



Low Prices and Government Intervention in India

Can Expansion in Cotton Consumption and Trade
be Sustained



Low Prices and Government Intervention in India

WHY ME?

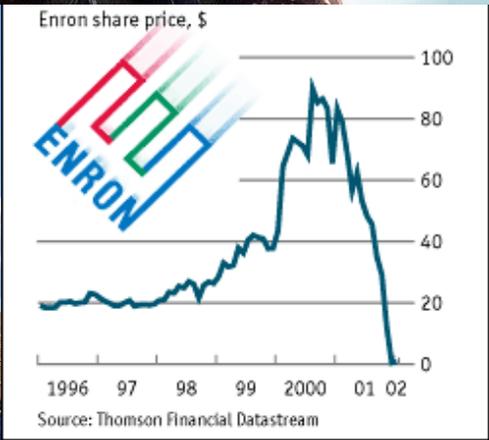
I'm not Indian



14 Years Since Visiting



The collage consists of four distinct images arranged in a 2x2 grid. The top-left image shows Kofi Annan, former Secretary-General of the United Nations, speaking at a podium with the UN logo in the background. The top-right image depicts a Roman soldier in detailed metal armor, likely from the movie 'Gladiator'. The bottom-left image features Ronaldinho, a Brazilian footballer, smiling in a yellow Brazil national team jersey. The bottom-right image shows the World Trade Center's Twin Towers in New York City, with a small boat visible in the water in the foreground.



I Didn't Go For Business



Why me?



- 14/15 World's Largest Producer
- 13/14 World's 2nd Largest Exporter
- 14/15 World's 2nd Largest Consumer
- 2014 World's Largest Yarn Exporter





Low Prices and Government Intervention in India

THE HEART OF THE MATTER

The Heart of The Matter



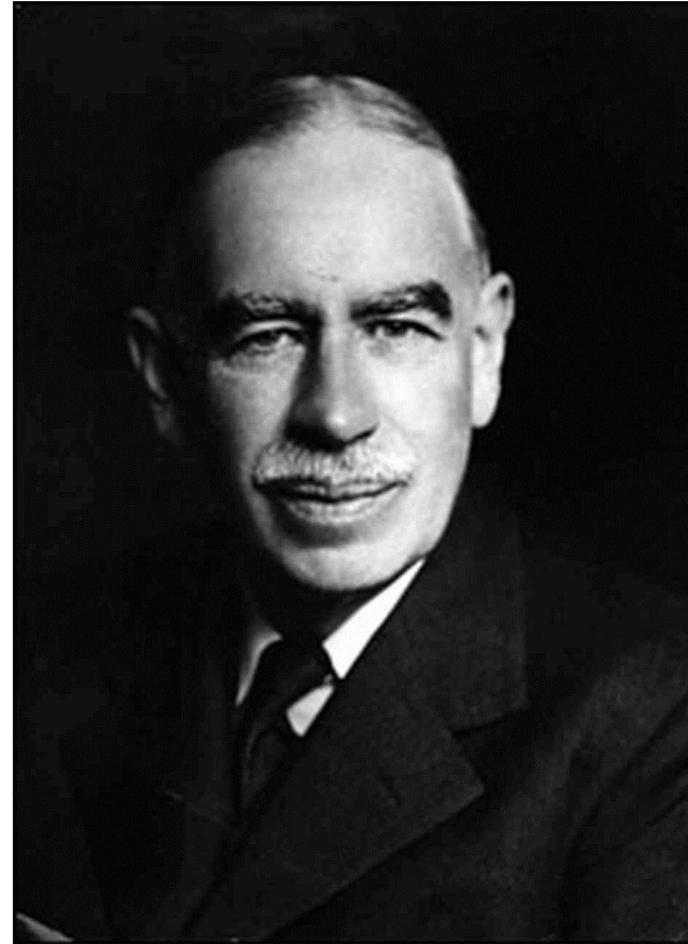
- What is the impact of Government policy?
- Will that policy change?
- What role will CCI play?
- What is the driver of Indian consumption growth?
- Will India remain a significant exporter?

