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Price Impact Imminent As August Weather May Hurt Cotton Output Prospects

Shri. G. Chandrashekhar, Senior Journalist and Policy Commentator, is a Global Agribusiness and Commodities Market Specialist.

Known to be treacherous, the month of August saw weather aberrations hurt cotton production prospects in two of the world's large producers and exporters of the natural fibre.

While damage in the U.S is yet to be ascertained following hurricane Harvey inflicted unseasonal rains, many growing regions in India faced dry conditions that has put crop yields at risk.

What one is sure is that the price of cotton received a boost from the likelihood of lower production in the U.S. in the wake of damage caused by the hurricane towards the end of August. To be sure, the State of Texas is the largest cotton producer and the U. S. is the world's third largest supplier.

Meanwhile, in India, despite a sharp expansion of cultivated area to 12 million hectares (versus 103 ml ha in 2016-17), deficient rains in different growing regions of the country covering Karnataka, Madhya Pradesh, Punjab,

Haryana and Maharashtra has heightened the anxiety about yields.

The global cotton market fundamentals in 2017-18 will surely be impacted by the final production picture that emerges in the U.S. and in India by early to mid-September.

For the last two years, the world market has seen consumption running ahead of production, thereby helping ease the burden of humungous stocks. By early August this year, there was clear expectation that in 2017-18 the world cotton production and consumption would be fairly balanced. This picture has the potential to change depending on the final harvest size in the U.S. and in India.



GUEST COLUMN

Shri. G. Chandrashekhar
*Global Agribusiness and Commodities
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Now it is becoming increasingly certain that the initial expectation of crop size may not materialise and the

market will have to settle for some decline from earlier expectations.

Look at India, for instance. The government has fixed the cotton production target at 35.5 million bales (170 kilograms each) for 2017-18. Indeed, by early-August, there was widespread

expectation that India's cotton harvest will outperform other kharif crops and that the final outturn would be well ahead of the target, necessitating largescale procurement to support growers.

This expectation is likely to be belied because of acute moisture stress conditions in many growing regions in August, despite a 20 percent increase in the planted area. It would indeed be a big relief if the final production number comes close to the season's target.

To be sure, there will be no tightness in availability because of increase in production for two years in a row. From the El Nino affected 30 million bales in 2015-16, cotton production improved by 10 percent to 33.1 million bales in 2016-17; and this year, it could be in the range of 34-36 million bales. Thus the domestic user industry will have no cause to complain.

According to the Washington DC-based International Cotton Advisory Committee, world cotton production and consumption will be more or less balanced at 25.1 million tons while cotton stocks would be stable at around 18.5 ml tons. However, it appears that the ICAC may not have factored in the potential crop losses in India and the U.S.

China - arguably the world's largest producer, importer and consumer of cotton - will continue to be the joker in the pack. Will China continue to destock or will it begin to restock? That's a billion-dollar question. To be sure, from out of its humungous reserves, the

Chinese government sold about two million tons in four months since May, as a result of which the reserves are drawn down to 6.3 million tons.

In sum, the weather behavior so far and risks ahead have the potential to disturb the earlier forecast of a fine balance between production and consumption in 2017-18. For the commodity market, it is axiomatic that when the market fundamentals are finely balanced, even a small change in either demand or supply can have a disproportionately larger impact on prices.

Therefore, those in the cotton trade - the physical market players - need to exercise caution and allow the market to benefit from more solid evidence of crop size in India and the U.S. For Indian exporters, in addition to watching the rupee which has gained strength in recent months, tracking Chinese import policy and quantum of import is critical.

Bangladesh has been India's strong partner in cotton trade; but of late some skepticism seems to have entered the relationship. India must continue to engage with Bangladesh closely and address issues that create friction. It is important in the context of a general fall in export earning on raw cotton to about \$ 1.6 billion in 2016-17 from about \$ 1.9 billion in the previous two years.

(The views expressed in this column are of the author and not that of Cotton Association of India. The author can be reached at gchandrashekar@gmail.com and +919821147594)

95th Annual General Meeting of the Association

The 95th Annual General Meeting of the Cotton Association of India will be held on

Friday, the 29th September 2017 at 3.00 p.m.

