

Cotton: A year of blooming and wilting



YEAR-ENDER

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In the last 20 years or so cotton prices have seen sharp spikes probably four or five times. One of those spikes came in 2011.

In India, cotton farmers started the year on a promising note as prices continued to soar. Rates of Sankar-6 variety of cotton rose to a high of Rs 67,000 a candy (of 356 kg) in March.

During the same time, benchmark cotton futures on the ICE moved up to a historic high of \$2.27 a pound.

But as the year draws to a close, farmers are in an agitated mood about the price situation as rates have declined by nearly 50 per cent from their peaks.

Supply tightness amidst strong demand drove cotton prices to record high earlier this year bringing cheer to Indian farmers.

Some of the key reasons for the supply tightness was a shortfall in Chinese cotton crop, prolonged flooding in the cotton growing areas of Pakistan and export restrictions imposed by the Government in 2010. India had initially banned cotton exports in 2010, but subsequently opened it up with restrictions. All along the Indian textile mills were not happy with the price situation.

MORE LAND UNDER COTTON

High prices of cotton augured well for the farmers who brought in more land under its cultivation for the 2011-12 (October-September) season. According to Cotton Advisory Board estimates, the area under cotton during 2011-12 season was up at 122 lakh hectares compared with 111 lakh hectares in the previous season. Output for the year has been pegged at 356 lakh bales (one bale is 170 kg) compared with 325 lakh bales last season.

Both Gujarat and Maharashtra, two leading producers of the commodity, are likely to exceed last year's output. World output of cotton is also seen comfortably positioned at 26.86 million tonnes in 2011-12 (August-July) compared with 24.88 million tonnes in a year ago. Most cotton growing countries are expected to report good crop this year.

As the likelihood of ample supplies became clear, cotton prices started their decline. Also, mills have already built their inventories and are holding stocks bought at unviable prices, said a trader.

INDUSTRY IN A SLUMP

After banning shipments of cotton and subsequently allowing restricted exports last year, the Government finally allowed unrestricted sales of cotton overseas.

But this decision failed to cheer the industry, especially exporters, as they lost an opportunity to sell at a good price earlier this year.

"The year 2010-11 was a bad



year. There has never been a year like that in 100 years. Losses were huge due to sharp rise in prices," said Mr Bhadrash Mehta, Managing Director, Bhadrash Trading Company.

According to him, the industry has lost Rs 18,000 crore this year. Exporters have been urging the Government to maintain a stable policy with regard to overseas shipments.

Frequent changes in export policies would hurt India's credibility in the international market, said Mr M.B. Lal, Managing Director, Shail Exports Private Ltd. He was the former chairman and managing director of Cotton Corporation of India. According to him, the Government should maintain a stable export policy and make only small alterations in keeping with the Indian situation. By the time the export restrictions were lifted, exporters and mills had lost an opportunity as markets turned sluggish again.

Of the 226 listed textile companies in the country, 83 per cent showed poorer re-

sults and 127 companies incurred net loss during the first half of 2011-12.

The Southern India Mills' Association has sought a moratorium of additional two years on repayment of all loans and interest, including loans under the Textile Upgradation Fund for all textile companies.

FARMERS UNHAPPY

Cotton farmers started the year on a good note but are now unhappy with the cotton prices and have been demanding higher support prices.

Prices that have already declined have moved down further in the new season that started on October 1. Sankar-6 variety is being quoted at Rs 34,500 per candy, as per data on the Cotton Association of India Web site. Cotton arrivals continue to lag behind last year's inflow as farmers are awaiting some improvement in rates. Until December 25, cotton arrivals stood at 88.10 lakh bales compared with 117.89 lakh bales in the same period last year.