Disclaimer



“In the long run we
are all dead”

Tract on Monetary Reform, John Maynard Keynes 1923

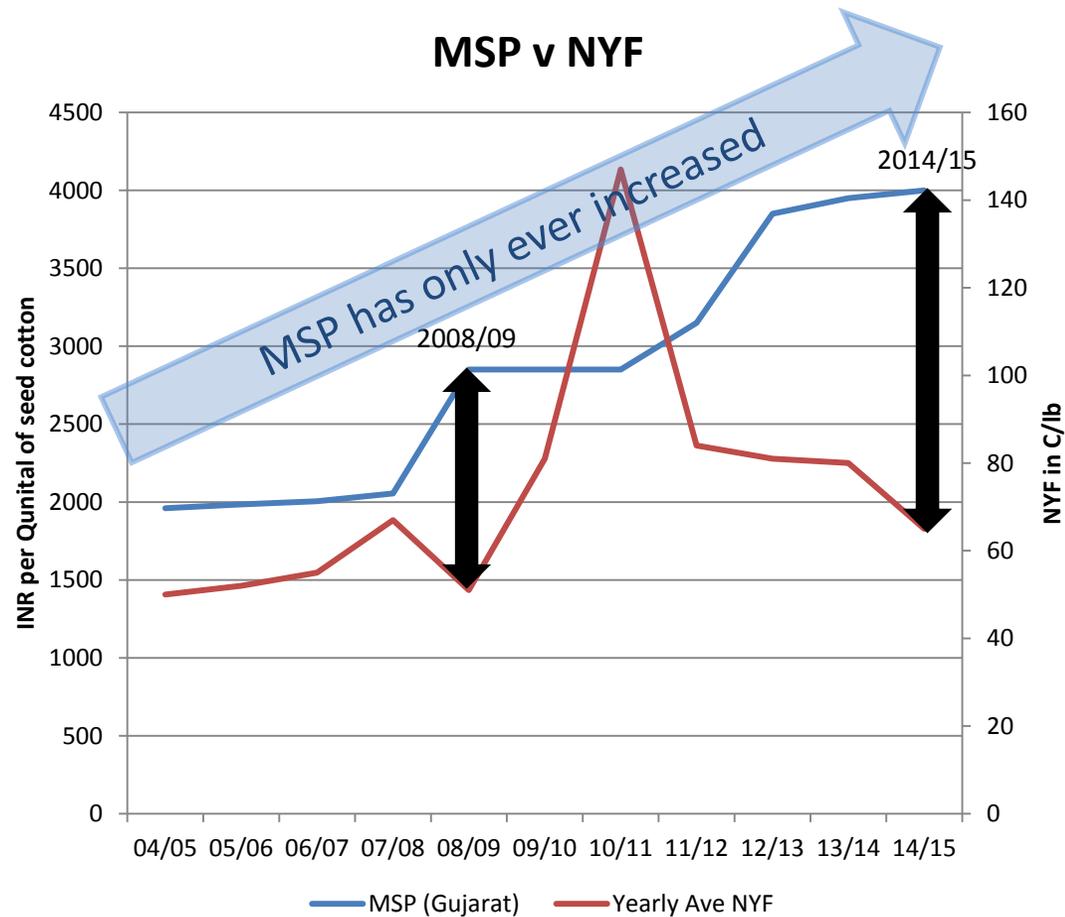




Low Prices and Government Intervention in India

GOVERNMENT POLICY: MINIMUM SUPPORT PRICE

Indian MSP

