Weekly Publication of

Cotton Association of India

Cotton Exchange Building, 2nd Floor,
Cotton Green, Mumbai - 400 033
Phone: 3006 3400
Fax: 2370 0337
Email: cai@caionline.in
www.caionline.in

Regd.No.MH/MR/EAST/96/2009-11
Registered with the Registrar of Newspapers for India under R.No.18844/69
Published every Tuesday
Price: Rs.30 per copy

Cotton Statistics And News

2011-12 * No. 45 * 07/01/2012

Edited & Published by Amar Singh

The Year That Was for Cotton

Another year has gone by and another new year has dawned for the cotton industry. It may be interesting to take a look at how cotton industry fared during 2011, the year that has gone by.

Cotton industry has four main constituents. These are producers, processors, service providers or suppliers and consumers. It is axiomatic that the interests of each of these constituents do not often coincide. In fact, they are always in conflict with each other in some cases. For instance, the producers want cotton prices to be as high as possible while consumers desire the opposite and want prices to be as low as possible. The processors and service providers have also their own interests to protect. Let us take a look at how some of the main constituents of the cotton industry passed through in 2011.

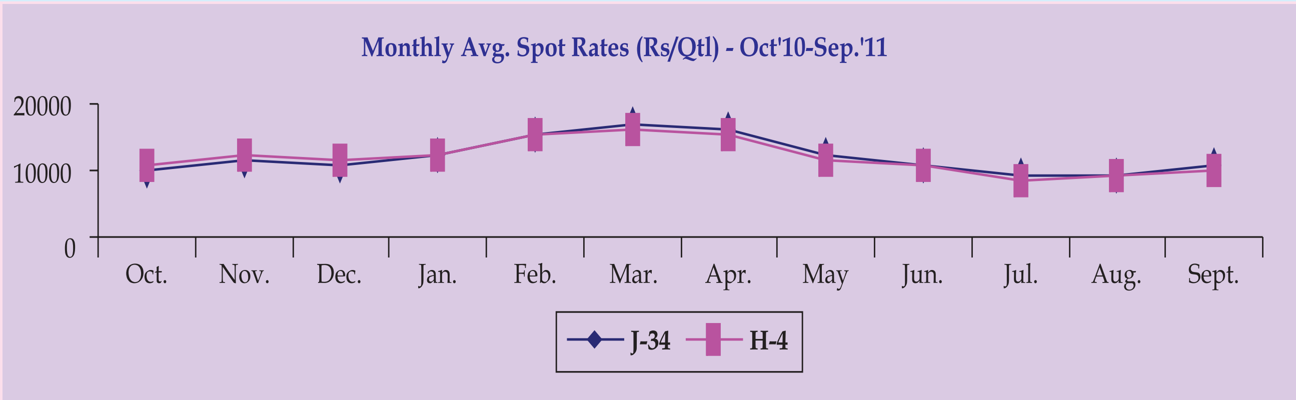
Cotton production reached the then new peak of 325 lakh bales in 2011. However, the per hectare yield was lower at 496 kg as against 503 kg in the previous year. The higher production was thus entirely due to the expansion of area which touched 121.91 lakh hectares from 111.42 lakh hectares in 2009-10. Scientists have already expressed the view that cultivation of cotton in non-traditional areas without adopting the optimum agricultural practices drags down the yield.

