

Weekly Publication of



**Cotton
Association
of India**

COTTON STATISTICS & NEWS

Edited & Published by Amar Singh

2015-16 • No. 50 • 15th March, 2016 Published every Tuesday

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Technical Analysis

Price outlook for Gujarat-ICS-105, 29mm and ICE cotton futures
for the period 15/03/16 to 29/03/16

(The author is Director of Commtrendz Research and the views expressed in this column are his own and the author is not liable for any loss or damage, including without limitations, any profit or loss which may arise directly or indirectly from the use of following information.)

We will look into the Gujarat-ICS-105, 29mm prices along with other benchmarks and try to forecast price moves going forward.

As mentioned in the previous update, fundamental analysis involves studying and analysing various reports, data and based on that arriving at some possible direction for prices in the coming months or quarters.

Some of the recent fundamental drivers for the domestic cotton prices are:

- Cotton futures are higher in line with international prices. Prices seem to be finding some support and bargain hunting interest at lower levels.
- The Cotton Advisory Board has forecast that cotton production in India will fall by over 7% to around 35.2 million bales (170 kg each) for the October 2015 - September 2016 crop year against 38 million bales in the previous year. Despite a drop in production, cotton prices have been in a bear grip owing to higher carryover stocks.
- Indian cotton prices, since the beginning of 2016, have fallen 3% compared with over 9% correction in international prices. Prices in India

are finding support on the back of rising exports. India's exports in the current crop year that started in October 2015 could rise to 7 million bales, up from 5.77 million bales a year ago. This is due to good demand from Pakistan, which is buying more cotton than expected from India after floods cut its own crop to the smallest in over a decade.

- The projected Balance Sheet drawn by the CAI has estimated total cotton supply for the season 2015-16 at 440.60 lakh bales, while the domestic consumption is estimated at 315.00 lakh bales, thus leaving an available surplus of 125.60 lakh bales.

Some of the fundamental drivers for International cotton prices are:

- Cotton Benchmark futures in New York Cotton Benchmark posted its biggest daily gain since early December on Monday, as technical strength triggered short-covering.
- Speculators had increased their net short position in cotton by 9,673 lots to 36,537 lots in the week ending March 8, as they lifted their bearish bet in cotton to the biggest in nearly a decade, as shown by government data after market close on Friday.
- Despite fears of China offloading its huge stocks in the market, cotton prices are expected to recover. This is because cotton production in two major countries, China and the US, will decrease by 19% and 18% respectively in 2015-16, according to the International Cotton Advisory Committee.

EXPERT'S Column



Shri Gnanasekar Thiagarajan

Let us now dwell on some technical factors that influence price movements.

As mentioned earlier, any dips to 9,200-300/qtl, is expected to hold supports in the short-term. A mild rise from 9200 levels has been seen, but the technical picture is not friendly and it is vulnerable for a fall again below 9,000/qtl in the coming sessions or even lower. We expect prices to recover slightly towards 9,500-600 /qtl, but subsequent to that, it looks likely that prices could decline again below 9,000/qtl. This is our favoured view.

Indicators are displaying neutral to weak tendencies now, which could see prices moving lower sharply. Indicators are neither overbought nor oversold and therefore moving in a neutral zone presently. We see resistances in the 9500-600/qtl zone now. The MACD indicator has started showing bearish signs. Prices could push lower in the coming months towards 8,700-800/qtl, with possibility of a recovery on and off. But, such recoveries might not sustain and most likely prices could decline again. An unexpected rise above 9,700/qtl could hint that the bearishness could get postponed.

We will also look at the ICE Cotton futures charts for a possible direction in international prices.

As mentioned in the previous update, a strong decline could begin after a break of 60.20c on the downside. We expected prices to test the next important support at 57c levels, followed by 55c. Both the levels have come and it looks like it could possibly test 52-53c in the coming sessions from where a minor recovery can be seen. Resistance will be seen around 58c followed by 60.20-50c now. Presently, it looks more likely that prices could find strong resistance as mentioned above and decline lower towards 52c initially and then lower towards a potential long-term target near 40c. This is due to prices failing to rise higher in any meaningful way above 65c in the past few quarters. Our favoured view now expects prices to edge lower while 58-60c caps any advances.

