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Cotton Exchange Building, 2nd Floor, Cotton Green, Mumbai - 400 033
Phone: 30063400 Fax: 2370 0337 Email: cai@caionline.in
www.caionline.in

Is there a ceiling for cotton demand?

(ICAC Cotton - Review of the World Situation)

By Alejandro Plastina, ICAC

Long Term Trends in Cotton Demand

End use consumption of all textile fibers in 2013 is projected to be 5 times the level of 1960, meaning that total fiber consumption increased on average by 1.2 million tons each year. However, not all fibers benefited proportionally from the increased demand. Consumption of synthetic fibers¹ grew 5 times faster than consumption of cotton and about 10 times faster than consumption of cellulosic man-made fibers. In 2013, consumption of synthetic fibers is projected at 49.8 million tons, almost double the projected volume of cotton consumption at 25.3 million tons. Wool consumption in 2013 is projected to be 400 tons lower than in 1960.

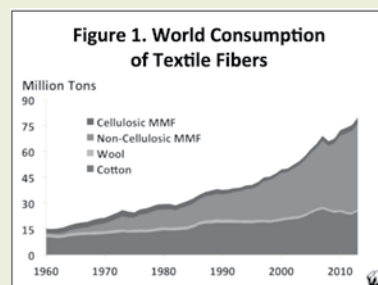
Despite growing in volume, cotton consumption has lost market share to other fibers, mainly polyester. The loss accelerated during the 1990s, was more subtle during the first half of the 2000s, and it accelerated again after 2008. In 2013, cotton's market share is projected at 31.7%.

The ICAC's Secretariat annual report "World Textile Demand" analyzes the effects that macroeconomic policies, economic and financial trends, population, income and prices have on textile fiber consumption worldwide and at regional levels, both for cotton and for other textile fibers. It also provides short- and long-term projections of cotton and non-cotton textile consumption. However, due to data limitations, very

few analyses are available on the determinants of cotton enduses consumption by country.

The most frequently cited drivers of cotton end-use consumption by fiber analysts are population, income per capita, and the relative price of cotton to other fibers. In previous studies, the ICAC Secretariat analyzed the relative influence of population and changes in textile

consumption per capita on total textile consumption between 1992 and 2008. The studies concluded that population growth only accounts for 39% of the increase in world apparel fiber consumption, and it is not the driving force behind changes in consumption of synthetic fibers, wool, or flax. However, most of the increases in end-use consumption of cotton and cellulosic fibers can be attributed to population growth. Despite the fact that synthetic fiber consumption is not a population story while cotton is, the volume of additional synthetic fibers consumed due to population growth is greater than the corresponding volume of cotton. This stems from the fact that consumption of synthetic fibers has exceeded consumption of cotton since 1997.



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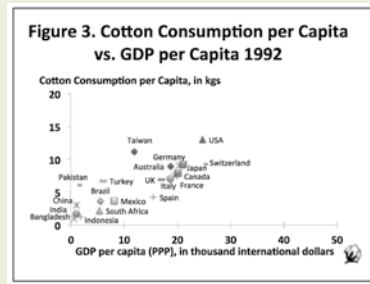
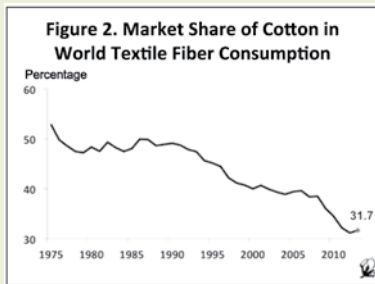
In a set of unpublished studies conducted jointly by the Food and Agriculture Organization of the United Nations (FAO) and the ICAC, end-use cotton

consumption per capita at country level was consistently found to have a high degree of persistence (i.e. consumption in one year depends heavily on the level of consumption in the previous year), while the relationship between cotton consumption and relative prices of cotton versus other fibers was found to be weak.