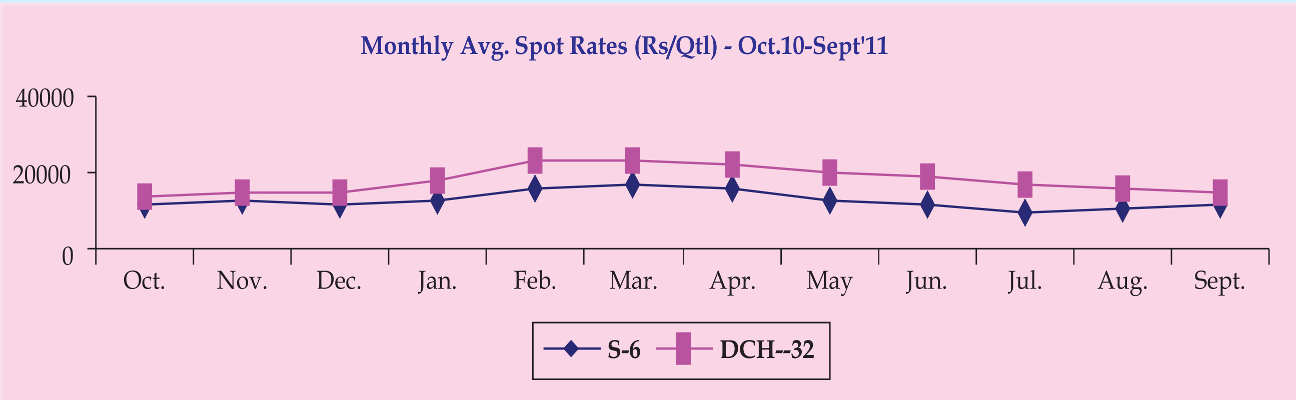
Let us now come to the all important issue of price which affects all the constituents of the cotton industry one way or the other. Fluctuations in cotton prices are the rule and not the exception. However, the volatility in prices witnessed in 2011 was perhaps unprecedented, not seen atleast in recent years. Interestingly, at the global level also, prices displayed extreme volatility as was specifically pointed out by the International Cotton Advisory Committee. The price volatility at the domestic level can be gauged from the fact that the increase in the lowest price level that prevailed in October 2010 to the peak price level reached in March 2011 was as high as 46 per cent to 63 per cent in the leading varieties like J-34, H-4, S-6, Bunny and DCH-32. Prices in 2011 were appreciably higher than those in the previous year through out all the months. Starting from October 2010, prices moved up continuously till March 2011, but from April the trend was reversed with the prices moving southward till July. However, prices moved up again in August and September whereafter they declined until December 2011.

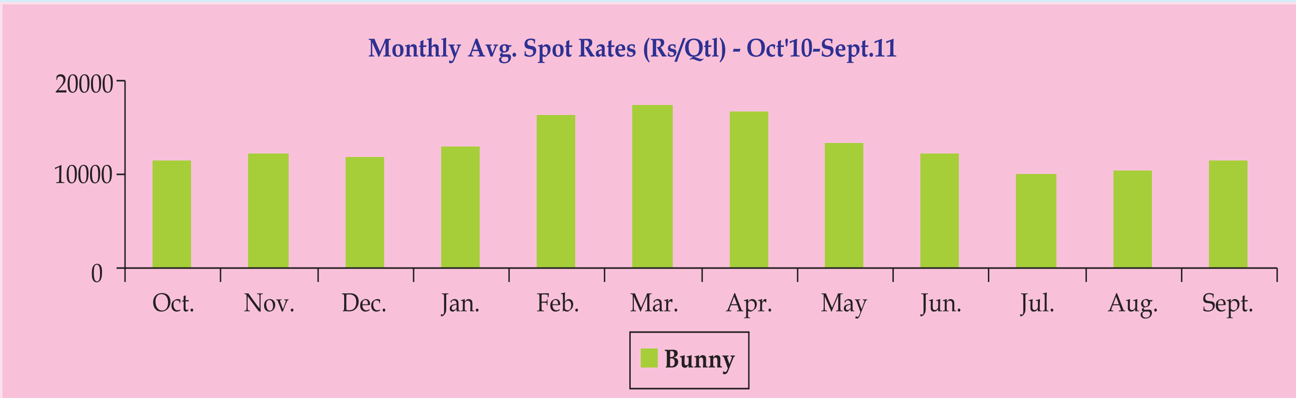
The earlier downtrend was caused by the drying up of demand from spinning mills and cotton exporters. The spinning industry was adversely impacted by the high cotton cost against a declining trend in yarn prices. Mills were obliged to suffer losses in the sale of yarn manufactured from high cost cotton. The demand from cotton exporters had also waned considerably since the cap in cotton exports imposed by the Government had been reached. The factors that kept the cotton prices under downward pressure ceased to be operative subsequently. The textile industry regained buoyancy with the advent of the festive season that stimulated the demand for all textile products. Further, the new cotton crop in the offing was forecast to be an all-time record. Likewise, demand for cotton exports also revived consequent to the removal of all restrictions and placing them under Open General Licence. These developments arrested the downtrend in cotton prices which started moving up in September but the market sentiment turned bearish in subsequent months as the mill demand declined after the hectic textile activity during the festive season.