Conclusion:

Both the domestic and international prices are vulnerable to a huge fall in prices in the coming months. For Guj ICS supports are seen at 9,000-9,100/qtl followed by 8,500/qtl or even lower, and for ICE March cotton futures at 55-56c followed by 51c. Only an unexpected rise above 9,600/qtl could confirm that the picture has changed to bullish in the domestic markets. In the international markets, prices are indicating a bearish trend now, and the indicators have turned weak. It needs to surpass key resistance levels around 65c levels for the trend to turn convincingly bullish again, till then we remain bearish on both the markets and see any recoveries as just temporary.





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Prices of Biotech Planting Seed and Technology Fees for Biotech Traits

(Contd. From Issue No.46)

Technology Fee in Pakistan

Pakistan commercialized biotech cotton in a way that was different from the method followed by other countries. Private seed companies inserted the cry1Ac gene in local varieties and prepared to distribute biotech varieties without any advance preparation within the farming community to help them accept the new technology. Agronomic practices were not fine-tuned to obtain the best possible results from biotech varieties and technology transfer messages were not revised commensurately. The planting seed companies locked horns in a desperate struggle to defend their market share and cotton farmers were left to play the role of uninformed bystanders. Having chosen to rely on the advantages of the biotech product, seed companies exploited the biotech trait to improve their respective market shares. The seed industry found itself in a state of such disarray that no safeguards were instituted to prevent the spread of poor quality planting seed or to protect the insect-resistant technology embodied in the seed. Farmers were, of course, in no position to evaluate the quality of a given seed source or to verify the presence or absence of technological traits in the seed. The weak regulatory system and the inexperience of the seed industry itself led to a detrimental situation that could not be sustained by the seed industry.



The deteriorated seed situation in the country motivated policy initiatives to avoid a range of negative consequences and make better use of the emerging new technologies that were being developed in the country. Just recently, when planting for the current season had almost been completed, the Government of Pakistan amended the Seed Act in consultation with the seed sector (including private companies). Private sector companies are now allowed to produce basic seed, which had previously been the exclusive domain of the two public sector corporations in the Punjab and Sindh. Key provisions of the Act, whose primary focus is on eliminating unregulated participation in the seed industry, are listed below.

- The amendments would bring the private sector under the purview of the Seed Act. Currently, the Act makes little mention of the private sector, leaving private companies, which were formed under other regulatory statutes (the 1984 Companies Act for example), largely unregulated.
- Anyone seeking to participate in the seed industry would be required to have a seed processing plant or operate as a registered seed dealer.
- Sales of seed without the proper registration or sales of misbranded seed are subject to jail sentences or fines.
- Biotech seeds are not allowed to contain "terminator genes", i.e., genes that prevent the replanting of a crop, but are not found in commercial crops.
- Biotech seeds must have a certificate of approval from the National Biosafety Committee stating that they will not have any adverse effects on human, animal, or plant life and health, or on the environment.

The technology has been extended to almost the entire area planted to cotton in the country. There can be no doubt that the country's 2.2 million cotton growers benefitted from the technology fee. The technology fees charged by private companies were limited and unregulated, but they nevertheless existed. Even now there is no specified technology fee for a given biotech gene, but, on average, a biotech variety planting seed sells at about US\$40-44/ha more than a conventional variety seed. Prices vary from company to company, variety to variety, area to area and year to year. The current regulatory system that oversees the development and delivery of improved seed and seed-based technologies has prohibited the stacking of cry 1Ac with cry 2Ab in the country. However, the seed industry seems to be streamlining its operations in order to utilize third generation insect-resistant genes together with other locally developed biotech products.

Technology Fee in South Africa

The technology fee given in table 5, refers to a 25-kg pack of seed, sufficient to plant a hectare of cotton. To derive the full cost of the 25-kg pack of biotech seed, the price of a conventional seed should be added to the technology fee.

Technology Fees in the USA

The technology fee in the USA has changed from a per hectare basis to fixed-quantity seed counts since 2004/05. Data for the Mississippi Delta regions are presented in the table 7.

