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Cotton promises to trade above MSP as season starts

The US has slipped down the line of producers cotton prodecers due to the drought in Texas. As a result, cotton prices firmed up post December with Indian farmers being able to command prices above the government declared MSP.

Cotton traders foresee a good season as a supply glut threatens to push prices up once the season starts. Pradeep Jain, founder president of Khandesh Gin/Press Owners and Traders Development Association, talked about average traded price of the lint crop touching Rs 6,500-7,000/quintal right at the start of the season.

After the US, India is the second largest producer of cotton in the world, but last year, drought in Texas has seen the former slipping down the line of producers. As a result, cotton prices had firmed up post December with Indian farmers able to command prices above the government declared minimum support price (MSP) of Rs 5,515/quintal.

Higher international prices had seen Indian exporters managing to send 58 lakh bales (each of 170kg) outside the country. Estimates by the industry has talked about exports touching around 65 lakh bales before the start of the 2021-22 (October-September) cotton year.

Higher prices of cotton have not seen an increase in area in the current kharif. Farmers have shifted more towards soybean than cotton, and as of July 23, India reported 108.93 lakh hectares of sowing. Last year, the country had reported sowing over 118.03 lakh hectares during the same time period. Farmers have talked about better realisation in the oilseed as their reason for increasing soybean acreage at the cost of cotton and other crops.

Jain said this lower area and higher international prices of both lint and seeds promise good returns for farmers. “India, which had started the 2019-20 season with over 100 lakh bales in reserve, will start the next season with 30-40 lakh bales. As of now international prices are good and if this remains, we see above MSP prices right at the start of the new marketing season,” he said.

Jain’s optimism is borne by the bullish trend of Cotlook, an index, which is trading above 90 cents/pound since February this year. For the season of 2019-20, the index had averaged at 71.33 cents/pound. Low price of cotton had seen the Cotton Corporation of India reporting record procurement.