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Programme on "Foreign Exchange Risk Management" Organised by CAI under "Learn with CAI" Series

The Programme No.4 on "Foreign Exchange Risk Management" under "Learn with CAI" series was held on 25th July 2009 in the Conference Room of the Association.

Shri Dhiren N. Sheth, President, CAI welcomed the participants. He briefly introduced the Course Faculty Shri. Murtaza Sakarwala and Shri. Chirjeev Singh of Mecklai Financial Services Ltd., to the participants.

CAI President, Shri Dhiren N. Sheth welcoming the participants

The main objective of the programme was to provide holistic training session on Forex Markets and instruments and strategies to manage Forex Risk. He emphasised the importance of risk management and urged the participants to take maximum benefit from the eminent speakers.

The programme was divided into three modules which contained i) Foreign Exchange Risk and its impact to business; ii) Foreign Exchange Market Primer; and iii) Foreign Exchange Risk Hedging. The presentation covered different aspects of risk involved in economic, translation and transaction risk of foreign exchange.

Shri Murtaza Sakarwala and Shri Chirjeev Singh interacting with the participants

Shri Murtaza highlighted the various aspects of different instruments used to hedge currency risk and other options technologies. The session was turned out to be highly interactive.

The programme concluded with an open session where all the participants interacted with the speakers and raised several queries and the faculty member responded to their questions.

All the participants highly appreciated the programme.

A cross section of participants

Core Sector Growth Kindles Hope of Early Economic Recovery

The six core infrastructure sector industries, viz, coal, cement, steel, crude oil, electricity and petroleum refinery products, are reported to have registered an encouraging growth of 6.5 per cent in June 2009 as against 5.1 per cent in June last year. The growth in May this year was only 2.8 per cent. The good growth made in June has pushed up the growth during the first quarter of 2009-10 (April-June) to 4.8 per cent compared to 3.8 per cent in the first quarter of 2008-09, when the economy was not affected by the global financial crisis and was growing at a healthy 8 per cent of particular significance seems to be that coal output recorded an impressive growth of 14.7 per cent and cement production was up by 12.8 per cent in June. However, output of crude oil and petroleum refinery declined for various extraneous reasons.

Leading economists are said to be of the view that during the last three months industrial growth was improving but it is necessary that this recovery continues and the country returns firmly on the high growth trajectory. The strong recovery in cement and steel production is said to suggest that construction industry and consumer durables are doing well. The core sector industries account for 26.7 per cent in the index of industrial production (IIP). One of the encouraging factors has been that after being negative during almost each month since October 2008, industrial growth turned positive in April and the growth doubled to 2.7 per cent in May. Some of the officials are quoted to have stated that a soft interest rate regime is needed for the economic and industrial growth is to recover further during the remaining period of the current fiscal. It is reported that encouraged by the response of the economy to the stimulus packages, the Government will continue with all the incentives it had provided to the industry.

Growth of Small Spinning Units

The Small Scale Spinning Units (SSUs) have been making steady growth during the last few years. Consequently, consumption of cotton by them has also been on the rise. In fact, according to the estimates made by the Cotton Advisory Board, cotton consumption by SSUs more than doubled during the last ten years going up from 8.37 lakh bales in 1999-00 to a peak of 23 lakh bales in 2007-08 although there was a slippage to 20 lakh bales in 2008-09 when there was a fall in cotton consumption by mills also owing to the high cotton prices and a few other adverse factors.

Currently, there are about 1247 mills in the small scale sector with an installed capacity of 4.31 million spindles and 1.75 lakh rotors. The number of mills and their installed capacity in the different States are as under :

Dispersal of SSUs

State	No. of Mills	Installed Capacity Spindles (lakh)	Installed Capacity Rotors (000)
Tamil Nadu	995	37.45	89.6
Haryana	72	0.30	42.0
Uttar Pradesh	42	0.89	5.6
Punjab	33	1.09	11.4
Gujarat	22	0.52	2.4
Andhra Pradesh	22	1.09	6.5
Maharashtra	18	0.67	5.3
Others	53	1.10	11.7
All -India	1247	43.11	174.5

It will be seen that almost 80 per cent (995) of the total number of mills is concentrated in Tamil Nadu. Haryana comes a distant second with 72 mills followed by Uttar Pradesh with 42.

High MSP Has Affected Cotton Exports - Ministry of State

The Minister of State for Textiles is reported to have recently informed the Parliament that the higher Minimum Support Prices (MSP) this year have affected the cost structure of raw cotton being offered by India in international market. The disparity in domestic cotton prices as compared to international prices and reduction in cotton consumption by the major importing countries due to global economic slowdown are stated to have affected raw cotton exports from India. Incidentally, Trade circles believe that exports this year may be around 35 lakh bales only as against 85 lakh bales last year.

In fact, exporting sector is only one of the major cotton segments that have been adversely affected by the steep hike effected in the MSP this year. Most other segments have also been adversely affected including the raw cotton processing, marketing and consuming segments. The only segment that has benefited from the hike has been the cotton growing segment which was the Government's basic intention in hiking the MSP. Normally, an increase of 8-10 per cent is made every year but this year the difference has been that the hike has been as much as 40 per cent. This seems to have inflicted a systemic damage to the overall cotton economy according to some analysts. In the past, the basic approach in fixing the MSP was to guarantee a minimum price line to cotton farmers so that their legitimate interests are protected. Besides taking care of the production cost, MSP also incorporates a reasonable margin of profit for the grower in order to not only sustain his interest in growing the crop but also to motivate him to make the needed investment on costly inputs for raising productivity, and thus ensure that cotton remains competitive against the alternative crops.