**Table 5: Technology Fee for Biotech Planting Seed in South Africa
(Technology fee is for a 25 kg pack)**

Year	Roundup Ready	Bollgard	Bollgard + Roundup	Bollgard II + Roundup Ready Flex	Conventional Seed
1998/99	-	84.5	-	-	
1999/00	-	96.8	-	-	
2000/01	-	86.3	-	-	
2001/02	-	46.5	-	-	
2002/03	33.2	66.4	-	-	28.0
2003/04	46.2	99.1	-	-	46.2
2004/05	56.5	121.5	-	-	57.3
2005/06	57.4	123.4	180.8	-	61.3
2006/07	53.9	116.0	169.9	-	60.6
2007/08	51.8	111.5	163.4	-	61.2
2008/09	44.2	95.0	139.2	-	59.9
2009/10	43.1	92.7	135.8	-	58.4
2010/11	55.3	117.0	167.1	167.1	78.6
2011/12	44.3		178.2	178.2	
2012/13	-	96.7	-	121.0	65.9
2013/14	-	-	-	182.4	61.2
2014/15	-	-	-	178.4	61.2

NOTES: 1. Data converted from Rands into US\$ using the IMF Principal Rate Period Average (calendar year).
2. Price for BG II + RRF for 2013/14 and 2014/15 includes price of seed and technology fee.
3. Exchange rate varies a lot from year to year.

As a consequence, farmers are more careful to use precision planting and save as much as they can on seed costs without compromising their optimum plant stand. The seed count varies from one variety to another because of seed size and weight. Data for Georgia, Florida and Southern Alabama for 2015 appear in the table 6 (<http://www.agri-afc.com>).

Analysis of the Technology Fee

Special traits, such as the ones found in transgenic cottons, require special research protocols that are extraordinarily costly and it is simply impossible to compare them with the costs involved in the development of conventional varieties. The

**Table 6: Technology Fee for Planting Seed for 2015 (US\$/count)
(Georgia, Florida and Southern Alabama)**

Trait	Seed Count		
	250,000	230,000	220,000
Bollgard II	209.8	193	184
Roundup Ready Flex	287.2	264.2	252.7
Bollgard II + Roundup Ready Flex	412.2	379.2	362.7
Bollgard II XtendFlex™	451.7	415.5	397.4
XtendFlex™ Chemistry Discount	39.5	36.3	34.7
Introductory Price	412.2	379.2	372.7
Seed Count Information:			
250,000 = Deltapine®			
230,000 = Americot®, Croplan Genetics®, NexGen®, Phytogen®			
220,000 = ALL-Tex®, Dyna-Gro®, Fibermax®, Stoneville®			

NOTES: These are genuity products.
XtendFlex is tolerant to three group of herbicides: Dicamba, glyphosate and glufosinate
It is only introductory, Dicamba cannot be sprayed in 2015.

Table 7: Technology Fee for Biotech Planting Seed in the USA (Mississippi Delta Region)

