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Cotton and Products

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Report Highlights:

Post's MY 2008/09 cotton production estimate has been revised lower to 23.0 million bales from the earlier estimate of 24.0 million bales (IN8140); and consumption lowered to 17.1 million bales. On February 17, 2009, the government has extended the 5 percent duty drawback benefit to exports of raw cotton until July 1, 2009. Nevertheless, exports have been revised lower to 3.5 million bales from the previous estimate of 5.1 million bales due to weak global demand.

Includes PSD Changes: Yes
Includes Trade Matrix: No
Quarterly Report
New Delhi [IN1]
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SECTION 1: SITUATION AND OUTLOOK

Table 1: Commodity, Cotton (480 lb bales), PSD

Cotton India	2006			2007			2008		
	2006/2007			2007/2008			2008/2009		
	Market Year Begin: Aug 2006			Market Year Begin: Aug 2007			Market Year Begin: Aug 2008		
	Annual Data Displayed		New Post	Annual Data Displayed		New Post	Annual Data Displayed		New Post
	USDA Official	Old Post Data	Data	USDA Official	Old Post Data	Data	USDA Official	Old Post Data	Data
Area Planted	0	9,142	9,142	0	9,550	9,439	0	9,340	9,373
Area Harvested	9,166	9,142	9,142	9,550	9,550	9,439	9,350	9,340	9,373
Beginning Stocks	8,064	8,064	8,064	7,664	7,664	7,664	7,384	6,914	7,354
Production	21,800	21,800	21,800	24,600	24,600	24,600	23,000	24,000	23,000
Imports	465	465	465	450	450	450	450	500	500
MY Imports from U.S.	0	0	157	0	195	195	0	200	200
Total Supply	30,329	30,329	30,329	32,714	32,714	32,714	30,834	31,414	30,854
Exports	4,565	4,565	4,565	7,030	7,400	7,030	3,500	5,075	3,500
Use	18,100	16,823	16,824	18,300	18,400	17,160	17,200	17,500	16,000
Loss	0	1,276	1,276	0	0	1,170	0	0	1,100
Total Dom. Cons.	18,100	18,099	18,100	18,300	18,400	18,330	17,200	17,500	17,100
Ending Stocks	7,664	7,665	7,664	7,384	6,914	7,354	10,134	8,839	10,254
Total Distribution	30,329	30,329	30,329	32,714	32,714	32,714	30,834	31,414	30,854
Stock to Use %	34		36	29	27	30	49	39	53
Yield	518.	519.	519.	561.	561.	567.	536.	559.	534.

Note: Production figures in the table include 937,000 bales of loose cotton

MY 2008/09 Production Lowered

Post's MY 2008/09 cotton production estimate is lowered to 23.0 million bales based on weak market arrivals. Market arrivals through February 21, 2009 reached 17.1 million bales (3.72 million tons) compared to 18.4 million bales (4.01 million tons) for the corresponding period last year¹, with arrivals in Gujarat and Punjab significantly lower than last year, indicating lower than anticipated crop. On Feb 13, 2009, the Cotton Advisory Board revised the MY 2008/09 crop estimate lower to 22.6 million bales from its first estimate of 25.1 million bales (October 2008). However, estimates from various industry sources currently range from 22 to 23.4 million bales (28.0 to 30.0 million Indian bales of 170 kg). Based on the latest figures from the Ministry of Agriculture, the MY 2008/09 area estimate has been revised marginally higher to 9.37 million hectares and MY 2007/08 area has been revised marginally lower to 9.44 million hectares.

¹ Please refer Cotton Corporation of India website http://www.cotcorp.gov.in/current_cotton.asp for latest state wise market arrivals estimate in 170 kg Indian bales.

Due to the steep increase in the minimum support price (MSP) for cotton fixed by the government for the current season (see IN140), the Cotton Corporation of India (CCI) and the National Agriculture Marketing Federation (NAFED) have procured nearly half of the total crop marketed until now. Nevertheless, government off-take under MSP operations has been hampered by infrastructure problems like lack of sufficient manpower, ginning and pressing facilities and storage, etc. However, farmers did not resort to panic selling and preferred offloading cotton at a slower pace in the market due to the assured purchase by CCI and NAFED at the attractive MSP. Consequently, current market arrivals of cotton are relatively strong estimated at 130,000 bales per day vs. 78,000 bales per day a year ago. Market sources expect late season arrivals to be stronger than last year in the states of Andhra Pradesh, Maharashtra and Gujarat. Consequently, MY 2008/09 production is expected to reach 23.0 million bales (29.5 million Indian bales)².

