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Cotton and Products

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Report Highlights:
Post revised its October estimate of MY 2004/05 production higher to a record 19.2 million bales (170 kg), on reported higher acreage and improved yield prospects. Consumption has been revised higher to 18.3 million bales, and imports marginally lower to 0.7 million bales, both on improved domestic supplies.

Includes PSD Changes: Yes
Includes Trade Matrix: No
Unscheduled Report
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SECTION I: SITUATION AND OUTLOOK

Note: All figures in the text are in 170 kg Indian standard bales unless otherwise stated.

MY 2004/05 Record Production Raised Further

Post's December estimate for cotton production (MY 2004/05) has been revised higher to 19.2 million bales from the previous record of 18.2 million bales (estimated in Post's October Update). This is due to higher cotton planting and improved yield prospects on account of continued favorable weather and soil moisture conditions. On November 22, the Cotton Advisory Board (CAB) came out with their first estimate for the 2004/05 season production at 21.3 million bales, a highly optimistic number according to many trade sources. Most sources estimated the crop between 19.0 million bales and 20.0 million bales before CAB came out with its estimate.

Based on the provisional planting estimates provided by the state agricultural departments, MY 2004/05 cotton area has been raised to 9.0 million hectares (earlier estimate was 8.7 million hectares). Most of the upward revisions are in the states of Andhra Pradesh, Maharashtra, and Gujarat, where planting was extended through early September (against a normal end in August) due to delayed monsoon rains. Cotton picking in the irrigated northern states of Punjab, Haryana, and northern Rajasthan is almost over. Market sources report better yield realizations over last year, due to lower pest incidence and increased usage of improved varieties. The crop in the rain-fed states of central and southern India is progressing well under favorable weather and adequate soil moisture conditions. After good and well-scattered rains from August through October, the weather in October and November continued to be favorable, with cool night temperatures and clear skies. Post's field travel in Gujarat indicated excellent second flushes (ripe bolls), low incidence of pests, and adequate soil moisture conditions in the cotton fields. Market sources report similar growing conditions in other states, which should support higher yields in the region. Accounting for higher estimated acreage and expected yields, MY 2004/05 production is raised to 19.2 million bales, including 1.2 million bales of loose cotton (see Table 3 for state-wise break-up).

Market Prices Continue to Slide

Riding a bumper crop, domestic cotton prices continued to spiral down during October and November. Current prices of most staple varieties have declined by 10 to 22 percent over September-end prices. Consequently, market arrivals have been slower than last year, as farmers are releasing their cotton gradually on higher price expectations. Market arrivals through November 30 have reportedly reached 4.1 million bales, as compared to 4.2 million bales for the corresponding period last year. Current daily market arrivals are estimated at 125,000 to 130,000 bales per day. Market sources expect that arrivals will peak in the next 2 weeks, and will be heavy through February.

There is serious concern in the market about the low cotton prices, with spot prices of commonly traded staple varieties trading at 39-55 cents/lb. (see Table 4), between 16 and 22 percent lower than a year ago. Cotton prices have almost reached the government's minimum support prices (MSP)[1]. As market arrivals gain pace, domestic cotton prices are expected to come under further downward pressure. However, any significant decline in market prices will force the government parastatals, such as the Cotton Corporation of India and the State Cotton Marketing Federations, to initiate price support operations (i.e., procure cotton at the MSP).

[1] See: http://www.cotcorp.com/National2.html

Consumption Raised Higher

Post raised MY 2004/05 consumption to 18.3 million bales from the previous estimate of 17.9 million bales on expected low cotton prices and improved domestic supplies. Based on the latest monthly consumption by mills (see Table 5) and by small scale spinning units, MY 2003/04 consumption has been revised higher to 17.4 million bales.

MY 2004/05 Imports Lowered, Exports Unchanged

Post has lowered its estimate for imports (MY 2004/05) to 0.7 million bales on improved domestic availability and expected low domestic prices. Despite improved supplies, exports remain unchanged at 0.8 million bales, as Indian cotton is still relatively costly (2-3 cents/lbs.) compared to similar cotton from other origins. Continued appreciation in the value of the India rupee vis-à-vis the US dollar further erodes India's export competitiveness.

Market sources report an almost complete lull in import activity, except for some contracting for imports of extra long staple and specialty cotton by export-oriented units. With reports that the government is exploring measures to discourage imports of cotton, most mills are reluctant to forward-contract foreign cotton. If domestic prices continue to decline, the government may resort to raising import tariffs.

