

Cotton

Domestic Scenario

Cotton has been the major component of the food cash crop for India since ages. Of the total fibre crops production it contributes to about 67.03 per cent. In recent times the stock management of cotton is imposing serious challenge for the country owing to the prevalent economic crises in European Union and declining demand in the global markets. The current study has been taken up to come out with an effective stock management strategy in order to keep the stocks as well as the prices in balance. The study has been carried four major directions which include the study of pattern of acreage and production of cotton over the years, price trend over last five years and variation of domestic cotton prices over the international cotton prices.

The Cotton Association of India (CAI) estimated the 2015-16 seasons' cotton production to be 37.5 million bales (170 kg each). The region wise contribution of cotton production reveals that the central region of the country contributes to about 57 per cent of the national production, of which the share of Gujarat is 54.82 per cent followed by Maharashtra (37.28 per cent) and Madhya Pradesh (7.89 per cent). The biggest producer of Cotton in the country is Gujarat (31.25 per cent) followed by Maharashtra (21.25 per cent) and Andhra Pradesh and Telangana (19.25). Other major producers of Cotton in the country are Haryana (6.25 per cent), Madhya Pradesh (4.50 per cent) and Punjab (3.50 per cent). The opening stock for the next season will be 3.30 million bales while the total supply is estimated to be 43.90 million bales.

State wise Cotton Production (Lakh Bales - 170 kg each)

State	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15*
Punjab	17.50	13.00	18.50	20.00	21.00	21.00	14.00
Haryana	14.00	15.25	17.00	26.00	25.00	24.00	25.00
Rajasthan	7.50	12.00	10.10	18.00	17.00	14.00	17.00
North Total	39.00	40.25	45.60	64.00	63.00	59.00	56.00
Gujarat	90.00	98.00	106.20	122.00	93.00	124.00	125.00
Maharashtra	62.00	65.75	87.75	76.00	79.00	84.00	85.00
Madhya Pradesh	18.00	15.25	17.70	18.00	19.00	19.00	18.00
Central Total	170.00	179.00	211.65	216.00	191.00	227.00	228.00
AP n Telangana	53.00	54.50	59.50	60.00	84.00	78.00	77.00
Karnataka	9.00	12.25	11.10	15.00	15.00	23.00	28.00
Tamil Nadu	5.00	5.00	7.20	6.50	6.00	5.00	5.00
South Total	67.00	71.75	77.80	81.50	105.00	106.00	110.00
Orissa	2.00	1.00	2.05	3.50	4.00	4.00	4.00
Others		1.00	2.00	2.00	2.00	2.00	2.00
Grand Total	290.00	305.00	339.10	367.00	365.00	398.00	400.00

Source: Cotton Advisory Board, India

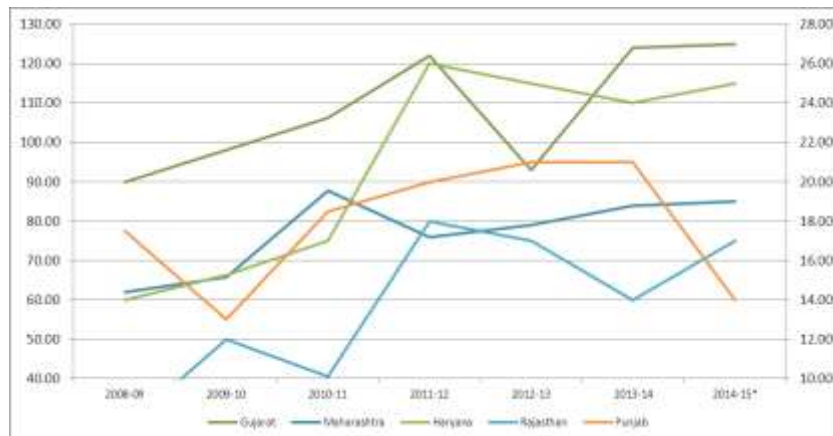
Staple wise Production of Cotton in India (Lakh Bales - 170 kg each)

Staple Group	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Short (below 20mm)	4.00	3.50	4.00	4.00	6.00	5.00	5.00
Medium(20.5 to 25.5 mm) & Medium long(25.0 to 27.0)	61.00	60.00	58.00	71.00	75.00	75.00	75.00
Long (27.5 to 32.0 mm)	237.00	222.00	238.00	259.00	280.00	280.00	290.00
Extra Long staple (32.5 mm & above)	5.00	4.50	4.50	5.00	6.00	5.00	5.00
Total	307.00	290.00	305.00	339.00	367.00	365.00	375.00

