World Cotton Consumption may be Slightly Up in 2011-12 - ICAC

After a four percent drop in 2010-11 caused by extremely high cotton prices, world cotton mill use is projected to resume slow growth in 2011-12, states the International Cotton Advisory Committee (ICAC) in its latest release of September 1, 2011.

Cotton mill use is forecast at 24.7 million tonnes (mt) in 2011-12, 1.5 percent higher than the use placed at 24.37 mt in 2010-11. It is claimed that cotton mill use will be facilitated by increased availability of cotton, but moderated by still relatively high cotton prices and competition from chemical fibres. However, the possibility of a double-dip global economic recession could reduce these expectations, according to the ICAC. It is stated that the largest consuming countries of China, India and Pakistan will drive the slight rise in global cotton mill use in 2011-12. Cotton mill use is expected to reach 9.7 mt in China, 4.5 mt in India and 2.2 mt in Pakistan. It is expected to increase slightly in Turkey and Brazil, to 1.3 mt and 1.0 mt respectively. No increase is visualised in US and Bangladesh.

As for global cotton production, it is expected to rise by eight percent to 26.9 mt in 2011-12 as compared to 24.86 mt in 2010-11. The projected crop size will be the largest since 2004-05. It is stated that the significant increase in cotton prices received by farmers in 2010-11 encouraged an expansion in plantings in 2011-12. The production increase in 2011-12 will be driven primarily by China, followed by India, Pakistan, Australia and Turkey. China's crop is expected to rise by 13 percent to 7.2 mt, India's by nine percent to 6.0 mt, Pakistan's by 19 percent to 2.3 mt, Australia's by 23 percent to 1.1 mt and Turkey's by 42 percent to 8,41,000 tonnes. It is stated that production could

reach record levels in both India and Australia. In contrast, production in US is forecast down by 13 percent to 3.4 mt, due to severe drought in the South-West region. Brazil's production is also forecast down by six percent to 1.8 mt due to the decline in cotton prices over the last several months.

Given the current better economic prospects for developing countries compared to industrialised countries, as well as the faster increase in cotton prices than prices of other textile fibres observed in 2011, global consumption of non-cotton fibres is projected to increase faster than cotton consumption. This is expected to result in further decline in the market share of cotton from 33.5 percent in 2010 to 33.2 percent in 2011. However, this decline is moderate compared to the drop of two percentage points that took place between 2009 and 2010, states the ICAC.

Imports, it is claimed, are expected to rebound by seven percent, to 8.1 mt in 2011-12, fuelled by large crops, higher consumption and the rebuilding of the Chinese Government reserve. It is stated that Chinese imports could continue growing for the third consecutive season to 3.5 mt, up 35 percent from 2010-11. Chinese cotton stocks were estimated down by 22 percent to 2.2 mt in 2010-11, the smallest in 20 years with an almost exhausted national reserve, according to the ICAC.

It is stated that the rise in global exports could be driven by Australia, Brazil and India. Both Australia and Brazil are stated to have harvested record crops in 2010-11 and will ship most of it in 2011-12. US exports, on the other hand, are projected down by 20 percent to 2.5 m, due to reduced exportable surplus. Thus, the share of US in global exports is projected to drop from 41

percent in 2010-11 to 31 percent in 2011-12, while that of Brazil could go up from 6 percent to 9 percent.

It is stated that a result of the expected surplus of 2.2 mt, world ending stocks could rebound by 24 percent to 11.2 mt in 2011-12. The projected increase in the stocks-to-use ratio outside China, from 47 percent in 2010-11 to 54 percent in 2011-12, could translate into a significant decline in the season-average Cotlook A Index. Nevertheless, it is likely that the season-average A Index will remain above the ten-year average of 60 cents per pound, according to the ICAC.

The world cotton balance sheet, as drawn up by the ICAC, is given below:

World Cotton Supply and Demand (in million tonnes)			
	2009-10	2010-11	2011-12
Beginning Stock	11.90	8.64	9.06
World Production	22.16	24.86	26.90
Total Supply	34.06	33.50	35.96
World Consumption	25.26	24.37	24.72
Exports	7.77	7.68	8.12
Ending Stock	8.64	9.06	11.24

(Source: ICAC Monthly - September 2011)

Production and Trade Policies Affecting Cotton Industry - ICAC Report

(Continued from Issue No.25....)

India

In 2010-11, Government restricted exports of cotton to about 1.1 million tonnes. Without the restriction net exports could have grown to about 1.25 million tonnes and India could have both exported and imported cotton in 2010-11. Assuming exports from India could grow to 1.25 million tonnes in 2010-11 in the absence of export restrictions, ending stocks-to-use ratio in India would be falling to 17 per cent, it is stated. If realised, this would be a very low level compared with the average stocks-to-use ratio of 33 per cent, maintained since 1990-91.

India has a Minimum Support Price Programme but because market prices were high in 2010-11, this programme did not result in payments to producers.

