

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

THIS REPORT CONTAINS ASSESSMENTS OF COMMODITY AND TRADE ISSUES MADE BY
USDA STAFF AND NOT NECESSARILY STATEMENTS OF OFFICIAL U.S. GOVERNMENT
POLICY

Required Report - public distribution

Date: 8/31/2012

GAIN Report Number: IN2114

India

Cotton and Products Update

Cotton Update - August 2012

Post

New Delhi

Approved By:

David Williams

Prepared By:

Dhruv Sood

Report Highlights:

India's 2012/13 cotton area and production are forecast higher at a respective 11.1 million hectares and 24.4 million 480 lb bales as rains across major growing areas have improved following the sporadic start of the monsoon. Harvest will likely be delayed by a few weeks across northern and parts of central India due to planting delays. Exports in 2011/12 are estimated higher as shipments during the May-July period exceeded expectations following the lifting of the export ban. The Government of India has not announced a new export policy for the 2012/13 marketing year. Cotton consumption by Indian mills remains strong given steady and profitable spinning margins and strong demand for yarn from China.

2012 Cotton Area Exceeds Expectations

On August 23, 2012, India's Cotton Advisory Board (CAB), a group of government officials and industry representatives from the cotton and textile industries, estimated 2012 cotton area at 11.1 million hectares (the Ministry of Agriculture estimate is 11.15 million hectares), down just nine percent from 2011/12 and the third highest planted area on record. Given lower relative cotton prices, area was forecast lower than 2011's record area and the poor start of the monsoon was expected to lead to further reductions in area. However, rains improved across major growing areas in the central states of Maharashtra, Madhya Pradesh and parts of Gujarat and farmers accelerated the pace of planting during late July and early August. The pace of planting moved from 93 percent of normal in mid-July to 109 percent of normal in early August. If the 1.5 million hectares of early-planted and widely-irrigated northern cotton are excluded from the area calculation, the recovery in planting is somewhat more pronounced, moving from 90 percent of normal to 110 percent in central and southern India over the same time period.

Table 1: All-India Weekly Cotton Planting Progress

Date	Planted Area (million hectares)	Average area for this week (million hectares)	Percent of Normal
22-Jun-12	2.11	-	-
29-Jun-12	3.14	-	-
6-Jul-12	4.66	-	-
13-Jul-12	6.52	7.04	92.6
20-Jul-12	8.37	9.00	93.0
27-Jul-12	9.72	9.40	103.4
3-Aug-12	10.01	9.99	100.2
9-Aug-12	10.92	9.99	109.3
17-Aug-12	11.03	10.51	104.9
24-Aug-12	11.15	10.58	105.4

Source: Ministry of Agriculture, Government of India

The CAB estimate exceeds the previous USDA Mumbai estimate of 10.6 million hectares and the USDA Washington estimate of 10.8 million hectares. The CAB and Ministry of Agriculture area estimates are supported by cotton seed sales which were down just five percent from a year ago (42 million packets in 2011 vs. 40 million in 2012). The difference in the five percent reduction in seed sales and the nine percent reduction in area is likely explained by farmers who replanted their crops when rains improved. The biggest surprises in the CAB area estimate were in northern and central India. In the north, where farmers in Rajasthan and Haryana were thought to have shifted cotton area to lucrative guar, area is estimated just six percent lower compared to industry expectations on the eve of the CAB announcement of 15 percent. Similarly, in Maharashtra, where only 20 percent of the crop is

irrigated, area was expected to be five percent lower on dry conditions in the more western cotton growing areas, but is now unchanged from a year ago. The lower industry estimates suggest that the CAB and Ministry of Agriculture estimates may be somewhat optimistic, but these figures are generally widely adopted as the basis for establishing production estimates.

2012 Cotton Production Forecast Higher

The CAB did not publish a cotton production forecast. The 2012 cotton harvest is expected to be later than average and much will depend on weather conditions during September. This uncertainty appears to have prompted the CAB to wait for additional time to assess the crop. Given the higher than expected area and improved weather conditions, 2012 cotton production is forecast 1.3 million 170 kg bales higher at 31.3 million bales (24.4 million 480 lb bales). USDA Mumbai has traveled to Haryana, Punjab and Eastern Maharashtra in recent weeks. State-level production forecasts and a regional discussion of crop conditions follow.

