

Cotton & Cotton Yarn Update: April 2021

April 29, 2021 | Industry Research

Cotton

Production and stock situation

Cotton production in India is estimated to remain stable y-o-y and stand at 6.1 million tonnes in the current cotton season (CS) October 2020 – September 2021 backed by higher yields. Also, an increase in 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 estimated 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 March 2021

Details	2019-20		2020-21		% change
	(in lakh bales)	(in million tonnes)	(in lakh bales)	(in million tonnes)	
Supply					
Opening Stock	32	0.54	*125	2.13	290.6
Crop	360	6.12	360	6.12	0.0
Imports	15.5	0.26	11	0.19	-29.0
Total Supply	407.5	6.93	496	8.43	21.7
Demand					
Mill Consumption	218	3.71	288	4.90	32.1
Consumption by SSI Units	18	0.31	24	0.41	33.3
Non- Mill Consumption	14	0.24	18	0.31	28.6
Total Domestic Demand	250	4.25	330	5.61	32.0
Available Surplus	157.5	2.68	166	2.82	5.4
Exports	50	0.85	60	1.02	20.0
Closing Stock	107.5	1.83	106	1.80	-1.4

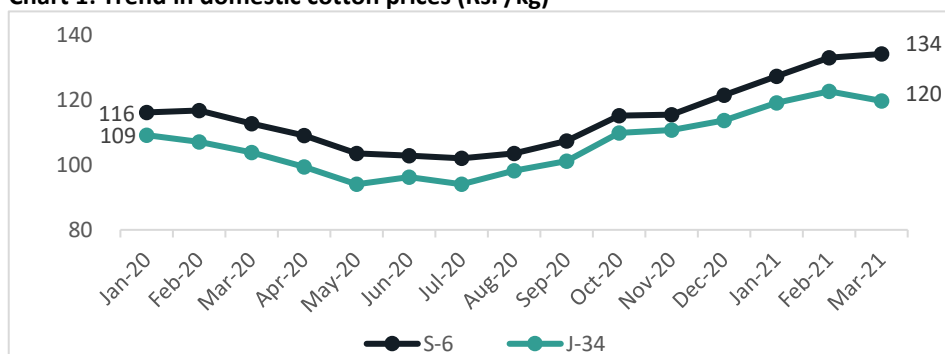
Source: Cotton Association of India (CAI)

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

Apart from production, cotton supply includes carry-over stocks from last season which surged by 290.6% to 2.1 million tonnes and as a result total cotton supply during CS 2020-21 is estimated to increase by 21.7% to 8.4 million tonnes. The domestic cotton demand which was disrupted due to Covid-19 pandemic in CS 2019-20 is expected to grow by 32% to 5.6 million tonnes on account of a likely recovery in domestic cotton demand in the current season. After meeting domestic requirements, India is estimated to increase cotton exports by 20% to 1.02 million tonnes backed by improving international cotton consumption and the demand for Indian cotton on account of its competitive pricing in the global markets. Thus higher outbound shipments will help India to reduce the surplus availability of cotton and is expected to lower India's closing stock by 1.4% to 1.8 million tonnes in the ongoing cotton season which is almost similar to last year's closing stock level.

Cotton prices

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



Source: Textile Excellence

Note: The prices of both the varieties are available for the date of 12th for the months of November 2020 and January 2021

The domestic prices of (ginned) cotton, S-6 and J-34, which had averaged at Rs.116 per kg and Rs.109 per kg, respectively, in January 2020 dropped to the low level of Rs.102 per kg (S-6) and Rs.94 per kg (J-34) in July 2020 due to Covid-19 disturbances. From August 2020 onwards, the prices of both the varieties increased sequentially in each of the months till March 2021 except for J-34 variety for which the price declined by 2.4% m-o-m in March 2021 to Rs.120 per kg. As a result, the price of S-6 and J-34 variety was highest at Rs.134 per kg in March 2021 and Rs.123 per kg in February 2021, respectively, during the considered period (refer Chart 1 above). It is to be noted that the prices of both the varieties had seen maximum gains of about 7%-9% on m-o-m basis in the month of October 2020.