To tide over the current domestic surplus and consequent low cotton prices, the government is also looking into initiating measures to encourage exports of cotton. While the Ministry of Agriculture has suggested transport subsidies, support from other ministries may not be forthcoming due to WTO concerns and lack of funds for similar measures. However, the government may allow their parastatals, such as the Cotton Corporation of India and various State Marketing Federations, to export cotton procured at the MSP, and subsequent losses incurred could be written off later.

SECTION II: STATISTICAL TABLES

Table 1: Commodity, Cotton (Metric Tons), PSD

PSD Table							
Country:	India						
Commodity:	Cotton	(HECTARES)	(METRIC TONS)				
		2002		2003		2004	UOM
	Old	New	Old	New	Old	New	
Market Year Begin		Aug-02		Aug-03		Aug-04	(MONTH/YEAR)
Area Planted	7600000	7667000	7800000	7785000	8700000	8970000	(HECTARES)
Area Harvested	7600000	7667000	7800000	7785000	8700000	8970000	(HECTARES)
Beginning Stocks	1116066	1116066	780767	780766	884188	862807	METRIC TONS
Production	2307901	2307901	3004626	3009000	3091717	3264000	METRIC TONS
Imports	264755	264755	174181	174181	174181	119000	METRIC TONS
TOTAL SUPPLY	3688722	3688722	3959574	3963947	4150086	4245807	METRIC TONS
Exports	12193	12193	136079	136000	81647	136000	METRIC TONS
USE Dom. Consumption	2664070	2664070	2701307	2727140	2853718	2873000	METRIC TONS
Loss Dom. Consumption	231692	231693	238000	238000	238000	238000	METRIC TONS
TOTAL Dom. Consumption	2895762	2895763	2939307	2965140	3091718	3111000	METRIC TONS
Ending Stocks	780767	780766	884188	862807	976721	998807	METRIC TONS
TOTAL DISTRIBUTION	3688722	3688722	3959574	3963947	4150086	4245807	METRIC TONS

Note: Production figures for MY 2002, 2003, and 2004 include 1.15 million bales (170 kg), 1.1 million bales, and 1.2 million bales of loose cotton respectively.

Table 2: Commodity, Cotton (480 lb bales), PSD

PSD Table							
Country:	India				Conversion	0.00459	
Commodity:	Cotton						
		2002		2003		2004	UOM
	Old	New	Old	New	Old	New	
Market Year Begin		08/2001		08/2002		08/2003	(MONTH/YEAR)
Area Planted	7600000	7667000	7800000	7785000	8700000	8970000	(HECTARES)
Area Harvested	7600000	7667000	7800000	7785000	8700000	8970000	(HECTARES)
Beginning Stocks	5126	5126	3586	3586	4061	3963	1,000 480lb bales
Production	10600	10600	13800	13820	14200	14991	1,000 480lb bales
Imports	1216	1216	800	800	800	547	1,000 480lb bales
TOTAL SUPPLY	16942	16942	18186	18206	19061	19501	1,000 480lb bales
Exports	56	56	625	625	375	625	1,000 480lb bales
USE Dom. Consumption	12236	12236	12407	12526	13107	13195	1,000 480lb bales
Loss Dom. Consumption	1064	1064	1093	1093	1093	1093	1,000 480lb bales
TOTAL Dom. Consumption	13300	13300	13500	13619	14200	14289	1,000 480lb bales
Ending Stocks	3586	3586	4061	3963	4486	4587	1,000 480lb bales
TOTAL DISTRIBUTION	16942	16942	18186	18206	19061	19501	1,000 480lb bales

Note: Production figures for MY 2002, 2003, and 2004 include 1.15 million bales (170 kg), 1.1 million bales and 1.2 million bales of loose cotton respectively.