Year	BXN	Bollgard	Bollgard II (Cost/ 1,000Seeds)	Roundup Ready	RR Flex	BG + RR	BG + RR Flex	BG II + RR	BG II + RR Flex	Liberty Link	BG II + Liberty Link	WideStrike + RRFlex	Conventional Seed
1995/96		1.87/kg+74.1/ha	-	-	-	-	-	-	-	-	-	-	1.87/kg
1996/97		2.21/kg+79.1/ha	-	-	-	-	-	-	-	-	-	-	1.9/kg
1997/98		2.27/kg+79.1/ha	-	2.25/kg+NA	-	-	-	-	-	-	-	-	2.03/kg
1998/99		2.38/kg+79.1/ha	-	2.36/kg+NA	-	-	-	-	-	-	-	-	2.12/kg
1999/00		2.25/kg+79.1/ha	-	2.21/kg+22.2/ha	-	-	-	-	-	-	-	-	2.07/kg
2000/01		3.29/kg+NA	-	2.34/kg+22.2/ha	-	2.71/kg+101.3/ha	-	-	-	-	-	-	2.14/kg
2001/02		3.53/kg+NA	-	4.23/kg	-	10.3/kg	-	-	-	-	-	-	2.29/kg
2002/03		3.57/kg+NA	-	4.65/kg	-	10.76/kg	-	-	-	-	-	-	2.78/kg
2003/04		3.75/kg+NA	-	5.42/kg	-	11.71/kg	-	-	-	-	-	-	2.98/kg
2004/05		0.87/1,000 seeds	1.01	0.63/1,000 seeds	-	1.26/1,000 seeds	-	1.41/1,000 seeds	-	0.56/1,000 seeds	-	-	0.30/1,000 seeds
2005/06		NA+0.57/1,000 seeds	-	0.95/1,000 seeds	-	1.39/1,000 seeds	-	1.61/1,000 seeds	-	0.62/1,000 seeds	-	-	0.19/1,000 seeds
2006/07		0.28/1,000 seeds+NA	-	0.99/1,000 seeds	1.25/1,000 seeds	1.53/1,000 seeds	-	NA	NA+1.38/1,000 seeds	0.62/1,000 seeds	-	-	0.18/1,000 seeds
2007/08		NA+0.28/1,000 seeds	-	0.98/1,000 seeds	1.27/1,000 seeds	1.55/1,000 seeds	-	-	1.88/1,000 seeds	0.62/1,000 seeds	-	-	0.39/1,000 seeds
2008/09		Stopped	-	1.1/1,000 seeds	1.36/1,000 seeds	1.53/1,000 seeds	0.51/1,000 seeds+NA	-	1.9/1,000 seeds	0.62/1,000 seeds	-	-	NA
2009/10		-	-	1.29/1,000 seeds	1.55/1,000 seeds	1.68/1,000 seeds	-	-	2.02/1,000 seeds	0.62/1,000 seeds	-	-	-
2010/11		-	0.76	-	1.61/1,000 seeds	-	-	-	2.10/1,000 seeds	1.05/1,000 seeds	2.29/1,000 seeds	2.04/1,000 seeds	-
2011/12		-	0.76	-	1.61/1,000 seeds	-	-	-	2.10/1,000 seeds	1.05/1,000 seeds	1.86/1,000 seeds	2.08/1,000 seeds	-
2012/13		-	0.76	-	1.67/1,000 seeds	-	-	-	2.17/1,000 seeds	1.15/1,000 seeds	1.91/1,000 seeds	2.12/1,000 seeds	-
2013/14		-	0.76	-	-	-	-	-	2.21/1,000 seeds	-	1.93/1,000 seeds	-	-
2014/15		-	0.76	-	-	-	-	-	2.23/1,000 seeds	-	1.95/1,000 seeds	-	-

NOTES: 1. Wherever there are two numbers in a cell, the first is the price of seed and second is the price of technology fee. One number denotes seed price+technology fee.

2. 2001/02 - maximum technology fee/ha for BG = US\$79.1, BG+RR = \$101.3, RR = \$22.2
3. 2002/03 - maximum technology fee/ha for BG = US\$79.1, BG+RR = \$101.3, RR = \$25.95
4. 2003/04 - maximum technology fee/ha for BG = US\$79.1, BG+RR = \$101.3, RR = \$25.95
5. 2004/05 - maximum technology fee/ha for BG = US\$79.1, BG II = \$98.8, BG+RR = \$106.3, BGII+RR = \$126.1, RR = \$35.8
6. 2005/06 - maximum technology fee/ha for BG = US\$49.4, BG+RR = \$121.1, BGII+RR = \$135.9, RR = \$69.2
7. 2006/07 - maximum technology fee/ha for BG = US\$48.2, BG+RR = \$121.1, BGII+RR = \$138.4, RR = \$71.7, RRF = \$98.8, BGII+RRF = \$158.1
8. 2007/08 - maximum technology fee/ha for BG = US\$48.2, BG+RR = \$121.1, BGII+RR = \$138.4, RR = \$71.7, RRF = \$98.8, BGII+RRF = \$158.1
9. 2008/09 - maximum technology fee/ha for BG = US\$48.2, BG+RR = \$121.1, BGII+RR = \$138.4, RR = \$71.7, RRF = \$98.8, BGII+RRF = \$158.1
10. 2009/10 - maximum technology fee/ha for BGII+RRF = \$166.8, BG+RR = \$129.7, RR = \$87.7, RRF = \$114.9
11. 2010/11 - maximum technology fee/ha for BGII+RRF = \$171.1, BGII = \$87.1, RRF = \$119.8, WS = \$59.3
12. 2011/12 - maximum technology fee/ha for BGII+RRF = \$171.1, BGII = \$87.1, RRF = \$119.2, WS = \$59.3
13. 2012/13 - maximum technology fee/ha for BGII+RRF = \$154.9, BGII = \$77.6, RRF = \$107.9, WS = \$59.3
14. 2013/14 - maximum technology fee/ha for BGII+RRF = \$154.9, BGII = \$31.39, RRF = \$107.9, WS = \$59.3
15. 2014/15 - maximum technology fee/ha for BGII+RRF = \$154.9, BGII = \$77.6, RRF = \$107.9, WS = \$59.3