*in the Conference Room of the Association,
2nd Floor, Cotton Exchange Building, Cotton Green,
Mumbai - 400 033.*

Glimpses of Ganeshotsav

From 25th August to 5th September 2017



Cottoncha Raja



Shri. S.M. Makharia and family perform the aarti.



Shri. K.F. Jhunjhunwala performs the aarti.



Shri. Pankaj Kotak accepts the prasad



Devotees partake of the prasad.



Pudhya varshi lavkar ya!



Cottoncha Raja is taken in a grand procession for the visarjan.

Stable Global Stocks in 2017/18

In 2017/18, world cotton production and mill use are estimated at 25.1 million tons, which would result in a 9% increase in output and 2% rise in consumption. World cotton stocks are projected to remain stable at 18.5 million tons at the end of 2017/18, and, the world stock-to-use ratio is expected to be essentially unchanged at about 75%, or nine months of mill use.

The Chinese government sold over two million tons from its national cotton reserve from May to August 2017, lowering the reserve to around 6.3 million tons, and total stocks at the end of 2016/17 decreased by 16% to 10.6 million tons. China's cotton stocks are forecast to decrease another 16% to 8.9 million tons, which would account for 48% of world stocks in 2017/18. This would be the first season since 2011/12 that China's stocks account for less than half of global stocks.

Stocks held outside of China increased 4% to 7.9 million tons in 2016/17, but the stock-to-use ratio remained at 32%. However, ending stocks held outside of China in 2017/18 are expected to increase by 22% to 9.6 million tons, and the non-China stock-to-use ratio is forecast to increase to 39%, which is above the 35-year average of 33%.

At planting time in the Northern Hemisphere in 2017, cotton prices were rising, and the price ratios of cotton to most competing crops were much higher than in the same period the previous season. As a result, world cotton area is projected to expand by 9% to 31.9 million hectares, still below the 35-year average of 32.7 million hectares. The world average yield is projected to remain unchanged at 789 kg/ha. With output projected to increase by 4% to 6 million tons, India will remain the world's largest cotton producer in 2017/18. After four seasons of decline, China's cotton production is expected to rise by 7% to 5.2 million tons. Cotton

production in the United States is forecast to increase by 20% to 4.5 million tons. However, the full impact of the recent hurricane in Texas, where around 45% of U.S. production occurs, is still under assessment. Pakistan's cotton production is projected to increase by 17% to 2 million tons, which is in line with its 15-year average.

After falling by 2% in 2015/16, global cotton consumption rose by 1% to 24.5 million tons in 2016/17, as world economic growth strengthened. In 2017/18, world cotton mill use is projected to increase by 2% to 25.1 million

tons, which is still 1.6 million tons less than record of 26.7 million tons. Mill use in China is expected to grow by 1% to 8.1 million tons, still 2-3 million tons less than the volume consumed in the late 2000s. After contracting by 3% to 5.1 million tons in 2016/17, India's cotton consumption is projected to recover by 3% to 5.3 million tons in 2017/18. Similarly, Pakistan's consumption is

expected to recover by 4% to 2.2 million tons following declining mill use in 2015/16 and stagnation in 2016/17. Turkey's mill use fell by 3% in 2016/17 to 1.45 million tons and is likely to remain at the level in 2016/17 due to weak growth in Europe, its main buyer, and increased competition. Bangladesh became the world's fourth largest consumer in 2012/13 and has maintained that place. Its mill use in 2017/18 is projected to remain stable at 1.4 million tons due to widespread flooding in August 2017 that has damaged infrastructure and made it difficult to transport goods throughout the country and to run businesses.

In 2017/18, world cotton imports are expected to reach 7.9 million tons, unchanged from 2016/17.



ICAC

Source: ICAC Cotton This Month,
September 1, 2017.