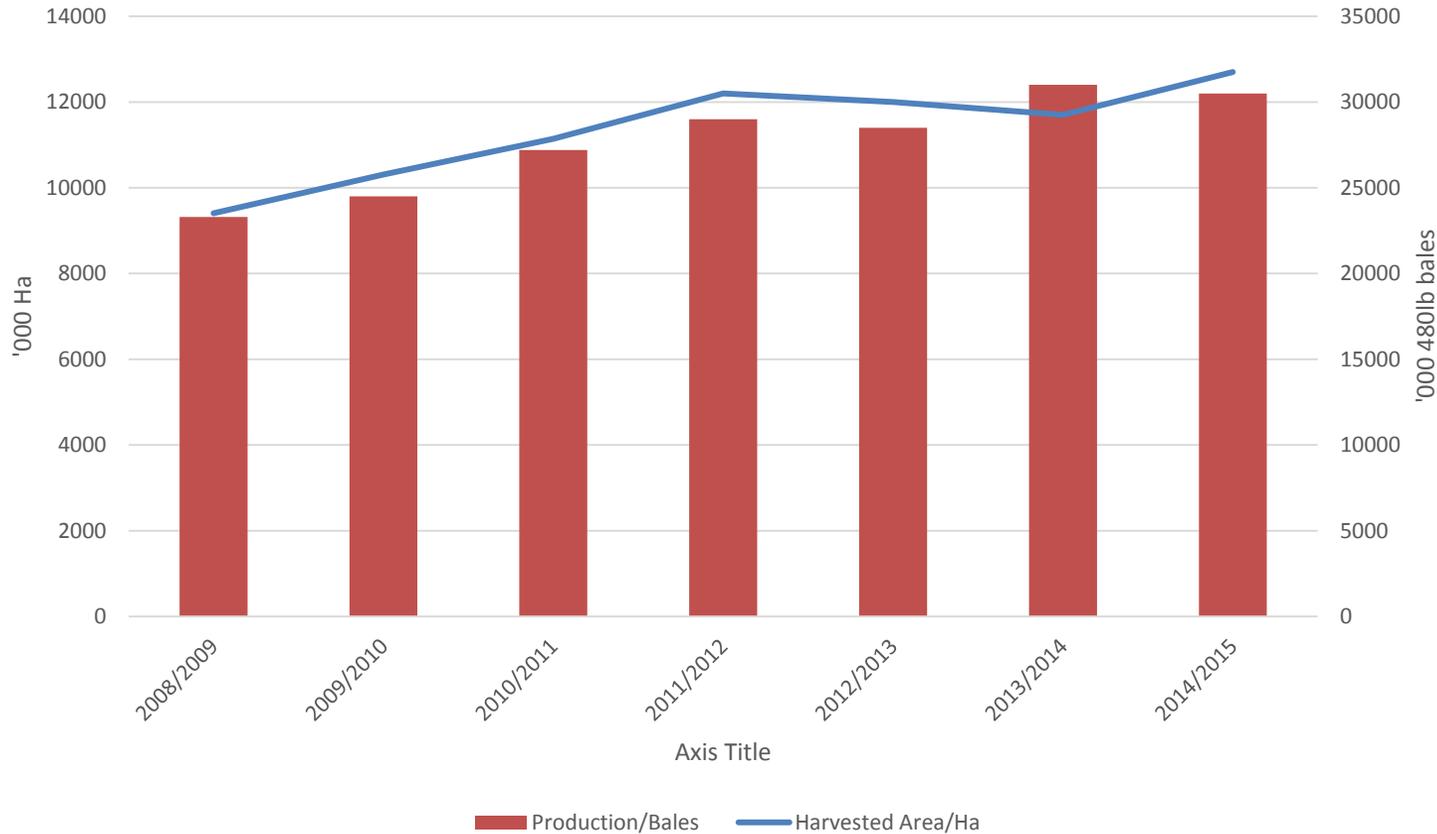


- Seed cotton price is underwritten by government (CCI)
- Different level by variety/staple
- Indian MSP is effectively a mechanism to pay the grower a subsidy and reduce carry burden for mills
- Stocks are auctioned later in the year by the CCI

