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Report Highlights:

FAS Mumbai estimates marketing year (MY) 2018/19 production at 27.3 million 480-lb bales. While cotton-harvesting operations are underway across the country, the pace of cotton arrivals in market yards remains marginally slower than last year. However, cotton exports have surged in December leading to the possibility of higher production numbers than the local industry is estimating. Domestic prices remain higher than international prices as mills prefer to import than source locally.

Production, Supply, Distribution – Cotton – India

Cotton Market Begin Year India	2016/2017		2017/2018		2018/2019	
	August 2016		August 2017		August 2018	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	-	-	-	-	-	-
Area Harvested (a)	10,850	10,826	12,400	12,450	12,400	12,350
Beginning Stocks	7,044	7,044	7,880	7,860	8,675	9,337
Production	27,000	27,000	29,000	29,000	27,500	27,300
Imports	2,736	2,736	1,677	1,677	1,600	1,600
MY U.S. Imports	-	-	-	-	-	-
Total Supply	36,780	36,780	38,557	38,537	37,775	38,237
Exports	4,550	4,520	5,182	5,200	4,400	4,400
Use	24,350	24,400	24,700	24,000	25,300	25,300
Loss	-	-	-	-	-	-
Total Dom. Cons.	24,350	24,400	24,700	24,000	25,300	25,300
Ending Stocks	7,880	7,860	8,675	9,337	8,075	8,537
Total Distribution	36,780	36,780	38,557	38,537	37,775	38,237
Stock to Use (b)	27	27	29	32	27	29
Yield (c)	542	543	509	507	483	481
Figures in Thousand 480-lb Bales, Except Where Indicated: (a) Thousand Hectares, (b) Percent, (c) Kilograms/Hectares						

Production:

FAS Mumbai estimates marketing year (MY) 2018/19 production at 27.3 million 480-lb bales (35 million 170-kilogram bales/6 MMT), which is 200,000 480-lb bales lower than the official USDA estimate. According to the state specific advisories issued by the Ministry of Agriculture and Farmers Welfare (MOAFW), the state of Gujarat is witnessing a heavy infestation of pink bollworm in irrigated cotton areas in the growing districts of northern Saurashtra. As a result, farmers have been advised to remove cotton crops from the fields at the earliest possible time. The state government of Gujarat published the [second 2018/19 advance estimates of production](#) where cotton yields are estimated at 326 kilogram per hectare, a significant 50 percent decrease from the final yield estimates of 2017/18. FAS Mumbai does not anticipate the yields to be halved, but the persistent drought like conditions and pest infestation will likely reduce the yields between ten to twelve percent from the previous year. Cotton harvesting is continuing in the northern Saurashtra zone, comprised of Rajkot, Jamnagar, Amreli and Surendranagar.

In response to the increasing incidence of pest infestations, MOAFW has issued advisories to farmers

nationwide to allow farm animals to graze on unopened bolls, and to plant debris in cotton fields after the last picking to prevent infestation. After grazing, instead of burning the cotton stalk, it should be chopped & buried in soil to improve soil biomass and health. Previous advisories from the central government were not heeded by all farmers, and as a result infestations were not controlled and some farmers even stocked infested crop. As a result, the expectation is current advisories will be followed more closely by farmers to prevent continuing infestations.

Cotton Corporation of India (CCI) arrivals lower than industry estimates

On January 11, 2019, MY 2018/19 cotton arrivals, as reported by the Cotton Corporation of India (CCI), reached 9.6 million 480 lb. bales (12.3 million 170 kg bales/2 MMT). CCI reported arrivals constitute 33 percent of the total production estimate of the Cotton Advisory Board (CAB), while industry estimates of market arrivals are 3-7 percent higher than CCI figures.

The cumulative cotton arrivals between October and December (refer to Table 1 below) since 2010 have averaged around 31 percent, and 29 percent in the last three years. So the current pace of arrivals is on par with previous seasons, leading to the possibility of higher production numbers than the local industry is estimating.