Cotton farmers in India benefit from debt forgiveness and fertiliser subsidies from the Union Government. In addition, the Government provides support to cotton production through several programmes such as development of infrastructure facilities for production and distribution of quality seeds. Under the Government's Technology Mission, support was provided for modernisation of ginning and pressing units and improving cotton marketing during the past several years. These benefits are difficult to quantify and some are not specific to cotton. In addition, the Government supports the textile sector with a number of programmes that provide direct support and soft loans.

China

During the past several seasons, Government policies in China supported cotton production by

exercising border protection based on sliding scale duties or direct purchase by Government for reserves. As a result of Government interventions and quotas, domestic cotton prices in China were above international prices. Under the terms of its accession agreement into the WTO, China is obliged to establish a calendar year tariff-rate quota (TRQ). The in-quota tariff is one per cent for the first 894,000 tonnes of imports each calendar year. Additional import quotas are allowed by China based on requirements. The additional quotas can carry a tariff of one per cent and quotas can be based on a sliding scale of between 5 per cent and 40 per cent. The purpose of the sliding scale is to ensure that the effective cost of imported cotton exceeds international market prices and thus boosts domestic prices paid to farmers in China. China did not use sliding scale cotton import quotas during the world recession in 2008-09 but they were used in 2009-10.

In 2010-11 (season ended on July 31, 2011) TRQ of one per cent for 894,000 tonnes was released for calendar year 2011 as usual. In 2010 calendar year, 2.7 million tonnes of import quotas under the sliding scale duty system were released. In addition, sliding scale duty quotas for 1.7 million tonnes were announced for calendar 2011. Domestic cotton prices in China stayed below international prices beginning in mid-December 2010. Because world cotton prices were record high in 2010-11, the border protection measures used by China had no measurable impact on domestic prices.

In addition, Chinese Government pays growers a subsidy for using high quality plantings seeds, about $ 180 million a year. During the past two

seasons, China provided subsidies for transportation of cotton from port to mills in east and south China, estimated at about $ 150 million per year. All three types of subsidies totalled an estimated $ 2 billion in 2009-10 and $ 327 million in 2010-11.

The General Administration of Quality Supervision, Inspection and Quarantine (AQSIQ) of China has established a requirement for registration process for foreign cotton suppliers, effective March 15, 2009. The major concerns are that the system unfairly subjects suppliers to different levels of inspection and oversight, potentially based on single interaction and the registrations may damage the reputation of foreign suppliers through the publication of downgraded ratings. Ten lists of registered companies have been published by AQSIQ. By the beginning of July 2011, 338 companies were registered with the AQSIQ. The list includes major and small cotton firms from North America, South America, Asia, Africa, Europe and Australia, from all major exporting countries including Government owned firms and cooperative organisations.

(Concluded)

SUPPLY AND DISTRIBUTION OF COTTON

September 01, 2011

Years Beginning August 1	2006/07	2007/08	2008/09	2009/10	Million Metric Tons 2010/11 Est.	2011/12 Proj.
BEGINNING STOCKS						
WORLD TOTAL	**12.536**	**12.749**	**12.210**	**11.895**	**8.64**	**9.06**
China (Mainland)	3.991	3.653	3.321	3.585	2.78	2.17
USA	1.321	2.064	2.188	1.380	0.64	0.62
PRODUCTION						
WORLD TOTAL	**26.766**	**26.073**	**23.455**	**22.165**	**24.86**	**26.91**
China (Mainland)	7.975	8.071	8.025	6.925	6.40	7.25
India	4.760	5.219	4.930	5.185	5.53	6.04
USA	4.700	4.182	2.790	2.654	3.94	3.42
Brazil	1.524	1.602	1.214	1.194	1.95	1.83
Pakistan	2.121	1.900	1.926	2.070	1.91	2.27
Uzbekistan	1.171	1.206	1.000	0.850	0.91	0.92
Others	4.514	3.894	3.569	3.287	4.23	5.19
CONSUMPTION						
WORLD TOTAL	**26.487**	**26.532**	**23.696**	**25.261**	**24.37**	**24.72**
China (Mainland)	10.600	10.900	9.265	10.099	9.59	9.74
India	3.944	4.053	3.872	4.328	4.36	4.49
Pakistan	2.633	2.649	2.519	2.393	2.20	2.24
East Asia & Australia	1.858	1.829	1.674	1.861	1.78	1.76
Europe & Turkey	2.084	1.744	1.409	1.550	1.48	1.49
Brazil	0.987	0.993	1.000	1.024	1.01	1.03
USA	1.074	0.998	0.781	0.754	0.83	0.83
CIS	0.681	0.664	0.596	0.605	0.57	0.58
Others	2.625	2.703	2.579	2.648	2.55	2.57
TRADE IMBALANCE 1/	**0.075**	**0.025**	**-0.090**	**-0.017**	**-0.07**	**0.00**
STOCKS ADJUSTMENT 2/	**-0.140**	**-0.105**	**0.017**	**-0.144**	**-0.01**	**0.00**
ENDING STOCKS						
WORLD TOTAL	**12.749**	**12.210**	**11.895**	**8.638**	**9.06**	**11.24**
China (Mainland)	3.653	3.321	3.585	2.780	2.17	3.19
USA	2.064	2.188	1.380	0.642	0.62	0.70
ENDING STOCKS/MILL USE (%)						
WORLD-LESS-CHINA(M) 3/	**57**	**57**	**58**	**38**	**47**	**54**
CHINA (MAINLAND) 4/	**34**	**30**	**39**	**28**	**23**	**33**
Cotlook A Index 5/	**59.15**	**72.90**	**61.20**	**77.54**	**164.26**	