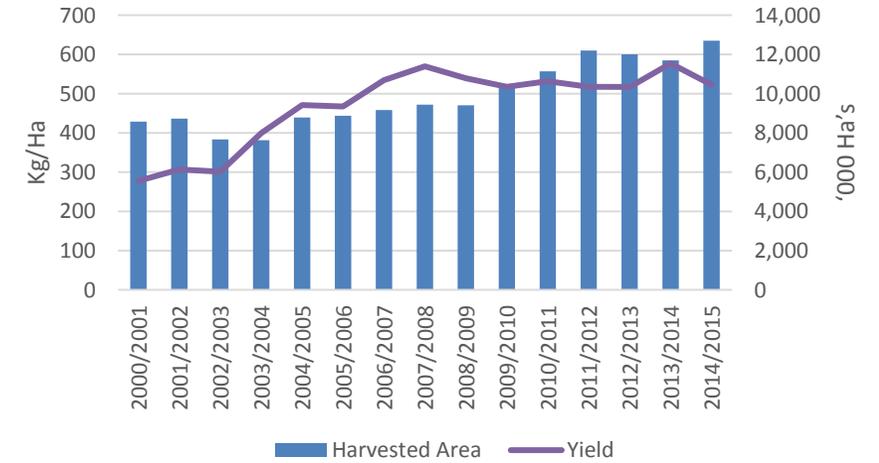
Production and Planting History



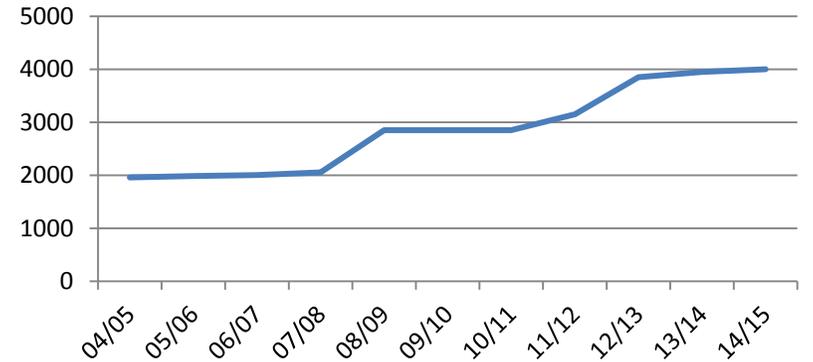
Indian Production and Planting History



Yield & Acreage



MSP (Gujarat)



Implication of a Seed Cotton Calc



MSP Calculation	Andhra Pradesh	Gujarat	
Support Price	40.5	40.0	INR/kg of seed cotton
Lint Outturn	33.0%	34.5%	
Loss	2.0%	0.5%	
Cotton Seed Outturn	65.0%	65.0%	
Ginning costs	2.5	1.5	INR/kg of cotton seed
Gross Costs	43.0	41.5	INR/kg of seed cotton
Seed Price (estimate)	15.0	18.25	INR/kg of cotton seed
Seed Revenue	9.75	11.86	INR/kg of seed cotton
Net Costs	33.3	29.6	INR/kg of seed cotton
Break even lint value	100.8	85.9	INR/kg of lint
Ex Rate	61.7	61.7	
Break even lint value	74.07	63.15	c/lb Ex Gin
Break even lint value	77.8	66.4	c/lb CFR Far East