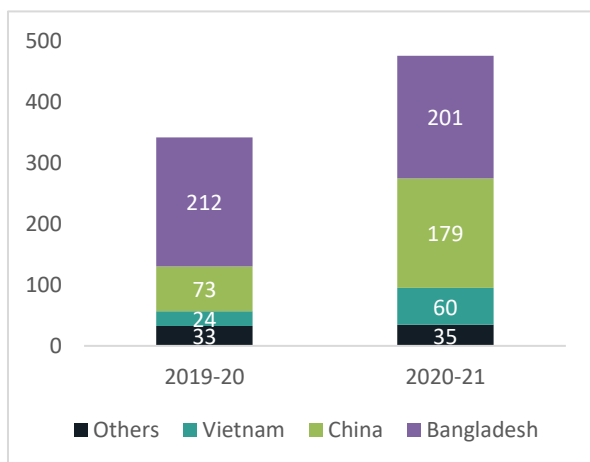
There are several factors that contributed to the growth in cotton prices which are listed below:

- A. Improvement in domestic and international cotton demand
- B. Increase in international cotton prices
- C. Domestic cotton prices averaged higher than the Minimum Support Price (MSP)
- D. Recovery in domestic and international cotton yarn demand

A. Improvement in domestic and international cotton demand

Easing of lockdown restrictions resulted in some recovery in domestic cotton demand and its consumption is expected to increase by 32% y-o-y in CS 2020-21. In addition to this, cotton exports from India also witnessed revival and the outbound shipments grew by 39.2% to 476 thousand tonnes (0.48 million tonnes) during October 2020 – January 2021 and are expected to grow by 20% to 1,020 thousand tonnes (1.02 million tonnes) during the ongoing cotton season.

Chart 2: Country-wise cotton exports by India during October – January (in thousand tonnes)



Source: Ministry of Commerce and Industry

The growth in cotton exports during October 2020 – January 2021 was primarily on account of strong demand for cotton from China and Vietnam. Cotton outbound shipments from India to these nations more than doubled on a y-o-y basis and exports to China and Vietnam stood at 179 thousand tonnes and 60 thousand tonnes, respectively, during the period. Announcement of ban by the USA (one of the largest textile importing nation in the world) on imports of China’s cotton products made in Xinjiang region at the end of 2020 due to forced labour issues is also believed to have supported higher cotton imports by China. The contribution of Xinjiang region in China’s cotton production is significant.

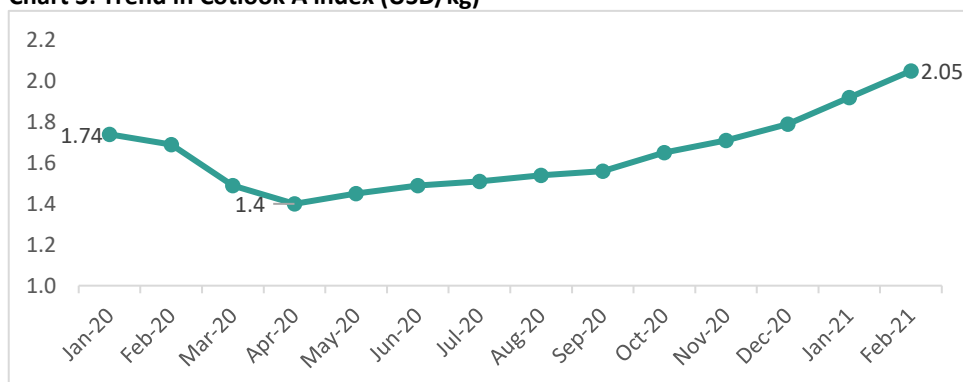
Cotton exports from India to the largest export destination, Bangladesh, however, declined by 4.8% to 201 thousand tonnes during October 2020 – January 2021. This, in turn, restricted the overall cotton outbound shipments from India.