TABLE 2. AREA, PRODUCTION & YIELD OF COTTON IN MAJOR STATES (AREA THA, PRODUCTION THOUSAND BALES OF 170 KGS, YIELD KGS/HA)					
		Final	Final	Estimated	Forecast
STATE		2009/10	2010/11	2011/12	2012/13
Maharashtra	Area	3,503	3,932	4,125	4,092
	Production	6,575	8,200	6,825	7,400
	Yield	319	355	281	307
Gujarat	Area	2,625	2,633	2,962	2,242
	Production	9,800	10,300	11,680	8,000
	Yield	635	665	670	607
Madhya Pradesh	Area	611	650	706	608
	Production	1,525	1,700	1,730	1,350
	Yield	424	445	417	377
Punjab	Area	511	530	560	516
	Production	1,300	1,600	1,600	1,650
	Yield	432	513	486	544
Haryana	Area	507	492	641	603
	Production	1,525	1,400	2,200	2,100
	Yield	511	484	583	592
Rajasthan	Area	444	335	470	449
	Production	1,200	900	1,590	1,200
	Yield	459	457	575	454
Andhra Pradesh	Area	1,475	1,784	1,879	2,022
	Production	5,450	5,300	4,950	5,500
	Yield	628	505	448	462
Karnataka	Area	455	545	554	341
	Production	1,225	1,000	1,290	700
	Yield	458	312	396	349
Tamil Nadu	Area	104	122	133	100
	Production	500	500	430	400
	Yield	817	697	550	680
Others	Area	75	119	148	143
	Production	200	400	395	400
	Yield	453	571	454	476
Loose	Production	1,200	2,610	2,610	2,600
All-India	Area	10,310	11,142	12,178	11,116
	Production	30,500	33,910	35,300	31,300
	Yield	503	517	493	479

Source: Cotton Advisory Board as of August, USDA Mumbai for 2012/13 production estimates

The North – Punjab, Haryana, Rajasthan

Cotton production in the north is largely irrigated, typically enabling farmers to plant early and on time. Yields are relatively steady except in the area of Rajasthan that is near the border with Gujarat where the crop is largely dependent on rains. Area is down six percent as farmers in Rajasthan and Haryana shifted to guar and farmers in Punjab shifted to rice. Guar, which has emerged as a lucrative and significant export crop in recent years, was expected to bid away much more area than the CAB figures indicate.

Crop conditions are very good with minimal damage from white fly and other sucking insects. Irrigation has been adequate and rains have been timely. There is some concern about variations in crop height and reduced flowering, but overall yields are expected to be higher than a year ago. Cotton planting was delayed by two weeks due to intermittent rains that delayed the rabi (winter) wheat harvest. The northern crop is always susceptible to damage from heavy late monsoon rains that can occur in September, resulting in dropped bolls and flowers and reduced crop quality. Yields will ultimately depend on September weather. Harvest is expected to begin in late September.

The Center – Maharashtra, Gujarat, Madhya Pradesh

The central states of Gujarat, Maharashtra and Madhya Pradesh contribute almost 60 percent of cotton production in India. Much of the crop in this area is rain fed. State-level yield and production estimation in this region is complicated by the movement of raw cotton out of Maharashtra where ginning capacity is limited to the surrounding cotton producing states.

Area is down significantly in Gujarat where there has been virtually no rain in the western Saurashtra and Kutch region and irrigation is limited. Rainfall has improved in the east and north of Gujarat and farmers have more access to water from check dams and other surface irrigation which should help to minimize the reduction in state yields. Nevertheless, production is expected to be down by nearly 4.0 million 170 kg bales from a year ago. Harvest is expected to begin in early November. The crop in much of Maharashtra and Madhya Pradesh is barely knee high and difficult to assess. There are concerns about dry conditions in the central growing area around Aurangabad and persistent cloudy and raining conditions over the past three weeks in the Vidarbha region of Maharashtra that could affect crop development. Area is higher than expected, pointing to the strong popularity of cotton among farmers who planted rapidly when rains improved in mid-July. Harvest will be delayed and is expected to begin in early November.

The South – Andhra Pradesh, Karnataka, Tamil Nadu

Andhra Pradesh is forecast to have an area of 2.0 million hectares with record production of 5.5 million 170 kg bales. Rainfall in the state has been well distributed and conditions are reportedly very good in the state. The crop is susceptible to late rain and storms which can affect yields, but many are hoping the Andhra Pradesh will further offset the lower crop in Gujarat. Poor rainfall in Karnataka has prompted farmers to shift away from cotton and area and production are expected to be significantly

lower.

2011/12 Exports Estimated Higher

India's marketing year 2011/12 (Aug/Jul) exports are estimated 1.0 million 170 kg bales higher at 13.9 million 170 kg bales based on official data from August through February, preliminary official data for March and April and trade discussions for May through July. See Table 3 for additional details. Exports for October through April (the Indian marketing year) were 11.2 million bales, which is consistent with the May 7, 2012 Ministry of Commerce statement indicating that exports were 11.0 million bales during that period.