This article analyzes cotton consumption per capita at country level from a different standpoint: instead of asking what drives consumption per capita in each country, it asks whether there are historical regularities between the levels of income per capita and the levels of cotton consumption per capita across countries. The importance of answering this question resides in that it allows analysts to qualify their long terms projections of cotton consumption per capita based on projections of income per capita at country level. For example, if the analysis concludes that the higher the income per capita, the higher it is cotton consumption per capita, then long term forecasts of cotton consumption per capita (and therefore total cotton consumption) will be higher under a scenario of high economic growth than under a scenario of low economic growth. However, if the analysis concludes that there is a ceiling for cotton consumption per capita that once reached cannot be surpassed irrespective of the level of income per capita, then long term forecasts should account for this rigidity, and cotton demand can become stagnant once it reaches its ceiling even under a scenario of high growth in income per capita (i.e., cotton demand would mostly depend on population growth). In the latter scenario, promotional efforts for cotton products could become even more relevant than in any other scenario, because the only way to generate demand pull at that stage is through convincing consumers to push the ceiling higher.

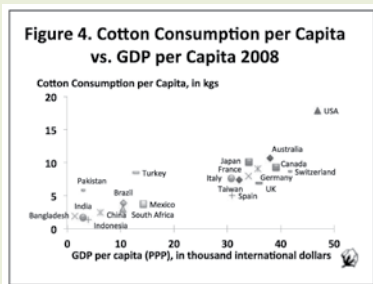
The Incorrect and the Correct Approaches

In order to analyze long term relationships between cotton consumption per capita and income per capita, many analysts present a scatter plot with data for many countries at one particular point in time. Then, to confirm whether the regularities hold through time, a similar analysis is conducted with data at a different point in time. Figure 3 illustrates



such an analysis with data from 1992, for a set of 20 countries that accounted for more than 80% of world end-use cotton consumption that year: Australia, Bangladesh, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Pakistan, South Africa, Spain, Switzerland, Taiwan, Turkey, the United Kingdom, and the United States of America.

The source of the consumption data is the joint FAO/ ICAC World Apparel Fiber Consumption Survey, while the source of income data is the International Monetary Fund's World Economic Outlook Database.³ It appears that cotton consumption

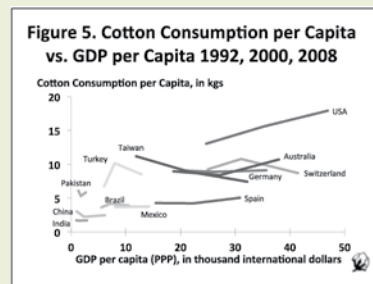


per capita bore a positive and significant relationship with income per capita in 1992. Figure 4 repeats the analysis for the same set of countries with data from 2008, and it seems to confirm that the hypothesis was still true in 2008. This is the incorrect approach.

The most this analysis can say is that higher income per capita is associated with higher cotton consumption per capita. Such an exercise does not answer how cotton consumption per capita might evolve (through time) for a specific projection of the path of income per capita (through time).

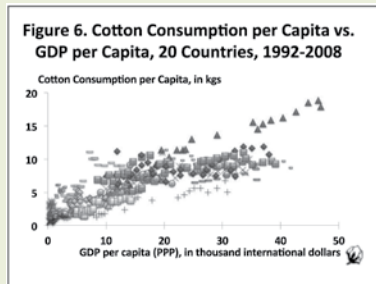
The correct approach is to observe the evolution of both cotton consumption per capita and income per capita through time for each country, paying particular attention to regularities that are common to groups of countries. The graphical representation of the hypothesis that cotton consumption per capita grows with income per capita should be seen in a scatter plot where all country points move to the right and up after a period of economic growth.

To test the hypothesis graphically, the evolution of cotton consumption per capita and



income per capita must be plotted for all countries over a period of time. For clarity of presentation, figure 5 illustrates different trends using data from

only 12 countries, representing more than 60% of world cotton consumption, for 1992, 2000, and 2008. For completeness, Figure 6 presents the evolution of cotton consumption per capita and income per capita over 1992, 2000 and 2008 for all 20 countries.