Table 1. India: Historical cotton arrivals as a percentage of production

Year	October-December Cumulative Arrivals (in million 480-lb bales) \1	Production Final (in million 480-lb bales) \2	Percentage of Production
2010	11.01	26.47	42%
2011	8.53	28.66	30%
2012	7.18	28.89	25%
2013	8.70	31.08	28%
2014	10.80	30.14	36%
2015	7.66	25.92	30%
2016	7.46	26.94	28%
2017	8.73	28.89**	30%
2018	8.12	28.19**	29%

1\ Source: Cotton Corporation of India

2\ Cotton Advisory Board estimates dated November 22, 2018

** Provisional Production Estimates by Cotton Advisory Board

Consumption:

FAS Mumbai estimates cotton consumption by mills to be higher than last year at 25.3 million 480-lb bales (32.4 million 170 kg bales/5.5 MMT). Indian seed cotton prices remained above the minimum support price in January thus maintaining farmer income, but the domestic mills continue to limit local procurement due to high prices. The mills are focusing their limited inventory on imported cotton, mostly from the United States. With limited liquidity and tight credit, mills prefer to source cotton which is consistent in quality. Trade sources indicate the consumption estimates will be higher than last year as international retailers are gradually shifting and developing alternate supply chains outside of China.

Trade:

FAS Mumbai estimates MY 2018/19 exports at 4.4 million 480-lb bales (5.6 million 170-kg

bales/958,000 MT), which is the same as the official USDA estimate. Exports surged by thirteen percent in December as compared to the previous month. China was the leading export destination followed by Pakistan and Bangladesh. According to the preliminary trade data published by the Ministry of Commerce, the exports of cotton yarn in December remained the same as last month at 95,000 MT, but decreased in value. The cotton yarn prices have remained low since November 2018 because of the weakening rupee, thereby affecting margins. The currency has also affected the exports of cotton fabrics, made-ups and handloom products which declined by five percent in value from the previous month.

FAS Mumbai estimates MY 2018/19 imports at 1.6 million 480-lb bales (2 million 170-kg bales/348,000 MT), which is the same as the official USDA estimate. Imports of raw cotton and cotton waste were reduced by 9 percent from the previous month. As the pace of domestic arrivals picks up, import shipments will be limited during the peak cotton arrival months of January and February. However, large mills continue to prefer using imported cotton due to price parity and technical parameters. Imports in December were dominated by cotton from the United States, followed by extra-long staple (ELS) from Egypt.

Policy:

New scheme introduced under Gujarat Textile Policy

On January 10, 2019, the state government of Gujarat published a new [scheme for assistance to strengthen specific sectors in the textile value chain](#). The scheme will be effective from September 4, 2018 to December 31, 2023. It aims to provide incentives to the weaving, knitting, dyeing, technical textiles and other activities in the textile value chain. Incentives include interest subsidies; power tariff subsidies; assistance for energy, water conservation and environment compliance; technology acquisition and upgrades and support for establishing textile parks. The scheme intends to boost textile exports and incentivize new investments in the state.

New multilateral trade agreement comes into effect

The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) is one of the recently negotiated multilateral free trade agreements which aims to establish a free trade agreement between 11 economies (Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, Peru, New Zealand, Singapore and Vietnam) on both sides of the Pacific. The agreement will effectively provide duty free access to cotton, among other agricultural commodities, from the participating eleven countries. The agreement incorporates provisions of the Trans-Pacific Partnership (TPP) Agreement, with the exception of a limited set of suspended provisions.

Once the CPTPP agreement comes into effect, 95 to 98 percent of tariff lines may be abolished. Removal of tariff lines will help participating nation's garment and textile sector expand its market share in countries that have high tax rates. India will likely suffer from this agreement due to the trade diversion of textile and apparels in favor of the CPTPP members. The reason being the 'yarn forward' rule of origin, in which it is obligatory for the CPTPP member countries to import all components of manufactured products from other CPTPP member countries. Therefore, the implementation of the agreement will likely have an impact on regional and global supply chains of textile and apparel, as countries move trade away from more efficient producers to less efficient producers.

