

Cotton and Cotton Yarn Update – January 2021

January 21, 2021



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Cotton production

During the cotton season (CS) October 2020-September 2021, the output is expected to decline by a marginal 0.4% y-o-y to 6.1 million tonnes. This will be supported by an expected better acreage and yields on account of adequate rains. In addition to this, higher cotton Minimum Support Price (MSP) by 4.9% to Rs.5,515 per quintal and 5% to Rs.5,825 per quintal for medium staple cotton and long staple cotton, respectively, for CS 2020-21 is also expected to aid cotton production. This was above the MSP hike of 26%-28% undertaken in CS 2018-19 to support farmer's income. The MSP was increased by 1.8%-2% during CS 2019-20.

Table 1: Cotton balance-sheet estimated as on 31st December 2020

Details	2019-20		2020-21		% change
	(in lakh bales)	(in million tonnes)	(in lakh bales)	(in million tonnes)	
Supply					
Opening Stock	32.0	0.54	*125.0	2.13	290.6
Crop (Production)	360.0	6.12	358.5	6.09	-0.4
Imports	15.5	0.26	14.0	0.24	-9.7
Total Supply	407.5	6.93	497.5	8.46	22.1
Demand					
Mill Consumption	218.0	3.71	288.0	4.90	32.1
Consumption by SSI Units	18.0	0.31	24.0	0.41	33.3
Non- Mill Consumption	14.0	0.24	18.0	0.31	28.6
Total Domestic Demand	250.0	4.25	330.0	5.61	32
Available Surplus	157.5	2.68	167.5	2.85	6.3
Exports	50.0	0.85	54.0	0.92	8.0
Closing Stock	107.5	1.83	113.5	1.93	5.6

Source: Cotton Association of India (CAI) Note: 1 bale is of 170 kg and * is one-time adjustment of 17.5 lakh bales made in the opening stock i.e. 107.5 lakh bales to 125.0 lakh bales by the CAI Statistics Committee in the meeting held on 6th January 2021

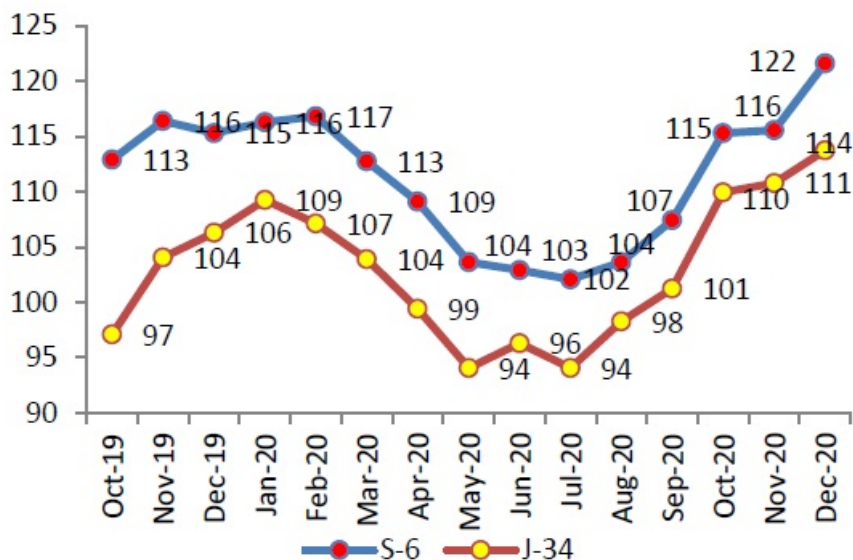
Even while cotton production is estimated to remain almost stable, a surge in opening stock in CS 2020-21 is expected to increase total cotton supply by 22.1% to 8.5 million tonnes during the year. The domestic cotton demand is likely to grow at a faster pace of 32% to 5.6 million tonnes as consumption in the domestic market is estimated to reach at normal levels in the current cotton season. Despite this, the available cotton surplus will stand at 2.9 million tonnes (6.3% increase y-o-y) and when estimated exports of 0.9 million tonnes are factored in, closing stock for the ongoing season is expected to stand at 1.9 million tonnes which is around 32% of the estimated production during CS 2020-21.

Cotton prices

The domestic cotton prices have been on a sequential fall since the beginning of lockdown restrictions (last week of March 2020 onwards) till July 2020 except for the month of June 2020 where the price for J-34 variety increased by 2.4% on m-o-m basis. The prices nevertheless saw an improvement after the unlocking phase of economy and easing of lockdown restrictions as prices of both the varieties (S-6 and J-34) grew on a sequential basis for 5 months in a row from August 2020 to December 2020. On a y-o-y basis, the prices of S-6 variety grew by 5.5% to Rs.122 per kg and that of J-34 variety increased by 7% to Rs.114 per kg in the month of December 2020. Cotton procurement by the Cotton Corporation of India (CCI), expected growth in domestic consumption and higher cotton and cotton yarn outbound shipments supported cotton prices during August-December 2020.