Breakeven Relationship

INR
appreciation
vs. USD

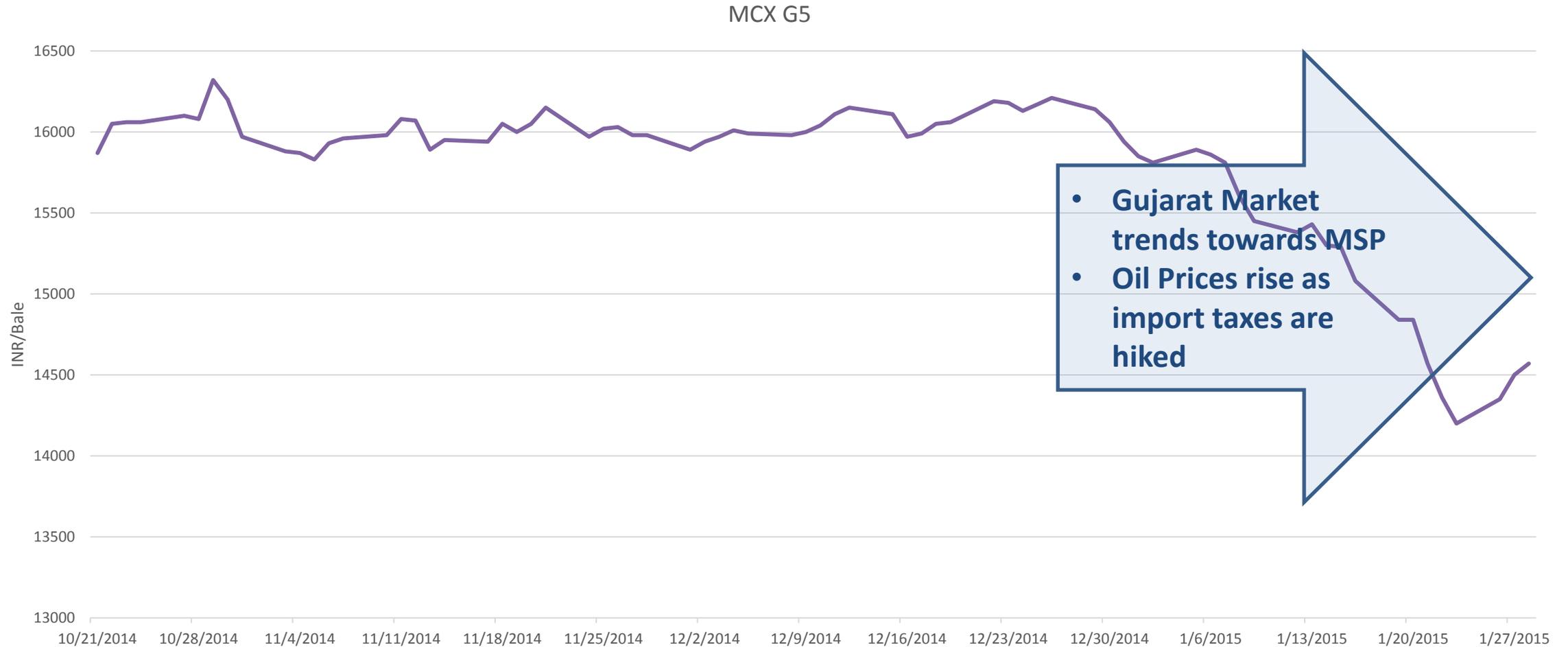
100:100

Domestic
Cotton Seed
Prices

100:(40)

Gujarat will initially not trade at MSP as AP mills will import across state lines to avoid having to compete with CCI in their own state