Even while cotton prices in India witnessed an upward trend, they remained lower compared to the international cotton prices. This enabled the Indian cotton prices to be competitive in the global market and, in turn, provided support to cotton exports from India. While the international cotton prices averaged at 134 per kg (in rupee terms), the price of S-6 cotton (premium variety) averaged at Rs.125 per kg during October 2020 - February 2021 period. This indicates that the Indian cotton prices were cheaper or competitive compared to international prices by Rs.9 per kg on an average.

B. Increase in international cotton prices

The global cotton prices have been improving on a sequential basis for 10 straight months from May 2020 onwards to February 2021 with brisk growth of about 7% on m-o-m basis been witnessed in each of the first 2 months of 2021.

Chart 3: Trend in Cotlook A index (USD/kg)

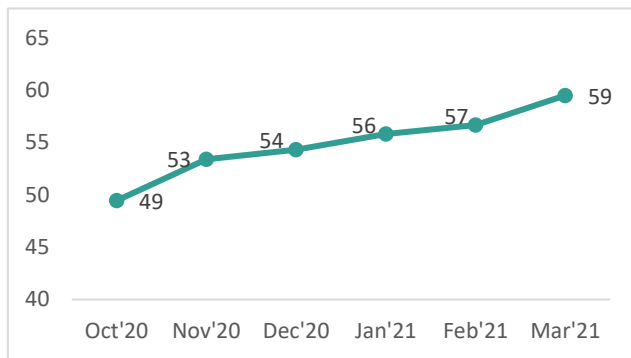


Source: Indexamundi

The rise in prices is backed by an improvement in international demand on account of relaxations in lockdown restrictions. In addition to this, 7.4% y-o-y lower global cotton production (24.6 million tonnes) estimates by the United States Department of Agriculture (USDA) amid 14.5% increase in global consumption (25.7 million tonnes) and 5% decline in global cotton closing stocks (20.3 million tonnes) for the CS 2020-21 (beginning August 2020) also supported the price rise. Moreover, higher cotton imports by China (the world's largest cotton consumer and one of the primary importers of cotton) from USA (the world's largest cotton exporter) on account of implementation of the USA-China phase one trade agreement and to build its State Reserve (SR) aided the international prices to grow. Apart from these factors, the ban imposed by the USA on imports of China's cotton products made in Xinjiang region due to forced labour issues are also believed to have increased the international cotton prices.

C. Cotton prices averaged higher than the MSP

Chart 4: Average cotton price in different markets across India (Rs. /kg)



The price of (raw unginned) cotton sold in different markets across India had averaged at Rs.49 per kg in October 2020 which increased sequentially in each of the months (refer Chart 4 left) to reach the level of Rs.59 per kg in March 2021.

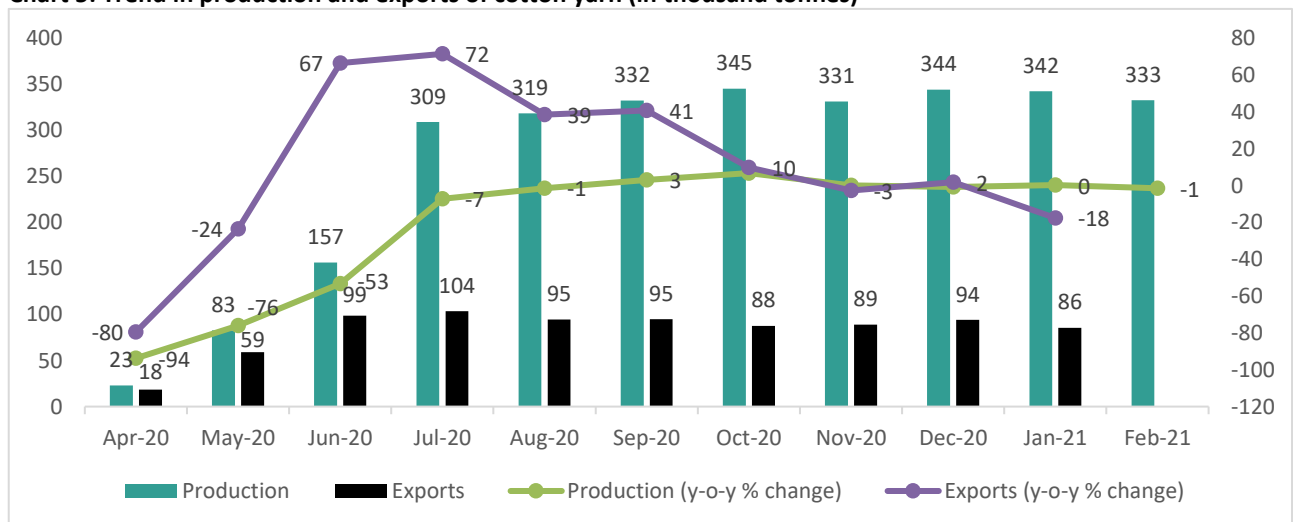
It is important to note that the prices averaged higher than the cotton MSP of Rs. 55 per kg (medium staple cotton) during the first 3 months of 2021 which indicates that cotton was procured from farmers at prices higher than the MSP in some cases. This improvement, in turn, also supported the growth in prices of ginned cotton.