Exports from May through July are now estimated at 1.3 million 170 kg bales, significantly higher than the most recent Office of Agricultural Affairs Mumbai estimate of 500,000 170 kg bales for this period. It appears that the current export requirements limiting export registrations to 10,000 bales and requiring exporters to ship 50 percent of a registration before registering another sale (see IN2082 dated June 21, 2012, for more background) were not as restrictive as anticipated. Trade sources indicate that the requirements limited exports by larger exporters, but enabled smaller exporters to increase their exports. In addition, exporters likely had outstanding commitments from before the 2012 export ban, which is consistent with earlier statements by the Ministry of Textiles indicating that exports plus export registrations totaled 11.5 million 170 kg bales (500,000 bales above reported exports of 11.0 million on May 7) before the export ban was lifted. Reportedly, the main export destinations during May-July were China, Pakistan, Bangladesh and Vietnam. Exports during August and September, the final two months of the Indian marketing year, are expected to be minimal (+/-100,000 170 kg bales) given limited domestic supplies, firm prices, robust demand from the textile sector and the need to conserve supplies to bridge the expected two week delay in the onset of harvest across much of India.

Table 3: Estimate of 2011/12 Cotton Exports

	170 kg	Metric Tons	480 lb
August	441,476	75,051	344,609
September	939,759	159,759	733,560
October	696,288	118,721	545,127
November	2,090,465	355,379	1,631,781
December	1,620,265	275,445	1,264,751
January	2,524,847	429,223	1,970,848
February	2,325,259	395,294	1,815,058
Official Subtotal Aug-Feb 1\	10,638,359	1,808,521	8,304,125
March	530,147	90,125	413,824
April	1,395,535	237,240	1,089,327
Preliminary Subtotal Mar-Apr 2\	1,925,682	372,365	1,709,775
Estimated Exports May-Jul 3\	1,300,000	221,000	1,014,758
Total	13,864,041	2,356,887	10,822,039

1\ Official subtotal reflects estimates from the Directorate General of Foreign Trade, for Harmonized Tariff Schedule code 5201 – raw cotton.

2\ Preliminary official data from the Directorate of Commercial Intelligence and Statistics. These data are subject to revision, but are considered a fairly reliable predictor of final official data.

3\ FAS Mumbai estimate

2012/13 Export Policy Picture Unclear

The Government of India has not announced a new export policy for 2012/13. The recent decision by the Cotton Advisory Board to delay its forecast of the 2012 crop could signal a delay in any policy announcements until a clearer picture of the supply situation emerges. The current export policy of limiting export registrations to 10,000 bales and requiring 50 percent shipment before a new export can be registered is considered cumbersome, particularly for large exporters. The policy also restricts new exporters by limiting the amount of cotton they can register for export (See IN2082 for more background). Smaller exporters, working independently, or on behalf of larger exporters have reportedly increased their exports under the new policy. The new policy seems to be providing improved control and transparency over the diminished pace of exports over the past few months. The policy is not set to expire on September 30 when the marketing year ends and could be continued or modified in 2012/13. The government will likely seek to avoid a situation where prices fall to the recently-increased minimum support price (See IN2082) and exports could help to support prices once the harvest is underway. Given the reduced exportable supply of cotton in 2012/13, the government is likely to allow some exports, but if and how the shipments will be regulated is still to be determined.

Import Pace Meets Expectations

As of April, the pace of cotton imports was supportive of the current 2011/12 import estimate of 800,000 170 kg bales (See Table 4). Cotton imports during May-July are estimated at 450,000 bales as textile mills augmented tight domestic supplies. Imports are expected to continue at a relatively strong pace during August and September (200,000 170 kg bales per month) as mills seek to cover their needs in light of the expected two-week harvest delay. Imports appear to be helping to keep domestic prices in check. Imports are reportedly coming from African suppliers, Pakistan and Australia. Despite a brief flurry of market discussion about the possibility of Indian cotton being re-exported to India from Chinese warehouses, it does not appear that any significant quantities of cotton have come back to India. The 2012/13 import forecast is unchanged at 1.2 million 170 kg bales given strong August-September imports.