NA Not available

difference can be a single gene, two to three genes or an even greater number of genes, as in the case of Starlink™ corn. The issue is that finding a suitable gene, getting it to survive all the biosafety protocols and ultimately having it approved always entails great expense. Thus, it is the markups on the end product that act as an incentive for private companies to continue developing new technologies. The technology fee varies among countries and there are many reasons why this occurs. Prices have been controlled, companies have lowered the prices for the same products, and so on, but the overriding factor determining the end price continues to be the benefit that farmers can reap by planting a biotech variety. In most cases the benefit has been in the form of savings on insecticides along with increases in yields. If the companies do not make any profits, they will cease to develop new products. Farmers desire new products and events and these will continue to be developed only if the companies can recover their investment in the development of new technologies.

High prices can also become a constraint affecting the adoption of the new technologies. Farmers may wish to use a biotech product, but the returns ultimately obtained may not justify the high cost of the technology fee. Thus, not only farmers but entire countries may refrain from using a certain biotech product, a result that is also detrimental to technology developers. In the long run, reduced prices and price

controls can have negative implications for product development. Price controls may delay the launch of new products, causing farmers to incur losses in the long run as a result of their lack of access to improved events and new special features. Technology fees must be sufficiently fair so that farmers can afford to use them and technology developers can make a fair profit to finance further research. Unfortunately, the determination of specific technology fees for specific traits has not always been a transparent process. The win-win solution might be something like the minimum threshold prices that many governments fix for seedcotton, an arrangement where technology developers are assured a fair profit and farmers are not overcharged.

References

Technology fee data for various countries have been collected from many sources, all of which have been acknowledged in the body of the text.

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Singla, Rohit, Phillip Johnson and Sukant Misra. 2012. *Examination of Regional-level Efficient Refuge Requirements for Bt Cotton in India*. *AgBioForum*, 15(3): 303-314. 2012.

Source : *The ICAC Recorder*, Vol. XXXIII No.3, September 2015.

Cotton Yarn Production

(In Mn. kg)

Month	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16 (P)
April	238.93	242.26	244.5	273.77	268.06	268.2	316.61	328.68	351.32
May	246.71	257.51	247.76	283.69	255.56	286.19	314.97	332.92	348.14
June	242.32	253.65	248.76	284.79	248.29	288.4	317.69	330.69	346.72
July	250.36	250.28	257.65	302.16	256.73	301.34	332.12	340.00	356.36
August	249.81	242.32	256.19	300.34	262.74	302.85	336.3	338.09	354.67
September	248.19	233.56	252.78	297.68	258.97	296.74	326.09	334.03	338.52
October	247.18	225.51	250.82	301.55	241.83	302.65	328.79	323.53	340.57
November	230.24	235.07	257.44	283.52	243.85	282.88	312.13	335.66	319.58
December	252.97	251.88	267.44	308.78	269.82	314.21	341.67	353.96	350.76
January	251.1	236.7	266.69	296.87	279.19	315.07	340.38	349.82	343.41
February	243.41	224.98	256.58	272.99	269.01	302.59	321.31	330.35	
March	247.13	242.44	272.37	283.63	272.29	321.57	340.2	356.78	
TOTAL	2948.36	2896.16	3078.98	3489.78	3126.34	3582.68	3928.27	4054.51	3450.05