Indian Prices 14/15

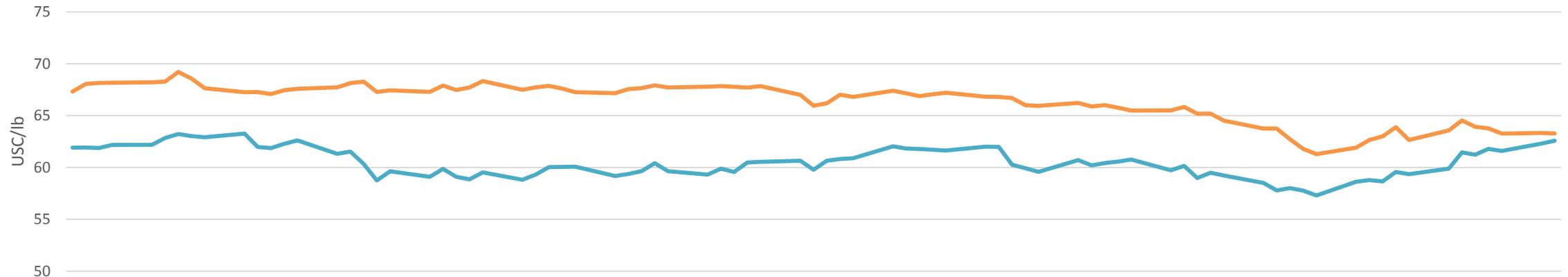


Indian Prices 14/15

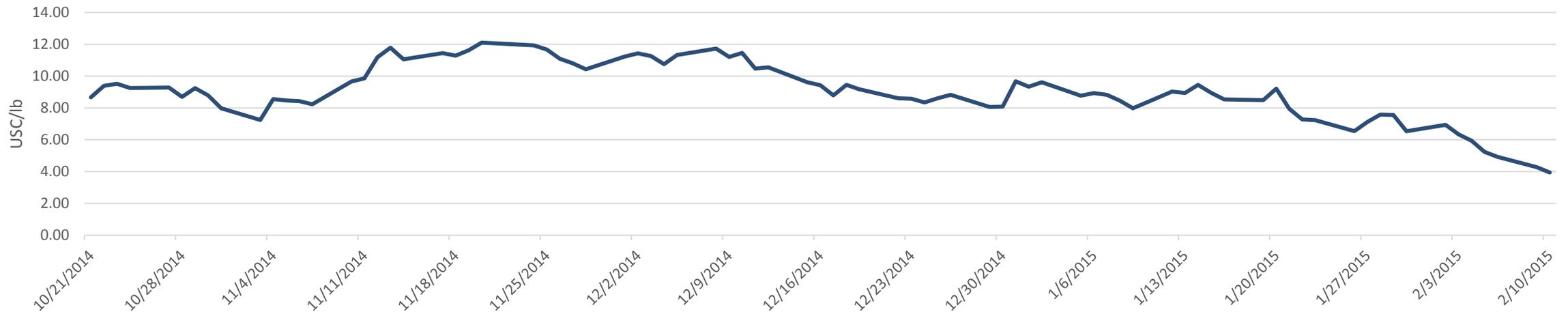


MCX (dollarized) vs. NYF

NYF H5 MCX G5 c/lb