At this point, it may be pertinent to take a look at the monthly movement of prices and the main factors that led to their downward or upward direction. After a rise in October and November 2010, prices had retreated in December. However, prices resumed their northward journey aggressively in January 2011 in spite of market arrivals gathering momentum, going up by about 8 to 21 per cent. One of the main reasons for this was the hectic buying by mills which were eager to replenish the depleted cotton stocks particularly as there was a strong demand for yarn. Although the earlier expectation was that cotton prices would go on softening and market would turn bearish, this did not happen and on the contrary, prices hardened. The rising trend continued in February also. A combination of several factors pushed up cotton prices to record levels mainly due to supply stress against a rising demand from spinners who were enjoying a favourable phase due to fast movement of textile goods, presumably due to an improvement in the consumers' purchasing power. The supply was also tight as some farmers reportedly held on to their produce without taking it to the market expecting a further rise in prices. Another factor that fuelled the price rise was the shooting up of world cotton prices which crossed two dollars per pound for the first time in the Intercontinental Cotton Exchange.

(to be continued......)







Hiking Support Price Not a Solution - CACP

In a discussion paper by the Commission for Agricultural Costs and Prices (CACP), it is reportedly stated that hiking the Minimum Support Price (MSP) from the current Rs. 3,300 to Rs. 6,000 per quintal for long staple cotton, as demanded by farmers in Maharashtra, is not a solution, this would make exports unviable leading to accumulation of stocks in the domestic market. Besides, high cotton cost could render the domestic textile industry sick, resulting in large scale unemployment, according to the discussion paper entitled "Pricing crisis in Cotton".

The paper is said to add that with just three per cent of the total cotton area under irrigation in Maharashtra, farmers need help through different channel rather than hiking the MSP. The discussion paper is a part of the series by CACP in an attempt to encourage unbiased discussion on critical issues affecting agriculture sector and food security and it does not necessarily reflect the Commission's view, it has been clarified. According to the paper, the problem with Maharashtra is that growing genetically modified Bt cotton in rainfed areas is fraught with risk. The State's productivity is lowest in the country, almost half of that in Gujarat while production costs are higher, making net returns the lowest.

Cotton farmers in Maharashtra have been agitating for a higher price after the domestic market prices dropped in November-December. The Maharashtra Government had asked the Centre to raise the MSP to Rs. 4,285 per quintal from the current Rs. 3,300 per quintal. The CACP paper stated that cotton season 2010-11 was an unusual boom year. Raising the MSP for 2011-12 would artificially raise the price of cotton and interfere with the normal functioning of the demand-supply dynamics of the market. Cotton production costs are said to be the highest in Maharashtra at Rs. 2,900 a quintal due to poor irrigation infrastructure and lower yields. In contrast, the production cost in Gujarat is Rs. 2,316 per quintal as irrigation facilities cover more than 50 per cent of the total cotton area and productivity is almost double.

Stating that although the demand of farmers in Maharashtra to raise the MSP is understandable, the CACP does not recommend State-wise support price which is not desirable. Spelling out their stand, the CACP Chairman is quoted to have stated that the way forward is to come out with a short-term or a quick-fix solution such as a relief package for Maharashtra that does not have any relation to the price. The package could be in the form of loan subvention or direct income support based on per hectare basis or some such measure that would not disturb the cotton market. A sustainable long term solution could be found through a special and large package focusing on irrigation investments in Maharashtra.

(Source: Business Line 16.01.2012)

China Captures 40% Increase of World Ending Stocks

While many countries seek to reduce stocks due to sluggish demand and price fluctuations, China is seeking to increase their reserves to prepare for an increase in domestic demand.

A recent United States Department of Agriculture (USDA) report states world ending stocks are forecast at the largest single-year increase in 25 years due to global production and demand. Last year’s record prices and China’s decision to rebuild reserves contribute to the rise. The country increased its imports by 500,000 bales to 16 million in order to rebuild reserves.