Government Agencies Lower Prices as Stocks Balloon

Industry sources report that the CCI has already procured about 5.93 million bales and NAFED has procured about 2.34 million bales. However, these agencies together have managed to sell only about 1.17 million bales, and are still holding stocks of 7.11 million bales, sufficient for nearly five months of the total consumption requirement for the country. Market sources expect that a major portion of the cotton with farmers that will arrive in the market (5.93 million bales) later in the season will be procured by government agencies. With declining cotton prices, it will be very difficult for the private trade to compete with MSP procurement operations. Consequently, cotton stocks with CCI and NAFED are expected to balloon further in the coming months. Industry sources expect that of the estimated 10.3 million bales in ending stocks, about 80 to 85 percent will be held by CCI and NAFED.

While CCI and NAFED are gradually lowering their offer prices for cotton³, unrelated to the cost of procurement at MSP, there has been very limited off take by domestic mills or traders. In their efforts to liquidate their burdensome stocks, the CCI has announced a bulk discount scheme for cotton, wherein they are offering a price discount of \$ 23 to \$ 29 per ton⁴ on the applicable offer price for buyers purchasing cotton in bulk quantities (10,000 bales and above). In addition, they are offering a free period of 30 to 90 days (or 12 percent per annum price discount on unavailed free period⁵) for taking the delivery of cotton after contracting. While the discount scheme is available to local mills and local traders, market sources expect that the local trade may use the bulk discount scheme for exports. Market sources report that CCI may further lower the offer price for cotton or increase the price discount for bulk purchases in the coming months.

Prices Weak on Poor Demand

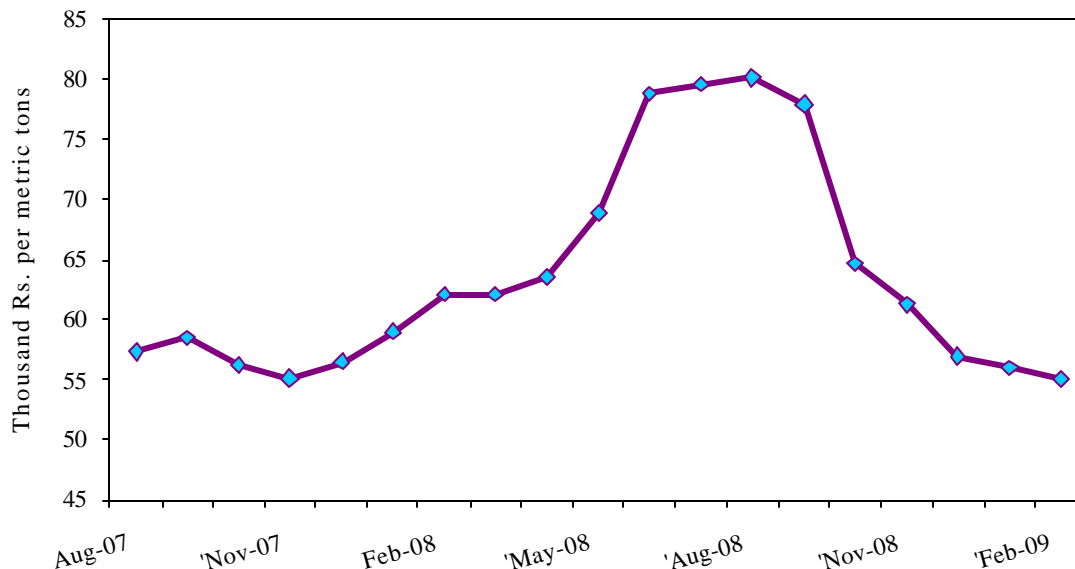
Domestic cotton prices have steadily declined from the beginning of MY 2008/09 on weak international prices and a slowdown in demand (see Table 3). Current prices of most staple varieties range from 53 to 57 cents/lb.

