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

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Global Cotton Stocks to Continue to Rise - ICAC

Some of the highlights of the latest (March 1) monthly release of the International Cotton Advisory Committee (ICAC) are given below:

World cotton production is estimated to have climbed to 27.18 million tonnes (mt) in 2011-12 from 25.11 mt in 2010-11. The increase is mostly accounted for by China whose production is projected to have risen from 6.4 mt in 2010-11 to 7.4 mt in 2011-12. There has been some increase in Pakistan also from 1.91 mt to 2.35 mt.

In contrast to the increase in production, world cotton mill use is estimated to have dropped from 24.51 mt in 2010-11 to 23.42 mt in 2011-12. As a consequence, world cotton stocks are stated to have risen from 9.33 mt in 2010-11 to 13.09 mt in 2011-12. Most of the increase has taken place in China with its ending stocks going up to 4.22 mt in 2011-12 from 2.17 mt in 2010-11. Expectedly, the surplus stocks dragged down world cotton prices with the average Cotlook A Index (for the first seven months from August 2011 to February 2012) declining to 106 US Cents per pound from the yearly average of 164.26 USC in 2010-11. Cotton prices have fallen significantly over the year 2010-11. On March 8, 2011, the Cotlook A Index reached a record of 2.14 USD per pound. Almost a year later, the Index has been fluctuating around 1 USD per pound.

At a time when 2012 plantings in the northern hemisphere are starting, prices are much lower compared to last year, making competing crops more attractive to farmers, states the ICAC. This market environment is likely to drive cotton plantings down in many countries.

However, several factors are said to be preventing global cotton area from dropping drastically in 2012-13. First, cotton prices are still at comparatively higher levels than in the most recent decade when the Cotlook A Index averaged to 0.60 USC per pound. The rebuilding of its national cotton reserve has supported cotton prices in China, and to some extent the rest of the world, due to increased shipments to China. Secondly, improved weather conditions in the south-west region of US may reduce the abandonment rate leading to higher harvested area than last year. Thirdly, in some countries, producers are stated to base their planting decisions not on current commodity prices, but on the income from their 2011-12 crop and the announced producer price for 2012-13. Since the producer price announced for Chinese crop is slightly higher than in 2011-12, cotton area in China may decrease less than expected. The ICAC Secretariat expects the world cotton area to contract by four per cent to 34.5 million hectares in 2012-13 from 36.12 million hectares in 2011-12.

Based on average yields, production could decline by 5 per cent to 25.7 mt in 2012-13 as against 27.18 mt in 2011-12. This small reduction in output will be breaking the rising trend in the last two seasons.

On the demand side, after two seasons of decline, global cotton mill use is projected to increase by four per cent in 2012-13 to 24.3 mt compared to 23.4 mt in 2011-12. This increase is expected to be driven by improving economic growth and lower cotton prices. Admittedly, any setback in the global economy could affect this projection. ICAC also states that the significant loss in the market share of cotton vs man-

made fibres that took place over the last two years will be hard to reverse. Cotton prices in China, the largest consumer, will likely remain higher than polyester prices, preventing a complete comeback of cotton at the spinning level, it is stated.

As a consequence of large excess supplies in 2011-12, global cotton stocks could rebound by 40 per cent to a record 13.1 mt. This comes after two seasons of relatively tight levels. The global stock-to-use ratio is expected to jump to 56 per cent, the highest in 12 years. Production will surpass consumption again in 2012-13 and global cotton stocks could rise by 11 per cent to 14.5 mt or 60 per cent of global cotton mill use, according to ICAC. This is the higher stocks-to-mill use ratio since the late 1990s, when the Chinese national reserve was at its peak. The projected

accumulation of cotton stocks is bound to high on international cotton prices in 2012-13.

The world cotton supply and demand equation, as projected by the ICAC is given below:

WORLD COTTON SUPPLY AND DEMAND			
(in million tonnes)			
	2010-11	2011-12	2012-13
Beginning Stock	8.699	9.330	13.09
Production	25.107	27.183	25.73
Total Supply	33.807	36.513	38.82
Consumption	24.506	23.423	24.28
Exports	7.624	7.787	8.31
Ending Stocks	9.330	13.090	14.54

(Source: ICAC Monthly - March 2012)

Concern Over Bloating Trade Deficit - Report

The Federation of Indian Export Organisations (FIEO) has reportedly expressed concern over the increasing trade deficit. The President of FIEO is quoted to have stated that India's export increased by 23.5 per cent to \$ 242.8 billion during April January 2011-12. This growth was, however, outpaced by that of imports which rose by 29.4 per cent to \$ 391.5 billion during the same period. The trade deficit stood at \$ 148.7 billion during the above 10-month period. It is apprehended that the deficit may touch \$ 170 billion in view of the crude prices moving up, and growing imports of gold and silver.