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SAGA OF THE COTTON EXCHANGE

By Madhoo Pavaskar

Chapter 8

Death of a Futures Market

Horns of a Dilemma

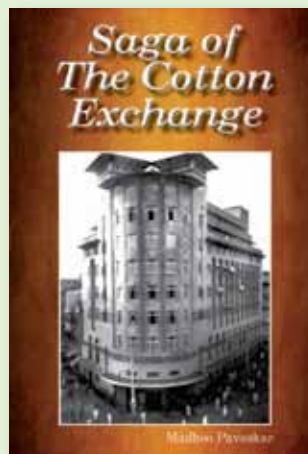
After Sir Purshotamdas Thakurdas left the stewardship of the East India Cotton Association, a new era of regimentation of the commodity futures markets by the Forward Markets Commission began. The Cotton Exchange was veritably on the horns of a dilemma. Before it lay the two equally cruel and unwelcome options—either to go down in the economic history of India as a martyr fighting the draconian powers and the dictatorial authority of the Commission in the cause of the free market mechanism, or to lie low for sometime and survive by surrendering to the Commission's wishes in the fond hope that sooner or later wisdom may dawn on it.

Realising that not even Sir Purshotamdas, the strong man of the Indian cotton trade, could resist the fearful onslaught of the Commission, the East India Cotton Association hastily changed the gears of its policy. With his keen foresight, the new youthful President of the Association, Mr. Madanmohan Ruia, swiftly recognised that unless he earned the goodwill of the Commission, it might be difficult for him to sail the ship of the Exchange through the turbulent waters. Hence, no sooner was he elected unanimously as a President of the Association, on May 18, 1956, Mr. Ruia issued a statement of policy offering his fullest co-operation to the government. While seeking the support of the members of the Association in the fulfilment of the important tasks that lay ahead, he stated that "by reasons of the policies of far-reaching importance in the realm of the trade and commerce announced by the Government of India, and in the context of the proclamation of the nation's new economic pattern, it was clear that no trade association, if it wished to function effectively in the changed circumstances, could afford to challenge the policies of the authorities in power."

Two Hedge Contracts

After Mr. Ruia became the President of the East India Cotton Association, he began his task in right earnest to mend the relationship of the Association with the Forward Markets Commission. As a first step, a sub-committee was appointed by the Board to consider the various suggestions made by the

Commission in their 11 letters dated April 10, 1956, which had earlier provoked Sir Purshotamdas to resign from the Presidentship of the Association. In one of these letters, the Commission had suggested that the Association should immediately take up in hand the framing of proposals for revision of the hedge contract for the 1956-57 cotton season. The Commission had then specifically asked the Association to consider the desirability of introducing two contracts, keeping in mind on the one hand the need to cover different varieties of cotton grown in the country, and on the other the possibility of hedge trading being started at some of the up-county centres like Akola and Indore.



The sub-committee was divided on the issue of number of contracts. While four members of the committee preferred continuation of one contract as existed till then, eight others were in favour of two contracts. In consultation with the Forward Markets Commission, the Board finally accepted the majority view and decided to introduce two contracts, namely, (i) 'Fine Jarilla Contract' with Fine M.G. Jarilla (A) 25/32" as basis and March, May and July as delivery months for it, and (ii) 'Fine Vijay Contract'

with fine M.G. Vijay 27/32" as basis and April, June and August as delivery months. As Mr. Natu had explained later, "the argument in favour was that a single contract could not possibly cover the widely dissimilar varieties of cotton produced in the country and would not, therefore, be able to afford adequate protection to the dealers. The adoption of two contracts also enabled the extension of hedging facilities to certain additional varieties of cotton of short staple. It was expected that, out of a total crop of about 55 lakh bales, about 44 lakh bales would be tenderable against the two contracts together (22 lakh bales against the Jarilla contract and 22 lakh bales against the Vijay contract) as compared to about 40 lakh bales against the single contract."

Trading in the new hedge contracts was inaugurated with much fanfare in the spacious trading hall of the Cotton Exchange at Kalbadevi Road by Mr. Morarji Desai, the then Chief Minister of the erstwhile Bombay State on June 18, 1956. The inaugural transactions in both the hedge contracts

were put through by Mr. Madanmohan Ruia, the President of the Association, on behalf of his firm Messrs Ramnarain Sons Private Ltd., with Mr. Ramdas Kilachand representing Messrs Kilachand Devchand & Company Private Limited, at Rs. 681.25 per candy for the Jarilla contract and at Rs.825.25 for the Vijay Contract.