Source: Agmarknet

D. Recovery in domestic and international cotton yarn demand

On a cumulative basis, cotton yarn production declined by 21.3% y-o-y to 2,918 thousand tonnes (2.9 million tonnes) during April 2020-February 2021. This was mainly due to sharp decline of 53%-94% in the first 3 months of FY21 on account of Covid-19 disruptions. Thereafter, the output fell by a slower 7.1% in July 2020 and decreased by a marginal 0.5%-1.5% in the months of August 2020, December 2020 and February 2021 and increased by 0.2%-7% in rest of the months during FY21 on account of better domestic demand and increase in exports of cotton yarn.

Chart 5: Trend in production and exports of cotton yarn (in thousand tonnes)

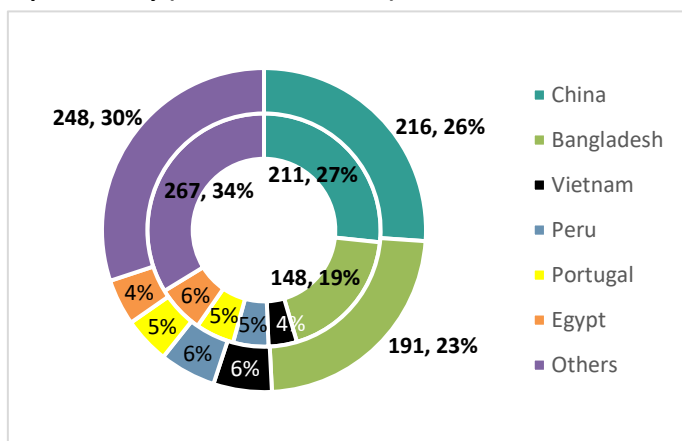


Source: CMIE

The total outbound shipments grew by 4.5% y-o-y to 826 thousand tonnes (0.83 million tonnes) during the first 10 months of FY21. The rise in exports was mainly driven by 28.7% rise in cotton yarn exports to Bangladesh to 191 thousand tonnes 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).

The share of Bangladesh in India's total cotton yarn exports, in turn, expanded to 23% during April 2020-January 2021 from 19% in the corresponding period a year ago while China's (India's largest cotton yarn export destination) share contracted by 1% to 26% as outbound shipments to China increased by a slower 2.2% to 216 thousand tonnes in the first 10 months of FY21 (refer Chart 6 below).

Chart 6: Country-wise cotton yarn exports from India during April-January (in thousand tonnes)



Source: CMIE

Note: Inner and outer circle represents exports data for FY20 and FY21, respectively.