Source: Cotton Advisory Board, India

Staple wise study of the Indian cotton Market reveals that Long Staple Cotton (27.5 to 32.0 mm) strongly dominates the total cotton production with the share of 77.33 per cent followed distantly by Medium (20.5 to 25.5 mm) and Medium Long (25.0 to 27.0) combining to total share of 20.00 per cent. The cotton with Short Staple (below 20mm) and Extra Long Staple (32.5 mm & above) are not so predominantly grown in India and they both have a share of 1.33 per cent each in the total cotton produced in the country.

From the above table and the adjacent graph it can be concluded that the production of cotton in major states



has been increasing gradually in three major producing states namely Gujarat, Maharashtra and Haryana. In the last seven years the national production has increased by over 37.93 per cent and the most significant growth was noticed in Gujarat (38.89 per cent) followed by Andhra Pradesh and Telangana (45.28 per cent), Maharashtra (37.10 per cent), Haryana (78.57 per cent) and Rajasthan (126.67 per cent).

Staple-wise Information Various Types of Cotton Prevalent in Major Countries

Short Staple: (Cottons up to 23.81 mm in length)

India : Bengal Desi, V-797, G11, Wagad, Jaydhar
USA : PM 145M PM 183

Pakistan : NIAB-999, FH-900, Shanbaz - 95
Paraguay : DP Opal, DP 404
USA : Acala 1517-91, Deltapine DP 8100, Deltapine DP 6211
Zimbabwe : ALBAR

Medium Staple: (Cottons up to 27.78 mm in length)

India : J-34, LRA-5168, Y-1, NHH-44
Mali : NTA 88.6
Mexico : Deltapine-451, Deltapine-20, Nucotn-35
Pakistan : NIAB-78, CIM-109
Sudan : ACRAIN, Acala Syria : Rakka 5
Tanzania : UK 74, 77, 82, 91 (Type II and III)
USA : Deltapine-20, Deltapine-2156, DUNN 400, Stoneville

Long Staple: - (Cotton up to 34.93 mm in length)

Brazil : Fiber Max 956
Egypt : Giza 86, Giza 89
India : DCH-32, MCU-5
Peru : Del Cerro
Sudan : Barakat
Tajikistan : 100F, Kirgis-3, Namangan-77, C-6530
Turkmenistan : 9871-1, Asch-25, Bachar-56
Uzbekistan : Bukhara-6, C-6524, Darya-6, An-Bajaut-2

Medium To Long Staple: - (Cottons up to 30.96 mm in length)

Argentina : Guazuncho 2 INTA, Pora INT
Australia : Sicot 71, Sicot 80, Sicala V-2RR, 189 RR
Benin : STAM 18A
Brazil : Delta OPAL, ITA 90, Codetec
B-Faso : ISA 205, L-299-10
Cameroon : IRMA 1239, IRMA 1243, BLT
Chad : A 51, STAM F
China : Zhongmian 12, Lumian 6, Simian 2, Liaomian 9, Yanman 48
Egypt : Giza 80, Giza 83, Giza 90
Greece : Bravo, Ara, Vulcano, Acala SJ2, Corona
India : S-6, H-4, Mech-1, Bunny, Brahma
Iran : Varamn, Bagtegan
Ivory : R 405-5, R 405-96 Coast
Mexico : Sure-Grow 125 Br

Extra Long Staple: - (Cottons up to 44.45 mm in length)

Egypt : Giza 45, Giza 70, Giza 88
India : DHC-32, Suvin
Israel : Pima (PF 15)
Peru : Pima
Tajikistan : 9326-B, 9883-1
USA : Pima (PHY-76) Pima (DP-744)
Uzbekistan : Termez-31

State-wise Cotton consumption by the Textile Mills ('000 MT)