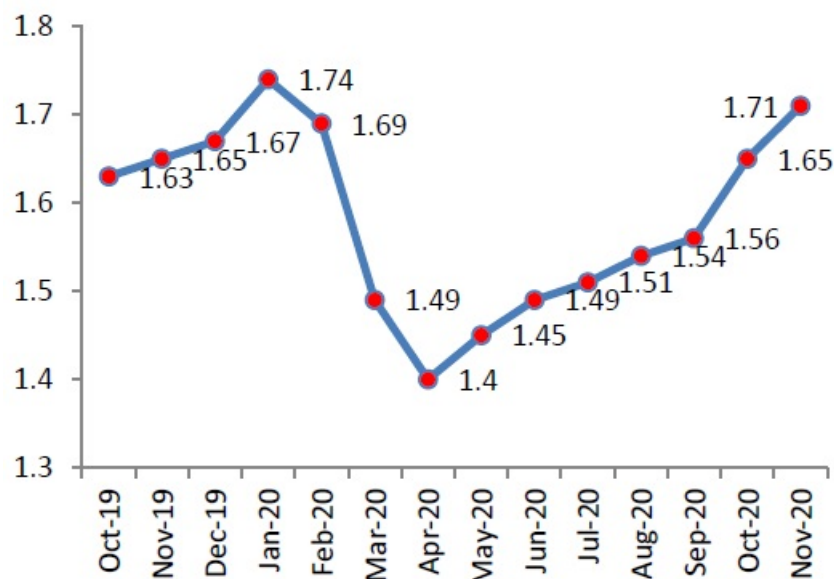
Cotton exports surged from 0.19 million tonnes to 0.53 million tonnes during April-November 2020 and the outbound shipments of cotton yarn increased by 10.8% to 557 thousand tonnes in the period April-October 2020 (which is discussed in the report going ahead). It is important to note that the cotton prices of S-6 variety in India averaged at Rs.107 per kg during April-November 2020, 6.6% lower compared to the average international prices of Cotlook A index at Rs.115 during the period which also supported higher cotton outbound shipments from India.

Chart 1: Trend in domestic cotton prices (Rs./kg)



Source: Textile Excellence

Chart 2: Trend in Cotlook A index (USD/kg)



Source: Indexmundi

Apart from the factors mentioned above, a growth in international cotton prices also supported the upward trend in domestic prices. The global cotton prices have been improving on a sequential basis for 7 straight months from May 2020 onwards to November 2020 backed by an improvement in international demand on account of relaxations in lockdown restrictions. In addition to this, expected 3% y-o-y lower global cotton closing stocks (96.3 million tonnes) for the CS 2020-21 (beginning August 2020) is estimated to have supported the price rise. Moreover, likely higher cotton exports from US (the world's largest cotton exporter) compared to the earlier export estimates for CS 2020-21 on account of increase in purchases from China due to an agreement between the two nations have also supported the international prices to rise in recent months. It is to be noted that the increase in export estimate is amid tight cotton supplies in US primarily due to expected lower cotton production in the country during CS 2020-21.

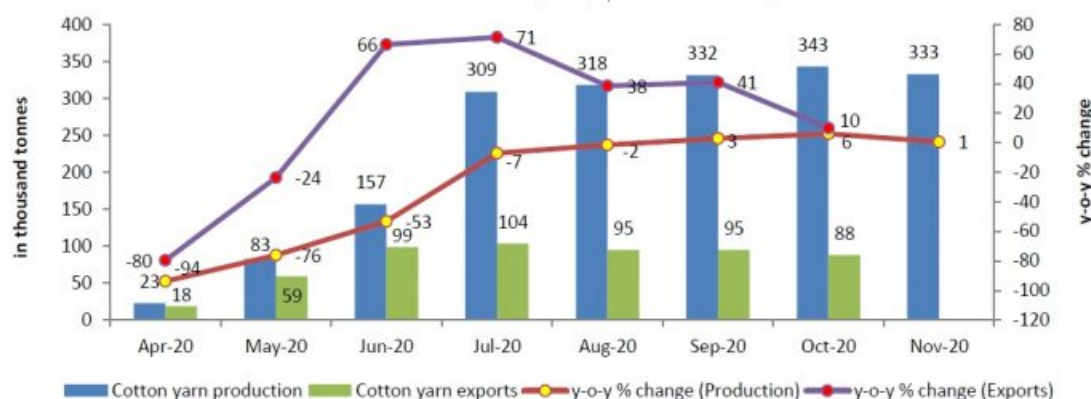
Outlook on cotton prices

The international cotton prices are expected to remain stable in the coming months supported by an expected improvement in global domestic cotton consumption and international trade demand with year ending cotton stocks likely to decline by 3% to 96.3 million tonnes. The global stock to use ratio for CS 2020-21 is estimated at 83% (y-o-y fall of 14.1%) for the CS 2020-21 as per the United States Department of Agriculture (USDA). It is to be noted that the stock to use ratio had averaged at 75.8% during the five year period CS 2015-16 to CS 2019-20. The cotton prices in India are also expected to be steady in the coming months backed by an expected growth in domestic consumption and improvement in cotton exports from India. The procurement of cotton by CCI however can influence the movement in domestic cotton prices.