Between 1992 and 2000, all 20 countries have seen incomes per capita rise, but the general shift in cotton consumption per capita was not upward. In fact, low income countries such as China, India, Pakistan and Bangladesh saw their cotton consumption per capita fall over that period. And on the extreme opposite, only the United States increased per capita consumption significantly. Markedly opposite movements occurred in Taiwan, where per capita consumption fell substantially, and Turkey, where per capita consumption increased substantially. European countries, Japan and Australia experienced economic growth but kept cotton consumption patterns relatively stable.

Between 2000 and 2008, all 20 countries experienced strong economic growth, but only marginal increases in cotton consumption per capita were realized in most countries. Some countries such as Brazil, Taiwan and Switzerland, actually saw cotton consumption per capita decline.

The correct approach reveals that historical patterns vary substantially from country to country, and increases in income per capita do not automatically translate into higher cotton consumption per capita. Thus the conclusion obtained using the incorrect approach is easily rejected.

Figure 6 suggests that when income per capita is less than \$15,000 at PPP, cotton consumption per capita is likely to be less than 5 kilograms (the exceptions are Pakistan and Turkey, cotton producing countries with higher consumption levels); and when income per capita exceeds \$20,000 at PPP, cotton consumption per capita is likely to range between 5 and 11 kilograms. And for each country, cotton consumption per capita tends to be relatively stable through time.

The main exception is the United States with consistently rising consumption per capita levels.

How to Push the Ceiling Higher?

The United States is the only country with high and growing income per capita that also experienced high and growing levels of cotton

consumption per capita. The key to increasing cotton consumption per capita has been a strong generic cotton promotion effort, effective efforts to contain negative advertising against cotton, and extending the utility of cotton through collaborative research and development with industry sectors.

Do Conclusions Apply to Market Share?

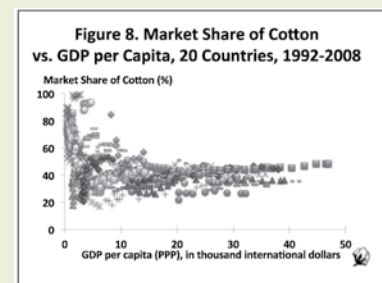
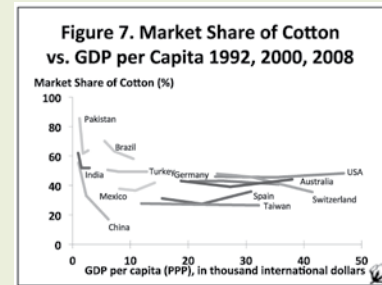


Figure 7 illustrates the relationship between income per capita and the market share of cotton for the same 12 countries depicted in figure 5 over 1992, 2000, and 2008. Figure 8 provides a wider picture of all 20 countries with annual observations for 1992-2008.

In countries with low income per capita, increases in income usually resulted in a decline in the market share of cotton. In countries with high income per capita, substantial increases in income did not consistently impact the market share of cotton, resulting in a relatively stable market share for this group. However, in no case has the market share of cotton increased above 50% for the latter group of countries (suggesting the existence of a ceiling to cotton's market share among high income countries).

What Does this Mean for Demand Projections?

About 100 countries accounting for 54% of the world population had annual per capita incomes below \$10,000 at PPP in 2012, including China, India, Pakistan, Bangladesh and Indonesia. These countries are the most populous, and also among the fastest growing countries in the near future.

Therefore, it can be expected that population increases will generate additional demand for cotton. But the fact that economic growth is expected to occur mainly in developing countries is likely to result in a disproportional increase in demand for man-made fibers and substantially smaller increases in demand for cotton, resulting in further declines in the market share of cotton at the world level.