The introduction of two hedge contracts (in place of the one that functioned for more than 13 years since the Second World War) was indeed a step in the right direction. Over the years, not only had the cotton crop in the country grown quantitatively, but also qualitatively. As it is, there are more than a score of very widely differing varieties of cotton grown in India. Moreover, each variety has as many as 5 different staple lengths. Besides, there are 6 different grades or classes for each of these descriptions of cotton by variety and staple. As a result, Indian cotton traded in the market runs into several hundreds of types by trade descriptions and quality specifications.

This is not all. As these many types of cotton yield yarns and fabrics of varying quality and fineness, their end-uses too tend to differ. Not surprisingly, with varying supply and demand conditions for different types of cotton, not only are the price differences among them very wide, but their price trends also are more often than not conflicting. In these circumstances, it is naive to believe that a single hedge contract can afford facilities for hedging all types of cotton grown in the country. True, too narrow contracts, representing each type of cotton separately, may be vulnerable to easy manipulation by unscrupulous operators. But it is undoubtedly essential to devise a few selected hedge contracts, for relatively more homogeneous varieties and types of cotton in terms of both their supply and demand characteristics, so that such contracts can serve the hedging requirements of both merchants and mills dealing in different types of cotton. Hence, the introduction of two contracts by the East India Cotton Association after a lapse of a long time was indeed a welcome move.

FMC Strikes Again

Disappointingly, the two hedge contracts framed for the season 1956-57 ran into rough weather with the Forward Markets Commission, no sooner did it discover that, contrary to its earlier expectations, the prices of the contracts were taking an uptrend. Earlier, it was envisaged that the cotton crop of the new season would be of the order of 5.5 million bales compared to 4 million bales in 1955-56. But the unseasonal rains in October and November 1956 and a severe cold wave in February 1957 belied the earlier optimism. The crop estimate was scaled down in quick succession to 5.1 million bales, and later to as low as 4.07 million bales. Worse still, not only had the

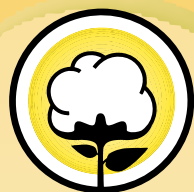
crop suffered in size, but it was also damaged and had deteriorated in quality with yellow stains and black leaf. This affected the tenderable supply even further.

To ameliorate the situation, the East India Cotton Association decided in February 1957, to make cotton with 'black leaf' and 'stain' also tenderable against the hedge contracts, with such allowances as may be awarded in arbitration. In addition, to broaden the Jarilla Contract, it also permitted Jarilla cotton grown in areas other than Madhya Pradesh tenderable with appropriate 'on' allowances. Not satisfied with these honest efforts of the Association to broaden the hedge contracts and render them 'bearish' by improving the aggregate tenderable supply, on February 9, 1957 the Commission issued a directive requiring the Association to collect special deposits at progressive rates from its members in respect of all the outstanding purchases in the different deliveries of both the Jarilla and Vijay Contracts, whenever the prices of these contracts rose to specified successively higher levels.

The hedge contract prices, however, did not oblige the Commission. With the underlying strong statistical situation, Jarilla March 1957 delivery spurted to Rs. 738.50 per candy by the end of February, and eventually went off the board on March 25, 1957 at as high as Rs. 805. Still, it attracted total tenders of 2150 bales. The Vijay April delivery closed at Rs.955 on the due date, attracting tenders of as many as 9450 bales. Though the firmness in hedge contract prices during the peak marketing months was somewhat unusual, it was not unexpected, especially after the sharp downward revision of the crop estimate. It should also be recognised that the spot prices of cotton were well above the hedge contract rates, and in fact dragged the latter with them all throughout. After all, the hedging efficiency of a futures contract depends upon the parallel movement of prices between the ready and hedge contracts.

The Forward Markets Commission, however, viewed the futures contracts not so much a medium of hedging but as a means to depress the spot prices. On April 18, 1957, the Commission therefore struck again. This time it doubled the rates of special margin deposits on outstanding purchases in the Jarilla May 1957 and Vijay June 1957 deliveries, and also prohibited trading in the two contracts above the maximum prices of Rs.754 and Rs.878 respectively, which were well below the prescribed statutory ceilings of Rs.820 and Rs.970 for the basis varieties of the two contracts. In other words, by levying stringent special margins and introducing ceilings within ceilings, the relationship between the ready and hedge contract prices of cotton was distorted impairing thereby the utility of the futures market for hedging.

