

Hindler Business Line Pts. dt 30/3/16

# Cotton blooms on weaker supplies, shrinking stocks



NAVEN MATHUR

Cotton prices in the domestic market are likely to move higher during the coming "off-season months" on lower production forecast and anticipation of lower carryover stocks for the next season on improved consumption and exports.

**Price movement**  
So far in 2016, prices have been down due to sluggish demand from ginners and textile mills amid sufficient availability of stocks.

Moreover, the decision by government agencies to stop procurement of seed cotton at the Minimum Support Price (MSP) too increased supplies in the physical market.

This trend is changing, and prices have started moving up after bottoming out in March. *Kapas* prices increased by 4 per cent and cotton bales prices by about 1.3 per cent.

## Production, arrival decline

Cotton output is seen lower by over 10 per cent at 345 lakh bales compared to the last season, according to the Cotton Association of India (CAI).

Output estimates are being cut for the third time in three months by the CAI after assessing arrivals and amid reports of

heavy losses due to a pest attack and the forecast for an irregular monsoon. Arrival of cotton during the current season declined by 11.3 per cent to 245 lakh bales (of 170 kg) until February 2016, compared to 276.2 lakh bales last year.

## Higher exports, lower stocks

Exports of the fibre during 2015-16 are expected to be higher by about 20 per cent compared to last year.

Exports to Pakistan more than doubled this year after a flood and a pest attack trimmed the neighbour's output by about 35 per cent.

Government data reveal that India exported around 41 lakh bales during cotton year 2015-16 (season beginning August).



Pakistan is the biggest importer of cotton from India, followed by Bangladesh, China and Vietnam.

According to cotton industry and USDA projections, India will export close to 70 lakh bales this year.

The total availability this season may be over 430 lakh bales as the opening stock is estimated at around 70 lakh bales. Thus, the total domestic consumption and exports are expected to be around 380 lakh bales. Therefore, closing stocks are expected to be around 28 per cent lower, at 50 lakh bales, compared to the previous season.

## Global cues

Cottlook predicted global cotton stocks to fall in 2015-16 and 2016-17 as global consumption is seen outpacing production.

Recently, China announced an auction to reduce its cotton stockpile. Moreover, in the US, unfavourable weather expected during the sowing season may limit cotton sowing.

There are reports of declining

stocks and the expectation of a fall in cotton acreage on apprehensions about the quality of cottonseed due to its vulnerability to pest attack.

## Price outlook

This might trigger a price rise as stockists and textile mills hasten their procurement before the start of the monsoon season.

Thus, for a three-month perspective, we expect *kapas* prices on the NCDEX (CMP: ₹763/20 kg) to trend higher towards ₹820 while MCX cotton (CMP: ₹16,200/bale) can go higher towards ₹16,800.

The writer is Associate Director - Commodities & Currencies Business, Equity Research & Advisory - Angel Broking. Views are personal.

Q 1/c News paper unit  
20/3/16