Supply and Distribution of Cotton

September 1, 2017

Seasons begin on August 1

Million Metric Tons

	2012/13	2013/14 Est.	2014/15 Est.	2015/16 Est.	2016/17 Proj.	2017/18 Proj.
BEGINNING STOCKS						
WORLD TOTAL	15.708	19.428	21.318	22.962	20.25	18.54
China	6.696	10.811	13.280	14.118	12.65	10.63
USA	0.729	0.827	0.512	0.795	0.83	0.61
PRODUCTION						
WORLD TOTAL	27.079	26.225	26.269	21.484	23.07	25.14
India	6.290	6.766	6.562	5.746	5.78	6.03
China	7.600	7.000	6.600	5.200	4.90	5.25
USA	3.770	2.811	3.553	2.806	3.74	4.47
Pakistan	2.002	2.076	2.305	1.537	1.66	1.95
Brazil	1.310	1.734	1.563	1.289	1.52	1.57
Uzbekistan	1.000	0.910	0.885	0.832	0.79	0.80
Others	5.107	4.928	4.801	4.074	4.68	5.07
CONSUMPTION						
WORLD TOTAL	23.450	24.101	24.594	24.188	24.55	25.12
China	7.900	7.600	7.550	7.600	8.00	8.08
India	4.762	5.087	5.377	5.296	5.15	5.30
Pakistan	2.216	2.470	2.467	2.147	2.15	2.23
Europe & Turkey	1.560	1.611	1.692	1.687	1.61	1.60
Bangladesh	1.045	1.129	1.197	1.316	1.41	1.44
Vietnam	0.492	0.673	0.875	1.007	1.17	1.31
USA	0.762	0.773	0.778	0.751	0.75	0.73
Brazil	0.910	0.862	0.797	0.701	0.72	0.74
Others	3.802	3.896	3.862	3.683	3.60	3.70
EXPORTS						
WORLD TOTAL	10.048	9.028	7.772	7.551	8.17	7.88
USA	2.836	2.293	2.449	1.993	3.25	3.09
India	1.690	2.015	0.914	1.258	1.10	0.84
CFA Zone	0.821	0.973	0.966	0.963	0.97	1.00
Brazil	0.938	0.485	0.851	0.939	0.61	0.70
Uzbekistan	0.690	0.615	0.550	0.500	0.34	0.37
Australia	1.343	1.057	0.520	0.616	0.75	0.77
IMPORTS						
WORLD TOTAL	10.213	8.858	7.789	7.571	7.90	7.88
Bangladesh	1.055	1.112	1.183	1.378	1.41	1.44
Vietnam	0.517	0.687	0.934	1.001	1.21	1.34
China	4.426	3.075	1.804	0.959	1.10	1.14
Turkey	0.803	0.924	0.800	0.918	0.70	0.71
Indonesia	0.686	0.651	0.728	0.640	0.75	0.76
TRADE IMBALANCE 1/	0.166	-0.170	0.017	0.021	-0.26	0.00
STOCKS ADJUSTMENT 2/	-0.075	-0.063	-0.047	-0.034	0.04	0.00
ENDING STOCKS						
WORLD TOTAL	19.428	21.318	22.962	20.245	18.54	18.56
China	10.811	13.280	14.118	12.650	10.63	8.93
USA	0.827	0.512	0.795	0.827	0.61	1.26
ENDING STOCKS/MILL USE (%)						
WORLD-LESS-CHINA 3/	55	49	52	46	48	56
CHINA 4/	137	175	187	166	133	111
COTLOOK A INDEX 5/	88	91	71	70		

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 Cotton This Month, September 1, 2017

Production of Fibres

(In Mn. Kg)