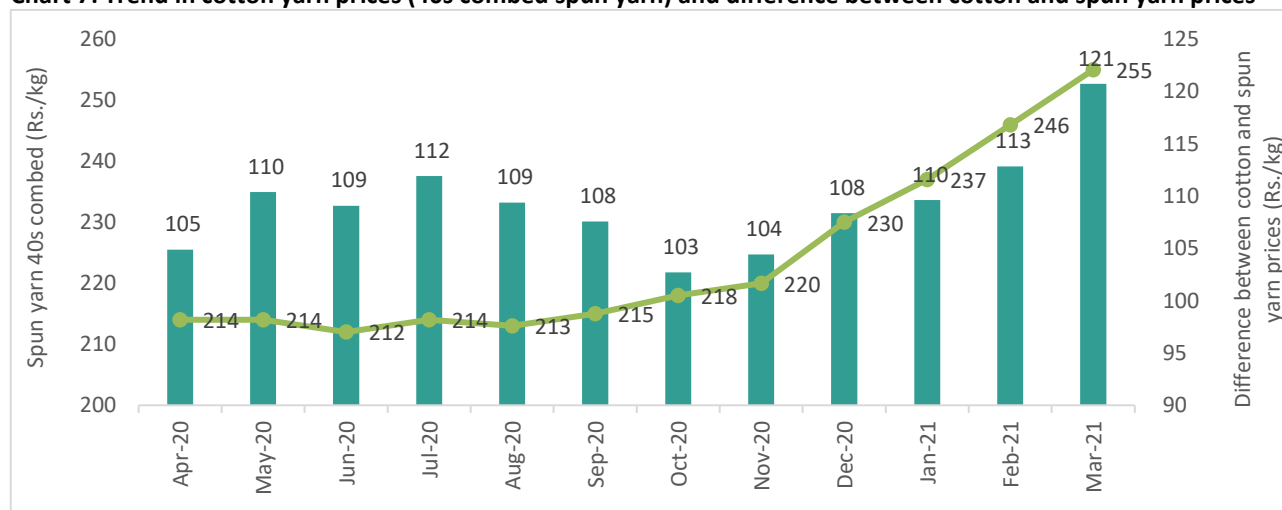
It is to be noted that even while domestic cotton yarn production decreased by 23.2% during April 2020 - January 2021, exports of cotton yarn increased by 4.5%, implying growth in demand from international markets. This along with higher cotton prices resulted in increase in cotton yarn prices.

The uptrend in domestic cotton yarn prices amid its higher exports caused the domestic garment manufacturers to seek some curbs or restrictions on outbound shipments of cotton yarn so as to increase its supply and restrict its price rise in the domestic market which will provide some respite to the supply chain of garment manufacturers.

Cotton yarn prices

The prices of cotton yarn (40s combed spun yarn) hovered in the range of Rs.212 per kg to Rs.218 per kg during the period April-October 2020 which improved to Rs.220 per kg in November 2020 and continued to increase by 3%-4.5% on m-o-m basis during December 2020 – March 2021 backed by better demand for cotton yarn in domestic and international markets and higher cotton prices.

Chart 7: Trend in cotton yarn prices (40s combed spun yarn) and difference between cotton and spun yarn prices



Source: Textile Excellence and CARE Ratings

Note: The price of cotton yarn is available for the date of 12th for the months of November 2020 and January 2021

On an average, the cotton yarn prices improved by 17% in the last 6 months from Rs.218 per kg in October 2020 to Rs.255 per kg in March 2021. As a result, the difference or spread between cotton spun yarn and ginned cotton also witnessed sequential increase in each of the months during this period as it improved from Rs.103 per kg in October 2020 to Rs.121 per kg in March 2021, growth of 17.5%, which is believed to have augured well for the cotton yarn spinners.

Concluding remarks

- With the current upward trend in cotton prices and better domestic and international demand for cotton and cotton yarn, it remains to be seen if it translates into higher cotton crop in the next CS 2021-22.
- The competitive Indian cotton prices provided support to cotton exports. While the international cotton prices averaged at 134 per kg (in rupee terms), the price of S-6 cotton (premium variety) averaged at Rs.125 per kg during October 2020 - February 2021 period. This indicates that the Indian cotton prices were cheaper or competitive compared to international prices by Rs.9 per kg on an average.
- The cotton yarn spinners have seen improvement in spreads between ginned cotton and cotton spun yarn during October 2020 – March 2021 which is believed to have augured well for them.

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