Indian Basis CFR Far East

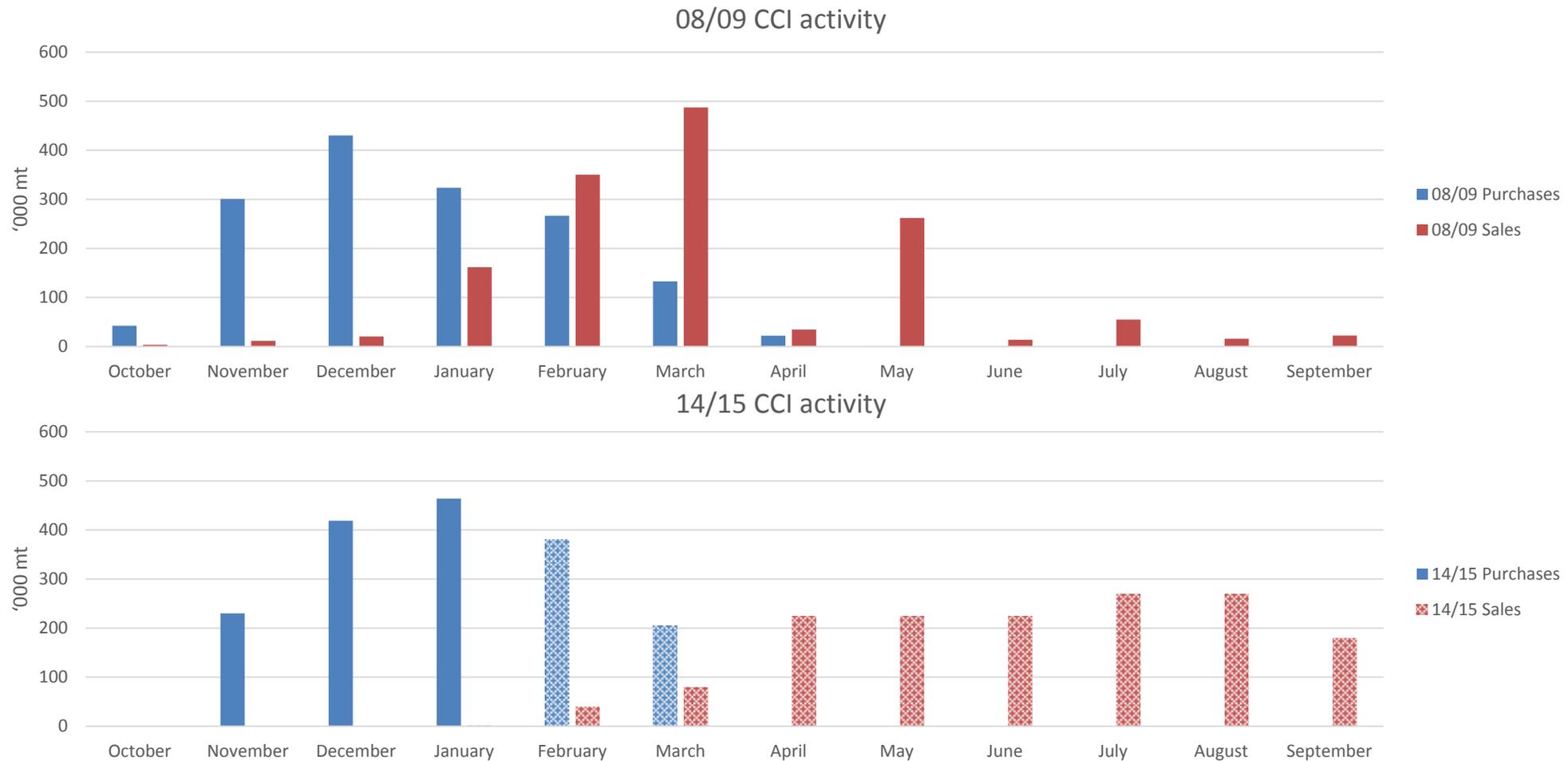




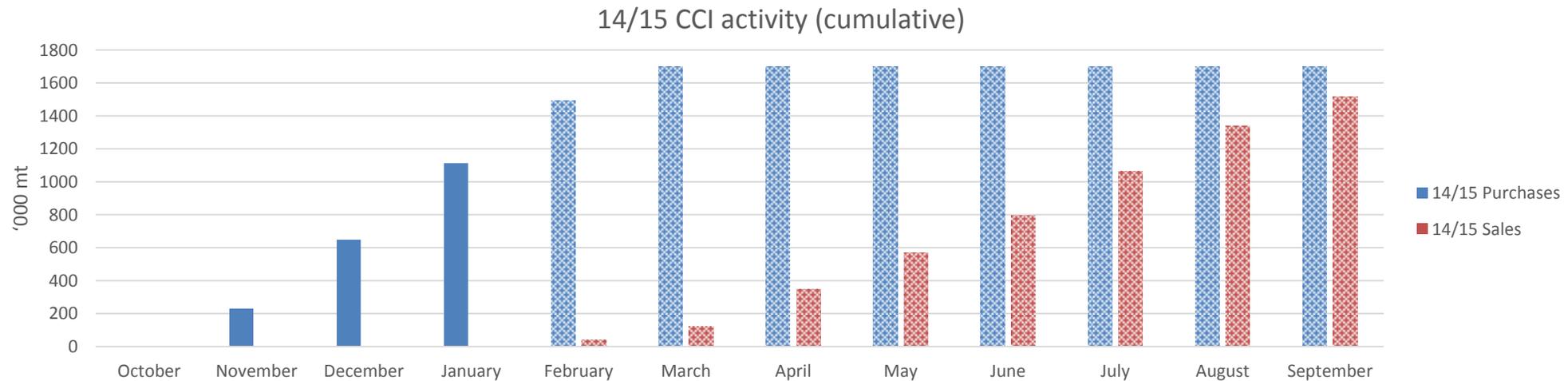
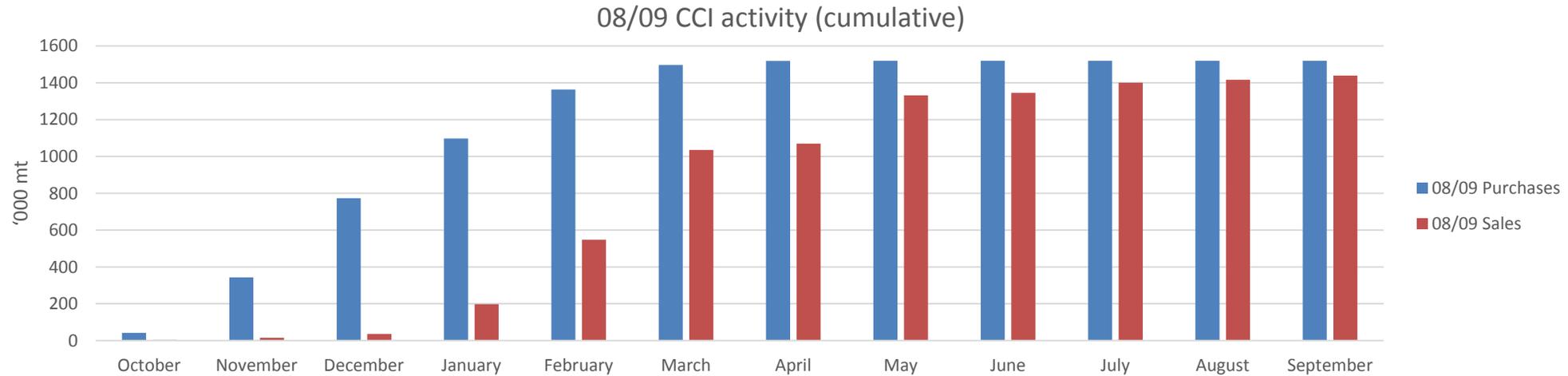
Low Prices and Government Intervention in India