State / UT	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Tamil Nadu	1160891	1245826	1406506	1580694	1658525	1536573	1617522	1896204	1459144	1638295
Punjab	265171	293549	350948	417345	468881	520173	559582	627548	590851	707330
Maharashtra	271506	321338	303287	330967	338220	303179	312585	350798	370169	397042
Andhra Pradesh	124155	132035	143196	160189	167613	174245	193155	271034	329367	383248
Madhya Pradesh	145819	148296	158809	176171	182813	202771	250491	278457	309956	348424
Gujarat	198638	236196	244931	256017	204494	180483	196627	223820	214568	251390
Haryana	93727	95289	137386	116909	125704	112916	96329	129643	161765	170652
Rajasthan	94694	96929	125517	134469	144008	139264	130589	150627	130123	162131
Himachal Pradesh	69322	72730	84880	117146	131532	129457	130998	129291	91428	111004
Dadra Nagar Haveli	36268	33332	30961	40790	43619	67759	80246	93931	89050	97117
Others	191697	210026	235411	249266	241769	216442	227541	222386	225293	206735
Total	2652004	2885643	3221936	3580049	3707192	3583262	3795665	4373739	3971714	4473368

Source: Cotton Advisory Board, India

The consumption pattern of the cotton has revealed a different economy altogether. Though Gujarat is the largest producer of cotton, the largest consuming state for cotton is Tamil Nadu where its' textile mill consumes 36.62 per cent of the total supply. Next major consuming state is Punjab with the share of 15.81 per cent followed closely by Maharashtra (8.88 per cent), Andhra Pradesh (8.57 per cent) and Madhya Pradesh (7.79 per cent). In the last decade (2003 -2013), the maximum growth in the consumption of cotton by textile mills was recorded in Andhra Pradesh (208.69 per cent), followed by Tamil Nadu (166.74 per cent), Madhya Pradesh (138.94 per cent) and Haryana (82.07 per cent).

Cotton Balance Sheet for India (Lakh Bales - 170 kg Each)

Item	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Supply							
Opening stock	35.50	71.50	40.50	45.77	40.00	35.00	32.00
Production	290.00	305.00	339.00	367.00	365.00	398.00	400.00
Imports	10.00	6.00	2.38	7.51	14.59	10.80	7.00
Availability	335.50	382.50	381.88	420.28	419.59	448.80	439.00
Demand							
Mill consumption	190.00	219.00	221.77	223.59	250.14	266.00	275.00
Small Mill consumption	20.00	23.00	24.46	22.12	23.02	24.88	26.00
Non-Mill consumption	19.00	17.00	13.38	5.00	10.00	8.00	10.00
Total consumption	229.00	259.00	259.61	250.71	283.16	298.88	311.00
Export	35.00	83.00	76.50	129.57	101.43	117.92	90.00
Total disappearance	264.00	342.00	336.11	380.28	384.59	416.80	401.00
Carry forward	71.50	40.50	45.77	40.00	35.00	32.00	38.00

Source: Cotton Advisory Board, India

From the above table we can see that the Indian production over the years have shown gradual improvement. It showed an increase of about 37.93 per cent over 2008-09. Likewise consumption has improved by 35.81 per cent. The positive fact about the Indian cotton trade is the growth in the exports over the years, which has grown from a half lakh bales in 2001-02 to about 90 lakh bales 2014-15, while the imports have shown a significant decline of about 30 per cent during the same period. If this pattern of export (rate of growth) continues in the coming years, the prices are bound to maintain a steady trend as the global demand is going to support the prices. The ending stock has always been hovering around 32 lakh bales during the aforesaid period.

International Scenario

In addition to the major domestic factors mentioned in the above discussions, the global cotton scenario also expected to affect the prices in a big way. To measure the exact impetus of the global factors, we can have a close watch at the global cotton balance over the last decade.

Global Cotton Balance

(1000 480 lb. Bales)

Marketing Year	Beginning Stocks	Production	Imports	Exports	Total Dom. Cons.	Ending Stocks
2001-02	49,570	98,507	29,322	29,081	93,636	54,682
2002-03	54,682	91,026	30,233	30,400	97,658	47,883
2003-04	47,883	96,694	34,175	33,152	97,174	48,426
2004-05	48,426	1,21,517	33,985	34,949	1,07,975	61,004
2005-06	61,004	1,16,333	44,693	44,922	1,15,168	61,940
2006-07	61,940	1,23,013	38,305	37,401	1,22,548	63,309
2007-08	63,309	1,20,577	39,463	38,893	1,21,688	62,768
2008-09	62,768	1,08,300	30,597	30,102	1,08,843	62,720
2009-10	62,720	1,03,359	36,918	35,689	1,19,526	47,782
2010-11	47,782	1,17,630	36,263	34,821	1,15,518	51,336
2011-12	51,336	1,27,420	45,458	46,094	1,03,734	74,386
2012-13	74,386	1,23,875	47,564	46,435	1,07,584	91,806
2013-14	91,806	1,20,406	41,279	40,843	1,09,666	1,02,982
2014-15	1,02,982	1,18,913	35,807	35,346	1,10,418	1,11,938
2015-16	1,11,938	1,05,626	34,349	34,350	1,11,475	1,06,088

