

Global cotton prices likely to gain on four-year low production, higher Chinese imports

Production in China and Australia were expected to increase, while in India, the world's largest cotton grower, the output was likely to be the same as last year at 29.5 million bales.

Global cotton prices are seen gaining this season (July 2020-June 2021) in view of production projected at a four-year low, higher imports by China and lower carry forward stocks.

According to the International Cotton Advisory Council (ICAC), global cotton production is projected at 24.7 million tonnes against earlier estimates of 24.9 million tonnes. This is against 26.2 million tonnes output last season.

The US Department of Agriculture (USDA) has forecast global cotton production at 113.9 million bales of 217 kg (24.71 million tonnes) this season against 122.14 million bales (26.5 million tonnes) a year ago. This will be the lowest global cotton production since 2016-17.

Cotton production in the US, Brazil, and Pakistan are projected to be lower this year. The USDA said that Pakistan's cotton crop is estimated at 4.5 million bales, down 27 percent over last season and its lowest in the last 36 years.

Production in China and Australia were expected to increase, while in India, the world's largest cotton grower, the output was likely to be the same as last year at 29.5 million bales (376 lakh bales in Indian bale measurement of 170 kg each).

Record acreage in India

India had cultivated cotton on a record 134 lakh hectares since labour shortage in paddy farms in the North and government policies in the south supported higher area under the fibre crop.

In the South, the Telangana government decided to tell its farmers what to grow this year and linked the payment of minimum support price to it.

Both agencies see global consumption a little differently. While ICAC sees cotton offtake steady at 24.3 million tonnes this season, the USDA sees it expanding 13 per cent to 115.6 million bales (25 million tonnes).

The USDA estimates China's cotton consumption to rise 15 percent this year to 38 million bales, while offtake in India is seen rising 20 percent to 24 million bales.

Among other countries, cotton consumption is expected to increase in Pakistan, Bangladesh, Turkey and Vietnam.

Eight-year high global cotton imports projected

ICAC and USDA concur that global trade will improve and exceed the pre-Coronavirus pandemic levels. The ICAC said in its statement that global trade will touch 9.4 million tonnes.

The USDA, on the other hand, estimated global cotton imports at their highest in the last eight years. It projected global imports at 43.2 million bales, up by three million bales over last season and the highest since the record shipments in 2012-13.

China will be the major factor for the rise in global cotton imports. The ICAC said that despite its trade dispute with the US, China had bought 65 percent more cotton from Washington during April-September this year.

The USDA projected China's imports at 9.50 million bales this season against 7.14 million bales last season.

Bangladesh, Vietnam next biggest importers

Bangladesh and Vietnam will be the next biggest importers of cotton importing 6.9 million bales and 6.8 million bales, respectively.

The higher imports by these nations will result in Brazil exporting a record 10 million bales, while India shipping out five million bales (61.6 lakh bales of 170 kg each).

This is about 20 per cent higher than the last year's shipments of 50 lakh bales of cotton from the country.

The cotton industry, lead by the Cotton Association of India, have pegged their export estimated this season at 54 lakh bales.

According to Rajkot-based raw cotton, yarn and spinning waste trader Anand Poppat, at least 24 lakh bales of cotton have been exported from India till the previous week.

Poppat said that currently Vietnam and Bangladesh were busy buying Indian cotton, while China is looking for prices to drop from current levels.

CCI procurement supports raw cotton prices

Currently, cotton in New York is quoted at 76.20 US cents a pound for delivery in March against 77.16 US cents a week ago. Prices for Shankar 6 variety Indian cotton, which is the benchmark for exports, are currently quoting at Rs 42,000 for a candy of 356 kg. Prices have dropped from Rs 42,500 from the previous week.

Raw cotton prices are currently ruling at Rs 5,580 a quintal in Gujarat's Rajkot district against Rs 5,350 at the start of this month. The prices are against the minimum support price of Rs 5,515 a quintal fixed for the current season.

Raw cotton prices have increased mainly on higher purchases by the government-owned Cotton Corporation of India (CCI). Cotton Association of India President Atul Ganatra told his association annual general meeting on December 29 that the CCI has procured 48 lakh bales (of 170 kg each) since October 1 at a cost of Rs 13,939 crore.

The CCI could end up buying 100 lakh crore, he said, adding that instead of MSP procurement the Union Government could consider incentivising exports.

USDA projects global ending stocks two percent lower

While ICAC said that cotton ending stocks are estimated to be 21.7 million tonnes, the USDA has projected them two percent lower at 97.5 million bales (20.6 million tonnes) against 99.4 million bales (21.5 million tonnes) a year ago.

Ending stocks in China, Pakistan and Brazil are expected to decline, while Indian stocks are likely to increase eight percent to 19.4 million bales.

The Indian cotton industry, however, projects the carryover stocks from this season at 87.50 lakh bales against 107.50 lakh bales last season.

In view of this, the Cotlook A Index price, a benchmark for global cotton prices, is expected to average closer to 77 US cents a pound. In contacts, the ICAC projects the index price at 69.4 US cents.