² Refer Table 2 for state wise cotton area and production estimates.

³ Industry sources report that the CCI has lowered the offer price on Shankar-6 cotton from Rs. 64,700 per ton at the beginning of the season (October/November) to the current level of Rs. 61,300 per ton (without bulk discount).

⁴ The CCI is offering a discount of Rs. 400 to 500 per candy (355.62 kg) for purchases above 10,000 Indian bales

⁵ Actual deliver taken before the given free period.

Fig 4: Shankar -6 Cotton Prices

Source: Cotton Association of India – Month-end Spot Prices

Prices are expected to slide further on strong late season arrivals and government price measures to liquidate their burdensome stocks. Most mills are currently buying hand-to-mouth due depressed demand for textile products, both domestically and internationally.

Consumption Lowered

Post's MY 2008/09 consumption forecast is lowered to 17.1 million bales based on reports of a stronger than anticipated slowdown in cotton off take by mills due to weak textile demand, both export and domestic. Although the monthly cotton consumption figures are available for the first two months of the marketing year (see Table 4), industry sources report a month-to-month slowdown of about 5-10 percent over last year's level during the first half of the marketing year. Industry sources report a severe slowdown in export demand for textile products due to the global recession. Several exporting mills are shifting their supplies to the domestic market which is putting pressure on cotton yarn and textile prices in the domestic market. The slowdown in the domestic economy is also impacting domestic demand for textiles and clothing. Consequently, Post's consumption forecast is revised lower to 17.1 million bales, more than seven percent lower than last year.

Government Offers Subsidies to Encourage Exports...

In a move to encourage cotton exports in the face of declining global prices and in order to liquidate burdensome cotton stocks from the domestic market, the government announced the *Vishesh Krishi Gram Upaj Yojana*⁶ (VKGUY) benefit to exports of raw cotton on February 17, 2009. The benefits have been extended on a retrospective basis for cotton exports from April 1, 2008 to June 30, 2009, wherein exporters are entitled to a five percent duty credit scrip on the FOB value, which can be traded and used for availing a duty relief for imports. The Indian textile industry has strongly opposed the move as the policy to subsidize cotton exports will give undue benefit to their competitors from China, Pakistan, Bangladesh and Indonesia in the global cotton textile market.

⁶ Special Agriculture & Village Produce Scheme

... But Exports Revised Lower on Weak Global Demand

Post's MY 2008/09 export forecast has been further lowered to 3.5 million bales on weak global demand. Despite the new duty drawback benefits extended to the cotton exports, market sources report that Indian cotton is uncompetitive (2-3 cents/lb costlier than competing origins) in the international market. Export registrations for the new crop until February 20, 2009 are reported at about 950,000 bales, of which only about 550 thousand bales have been exported, mainly to Bangladesh, Pakistan, China and Indonesia.

Although the pace of exports has increased in the last couple of weeks, there have been no major enquiries from China, last year's leading export destination for Indian cotton. Market sources report that export prospects during the remaining season will improve if the domestic price (or offer price from the CCI and NAFED) are lowered by another 5-6 percent. Assuming an aggressive pricing policy from CCI and NAFED, and stable international cotton prices, India's cotton exports are expected to reach 3.5 million bales, about half the level of last year's record exports of 7.0 million bales.

SECTION II – STATISTICAL TABLES

Table 2: Area, Production & Yield of Cotton in Major States

(Area in 000 hectares, Production in 000 bales of 480 lb., Yield in Kg/Hectare)