As on	Raw Cotton (Oct.-Sept.)	Synthetic			Cellulosic	Sub Total
		PSF	ASF	PPSF	VSF	
2010-11	5765	896.33	79.48	3.74	305.10	1284.65
2011-12	6239	829.74	77.71	4.08	322.64	1234.17
2012-13	6290	848.05	73.59	4.26	337.49	1263.39
2013-14	6766	845.95	96.12	3.71	361.02	1306.80
2014-15	6562	881.56	92.54	4.62	365.17	1343.89
2015-16	5746	893.95	106.81	4.70	341.91	1347.37
2016-17 (P)	--	898.97	96.37	3.64	364.99	1363.97
2017-18 P) (Apr.-June)	--	220.03	23.07	0.82	91.65	335.57
2015-16						
April	--	73.62	9.45	0.35	28.62	112.03
May	--	75.55	9.50	0.30	18.42	103.77
June	--	67.17	7.88	0.31	19.50	94.86
July	--	70.75	9.15	0.40	29.70	110.00
August	--	74.07	9.35	0.47	30.63	114.52
September	--	74.24	7.95	0.46	30.42	113.07
October	--	76.66	9.23	0.38	31.34	117.61
November	--	74.98	8.15	0.30	30.72	114.15
December	--	76.65	9.36	0.45	31.49	117.95
January	--	79.10	9.40	0.46	31.33	120.29
February	--	73.52	8.58	0.42	28.07	110.59
March	--	77.64	8.81	0.41	31.67	118.53
2016-17 (P)						
April	--	73.56	8.86	0.37	30.32	113.11
May	--	77.07	9.39	0.44	31.72	118.62
June	--	77.46	9.28	0.45	21.87	109.06
July	--	79.32	8.07	0.30	30.41	118.10
August	--	79.92	8.20	0.35	31.96	120.43
September	--	76.96	9.02	0.22	31.14	117.34
October	--	79.51	6.75	0.16	32.46	118.88
November	--	71.06	7.10	0.24	31.18	109.58
December	--	71.65	7.28	0.29	32.09	111.31
January	--	72.68	7.78	0.20	32.11	112.77
February	--	63.78	7.42	0.20	28.24	99.64
March	--	76.00	7.22	0.42	31.49	115.13
2017-18 (P)						
April	--	72.23	7.63	0.26	30.51	110.63
May	--	75.90	7.79	0.32	29.59	113.60
June	--	71.90	7.65	0.24	31.55	111.34

(P)= Provisional

Source : Office of the Textile Commissioner

‘Interactive Meeting on GST’

Continuing with our practice of educating our members about the newly introduced GST Law and to equip them better to be GST compliant, Cotton Association of India in association with The Institute of Chartered Accountants of India (ICAI) will be organising the **third ‘Interactive meeting on GST’ on Wednesday, the 20th September 2017 from 3.30 p.m. to 5.30 p.m.** in the Conference Room of the Association, 2nd Floor, Cotton Green, Mumbai 400033.

We request all our members to actively participate in this meeting.

Further, in order that queries/issues, if any, of the members relating to GST are adequately addressed by the faculty, we earnestly request all our members to kindly provide the same to us at the earliest and in any case not later than **6.00 p.m. on Saturday, the 16th September 2017.**

Rainfall Distribution (01.06.2017 to 08.09.2017)

Sr. No.	State	Day 08.09.2017				Period 01.06.2017 to 08.09.2017			
		Actual (mm)	Normal (mm)	% Dep.	Cat.	Actual (mm)	Normal (mm)	% Dep.	Cat.
1	Punjab	2.4	4.6	-48%	D	367.0	432.7	-15%	N
2	Haryana	0.6	4.3	-87%	LD	308.1	411.2	-25%	D
3	West Rajasthan	0.2	3.1	-94%	LD	355.5	242.5	47%	E
	East Rajasthan	0.8	6.2	-87%	LD	530.6	566.8	-6%	N
4	Gujarat	0.0	6.1	-99%	LD	761.4	607.1	25%	E
	Saurashtra & Kutch	0.0	3.2	-100%	NR	617.6	429.9	44%	E
5	Maharashtra	17.5	5.9	196%	LE	833.2	887.8	-6%	N
	Madhya Maharashtra	24.3	4.2	479%	LE	692.0	616.6	12%	N
	Marathwada	22.1	5.1	334%	LE	520.7	569.5	-9%	N
	Vidarbha	6.2	6.6	-6%	N	612.5	853.5	-28%	D
6	West Madhya Pradesh	0.2	6.7	-98%	LD	595.1	774.7	-23%	D
	East Madhya Pradesh	2.1	9.9	-79%	LD	666.5	929.3	-28%	D
7	Telangana	5.3	5.5	-3%	N	575.8	639.7	-10%	N
8	Coastal Andhra Pradesh	3.6	5.1	-29%	D	564.2	460.1	23%	E
	Rayalseema	7.3	2.9	152%	LE	379.3	291.0	30%	E
9	Coastal Karnataka	6.7	10.1	-34%	D	2289.0	2879.8	-21%	D
	N.I. Karnataka	34.5	3.0	1051%	LE	374.9	386.8	-3%	N
	S.I. Karnataka	12.3	2.4	415%	LE	486.7	545.2	-11%	N
10	Tamil Nadu & Pondicherry	4.5	3.3	37%	E	326.5	223.1	46%	E
11	Orissa	2.4	9.0	-73%	LD	898.7	988.8	-9%	N