Source: Foreign Agricultural Service

From the above table we can see that the global production over the years have shown gradual improvement. It showed an increase of about 98.43 per cent over 2001-02. Likewise the import, consumption and export grew by 17.14, 19.05 and 18.12 per cent respectively. The positive fact about the cotton is the steady growth in the consumption over the years and significant increase in the production. If this slow rate of consumption continues in the coming years, the prices are bound to maintain a steady bearish trend as the pressure would mount in the market over the increasing ending stock. The recent turmoil in the Middle East & Ukraine and slowdown of Chinese buying in the market has pressurized the prices in the recent times. The continued weather abnormalities IN US, China & Europe and prospects of declining production in major cotton production is going to support the prices, though the major driving force would be the Chinese demand.

The country wise analysis of global supply and demand reveals that China and India are the two major players in the global market producing about 52.28 per cent of global production, consuming about 53.89 per cent of the global cotton produce and having over 70.47 per cent of the global ending stock. The increase in the global production has been at a very slow pace (13.43 per cent) in the last five years and the consumption has also declined marginally by 7.88 per cent exerting increased pressure on the ending stock which is the most concerning factor for the global trade.

World Production Domestic Consumption and Ending Stocks (Season Beginning August 1) - '000 MT

Countries	2011-12	2012-13	2013-14	2014-15	2015-16
Production					
India	6314	6205	6750	6423	6205
China	7403	7620	7131	6532	5443
United States	3391	3770	2811	3553	2892
Pakistan	2308	2025	2068	2308	1960
Brazil	1894	1306	1742	1524	1415
Uzbekistan	871	1002	893	849	806
Turkey	749	577	501	697	610
Other	4813	4466	4321	4005	3668
Total	27743	26971	26216	25891	22998
Consumption					
China	8274	7838	7512	7185	7185
India	4235	4736	5084	5334	5552
Pakistan	2177	2341	2264	2308	2232
Turkey	1219	1317	1372	1393	1393
Bangladesh	806	1023	1154	1197	1230
Vietnam	365	490	697	882	1012
United States	718	762	773	778	806
Other	4873	5091	5105	4942	4886
Total	22666	23598	23961	24021	24296
Ending Stocks					
China	6767	10965	13653	14788	14255
India	2312	2568	2473	2914	2827
Brazil	1740	1263	1670	1596	1455
United States	729	827	512	806	675
Pakistan	617	590	539	617	525
Turkey	270	286	295	347	337
Australia	829	522	393	387	314
Other	2931	2967	2887	2915	2711
Total	16196	19989	22422	24372	23098

Source: Foreign Agricultural Service

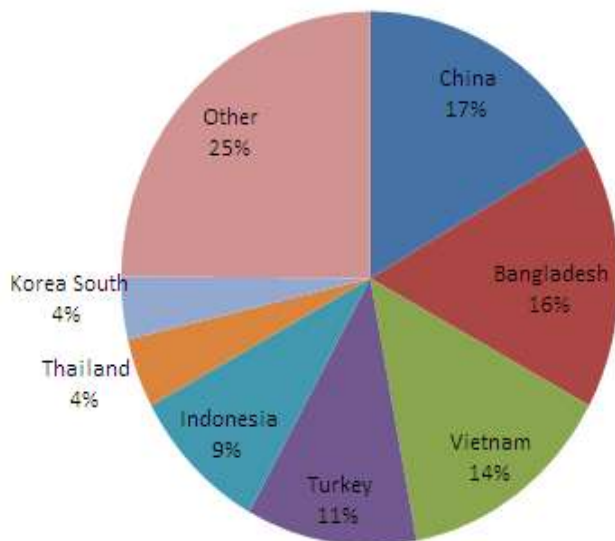
This month's U.S. cotton 2015-16 estimates include higher production and ending stocks. Production is reduced 57,000 bales, as decreases for the Southeast and Delta are mostly offset by an increase for the Southwest. Domestic mill use and exports are unchanged. The forecast range of 55 to 63 cents per pound for the marketing year average price received by producers is narrowed 1 cent on both ends, with the mid-point unchanged from last month at 59 cents.