Table 4: Estimate of 2011/12 Cotton Imports

	170 kg	Metric Tons	480 lb
August	8,735	1,485	6,820
September	2,518	428	1,966
October	12,647	2,150	9,875
November	14,665	2,493	11,450
December	12,847	2,184	10,031
January	37,759	6,419	29,482
February	81,771	13,901	63,847
Official Subtotal Aug-Feb 1\	170,942	29,060	133,472
		-	-
March	97,824	16,630	76,381
April	97,018	16,493	75,752
Preliminary Subtotal Mar-Apr 2\	194,842	33,123	152,133
		-	-
Estimated Imports May-Jul 3\	450,000	76,500	351,362
		-	-
Total	815,784	138,683	636,967

1\ Official subtotal reflects estimates from the Directorate General of Foreign Trade, for Harmonized Tariff Schedule code 5201 – raw cotton.

2\ Preliminary official data from the Directorate of Commercial Intelligence and Statistics. These data are subject to revision, but are considered a fairly reliable predictor of final official data.

3\ FAS Mumbai estimate

Consumption Remains Robust

Consumption of cotton by mills is expected to reach 24.1 million 170 kg bales in 2011/12. The CAB recently reduced the estimate of non-mill consumption from 2.0 million bales to 1.6 million bales,

placing estimated consumption at 25.7 million 170 kg bales (20.1 million 480 lb bales).

Mill balance sheets appear to be improving following the losses many in the industry faced during 2011. Larger mills have increased their stock levels and many are reportedly covered through late November to ensure adequate supplies with the expected delay in harvest. Industry-wide cotton stock levels are estimated at 30 days, a significant improvement over the one to two weeks of cotton stocks that many mills operated with during 2011. The larger stock levels point to improved liquidity among mills which are benefitting from steady and profitable spinning margins and strong demand for yarn from China. It is not clear how long the demand from China will continue, but monthly consumption is expected to be relatively strong over the next three to four months as cotton prices fall with the onset of harvest. Market dynamics beyond that point are difficult to predict and USDA Washington is currently forecasting average monthly cotton consumption of 2.125 million 170 kg bales per month, a level that has only been exceeded in nine of the past 35 months. Given the expectations of a lower Indian crop, slowing GDP growth in India and uncertainty surrounding China's demand for yarn, a slight reduction in the consumption forecast to 21 million 480 lb bales is recommended.

Table 5: Monthly Cotton Consumption by the Textile Sector
(Million 170 kg bales)

	2009/10	2010/11	2011/12
Aug	1.859	2.173	1.806
Sep	1.829	2.143	2.167
Oct	1.812	2.209	1.768
Nov	1.847	2.110	1.817
Dec	1.949	2.257	2.007
Jan	1.954	2.210	2.039
Feb	1.881	2.023	2.026
Mar	2.001	2.176	2.028
Apr	2.053	2.017	2.022
May	2.093	1.864	2.138
Jun	2.071	1.823	2.085
Jul	2.211	1.898	2.150
Total	23.56	24.90	24.13

1. 2011/12 Figures in red (Jul) reflect FAS Mumbai estimates.
2. Does not include annual loss estimates of 1.7, 2.0 and 1.6 million bales respectively.

Additional Revisions

- The CAB increased the estimate of 2011/12 production to 35.3 million 170 kg bales (27.6 million 480 lb bales). Much of the increase came from Haryana where farmers increased delivery of cotton in the state after market fees were reduced. Cotton production estimates are based on pressing data and it appears that production in Haryana may have been underreported in recent years given the high market fees in the state.
- USDA Mumbai is again recommending revised 2010/11 import and export estimates based on official trade data.
- The slight reduction in 2010/11 consumption reflects revised official data.

Author Defined:

Cotton India	2010/2011		2011/2012		2012/2013	
	Market Year Begin: Aug 2010		Market Year Begin: Aug 2011		Market Year Begin: Aug 2012	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	0	0	0	0	0	0
Area Harvested	11,140	11,140	12,200	12,191	10,800	11,116
Beginning Stocks	9,374	5,922	9,924	7,262	7,274	5,212
Production	26,400	26,400	26,500	27,600	23,500	24,400
Imports	450	190	600	600	1,000	1,000
MY Imports from U.S.	0	0	0	0	0	0
Total Supply	36,224	32,512	37,024	35,462	31,774	30,612
Exports	6,000	5,000	10,000	10,900	3,700	3,700
Use	21,050	21,000	20,500	20,100	21,500	21,000
Loss	-750	-750	-750	-750	-750	-750
Total Dom. Cons.	20,300	20,250	19,750	19,350	20,750	20,250
Ending Stocks	9,924	7,262	7,274	5,212	7,324	6,662
Total Distribution	36,224	32,512	37,024	35,462	31,774	30,612

1000 HA, 1000 480 lb. Bales, PERCENT, KG/HA