Update on Cotton Acreage (as on August 22, 2013)

Sl. No	States	Normal of Year*	Normal on Week**	Area Sown (During the corresponding week in)	
				2013	2012
1	2	3	4	5	6
1	Andhra Pradesh	20.09	18.24	19.61	20.61
2	Gujarat	26.97	26.15	26.63	22.78
3	Haryana	5.82	5.49	5.57	6.03
4	Karnataka	5.28	3.91	5.08	3.62
5	Madhya Pradesh	6.55	6.51	6.21	6.08
6	Maharashtra	40.71	40.57	38.62	41.23
7	Orissa	0.98	0.99	1.24	1.13
8	Punjab	5.24	5.40	5.05	5.16
9	Rajasthan	4.18	4.09	2.93	4.49
10	Tamil Nadu	1.28	0.11	0.07	0.10
11	Uttar Pradesh	0.00	0.28	0.23	0.30
12	West Bengal	0.00	0.00	0.00	0.00
13	Others	0.43	0.05	0.10	0.00
Total		117.53	111.79	111.34	111.53

* Normal area mentioned above is average of last three years (Source: Directorate of Cotton Development, Mumbai) ** It is average of last three years



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Saturday, August 31, 2013
at 8.30 A.M. to 6.00 P.M.

Venue: Conference Room of CAI,
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For registration please contact CAI Office
Tel: (022) 30063400
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Gu.RATHAKRISHNA
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Glimpses of Events at CAI

Independence Day Celebration

The 66th Independence Day of the Country was celebrated in the premises of the Association on Wednesday, the 15th August 2013.

Prizes were distributed to the winners and runners up of the CAI Indoor Games Tournament 2012-13 in the category of Carrom, Chess and Table Tennis in the hands of Shri Jasubhai Mehta, seniormost member of the Association on the occasion of Independence Day celebrations.



“Dariya Poojan”

The ‘Dariya Poojan’ on the occasion of ‘Nariyali Poornima’ was performed at ‘Girgaum Chowpatty’ on Tuesday, the 20th August 2013.



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Wakefield Inspection Services Inc.
 800 E. Campbell Rd. Suite 337
 Richardson, TX 75081 USA
 Tel: +1 972 690 9015
 Fax: +1 972 690 7042
 e-mail: info@wiscontrol.com

Wakefield Inspection Services (Asia) Ltd.
 Overseas Chinese Market, 1611
 129 Yan'an West Road, Shanghai 200040, China.
 Tel/Fax: +86 21 6209 3032
 Mobile: +86 135 2420 8118
 e-mail: info@wiscontrol.com

Wakefield Inspection Services (India) Pvt Ltd.
 2nd Floor, Cotton Exchange Building
 Cotton Green (East), Mumbai 400033
 Tel: - 0091 22 2372 7700 / 0091 22 65207265
 Fax: - 0091 22 2373 3569
 e-mail: ind-ops@wiscontrol.com

伟得检验服务(上海)有限公司
 中国上海市静安区延安西路129号华侨大厦1801室
 邮编: 200040
 电话: +86 21 3214 1236
 传真: +86 21 6248 8235
 电邮: chn-info@wiscontrol.com

Wakefield Inspection Services (India) Pvt Ltd.
 2nd Floor, Jeeb Complex, Vijay plot no 16
 Gondal Road, Rajkot 360001
 Email: ind-ops@wiscontrol.com