L. Excess, E. Excess, N. Normal, D. Deficient, LD. Deficient

Source : India Meteorological Department, Hydromet Division, New Delhi

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) 2016-17 Crop SEPTEMBER 2017					
Sr. No.	Growth	Grade Standard	Grade	Staple	Micronaire	Strength /GPT	4th	5th	6th	7th	8th	9th
1	P/H/R	ICS-101	Fine	Below 22mm	5.0-7.0	15	9476 (33700)	H	9476 (33700)	9476 (33700)	9476 (33700)	9476 (33700)
2	P/H/R	ICS-201	Fine	Below 22mm	5.0-7.0	15	9758 (34700)		9758 (34700)	9758 (34700)	9758 (34700)	9758 (34700)
3	GUJ	ICS-102	Fine	22mm	4.0-6.0	20	8070 (28700)		8099 (28800)	8099 (28800)	8070 (28700)	8070 (28700)
4	KAR	ICS-103	Fine	23mm	4.0-5.5	21	9364 (33300)	O	9392 (33400)	9392 (33400)	9364 (33300)	9364 (33300)
5	M/M	ICS-104	Fine	24mm	4.0-5.0	23	10376 (36900)		10404 (37000)	10404 (37000)	10376 (36900)	10376 (36900)
6	P/H/R	ICS-202	Fine	26mm	3.5-4.9	26	11473 (40800)	L	11473 (40800)	11389 (40500)	11304 (40200)	11248 (40000)
7	M/M/A	ICS-105	Fine	26mm	3.0-3.4	25	9729 (34600)		9758 (34700)	9758 (34700)	9729 (34600)	9729 (34600)
8	M/M/A	ICS-105	Fine	26mm	3.5-4.9	25	10179 (36200)		10208 (36300)	10208 (36300)	10179 (36200)	10179 (36200)
9	P/H/R	ICS-105	Fine	27mm	3.5-4.9	26	11642 (41400)	I	11642 (41400)	11557 (41100)	11473 (40800)	11417 (40600)
10	M/M/A	ICS-105	Fine	27mm	3.0-3.4	26	10404 (37000)		10432 (37100)	10432 (37100)	10404 (37000)	10404 (37000)
11	M/M/A	ICS-105	Fine	27mm	3.5-4.9	26	10798 (38400)	D	10826 (38500)	10826 (38500)	10798 (38400)	10798 (38400)
12	P/H/R	ICS-105	Fine	28mm	3.5-4.9	27	11726 (41700)		11726 (41700)	11642 (41400)	11557 (41100)	11501 (40900)
13	M/M/A	ICS-105	Fine	28mm	3.5-4.9	27	11501 (40900)		11529 (41000)	11529 (41000)	11501 (40900)	11501 (40900)
14	GUJ	ICS-105	Fine	28mm	3.5-4.9	27	11501 (40900)	A	11529 (41000)	11529 (41000)	11501 (40900)	11501 (40900)
15	M/M/A/K	ICS-105	Fine	29mm	3.5-4.9	28	11867 (42200)		11895 (42300)	11895 (42300)	11867 (42200)	11867 (42200)
16	GUJ	ICS-105	Fine	29mm	3.5-4.9	28	11838 (42100)	Y	11867 (42200)	11867 (42200)	11838 (42100)	11838 (42100)
17	M/M/A/K	ICS-105	Fine	30mm	3.5-4.9	29	12120 (43100)		12148 (43200)	12148 (43200)	12120 (43100)	12120 (43100)
18	M/M/A/K/T/O	ICS-105	Fine	31mm	3.5-4.9	30	12401 (44100)		12401 (44100)	12401 (44100)	12401 (44100)	12401 (44100)
19	A/K/T/O	ICS-106	Fine	32mm	3.5-4.9	31	12935 (46000)		12935 (46000)	12935 (46000)	12935 (46000)	12935 (46000)
20	M(P)/K/T	ICS-107	Fine	34mm	3.0-3.8	33	15325 (54500)		15325 (54500)	15325 (54500)	15325 (54500)	15325 (54500)

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