This approach is considered to be quite fair and reasonable. However, the problem starts when there is a deviation from this accepted norm and the basic principle is distorted. Indications are that there have actually been some deviation from the norm in fixing this year's MSP, and that the high cotton prices then prevailing in the market influenced the concerned authorities in arriving at the MSP which was announced in September 2008. With the serious repercussions of the unusually high MSP becoming more and more clear, there seems to have been some rethinking on the part of the Agricultural Costs and Prices Commission (CACP) regarding the fixation of MSP. According to reports, the authorities of the Commission are quoted to have stated that there should be flexibility in fixing the MSP so that adjustments, if warranted, could be made later.

The irony is that this year, not only the major cotton segments like service providers, processors, consuming industry and exporters have suffered but even the Government had to shell out large sums to compensate the losses made by State agencies like the Cotton Corporation of India, which undertook a massive price support operations, in selling the procured cotton at discounted prices. The expectation is that the Government will take into account the problems encountered by different segments this year while fixing the MSP for 2009-10.

Cotton Crop Prospects in Gujarat

Cotton crop prospects in Gujarat are reported to have brightened with the receipt of widespread rains during the latter half of July. Earlier, absence of rains had been causing concern. Authorities are, however, said to be assessing the impact that the delayed rains may have caused to cotton as there has been apprehension that the crop might have suffered an estimated 15 per cent loss, particularly in the Saurashtra region where some areas continued to remain dry although other areas received good rains.

Haryana Cotton

Experts at the Haryana Agricultural University are reported to have expressed the possibility of population build-up of various pests on cotton crop in the prevailing weather conditions in the State. A humid climate and high temperature are said to be conducive for multiplication of pests like white fly, leaf hopper and spotted bollworms. Further, if there are good rains, the population of pests like mealy bugs which were active on cotton in the State recently may come down. The farmers have been advised to regularly monitor pest infestation in the fields and take control measures immediately when warranted.

SNIPPETS

Although the textile industry had been grappling with several problems including high input costs and lower demand, the investment in the sector during 2008-09 is reported to have been 50 per cent higher compared to the previous year. The sector is stated to have attracted a total investment of Rs. 46,313 crore in 2008-09 as against Rs. 31,161 crore in 2007-08. Schemes like the Technology Upgradation Fund and Scheme for Integrated Textile Park are claimed to have stimulated the investment. The total investment in the sector during the last three years is said to have been Rs. 1,68,141 crore.

A survey by the Federation of Indian Chamber of Commerce and Industry (FICCI) is reported to have revealed that the domestic manufacturing sector is likely to witness a strong growth in July-September quarter of the current fiscal, of the 10 sectors surveyed, eight including technical textiles are said to be expecting to post a higher growth rate in the second quarter of 2009-10. Despite the optimism, concerns, however, appear to remain over the high interest rates and fall in exports. The survey is stated to have pointed out that credit is still provided at interest rates as high as 16 per cent making the Indian manufacturers, in several sectors including textiles uncompetitive globally.

Apparel exports from India have reportedly fallen by a steep 11.7 per cent during May this year compared to May 2008. In fact, garment exports have been posting negative growth since February this year, ranging from 0.95 to 9.71 per cent.

UPCOUNTRY SPOT RATES

(Rs./Candy)

Official quotations for standard descriptions with basic grade and staple in Millimetres based on Upper Half mean Length under By-law 66 (A)(a)(4)						SPOT RATES (UPCOUNTRY) 2008-09 CROP July 2009					
						25th	27th	28th	29th	30th	31st
01.	ICS-101	Below 22mm	Bengal Deshi(RG)	5.0-7.0	15		23300	23300	23300	23300	23300
02.	ICS-201	Below 22mm	Bengal Deshi(SG)	5.0-7.0	15	H	23800	23800	23800	23800	23800
03.	ICS-102	22mm	V-797	4.5-5.9	19		18600	18600	18400	18400	18300
04.	ICS-103	23mm	Jayadhar	4.0-5.5	19	O	18400	18400	18400	18400	18400
05.	ICS-104	24mm	Y-1	4.0-5.5	20		21500	21500	21500	21500	21500
06.	ICS-202	25mm	J-34 (SG)	3.5-4.9	23	L	23200	23200	23200	23200	23100
07.	ICS-105	25mm	NHH-44	3.5-4.9	22		21500	21500	21500	21500	21500
08.	ICS-105	27mm	LRA-5166	3.5-4.9	24	I	21900	21900	21900	21900	21900
09.	ICS-105	28mm	H-4/ MECH-1	3.5-4.9	25	D	22500	22500	22500	22500	22500
10.	ICS-105	29mm	S-6	3.5-4.9	26		23800	23800	23800	23800	23600
11.	ICS-105	31mm	Bunny/ Brahma	3.5-4.9	27	A	23700	23700	23700	23700	23700
12.	ICS-106	33mm	MCU-5/ Surabhi	3.3-4.5	28	Y	24200	24200	24200	24200	24200
13.	ICS-107	35mm	DCH-32	2.8-3 .6	31		33100	33100	33100	33100	33100
14.	ICS-301	26mm	ICC	3.7-4.3	25		22700	22700	22700	22700	22700