Cotton yarn production

The cotton yarn production which declined sharply on a y-o-y basis during the period April-June 2020 due to Covid-19 induced lockdown witnessed an improvement in the following months as the pace of fall narrowed down and saw its production increase in the range of 1%-6% during September-November backed by easing of lockdown restrictions and a traction in demand from cotton yarn export market. On a cumulative basis, cotton yarn output fell by 29.2% to 1,897 thousand tonnes during April-November 2020. As production is expected to increase in December 2020-March 2021 on account of better demand during this period, the output is likely to decline by about 17%-20% for FY21.

Chart 3: Trend in cotton yarn production and exports



Source: CMIE

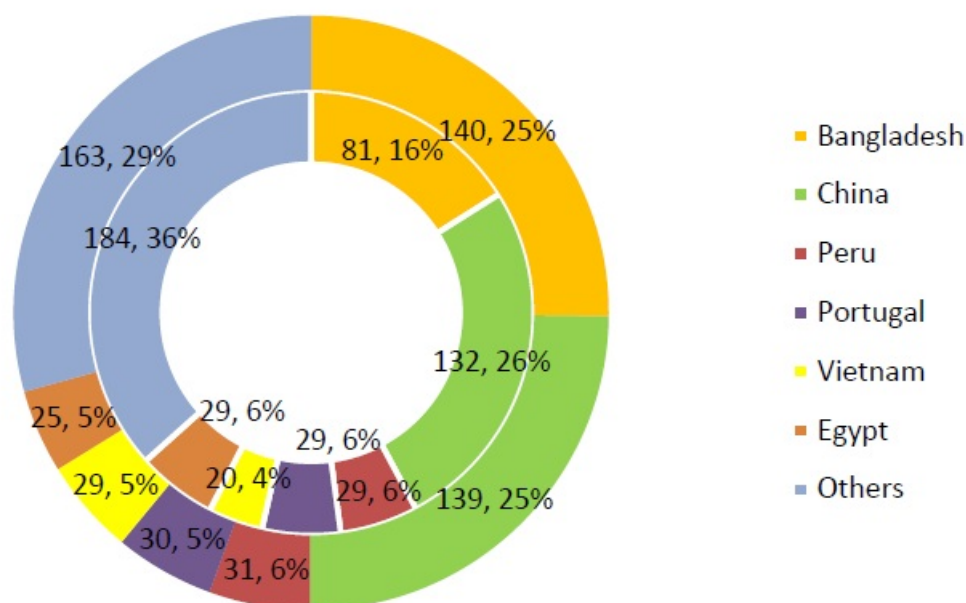
Cotton yarn exports

It is important to note that the recovery in cotton yarn exports was faster compared to its production as outbound shipments increased y-o-y in each of the months during April-October 2020 except for the initial two months of FY21 where the shipments fell by 80% in April 2020 and by 24% in May 2020 due to lockdown restrictions. Subsequently, cotton yarn exports increased by 10.8% to 557 thousand tonnes during April-October 2020.

The rise in cotton yarn exports was mainly driven by a surge in outbound shipments to Bangladesh which jumped by 74.2% to 140 thousand tonnes in April-October 2020. This is backed by duty draw back incentive in Bangladesh. This enables high, export-oriented readymade garment factories to import yarn and fabric which reimburses all customs duties paid on imported yarn, and fabric (but not taxes such as the VAT and Advanced

Income tax). As a result, Bangladesh replaced China to become India's largest cotton yarn export destination during this period as can be seen in chart 4 below. Exports from India to China have also been impacted due to increasing reliance of China on Vietnam and Pakistan for its cotton yarn needs.

Chart 4: Country-wise cotton yarn exports from India during April-October (in thousand tonnes)



Note: Inner circle represents exports for period April-October 2019 and outer circle represents exports for period April-October 2020 Source: CMIE

The share of Bangladesh in India's total cotton yarn exports expanded to 25% in April-October 2020 from 16% in the corresponding period a year ago while the share of China contracted by 1% to 25% as cotton yarn exports to China increased by a slower 5.3% to 139 thousand tonnes during the period. While international demand for cotton yarn is expected to stay stable backed by an increase in economic activities with the launch of Covid-19 vaccination drive in various parts of the world, it remains to be seen if Bangladesh continues to import significant quantity of cotton yarn from India.

Concluding remarks

- The international cotton prices are expected to remain stable in the coming months supported by an expected improvement in global domestic cotton consumption and international trade demand with ending cotton stocks likely to decline by 3% to 96.3 million tonnes.
- The cotton prices in India are also expected to be steady in the coming months backed by a likely growth in domestic consumption and improvement in cotton exports from India. The procurement of cotton by CCI however can influence the movement in domestic cotton prices.

- On a cumulative basis, cotton yarn output fell by 29.2% to 1,897 thousand tonnes during April-November 2020. As production is expected to increase in December 2020-March 2021 on account of better demand during this period, the output is likely to decline by about 17%-20% for FY21.
- While international demand for cotton yarn is expected to stay stable backed by an increase in economic activities with the launch of Covid-19 vaccination drive in various parts of the world, it remains to be seen if Bangladesh continues to import significant quantity of cotton yarn from India.