(To be continued)



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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) 2015-16 Crop MARCH 2016					
Sr. No.	Growth	Grade Standard	Grade	Staple	Micronaire	Strength /GPT	7th	8th	9th	10th	11th	12th
1	P/H/R	ICS-101	Fine	Below 22mm	5.0-7.0	15		8127 (28900)	8127 (28900)	8239 (29300)	8239 (29300)	8239 (29300)
2	P/H/R	ICS-201	Fine	Below 22mm	5.0-7.0	15	H	8267 (29400)	8267 (29400)	8380 (29800)	8380 (29800)	8380 (29800)
3	GUJ	ICS-102	Fine	22mm	4.0-6.0	20		5680 (20200)	5624 (20000)	5624 (20000)	5568 (19800)	5568 (19800)
4	KAR	ICS-103	Fine	23mm	4.0-5.5	21	O	7171 (25500)	7171 (25500)	7171 (25500)	7114 (25300)	7114 (25300)
5	M/M	ICS-104	Fine	24mm	4.0-5.0	23		8323 (29600)	8323 (29600)	8323 (29600)	8267 (29400)	8267 (29400)
6	P/H/R	ICS-202	Fine	26mm	3.5-4.9	26		9026 (32100)	9026 (32100)	9055 (32200)	9026 (32100)	9026 (32100)
7	M/M/A	ICS-105	Fine	26mm	3.0-3.4	25	L	8239 (29300)	8239 (29300)	8099 (28800)	8042 (28600)	8042 (28600)
8	M/M/A	ICS-105	Fine	26mm	3.5-4.9	25		8577 (30500)	8577 (30500)	8520 (30300)	8520 (30300)	8520 (30300)
9	P/H/R	ICS-105	Fine	27mm	3.5-4.9	26	I	9308 (33100)	9308 (33100)	9336 (33200)	9308 (33100)	9308 (33100)
10	M/M/A	ICS-105	Fine	27mm	3.0-3.4	26		8408 (29900)	8408 (29900)	8267 (29400)	8211 (29200)	8211 (29200)
11	M/M/A	ICS-105	Fine	27mm	3.5-4.9	26		8773 (31200)	8773 (31200)	8717 (31000)	8717 (31000)	8717 (31000)
12	P/H/R	ICS-105	Fine	28mm	3.5-4.9	27	D	9420 (33500)	9420 (33500)	9448 (33600)	9420 (33500)	9420 (33500)
13	M/M/A	ICS-105	Fine	28mm	3.5-4.9	27		8914 (31700)	8914 (31700)	8914 (31700)	8858 (31500)	8858 (31500)
14	GUJ	ICS-105	Fine	28mm	3.5-4.9	27	A	8998 (32000)	8970 (31900)	8970 (31900)	8970 (31900)	8970 (31900)
15	M/M/A/K	ICS-105	Fine	29mm	3.5-4.9	28		9139 (32500)	9139 (32500)	9139 (32500)	9083 (32300)	9083 (32300)
16	GUJ	ICS-105	Fine	29mm	3.5-4.9	28		9280 (33000)	9251 (32900)	9251 (32900)	9251 (32900)	9251 (32900)
17	M/M/A/K	ICS-105	Fine	30mm	3.5-4.9	29	Y	9364 (33300)	9364 (33300)	9364 (33300)	9336 (33200)	9336 (33200)
18	M/M/A/K/T/O	ICS-105	Fine	31mm	3.5-4.9	30		9673 (34400)	9673 (34400)	9673 (34400)	9673 (34400)	9673 (34400)
19	A/K/T/O	ICS-106	Fine	32mm	3.5-4.9	31		10151 (36100)	10151 (36100)	10151 (36100)	10151 (36100)	10151 (36100)
20	M(P)/K/T	ICS-107	Fine	34mm	3.0-3.8	33		13610 (48400)	13610 (48400)	13610 (48400)	13610 (48400)	13610 (48400)

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