This month's 2015-16 world supply and demand estimates include lower production, consumption, and ending stocks. Forecast production is reduced for India, Pakistan, China, Greece, Mali, and Mexico, based on current indications of northern hemisphere harvest results. With consumption reduced mainly for China and Pakistan, total world consumption is now projected to grow a modest 1.1 percent this season. World ending stocks are projected at 106.1 million bales, nearly 6 million bales below the beginning level.

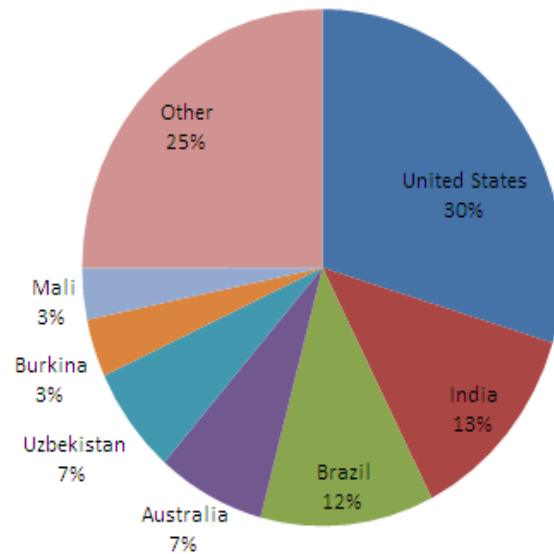
Recent development in Cotton Market

Futures in New York yesterday tumbled to the lowest since September 2009 as the U.S government estimates global production to outstrip demand for a fifth straight season, boosting inventories to an all-time high. Slowing demand from China, the world’s biggest consumer, will shrink exports from the U.S. and India.

Major Importers of Cotton in World 2015-16



Major Exporters of Cotton in World 2015-16



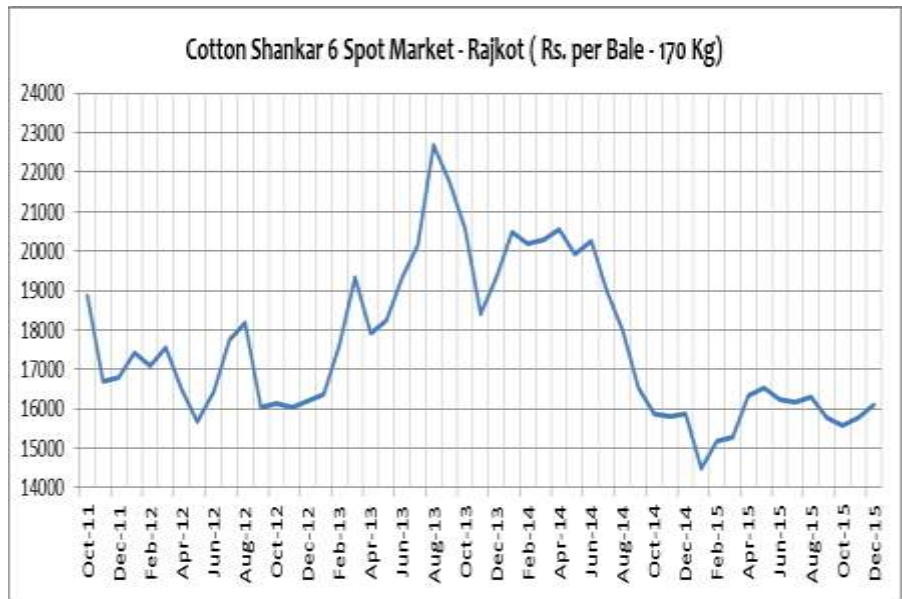
Global reserves reached an all-time high of 105.62 million bales, each weighing 480 pounds, or 218 kilograms, as per USDA data. Production is rising just as China cuts imports because of record inventories. The nation’s purchases will drop 50 percent this year to the lowest since 2009. That’s prompting traders to shift focus to markets such as Vietnam, Bangladesh, Taiwan and Turkey. China increased stockpiles more than five-fold over the past four years, after the government bought up supplies to support domestic growers, contributing to a surge in prices.