Table 3: Area, Production & Yield of Cotton in Major States

(Area 000 ha; Production 000 bales of 170 kgs, Yield kgs/ha)

							Final	Revised	Revised
STATE		1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05
Maharashtra	Area	3139	3199	3254	3077	2980	2800	2766	3040
	Production	2150	2650	3650	2050	3425	2600	3100	3400
	Yield	116	141	191	113	195	158	191	190
Gujarat	Area	1519	1607	1516	1615	1687	1634	1647	1995
	Production	4200	4750	2850	2400	3250	3050	5000	5000
	Yield	470	502	320	253	328	317	516	426
Madhya Pradesh	Area	517	501	525	506	623	545	575	586
	Production	2250	1875	1550	1750	2000	1800	1950	1800
	Yield	740	636	502	588	546	561	577	522
Punjab	Area	727	562	475	474	600	449	452	549
	Production	725	500	800	900	925	750	1100	1400
	Yield	170	151	286	323	262	284	414	434
Haryana	Area	638	582	546	555	610	519	526	626
	Production	900	700	1050	1000	550	875	1150	1500
	Yield	240	204	327	306	153	287	372	407
Rajasthan	Area	645	645	583	510	347	386	335	300
	Production	1100	1150	1300	1050	700	500	850	700
	Yield	290	303	379	350	343	220	431	397
Andhra Pradesh	Area	898	1278	1040	1022	1002	803	825	1141
	Production	2550	2500	2200	2500	2675	1975	2600	2800
	Yield	483	333	360	416	454	418	536	417
Karnataka	Area	518	608	600	560	591	393	500	553
	Production	750	875	800	800	700	500	400	800
	Yield	246	245	227	243	201	216	136	246
Tamil Nadu	Area	247	243	185	193	200	85	103	125
	Production	500	550	550	550	500	300	350	500
	Yield	344	385	505	484	425	600	578	680
Others	Area	56	62	67	64	90	53	56	55
	Production	100	125	150	100	75	100	100	100
	Yield	304	343	381	266	142	321	304	309
All-India	Area	8904	9287	8791	8576	8730	7667	7785	8970
	Production	15225	15675	14900	13100	14800	12450	16600	18000
	Yield	291	287	288	260	288	276	362	341

Note: 1. Production figures for 1997/98 in the PS&D includes loose cotton estimates.
2. Loose Cotton estimate: 1997/98 (575,000 bales); 1998/99 (825,000 bales); 1999/2000 (700,000 bales); 2000/01 (900,000 bales); 2001/02 (1000,000 bales); 2002/03 (1,150,000 bales); 2003/04 (1,100,000 bales) and 2004/05 (1,200,000 bales) respectively.

Table 4: Month End Prices of Popular Varieties
(Rupees per Metric Tons)

2003/04						
Aug	39090	60460	61580	63540	68900	87560
Sept	37970	59060	63820	65520	70300	87180
Oct	39090	60460	61580	63540	68900	87560
Nov	37110	55960	58220	61320	65540	87990
Dec	39630	57920	61300	63840	66100	85750
Jan	42740	62420	64940	67480	71410	91390
Feb	43860	59050	62980	66080	70290	88590
Mar	44420	59900	62140	66640	70290	85790
Apr	43590	59900	62140	65800	71700	85790
May	44430	61580	62710	67490	71700	85790
Jun	45560	59060	62150	65800	71710	85790
Jul	48370	60740	62710	66370	71710	85790
Avg Price	42155	59709	62189	65285	69879	87081
2004/05						
Aug	48930	60180	61870	65520	71430	85790
Sept	41340	48930	53990	55680	64680	84360
Oct	40770	43590	48930	49770	59050	81550
Nov	37120	38520	43870	46680	54840	80430

Source; East India Cotton Association, Mumbai

Table 5: Cotton Mill Consumption by month (in 100,000 bales of 170 kg each)

Month\Year	1999/2000	2000/01	2001/02	2002/03	2003/04
Aug	12.45	12.64	12.40	12.65	11.31
Sept	12.11	12.41	12.05	12.39	11.07
Oct	12.20	12.00	11.83	12.45	10.92
Nov	11.62	12.45	11.48	11.69	11.9
Dec	12.85	12.93	12.54	12.62	12.97
Jan	12.80	12.58	12.54	12.38	12.95
Feb	12.38	11.74	11.71	11.41	12.44
Mar	12.89	12.90	12.37	12.21	13.04
Apr	12.22	12.41	12.25	11.71	12.52
May	12.79	12.64	12.32	12.37	12.75
Jun	12.75	12.50	12.16	11.40	12.61
Jul	13.04	12.76	12.70	11.80	12.94
TOTAL	150.10	149.96	146.35	145.08	147.42

Source: Textile Commissioner's Office, Mumbai.