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 September 2011)

SNIPPETS

It is reported that the University of Agriculture Sciences, Dharwad (Karnataka), has plans to release two new varieties of non-Bt.cotton. The new varieties, DHB-915 and DHH-263 are said to be high yielding and resistant to red leaf and leaf spot diseases.

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The country's industrial output reportedly grew by just 3.3 percent in July, the slowest rate of growth in nearly two years. The growth was 9.9 percent in July 2010 and 8.8 percent in June 2011. The main cause for the decline is said to be the slowdown in the growth of the manufacturing sector to 2.3 percent as against 10.8 percent in July last year. The only sector that posted comparatively better performance is stated to have been the electricity sector which grew by 13.1 percent in July this year as against 3.7 percent in July last.

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Cotton market arrivals have reportedly commenced in Punjab circle and are currently at around 300 bales a day. The quality of the first arrivals is said to be poor because of the high moisture content caused by the recent rains. The moisture content of the arrivals is stated to be about 15 percent, much higher than the desired level of 6-7 percent. The quality is, however, expected to be better from now on as the weather has cleared.

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In a bid to reduce inflation, the Reserve Bank of India(RBI) has raised the Repo rate by 0.25 percentage points to 8.25 percent. It has also raised the Reverse repo rate by 0.25 percentage points to 7.25 percent.

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UPCOUNTRY SPOT RATES

(Rs./Qtl)

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) 2010-11 CROP
September 2011

Sr. No.	Grade Standard	Staple	Micronaire	Strength/ GPT	Trade Name	17th	19th	20th	21st	22nd	23rd
01.	ICS-101	Below 22mm	5.0-7.0	15	Bengal Deshi (RG)	14144* (50300)	14144* (50300)	14144* (50300)	14144* (50300)	14004* (49800)	14004* (49800)
02.	ICS-201	Below 22mm	5.0-7.0	15	Bengal Deshi (SG)	14285* (50800)	14285* (50800)	14285* (50800)	14285* (50800)	14144* (50300)	14144* (50300)
03.	ICS-102	22mm	4.5-5.9	19	V-797	7592 (27000)	7030 (25000)	6889 (24500)	6889 (24500)	6749 (24000)	6608 (23500)
04.	ICS-103	23mm	4.0-5.5	19	Jayadhar	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
05.	ICS-104	24mm	4.0-5.5	20	Y-1	N.A.	N.A	N.A.	N.A.	N.A.	N.A.
06.	ICS-202	25mm	3.5-4.9	23	J-34	11614 (41300)	11248 (40000)	10967 (39000)	10967 (39000)	10826 (38500)	10742 (38200)
07.	ICS-105	25mm	3.5-4.9	22	NHH-44	9842 (35000)	9701 (34500)	9561 (34000)	9561 (34000)	9420 (33500)	9280 (33000)
08.	ICS-105	27mm	3.5-4.9	24	LRA-5166	10404 (37000)	10264 (36500)	10123 (36000)	10067 (35800)	9926 (35300)	9786 (34800)
09.	ICS-105	28mm	3.5-4.9	25	H-4/ MECH-1	10826* (38500)	10545 (37500)	10404 (37000)	10348 (36800)	10208 (36300)	10208 (36300)
10.	ICS-105	29mm	3.5-4.9	26	Shankar-6	11585 (41200)	11389 (40500)	11248 (40000)	11192 (39800)	11051 (39300)	10826 (38500)
11.	ICS-105	31mm	3.5-4.9	27	Bunny/ Brahma	11810 (42000)	11670 (41500)	11529 (41000)	11529 (41000)	11389 (40500)	11248 (40000)
12.	ICS-106	33mm	3.3-4.5	28	MCU-5/ Surabhi	12092* (43000)	11810 (42000)	11670 (41500)	11670 (41500)	11529 (41000)	11529 (41000)
13.	ICS-107	35mm	2.8-3.6	31	DCH-32	15466* (55000)	15185 (54000)	15044 (53500)	15044 (53500)	14904 (53000)	14763 (52500)

Note: Figures in bracket indicate prices in Rs./candy   * - Nominal