Recent declines in cotton prices could be expected to result in important reductions in acreage in certain cotton producing countries. The magnitude of any shift in global cotton acreage could eventually emerge as a factor affecting cotton prices. However, with world stocks at record levels, and with indications from the Chinese government that reserves would be released in response to upward price pressure, it could take several years for acreage-related forces to drive price direction.

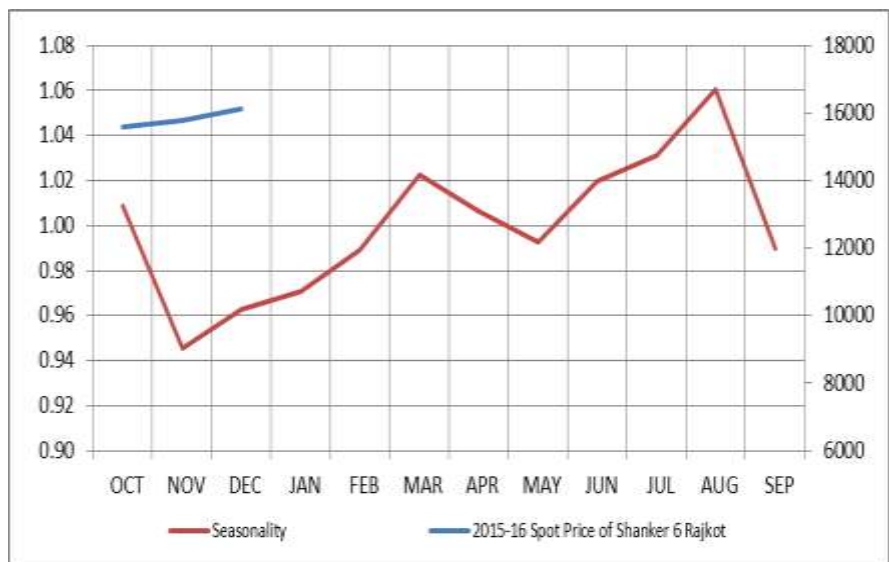
The faster share recovers in China, the faster stocks can be drawn down. However, with China's stocks-to-use ratio near 197.20% and the global stocks-to-use ratio near 95%, even with a strong recovery in share, it could be expected that stocks will remain well-above average for next several seasons. Correspondingly, it could be difficult for prices to sustain upward movement in the near future.

Price Trend Analysis

The cotton spot market price variation study indicates that the prices have always been rising in the month of April, all the way till June; thereafter a drop in the prices takes place owing to onset of the sowing season. The demand for cotton improves from the month of September which initiates the upswing in the prices which continues till January owing to increased export demand. World cotton mill use is projected to decrease and consequently, the ending stocks are expected to increase significantly. As of May 2014, 47 million Bales of cotton are estimated to be held by the Chinese national reserve.



The adjacent price curve indicates the price trend of cotton for the current marketing year. As per the study, the prices have been subdued till April 2014. The prices have recovered since then amidst reports of increased demand. However, the prices have again taken a back seat amidst weakening European Demand and increased slowdown in China which has eaten away the comparative advantage enjoyed by the Indian exporters. The retail and stockiest demand is still weak, but is expected to improve with the advent of the winter season.



In the 2013-14 cotton season, the natural fibre exports from India are expected to remain flat at 100 lakh bales owing to lesser demand from China as it is already sitting on a huge inventory of cotton. Seeing the bearish trading outlook, the prices are expected to continue on the lower side with few upside spurts. In India the price is also expected to find support from the unfavourable crop weather development owing to record El Nino which caused about 14 per cent deficient monsoon in India leading to lower production in major Kharif crops including cotton.

Current Market Trend

World cotton production is forecast to fall by 12 per cent to 23.1 million MT, which is 1.3 million MT lower than projected demand in 2015-16. Decreases are expected in all five top producing countries. India's production may decrease by 4 per cent to 6.3 million MT due to reduced plantings and pest problems. China is in its fourth consecutive season of declining production, and its volume in 2015-16 is projected down 19 per cent to 5.3 million MT. In the United States, a 13 per cent reduction in harvested area and lower yields are expected to cause production to fall by 18 per cent to 2.9 million MT. Production in Pakistan is forecast to reach around 1.9 million MT in 2015-16 while in Brazil, it is projected to decrease by 6 per cent to 1.5 million MT.

