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Post: Mumbai

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Report Highlights:

Post estimates cotton production at 28.5 million 480-lb bales in marketing year (MY) 2020/21 on an area of 12.64 million hectares. Cotton planting is underway in Northern India; however, no official sowing data has been published for the Kharif 2020 season. The availability of labor may become an issue during the season as the mass movement of migrant laborers back to their native states may lead to labor shortages at farms and processing plants, which are slowly resuming operations. Domestic demand and exports experienced a significant decline as the nationwide lockdown was extended until May 31.

Production, Supply and Demand Data Statistics:

Cotton	2018/2019		2019/2020		2020/2021	
Market Begin Year	Aug 2018		Aug 2019		Aug 2020	
India	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	-	-	-	-	-	-
Area Harvested (a)	12,600	12,600	13,300	13,300	12,500	12,644
Beginning Stocks	9,225	9,225	9,314	9,314	18,114	16,814
Production	25,800	25,800	30,500	29,300	28,500	28,500
Imports	1,800	1,800	2,000	2,200	1,100	1,000
MY U.S. Imports	-	-	-	-	-	-
Total Supply	36,825	36,825	41,814	40,814	47,714	46,314
Exports	3,511	3,511	3,200	3,000	4,500	3,500
Use	24,000	24,000	20,500	21,000	23,500	23,000
Loss	-	-	-	-	-	-
Total Dom. Cons.	24,000	24,000	20,500	21,000	23,500	23,000
Ending Stocks	9,314	9,314	18,114	16,814	19,714	19,814
Total Distribution	36,825	36,825	41,814	40,814	47,714	46,314
Stock to Use (b)	34%	34%	76%	70%	70%	75%
Yield (c)	446	446	499	480	496	491
Figures in Thousand 480-lb Bales, Except Where Indicated: (a) Thousand Hectares, (b) Percent, (c) Kilograms/Hectares						

Area and Production

Post estimates India's cotton production at 28.5 million 480-lb bales (36.5 million 170-kilogram bales/ 6.26 MMT) for marketing year (MY) 2020/21, due to lower harvested area at 12.64 million hectares. Post estimate of production is similar to USDA official estimate. However, the area estimated by Post is marginally (one percent) higher as farmers in various states shift to planting cotton due to limited labor availability required for transplanting paddy, and the relative lower input costs. In addition, certain states are announcing incentives for farmers to move away from water intensive crops, which is also supporting greater cotton area.

The state government of Telangana in southern India is encouraging farmers to plant red gram (pigeon pea) and other grains with assured procurement from the government. Similarly, cotton planting is also being encouraged in areas with irrigation capacity to realize higher yields and better quality. Official sources indicate that the state government does not want to increase paddy acreage as the state warehouses are carrying surplus stocks, and any maize cultivation is strictly discouraged due to the high cost of cultivation in comparison to the other states. Also, the state finds it more economical to buy from other states than procure from farmers. The government plans to strictly enforce these cropping suggestions. If non-compliance is found, the farmer will not be eligible for the Agriculture Investment Support Scheme ('Rhythu Bandhu' scheme), which provides support at USD $133 (INR 10,000) per farmer per acre across two cropping seasons in a year. While the state can provide an assurance on the procurement of grains, cotton procurement is facilitated by the Cotton Corporation of India (CCI), with provisions for adequate procurement centers and storage which is a costly operation. In Gujarat, the area under cotton is expected to be lower, as farmers shift towards groundnuts, which is a shorter duration crop, less labor intensive, and currently provides better margins due to higher market prices compared to cotton.

Third Advance Estimates Published
On May 16, 2020, the Ministry of Agriculture and Farmers Welfare (MOAFW) published the Third Advance Estimates of production for 2019-2020. According to the estimates, cotton production for MY 2019/20 is estimated at 28.15 million 480-lb bales (36.05 million 170 kg bales/ MMT). According to the report, the cumulative rainfall in the country during the monsoon season (June to September, 2019) was 10 percent higher than Long Period Average (LPA). Accordingly, the production of most crops for agricultural year 2019-20 has been estimated higher than their normal production. The MOAFW production estimates are in line with the estimates of the Cotton Advisory Board, Ministry of Textiles, that published the MY 2019/20 production estimate in November 2019.

Arrivals
On May 19, 2020, the Cotton Corporation of India (CCI) reported new crop MY 2019/20 cotton arrivals at 23.22 million 480-lb bales (29.74 million 170-kilogram bales/5.0 MMT). Cotton arrivals so far represents eighty percent of the total cotton production estimate.

