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Cotton market staggers amid poor demand, record output

Export demand slumps; domestic consumption too falters

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A big challenge lies ahead for the Centre, cotton farmers, exporters and traders as a bearish outlook stares at the cotton textile industry as a whole.

Farmers in Maharashtra, Andhra Pradesh and parts of Gujarat are agitating for higher prices; the rates have dropped over 45 per cent since April when the Shankar-6 variety touched Rs 62,000 for a candy of 356 kg. The Shankar-6 variety is the one that is in great demand for exports and on Tuesday, its price had dropped to Rs 35,000.

Globally, too, prices have dropped by over 55 per cent from $2.197 a pound to $0.914 now.

Agitating farmers are demanding that the minimum support price (MSP) be hiked to Rs 6,000 a quintal for the long staple cotton against Rs 3,300 fixed by the Centre.

The Commission for Agricultural Costs and Prices has already ruled out any change in cotton MSP for the current season that began in October, saying it had been fixed taking into account all factors. The Agriculture Ministry, on its part, has demanded a higher MSP.

A main reason for the bearish outlook is the projection of a record 356 lakh bales (170 kg each) this season from 325 lakh bales last season. Government officials are of the view that the country could be left with a huge carryover stock at the end of the season.

There will be a decrease of at least 30 lakh bales in consumption domestically. This is because there is a slowdown in the yarn industry, while the knitwear and garment sectors are going through a tough period. Only branded garment firms seem to be comfortable since they are maintaining prices after hiking them following a surge in cotton prices last year.

The most worrisome factor, however, is poor export demand. Last year, around this time 59 lakh bales of cotton had been registered for exports. This year, 39 lakh bales have been registered for shipments so far.

"Export demand has vaporised. Even neighbouring countries such as Bangladesh and Pakistan are not buying cotton, complicating the situation, especially for farmers," said a trading source.

"The devaluation in the rupee is one reason for the export demand drying up. But there is absolute lack of demand. The situation is so grim that prices may drop further," said an advisor to a textile firm in Mumbai. He did not wish to be identified.

"We cannot take last year's price as benchmark as it was an unusual one. We can expect the prices to rule at a reasonable Rs 30,000-35,000 a candy.

The problem with export is that buyers are seeking a price that is 15 per cent lower than domestic rates," said Mr Anand Poppat, Vice-President of Saurashtra Ginners Association.

FUELLING INFLATION

"Last year's price was abnormal and over 40 per cent of the MSP. Our prices will have to be lower than global price to interest buyers. But the scenario is such that as a whole, global cotton prices are set to drop," said Mr M.B. Lal, former chairman of Cotton Corporation of India.

"There is no demand for cotton yarn in the country. Its prices are higher than synthetic ones. Demand will emerge only when prices are reasonable," said Mr Poppat.

Cotton farmers' woes are seen as an offshoot of the MSP being fixed higher than global price two years ago. "It added to inflation then," said Mr Lal.

According to official sources, the Centre is trying to help the sector with a restructuring plan that includes moratorium on loans.

MORATORIUM

A scheme forwarded by the Textile Ministry to the Finance Ministry seeks moratorium on working capital and a liberal packaging credit for the knitwear and garment sectors that need immediate attention.

"The market has to correct itself. If Shankar prices drop to around Rs 32,000 a candy, then things could start moving," said Mr Lal.

"Farmers are not ready to settle for lower prices compared with last year. Once they reconcile to reality, things could start looking up," said Mr Poppat.

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