He reportedly added that this growing trade deficit is a cause of great concern for the country, as it is likely to swell the import bills in rupees having adverse effect on inflation. He is stated to have suggested that looking to the difficult times ahead in the first half of 2011-12 the Union Government should find ways of making exports competitive by reducing the cost of credit across the board for export sector or providing interest subvention of over three per cent to bring export credit close to 7 per cent. Tax matters including TDS on foreign agency commission need to be clarified to remove any ambiguity and impart competitiveness, President of FIEO reportedly added.

Urging the States to consider exports a priority area, the FIEO President is quoted to have stated that the spin-off effect of the exports on the economic activity in the States can hardly be undermined,

including employment generation. According to him, the States should not levy taxes on inputs used in exports, particularly those levies which are other than VAT. Further, he urged the Governments to provide expeditious refunds of the VAT paid on inputs used for exports. In fact, he was of the view that exports should be treated as public utility service so as to avoid flash strikes which disrupt delivery schedule for exports.

In this context, the view expressed by the Director General of Foreign Trade (DGFT) is of significance. He was confident that India will reach the export target of \$ 300 billion during the current financial year. He is quoted to have added that the recent decision to denote payment to Iran in rupees will provide an opportunity to exporters. Following this decision, any Indian who exports to Iran does not have to bother about payment in dollars. The exporter will get the payment in rupees. This, he stated, will help break the barriers of convertible currency to exporters. He is stated to have further disclosed that soon a delegation will go to Iran to increase an export from India. However, it was important to add value to the existing export items and find new ones for growth. Pinning his hopes on pharma and engineering product exports to reach the current year's export target, the DGFT reportedly stated that export of pharma products to Latin America and Africa is encouraging as India supplies good low-cost pharma products. Additionally, India supplies engineering products to other nations at competitive prices.

SUPPLY AND DISTRIBUTION OF COTTON

March 01, 2012						
Seasons begin on August 1	Million Metric Tons					
	2007/08	2008/09	2009/10	2010/11 Est.	2011/12 Proj.	2012/13 Proj.
BEGINNING STOCKS						
WORLD TOTAL	12.810	12.254	11.929	8.699	9.330	13.09
China (Mainland)	3.653	3.321	3.585	2.780	2.165	4.22
USA	2.064	2.188	1.380	0.642	0.566	0.90
PRODUCTION*						
WORLD TOTAL	26.073	23.455	22.170	25.107	27.183	25.73
China (Mainland)	8.071	8.025	6.925	6.400	7.400	6.42
India	5.219	4.930	5.185	5.763	5.865	5.73
USA	4.182	2.790	2.654	3.942	3.405	3.90
Brazil	1.602	1.214	1.194	1.960	2.002	1.80
Pakistan	1.900	1.926	2.070	1.907	2.350	2.08
Uzbekistan	1.206	1.000	0.850	0.910	0.880	0.88
Others	3.894	3.569	3.292	4.226	5.281	4.93
CONSUMPTION*						
WORLD TOTAL	26.637	23.782	25.369	24.506	23.423	24.28
China (Mainland)	10.900	9.265	10.099	9.594	9.018	9.38
India	4.053	3.872	4.300	4.483	4.393	4.70
Pakistan	2.649	2.519	2.393	2.200	2.266	2.38
East Asia & Australia	1.829	1.674	1.861	1.767	1.604	1.61
Europe & Turkey	1.744	1.409	1.550	1.485	1.484	1.51
Brazil	0.993	1.000	1.024	0.964	0.933	0.93
USA	0.998	0.771	0.773	0.849	0.762	0.72
CIS	0.664	0.596	0.605	0.576	0.563	0.57
Others	2.807	2.676	2.764	2.588	2.400	2.47
EXPORTS						
WORLD TOTAL	8.471	6.616	7.776	7.624	7.787	8.31
USA	2.968	2.887	2.621	3.130	2.308	2.83
India	1.630	0.515	1.420	1.100	1.213	0.96
Uzbekistan	0.915	0.650	0.820	0.600	0.532	0.57
Australia	0.265	0.261	0.460	0.545	0.860	0.95
CFA Zone	0.603	0.469	0.561	0.477	0.558	0.63
Brazil	0.486	0.596	0.433	0.435	0.880	0.80
IMPORTS						
WORLD TOTAL	8.483	6.612	7.869	7.705	7.787	8.31
China (Mainland)	2.511	1.523	2.374	2.609	3.677	3.45
East Asia & Australia	1.860	1.665	1.894	1.763	1.608	1.64
Europe & Turkey	1.081	0.861	1.176	0.987	0.835	1.01
Pakistan	0.851	0.417	0.342	0.314	0.170	0.49
CIS	0.267	0.231	0.210	0.137	0.156	0.13
TRADE IMBALANCE 1/	0.013	-0.004	0.092	0.080	0.000	0.00
STOCKS ADJUSTMENT 2/	-0.005	0.007	-0.123	-0.051	0.000	0.00
ENDING STOCKS						
WORLD TOTAL	12.254	11.929	8.699	9.330	13.090	14.54
China (Mainland)	3.321	3.585	2.780	2.165	4.219	4.70
USA	2.188	1.380	0.642	0.566	0.903	1.26
ENDING STOCKS/MILL USE (%)						
WORLD-LESS-CHINA(M) 3/	57	57	39	48	62	66
CHINA (MAINLAND) 4/	30	39	28	23	47	50
Cotlook A Index 5/	72.90	61.20	77.54	164.26	106**	