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UPCOUNTRY SPOT RATES							(Rs./Qtl)					
Standard Descriptions with Basic Grade & Staple in Millimetres based on Upper Half Mean Length [By law 66 (A) (a) (4)]							Spot Rate (Upcountry) 2012-13 Crop AUGUST 2013					
Sr. No.	Growth	Grade Standard	Grade	Staple	Micronaire	Strength /GPT	19th	20th	21st	22nd	23rd	24th
1	P/H/R	ICS-101	Fine	Below 22mm	5.0 - 7.0	15	11360 (40400)	11360 (40400)	11220 (39900)	11107 (39500)	11248 (40000)	11332 (40300)
2	P/H/R	ICS-201	Fine	Below 22mm	5.0 - 7.0	15	11642 (41400)	11642 (41400)	11501 (40900)	11360 (40400)	11501 (40900)	11585 (41200)
3	GUJ	ICS-102	Fine	22mm	4.0 - 6.0	20	8548 (30400)	8548 (30400)	8436 (30000)	8436 (30000)	8436 (30000)	8492 (30200)
4	KAR	ICS-103	Fine	23mm	4.0 - 5.5	21	9786 (34800)	9786 (34800)	9673 (34400)	9673 (34400)	9673 (34400)	9786 (34800)
5	M/M	ICS-104	Fine	24mm	4.0 - 5.5	23	11164 (39700)	11164 (39700)	11051 (39300)	11051 (39300)	11107 (39500)	11079 (39400)
6	P/H/R	ICS-202	Fine	26mm	3.5 - 4.9	26	12570 (44700)	12598 (44800)	12457 (44300)	11373 (44000)	11373 (44000)	12738 (45300)
7	M/M/A	ICS-105	Fine	26mm	3.0 - 3.4	25	12260 (43600)	12260 (43600)	12204 (43400)	12204 (43400)	12204 (43400)	12260 (43600)
8	M/M/A	ICS-105	Fine	26mm	3.5 - 4.9	25	12513 (44500)	12513 (44500)	12457 (44300)	12457 (44300)	12457 (44300)	12513 (44500)
9	P/H/R	ICS-105	Fine	27mm	3.5 - 4.9	26	13020 (46300)	13048 (46400)	12935 (46000)	12823 (45600)	12823 (45600)	13188 (46900)
10	M/M/A	ICS-105	Fine	27mm	3.0 - 3.4	26	12879 (45800)	12879 (45800)	12823 (45600)	12823 (45600)	12823 (45600)	12879 (45800)
11	M/M/A	ICS-105	Fine	27mm	3.5 - 4.9	26	13076 (46500)	13076 (46500)	13020 (46300)	13020 (46300)	13020 (46300)	13132 (46700)
12	P/H/R	ICS-105	Fine	28mm	3.5 - 4.9	27	13188 (46900)	13216 (47000)	13076 (46500)	12991 (46200)	12991 (46200)	13357 (47500)
13	M/M/A	ICS-105	Fine	28mm	3.5 - 4.9	27	13357 (47500)	13301 (47300)	13216 (47000)	13216 (47000)	13216 (47000)	13357 (47500)
14	GUJ	ICS-105	Fine	28mm	3.5 - 4.9	27	13244 (47100)	13188 (46900)	13104 (46600)	13104 (46600)	13104 (46600)	13357 (47500)
15	M/M/A/K	ICS-105	Fine	29mm	3.5 - 4.9	28	13526 (48100)	13498 (48000)	13385 (47600)	13328 (47400)	13328 (47400)	13526 (48100)
16	GUJ	ICS-105	Fine	29mm	3.5 - 4.9	28	13329 (47400)	13301 (47300)	13188 (46900)	13188 (46900)	13188 (46900)	13441 (47800)
17	M/M/A/K	ICS-105	Fine	30mm	3.5 - 4.9	29	13582 (48300)	13582 (48300)	13469 (47900)	13469 (47900)	13469 (47900)	13498 (48000)
18	M/M/A/K/T/O	ICS-105	Fine	31mm	3.5 - 4.9	30	13666 (48600)	13666 (48600)	13554 (48200)	13554 (48200)	13554 (48200)	13582 (48300)
19	K/A/T/O	ICS-106	Fine	32mm	3.5 - 4.9	31	13863 (49300)	13863 (49300)	13779 (49000)	13779 (49000)	13779 (49000)	13779 (49000)
20	M(P)/K/T	ICS-107	Fine	34mm	3.0 - 3.8	33	15466 (55000)	15466 (55000)	15466 (55000)	15466 (55000)	15466 (55000)	15466 (55000)

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