The pace of arrivals has remained strong during the month as the government eased restrictions on agriculture and allied activities during the lockdown. In terms of market yard arrivals, data reported by MOAFW indicates the seed cotton arrivals were 66 percent higher than last year (refer table 2). The arrivals were the highest in the central states of Gujarat, Maharashtra, and Madhya Pradesh, followed by arrivals in the southern states of Karnataka and Telangana.

Minimum Support Price Procurement and Stocks
As of May 19, 2020, CCI and other government agencies have procured 7.13 million 480-lb bales (9.14 million 170 kg bales/1.55 MMT) in MY 2019/20 under the minimum support price operations. The unsold stock from MY 2018/19 MSP program held by CCI, and the MSP purchases by the Maharashtra State Co-op Cotton Growers Marketing Federation or MAHACOT) combined with MY 2019/20 stocks amount to around 8.6 million 480-lb bales (11 million 170 kg bales/1.87 MMT). A large percentage of CCI procurement so far has been in the states of Telangana (45 percent), followed by Maharashtra (22 percent) and Gujarat (9 percent). Post estimates India MY 2020/21 carryover stocks to increase significantly to an unprecedented 16.81 million 480-lb bales (21.53 million 170-kilogram bales/3.6 MMT), based on Aug/Jul marketing year.

Consumption
Post estimates MY 2020/21 cotton consumption at 23 million 480-lb bales (29.45 million 170-kilogram bales/5 MMT). This estimate is 500,000 480-lb bales lower than the official USDA estimate. As textile industry operations restart, and begin to recover after the impact of the lockdown in MY 2019/20, the prospects for the retail sector look very weak due to significant demand erosion, which will slow the recovery of the entire textile value chain. Another major challenge the textile industry is facing with the upcoming season is the issue of getting enough labor to ramp up production to meet the demand.

The Government of India recently announced a number of economic reforms including additional funding for the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA), to support rural households. The scheme provides at least 100 days of wage employment in a financial year to every rural household whose adult member volunteers to do unskilled manual work. The increased funding is likely to support employment opportunities for laborers in their native villages, which may consequently delay their movement back to manufacturing units in other states.

In MY 2019/20, Post estimates consumption at 21 million 480-lb bales (26.9 million 170-kilogram bales/4.6 MMT). This estimate is 500,000 40-lb bales higher than official USDA estimate. Trade sources indicate that while production was almost at a standstill during March and April, production in May was between 30-40 percent of the capacity to fulfill pending/existing orders. For the month of March 2020, the quick estimates of Index of Industrial Production (IIP) with base 2011-12, indicate the textile manufacturing sector witnessed a 13.1 percent negative growth in the production volume as compared to March 2019. For more details please refer to Quick Estimates of IIP March 2020.

Retail demand remains insignificant as lockdown measures remain in place for markets, malls and public areas. Due to the lack of demand, a number of small to medium size manufactures do not see it viable to commence operations for spinning, weaving, and processing. In addition, retailers across India are facing difficulties following multiple guidelines from local, state and central government agencies in terms of social distancing norms, screening customers, public hygiene rules, and other checks for compliance.

Opportunity for Man-Made Fibers (MMF) in the Healthcare Sector during Pandemic
With the growing need for Personal Protective Equipment (PPE), the Government of India has made proactive efforts to promote their manufacture in the country. In the past two months, the textile sector supported by the Government of India has made India the world's second largest manufacturer of body coveralls. The production of personal protective equipment (PPE) including body coveralls, N-95 masks, and 2-ply/3-ply surgical masks is mostly from non-woven polypropylene fibers, which is a significant opportunity for increasing the share of man-made fibers domestically, and in exports. According to Ministry of Health and Family Welfare, as of May 25, the country is producing more than 300,000 PPEs and N95 masks per day. States as well as Central Institutions have been provided with around 11.1 million N-95 masks and around 7.4 million Personal Protective Equipment (PPE). There was no PPE coverall production in the country until March 20, 2020.

Trade
Post estimates MY 2020/21 exports at 3.5 million 480-lb bales (4.48 million 170-kilogram bales/760,000 MT). The prospects of another large crop will leave India with a massive exportable surplus with limited buyers. Post's estimate is almost 1 million 480-lb bales lower than the official USDA estimate. Post anticipates Indian exporters will witness increased competition from exporters such as the United States and Brazil, whose export orders have also been deferred/canceled and will have larger volume of unsold stocks to offload.