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

* Turkey's production and consumption estimates are currently under review within the Secretariat.

** Average for the first seven months of 2011/12 (August to February 2012).

(Source : ICAC Monthly March 2012)

SNIPPETS

The data gathered by the Cotton Corporation of India are reported to have shown that cotton sales dropped 5.3 per cent in the season 2011-12 which commenced in October. Arrivals are said to have totalled 213 lakh bales as on February 20, as against 225 lakh bales by the same period in the previous year.



The growth of the eight industries in the core sector reportedly slumped to a mere 0.5 per cent during January 2012 as against an encouraging

6.4 per cent registered during January 2011. The growth is stated to have been dragged down by a decline in a natural gas, crude oil, steel and petroleum refinery products. Besides these four, the core sector industries comprise of coal, fertilizers, cement and electricity, together accounting for 37.9 per cent of the index of industrial production. The growth during April-January period in 2011-12 is stated to have been 4.1 per cent compared to 5.7 per cent in the corresponding period of 2010-11.



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
March 2012

Sr. No.	Grade Standard	Staple	Micronaire	Strength/GPT	Trade Name	10 rd	12 th	13 th	14 th	15 th	16 th
03.	ICS-102	22mm	4.5-5.9	19	V-797	6749 (24000)	-	-	-	-	-
2011-12 CROP											
01.	ICS-101	Below 22mm	5.0-7.0	15	Bengal Deshi (RG)	9476 (33700)	9476 (33700)	9476 (33700)	9533 (33900)	9533 (33900)	9673 (34400)
02.	ICS-201	Below 22mm	5.0-7.0	15	Bengal Deshi (SG)	9701 (34500)	9701 (34500)	9701 (34500)	9758 (34700)	9758 (34700)	9898 (35200)
03.	ICS-102	22mm	4.5-5.9	19	V-797	7030 (25000)	7030 (25000)	7030 (25000)	7030 (25000)	7030 (25000)	7030 (25000)
04.	ICS-103	23mm	4.0-5.5	19	Jayadhar	N.Q.	N.Q.	N.Q.	N.Q.	N.Q.	N.Q.
05.	ICS-104	24mm	4.0-5.5	20	Y-1	N.Q.	N.Q.	N.Q.	N.Q.	N.Q.	N.Q.
06.	ICS-202	25mm	3.5-4.9	23	J-34	8661 (30800)	8745 (31100)	8633 (30700)	8717 (31000)	8717 (31000)	8802 (31300)
07.	ICS-105	25mm	3.5-4.9	22	NHH-44	N.Q.	N.Q.	N.Q.	N.Q.	N.Q.	N.Q.
08.	ICS-105	27mm	3.5-4.9	24	LRA-5166	N.Q.	N.Q.	N.Q.	N.Q.	N.Q.	N.Q.
09.	ICS-105	28mm	3.5-4.9	25	H-4/ MECH-1	8998 (32000)	8998 (32000)	8998 (32000)	8998 (32000)	9055 (32200)	9139 (32500)
10.	ICS-105	29mm	3.5-4.9	26	Shankar-6	9420 (33500)	9420 (33500)	9420 (33500)	9420 (33500)	9476 (33700)	9561 (34000)
11.	ICS-105	31mm	3.5-4.9	27	Bunny/ Brahma	9420 (33500)	9420 (33500)	9420 (33500)	9420 (33500)	9420 (33500)	9505 (33800)
12.	ICS-106	33mm	3.3-4.5	28	MCU-5/ Surabhi	N.Q.	N.Q.	N.Q.	N.Q.	N.Q.	N.Q.
13.	ICS-107	35mm	2.8-3.6	31	DCH-32	12513 (44500)	12513 (44500)	12513 (44500)	12513 (44500)	12513 (44500)	12513 (44500)

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