China will capture about 40% of the increase of the ending stocks. The government has purchased close to 12 million bales of domestic cotton and several million bales of foreign cotton, according to the USDA.

(Source: Cotton International - 26.01.2012)

Cotton Arrivals

Cotton Arrivals in the domestic market improved in January after trailing last year's level since the marketing year started on October 1, prompting textile mills and traders to stock up. Arrials fell by 14 percent to 16.62 million bales between October to January, recovering from a 20 percent decline until the first week of the last month, as per data available from Cotton Corporation of India. The arrivals were delayed due to the expection of better prices by cotton farmers, agitation by cotton farmers for increase in the floor prices of the fibre crop and harvesting and marketing of paddy and wheat in northern states, the CCI has said last month.

SNIPPETS

The country's merchandise exports reportedly rose 6.7 per cent in December to $ 25 billion reversing the trend of declining growth in recent months. This has given hopes of meeting the target of $ 300 billion in 2011-12. However, there is a question mark over this because of the likely demand slump in the US and EU markets. With imports growing at 19.8 per cent to $ 37.8 billion in December, the trade deficit for the month stood at $ 12.8 billion, a trifle lower than the monthly average deficit of around $ 14 billion till November.

The Union Ministry of Agriculture is reported to have decided to discontinue the Technology Mission on Cotton in the 12th Five Year Plan commencing from April, in order to give priority to foodgrain crops. Officials are quoted to have stated that the existing allocation to specific States would continue. It is stated that while there will be no further allocations from the Central Government directly, States will continue to get their individual allocations depending on the requirement. According to officials, the present move was partly prompted by farmers growing more and more cash crops, much beyond domestic demand.

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
January - February 2012

Sr. No.	Grade Standard	Staple	Micronaire	Strength/ GPT	Trade Name	28th	30th	31st	1st	2nd	3rd
03.	ICS-102	22mm	4.5-5.9	19	V-797	6749 (24000)	6833 (24300)	6889 (24500)	6889 (24500)	6889 (24500)	6946 (24700)
04.	ICS-103	23mm	4.0-5.5	19	Jayadhar	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
07.	ICS-105	25mm	3.5-4.9	22	NHH-44	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
08.	ICS-105	27mm	3.5-4.9	24	LRA-5166	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
2011-12 CROP											
01.	ICS-101	Below 22mm	5.0-7.0	15	Bengal Deshi (RG)	10039 (35700)	10095 (35900)	10095 (35900)	10039 (35700)	10039 (35700)	10039 (35700)
02.	ICS-201	Below 22mm	5.0-7.0	15	Bengal Deshi (SG)	10320 (36700)	10376 (36900)	10376 (36900)	10320 (36700)	10320 (36700)	10320 (36700)
05.*	ICS-104	24mm	4.0-5.5	20	Y-1	8998 (32000)	9083 (32300)	9139 (32500)	9139 (32500)	9139 (32500)	9139 (32500)
06.	ICS-202	25mm	3.5-4.9	23	J-34	9280 (33000)	9448 (33600)	9505 (33800)	9364 (33300)	9364 (33300)	9420 (33500)
09.	ICS-105	28mm	3.5-4.9	25	H-4/ MECH-1	9786 (34800)	9870 (35100)	9926 (35300)	9842 (35000)	9814 (34900)	9814 (34900)
10.	ICS-105	29mm	3.5-4.9	26	Shankar-6	10151 (36100)	10264 (36500)	10320 (36700)	10208 (36300)	10179 (36200)	10179 (36200)
11.	ICS-105	31mm	3.5-4.9	27	Bunny/ Brahma	10123 (36000)	10208 (36300)	10264 (36500)	10179 (36200)	10151 (36100)	10151 (36100)
12.	ICS-106	33mm	3.3-4.5	28	MCU-5/ Surabhi	10629 (37800)	10714 (38100)	10770 (38300)	10714 (38100)	10714 (38100)	10714 (38100)
13.	ICS-107	35mm	2.8-3.6	31	DCH-32	13638 (48500)	13723 (48800)	13723 (48800)	13638 (48500)	13638 (48500)	13582 (48300)

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