Post estimates MY 2019/20 exports at 3 million 480-lb bales (3.8 million 170-kilogram bales/653,000 MT). Post's estimate is 200,000 480-lb bales lower than the official USDA estimate. Indian ex-gin prices have been falling and remain cheaper than Cotlook A- Index, however, poor demand is not allowing exporters to take advantage of the opportunity. Similarly, cotton yarn prices have been falling but international buyers remain cautious of building any large inventories. Trade sources indicate that raw cotton export shipments in April were 89 percent lower than the previous month. Bangladesh, China, Indonesia, and Vietnam were the top export destinations for shipments between February to April. Trade sources indicate a large proportion of shipments in May constituted cotton waste (primarily low fiber content cotton, and comber noil which are all by-products of ginning and yarn processing which offer a cheaper alternative) primarily to Vietnam. Comber noil containing short fibers, and low trash is primarily used in manufacturing of pharmaceutical and surgical cotton.

Provisional trade estimates published by the Ministry of Commerce indicate that exports of cotton yarn/fabrics/made-ups, handloom products are down by 82.46 percent (by USD value) in April 2020 as compared to the same period last year. Similarly, exports of readymade garments of all textiles are down by 91.04 percent from last year. The impact of COVID-19 outbreak led to lockdowns in both exporter and importer countries leading to delays and cancelations of orders. For more details please refer Quick Estimates for Selected Major Commodities for April 2020.

Post estimates MY 2020/21 imports at 1 million 480-lb bales (1.28 million 170-kilogram bales/218,000 MT). Post's estimate is 100,000 480-lb bales lower than official USDA estimate. The depreciation of the rupee by four percent since March has made imports very expensive, so Post expects only higher grades of cotton to be imported, unless heavy discounts are available. Trade estimates indicate that import of raw cotton are down by 21 percent (by USD value) in April 2020 from previous month. United States, Egypt, Mexico and Côte d'Ivoire were the top suppliers between February and April.

Policy

Looking ahead: Another Year of MSP Program, or Scope for Alternate Income Support Schemes
The Commission for Agricultural Costs and Prices, MOAFW, has made recommendations for the Minimum Support Prices for MY 2020/21 Kharif mandated crops including cotton to the Cabinet Committee on Economic Affairs (CCEA) for its approval. The recommended MSP increase for cotton from last year is 4.9 percent for medium staple, and 5 percent for long staple variety. It should be noted that average seed cotton prices in October 2019 (beginning of Indian marketing year MY 2019/20) were between 4-9 percent below the MSP. The average seed cotton prices in May 2020 (eight months into the season) are 10-15 percent lower than the MSP. With more than 25 percent of crop procurement made by government agencies, the program is not able to meet the dual objectives of a guaranteed price and an assured market, as farmers continue to make distress sales.

The Commission has made recommendations to adopt the Price Deficiency Payment Scheme (PDPS) for commercial crops such as cotton, where liquidation of stocks remains a concern. However, strict adherence to Fair Average Quality (FAQ) norms/standards, capping on difference between MSP and market price, and a transparent price discovery mechanism are essential for the success of PDPS. The scheme has the potential to ensure remunerative prices to farmers without physical procurement and increase private sector participation in marketing. Another issue highlighted by the commission relates to the announcement of a bonus over and above MSP by some state governments that leads to market distortion, thereby affecting inter-crop price parity, and restricting crop diversification and private sector participation. The Commission recommends that such bonuses/incentives should be discouraged, particularly in production surplus states.

Table 1. India: State monthly wholesale prices for seed cotton in May 2020
(Prices in Indian Rupees per 100 kilograms)

State	Prices, May, 2020**	Prices, April, 2020	Prices, May, 2019	Change (Over Previous Month)	Change (Over Previous Year)
Andhra Pradesh	-	-	5,880	-	-
Gujarat	4,620	4,668	5,771	-1.04%	-19.95%
Haryana	-	-	6,314	-	-
Karnataka	3,880	3,826	6,158	1.42%	-36.99%
Madhya Pradesh	4,921	4,236	5,843	16.17%	-15.78%
Maharashtra	4,541	4,757	6,246	-4.55%	-27.30%
Odisha	5,335	5,296	-	0.74%	0.00%
Punjab	-	5,405	1,840	-	-
Rajasthan	5,255	5,091	6,472	3.22%	-18.81%
Tamil Nadu	3,982	4,481	5,898	-11.14%	-32.48%
Telangana	5,190	-	5,958	-	-12.89%
Average	**4,715**	**4,720**	**5,526**	**-0.10%**	**-14.66%**

Source: Directorate of Marketing and Inspection, Ministry of Agriculture and Farmers Welfare
**Arrivals reported for the period from May 1, 2020 - May 26, 2020

Table 2. India: State Seed Cotton Arrivals in market yards
in May 2020 (in metric tons)**