World cotton consumption has been revised downward from initial projections to 24.4 million MT, up less than 1 per cent from 2014-15. In its October 2015 report, the International Monetary Fund lowered its forecast for world economic growth in 2015 to 3.1 per cent. Despite optimism from the narrowing gap between polyester prices and cotton prices at the start of 2014-15 and falling domestic cotton prices, cotton consumption in China remained unchanged from 2013-14 at 7.5 million MT. With the latest revision, mill use in China is now forecast at 7.3 million MT in 2015-16. As China's spinning sector continues to decline, mill use in Asia has grown. India, the world's second largest consumer of cotton lint may see mill use rise by 3 per cent to reach 5.5 million MT in 2015-16. However, Pakistan, which had in previous years benefited from the growing demand for cotton yarn in China, is expected to see mill use decrease this season by 10 per cent to 2.2 million MT. In addition to reduced demand from China, an ongoing energy crisis, high energy costs, and high taxes that greatly add to the cost of production have caused many mills to reduce operations, and in some cases to shut down entirely. Turkey's consumption is projected to increase by 5 per cent to 1.4 million MT, due in part to expanding private consumption in the EU and political after its most recent elections. Lower production costs and favorable government policies for the textile sectors in Bangladesh and Vietnam will encourage consumption growth in these countries. Mill use in Bangladesh is forecast to rise by 10 per cent to just over 1 million MT while in Vietnam, by 20 per cent to 1.1 million MT.

World ending stocks are expected to fall by 6 per cent to 20.7 million MT, which represents about 85 per cent of the volume needed for world mill use in 2015-16. Stocks in China are projected to be just under 12 million MT at the end of 2015-16, while stocks outside of China are forecast down by 4 per cent to 8.7 million MT. After reaching 12.7 million MT in 2014-15, ending stocks in China may decrease by 8 per cent in 2015-16 to 11.7 million MT while stocks outside of China are forecast to fall by 2 per cent to 9 million MT.

On the trade front, Chinese imports are projected to fall by 24 per cent, to less than 1.4 million MT. China will likely remain the world's largest importer in 2015-16, but its share of world imports has fallen from 55 per cent in 2011-12 to 22 per cent in 2014-15 and may only reach 17 per cent in 2015-16. Instead, imports to other Asian countries are taking on a larger share and will partially offset the decline. In 2011-12, imports by the rest of Asia accounted for 31 per cent of world imports. In 2015-16, Asian imports excluding China are expected to reach 4.5 million MT, representing 60 per cent of world imports. Bangladesh, Vietnam and Indonesia are the three largest importers in the region outside of China. Imports by Bangladesh may slightly exceed one million MT in 2015-16, up 4 per cent from last season, while imports by Vietnam are projected up 5 per cent to 990,000 MT. After declining in 2013-14, imports by Indonesia increased 13 per cent to 735,000 MT in 2014-15 and may reach 780,000 MT in 2015-16. Mill

use in Asia outside of China is forecast to rise by 4 per cent to 12 million MT, representing 48 per cent of world consumption projected at 25 million MT in 2015-16. Mill use in India is expected to reach 5.6 million MT, up 3 per cent from 2014-15 and in Pakistan, 2.6 million MT, up 2 per cent from 2014-15.

Price Forecast: Technical Outlook (MCX)



Explanation:

Marginal convergence is seen in the (Moving Average Convergence - Divergence) MACD curves for the duration of 12 month and 26 month. The lower 12 month moving is still above the 26 month moving average, which is denoting the underlying strength of cotton prices. The Parabolic SAR refers to a price and time based trading system. SAR stands for "stop and reverse." SAR trails price as the trend extends over time. In the case of soybean, the SAR is below the price for the past 8 weeks is indicating at the underlying weakness in the prices, hinting towards possible correction in the prices. The Bollinger's mean line has just been breached, indicating at the possible weakness in the prices for the short term.

Technical Recommendation:

The market is expected to find strong support at the levels of 13250 and has good potential of testing 19550 and 21375 on the higher side.

Price Expectation

Commodity	Units	Current Market (08.12.2015)	Minimum Support Price (MSP)	Market View	Technical Projections		
					Support	T1	T2
Cotton (MCX)	Rs. / Bale	16130	3800 / 4100 (Kapas)	↑	13250	19550	21375

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