				Final	Final	Final	Final	Revised	Forecast
STATE		2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
Maharashtra	Area	2980	2800	2766	2840	2889	3107	3194	3133
	Production	2674	2030	2420	4060	2811	3904	4841	4997
	Yield	195	158	191	311	212	274	330	347
Gujarat	Area	1687	1634	1647	1906	2077	2390	2422	2417
	Production	2538	2381	3904	5700	6949	8042	8745	7222
	Yield	328	317	516	651	728	733	786	651
Madhya Pradesh	Area	623	545	591	576	600	639	630	655
	Production	1562	1405	1534	1249	1405	1484	1640	1405
	Yield	546	561	565	472	510	505	567	467
Punjab	Area	600	449	452	509	557	607	604	537
	Production	722	586	808	1288	1562	1874	1718	1405
	Yield	262	284	389	551	610	672	619	570
Haryana	Area	610	519	526	621	583	530	483	455
	Production	429	683	898	1210	1015	1171	1249	1171
	Yield	153	287	372	424	379	481	563	560
Rajasthan	Area	347	386	344	438	472	350	339	223
	Production	547	390	714	859	859	703	703	586
	Yield	343	220	452	427	396	437	451	572
Andhra Pradesh	Area	1002	803	837	1178	1037	972	1138	1345
	Production	2089	1542	2139	2538	2499	2811	3592	4138
	Yield	454	418	557	469	525	630	687	670
Karnataka	Area	591	393	313	521	450	378	402	390
	Production	547	390	328	625	508	468	625	625
	Yield	201	216	228	261	246	270	338	349
Tamil Nadu	Area	200	85	103	129	136	100	119	120
	Production	390	234	293	429	429	390	390	390
	Yield	425	600	619	725	688	850	714	708
Others	Area	90	53	51	68	72	71	108	98
	Production	59	78	78	78	78	78	156	156
	Yield	142	321	333	250	236	239	315	347
Loose	Production	781	898	859	937	937	937	937	937
All-India	Area	8730	7667	7630	8786	8873	9144	9439	9373
	Production	12337	10619	13976	18973	19051	21862	24595	23033
	Yield	308	302	399	470	467	521	567	535

Table 3: Month-end Prices of Popular Varieties
(Prices in Rupees per metric tons)

Year	Bengal Deshi (below 22 mm)	SG J-34 (25 mm)	H-4 (28 mm)	Shankar-6 (29 mm)	MCU-5 (33 mm)	DCH-32 (35 mm)
<i>2007/08</i>						
<i>Aug</i>	43870	53150	55400	57360	63270	89980
<i>Sept</i>	43870	52020	56520	58490	63270	89980
<i>Oct</i>	42740	50050	53990	56240	63270	80140
<i>Nov</i>	47240	51740	52430	55120	58490	80140
<i>Dec</i>	47800	52870	54270	56520	59900	80140
<i>Jan</i>	47800	54550	56520	59050	61300	82670
<i>Feb</i>	47240	56800	59050	62140	63550	87170
<i>Mar</i>	53430	56800	59900	62140	68050	87170
<i>Apr</i>	54550	57930	61860	63550	68890	87170
<i>May</i>	65800	68610	66080	68890	73390	89980
<i>June</i>	69170	77610	78450	78740	81550	92800
<i>July</i>	70300	77050	78740	79580	84640	93640
<i>2008/09</i>						
<i>Aug</i>	75360	74520	79020	80140	82960	91390
<i>Sept</i>	70020	68050	77330	77890	81550	89980
<i>Oct</i>	74520	60740	63830	64680	69740	88580
<i>Nov</i>	71143	55396	60458	60739	68331	84360
<i>Dec</i>	73112	57646	59052	60458	65801	78736
<i>Jan</i>	72549	59052	58771	59895	63551	78736
<i>Feb 24</i>	70581	56240	55959	58771	61301	74518

Source: Cotton Association of India (Formerly East India Cotton Association)

Table 4: Cotton Consumption (Mills & Small Spinning Sectors) by Months
(Million US Bales)

Month\Year	2004/05	2005/06	2006/07	2007/08	2008/09
Aug	1.096	1.350	1.402	1.448	1.376
Sept	1.068	1.186	1.400	1.408	1.327
Oct	1.109	1.206	1.353	1.430	
Nov	1.071	1.178	1.391	1.323	
Dec	1.186	1.277	1.444	1.473	
Jan	1.129	1.281	1.423	1.448	
Feb	1.095	1.190	1.336	1.416	
Mar	1.184	1.342	1.436	1.441	
Apr	1.170	1.278	1.410	1.404	
May	1.206	1.312	1.397	1.480	
Jun	1.192	1.309	1.394	1.448	
Jul	1.218	1.361	1.438	1.444	
TOTAL	13.726	15.268	16.823	17.163	2.702

Source: The Textile Commissioner's Office, GOI