State	Market Arrivals May, 2020	Market Arrivals May, 2019	Change (Over Previous Year)
Andhra Pradesh	152	2,046	-93%
Gujarat	33,984	11,440	197%
Haryana	650	2,054	-68%
Karnataka	10,797	5,165	109%
Madhya Pradesh	15,551	4,089	280%
Maharashtra	33,075	12,148	172%
Odisha	261	-	-
Punjab	5,220	197	2556%
Rajasthan	9,955	2,609	282%
Tamil Nadu	471	1,155	-59%
Telangana	10,784	31,785	-66%
Total	**120,899**	**72,687**	**66%**

Source: Directorate of Marketing and Inspection, Ministry of Agriculture and Farmers Welfare
**Arrivals reported for the period from May 1, 2020 - May 26, 2020

Table 3a. India: Estimate of 2018/19 Cotton Exports

	170 kg	Metric Tons	480 lb.
August Exports 1\	192,083	32,654	149,979
September Exports 1\	96,376	16,384	75,251
October Exports 1\	228,609	38,863	178,499
November Exports 1\	653,622	111,116	510,351
December Exports 1\	901,197	153,204	703,658
January Exports 1\	689,854	117,275	538,640
February Exports 1\	546,924	92,977	427,040
March Exports 1\	703,311	119,563	549,148
April Exports 1\	209,078	35,543	163,249
May Exports 1\	136,122	23,141	106,285
June Exports 1\	60,056	10,209	46,892
July Exports 1\	79,969	13,595	62,440
Total	**4,497,201**	**764,524**	**3,511,432**

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

Table 3b. India: Estimate of 2019/20 Cotton Exports

	170 kg	Metric Tons	480 lb.
August Exports 1\	75,378	12,814	58,855
September Exports 1\	70,696	12,018	55,200
October Exports 1\	109,627	18,637	85,597
November Exports 1\	333,931	56,768	260,735
December Exports 1\	605,902	103,003	473,091
January Exports 1\	941,675	160,085	735,264
February Exports 2\	585,000	99,450	456,770
March Exports 3\	365,000	62,050	284,993
April Exports 3\	40,000	6,800	31,232
Preliminary Total (Aug-Apr)	**3,127,209**	**531,626**	**2,441,737**

1\ Official total 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 Analysis

Table 4a. India: Estimate of 2018/19 Cotton Imports

	170 kg	Metric Tons	480 lb.
August Imports 1\	153,248	26,052	119,657
September Imports 1\	134,210	22,816	104,792
October Imports 1\	87,296	14,840	68,161
November Imports 1\	57,035	9,696	44,533
December Imports 1\	59,322	10,085	46,319
January Imports 1\	86,485	14,702	67,528
February Imports 1\	85,275	14,497	66,583
March Imports 1\	151,137	25,693	118,008
April Imports 1\	177,345	30,149	138,472
May Imports 1\	246,676	41,935	192,606
June Imports 1\	408,421	69,431	318,896
July Imports 1\	658,936	112,019	514,499
Total	**2,305,387**	**391,916**	**1,800,055**

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

Table 4b. India: Estimate of 2019/20 Cotton Imports

	170 kg	Metric Tons	480 lb.
August Imports 1\	974,913	165,735	761,216
September Imports 1\	543,860	92,456	424,648
October Imports 1\	360,272	61,246	281,301
November Imports 1\	222,081	37,754	173,402
December Imports 1\	124,683	21,196	97,353
January Imports 1\	99,325	16,885	77,553
February Imports 2\	104,000	17,680	81,204
March Imports 3\	94,000	15,980	73,396
April Imports 3\	13,400	2,278	10,463
Preliminary Total (Aug-Apr)	**2,536,534**	**431,211**	**1,980,536**

1\ Official total 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 Analysis

Table 5: India's Cotton Yarn* Exports by Month
(Figures in thousand Metric Tons)

Month/Year	2014/15	2015/16	2016-17	2017-18	2018/19	2019/20
Aug	94	117	66	79	108	67
Sep	98	112	77	99	98	66
Oct	101	106	76	98	97	78
Nov	125	105	103	111	95	89
Dec	125	115	129	116	92	91
Jan	113	104	132	87	91	103
Feb	119	100	103	95	100	*93*
Mar	122	112	89	118	117	
Apr	104	105	66	106	89	
May	99	94	65	109	76	
Jun	103	92	78	117	58	
Jul	118	75	71	101	59	
TOTAL	**1,321**	**1,237**	**1,055**	**1,236**	**1,080**	

***HS code:** 5204, 5205 and 5207
Source: Directorate General of Foreign Trade, Ministry of Commerce

Attachments:

No Attachments.