Table 1a. India: Estimate of 2017/18 Cotton Exports

	170 kg	Metric Tons	480 lb
August Exports 1\	86,664	14,733	67,667
September Exports 1\	78,481	13,342	61,279
October Exports 1\	70,773	12,031	55,260
November Exports 1\	564,847	96,024	441,035
December Exports 1\	1,032,618	175,545	806,272
January Exports 1\	934,086	158,795	729,338
February Exports 1\	830,966	141,264	648,821
March Exports 1\	887,481	150,872	692,948
April Exports 1\	823,273	139,956	642,815
May Exports 1\	569,878	96,879	444,963
June Exports 1\	499,588	84,930	390,080
July Exports 1\	280,885	47,750	219,316
Total	6,659,538	1,132,121	5,199,793

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

Table 1b. 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 2\	736,000	125,120	574,672
Preliminary Total (Aug-Dec)	1,906,691	324,137	1,488,751

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

2\ FAS Analysis

Table 2a. India: Estimate of 2017/18 Cotton Imports

	170 kg	Metric Tons	480 lb
August Imports 1\	438,406	74,529	342,309
September Imports 1\	416,553	70,814	325,246
October Imports 1\	85,605	14,553	66,841
November Imports 1\	46,761	7,949	36,511
December Imports 1\	59,805	10,167	46,696
January Imports 1\	72,186	12,272	56,363
February Imports 1\	99,149	16,855	77,416
March Imports 1\	118,180	20,091	92,276
April Imports 1\	212,332	36,096	165,789
May Imports 1\	198,388	33,726	154,902
June Imports 1\	217,114	36,909	169,524
July Imports 1\	182,849	31,084	142,770
Total	2,147,329	365,046	1,676,643

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

2\ FAS Analysis

Table 2b. India: Estimate of 2018/19 Cotton Imports

	170 kg	Metric Tons	480 lb
August Imports 1\	153,248	26,052	119,656
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 2\	52,000	8,840	40,602
Preliminary Total (Aug-Dec)	483,789	82,244	377,744

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

2\ FAS Analysis

Table 3: India's Cotton Yarn* Exports by Month
(Figures in thousand Metric Tons)

Month/Year	2012-13	2013-14	2014/15	2015/16	2016-17	2017/18	2018/19
Aug	93	113	94	117	66	79	108
Sep	65	108	98	112	77	99	98
Oct	76	119	101	106	76	98	97
Nov	87	106	125	105	103	111	95
Dec	108	113	125	115	173	116	95**
Jan	99	131	113	104	132	87	
Feb	102	108	119	100	107	95	
Mar	107	117	122	112	89	118	
Apr	80	94	104	105	66	106	
May	95	93	99	94	65	109	
Jun	103	76	103	92	78	117	
Jul	111	87	118	75	71	101	
TOTAL	1,126	1,266	1,321	1,237	1,102	1,236	

*HS code: 5204, 5205 and 5207

Source: Directorate General of Foreign Trade, Ministry of Commerce

** Provisional estimate

Table 4: India's Cotton Fabric* Exports by Month
(Figures in thousand square meters)

Month/Year	2012-13	2013-14	2014/15	2015/16	2016-17	2017/18	2018/19
Aug	77,093	78,908	92,491	101,473	114,071	107,441	147,670
Sep	72,827	101,017	98,636	103,974	104,661	123,563	126,496
Oct	70,553	101,327	108,182	117,801	105,404	109,572	142,180
Nov	66,084	85,897	103,471	95,082	87,723	118,218	119,191
Dec	75,412	100,335	105,335	120,598	111,894	132,634	
Jan	74,008	91,169	93,192	116,656	107,512	125,357	
Feb	65,141	87,377	96,586	107,487	115,131	113,085	
Mar	75,329	98,696	105,169	120,461	112,033	133,115	
Apr	65,683	88,629	86,833	109,559	94,314	114,617	
May	65,469	81,581	103,443	103,401	89,070	119,819	
Jun	67,760	94,572	103,909	97,017	93,372	122,381	
Jul	78,547	87,284	97,115	98,890	94,399	113,613	
TOTAL	853,906	1,095,904	1,194,361	1,292,397	1,229,584	1,433,457	

*HS code: 5208 and 5209

Source: Directorate General of Foreign Trade, Ministry of Commerce