)
17	M/M/A/K	ICS-105	Fine	30mm	3.5-4.9	29	9983 (35500)	9983 (35500)	9983 (35500)	9983 (35500)	10039 (35700)	10011 (35600)
18	M/M/A/K/T/O	ICS-105	Fine	31mm	3.5-4.9	30	10179 (36200)	10179 (36200)	10179 (36200)	10179 (36200)	10236 (36400)	10208 (36300)
19	A/K/T/O	ICS-106	Fine	32mm	3.5-4.9	31	10404 (37000)	10404 (37000)	10404 (37000)	10404 (37000)	10461 (37200)	10432 (37100)
20	M(P)/K/T	ICS-107	Fine	34mm	3.0-3.8	33	12710 (45200)	12710 (45200)	12710 (45200)	12710 (45200)	12710 (45200)	12710 (45200)

(Note: Figures in bracket indicate prices in Rs./Candy)