WHAT ROLE WILL CCI PLAY?

08/09 Activity vs. 14/15 YTD



08/09 Activity vs. 14/15 YTD



CCI Activity and Market Impact



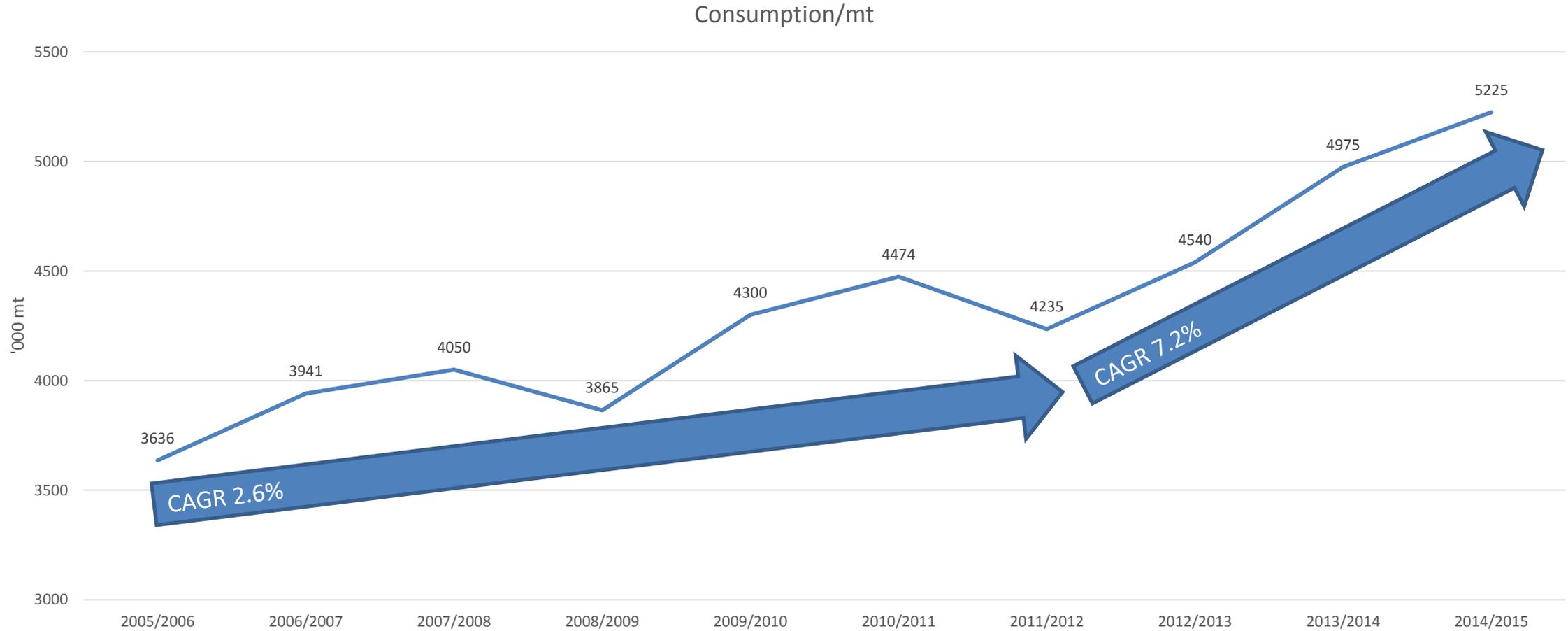
- Procure 25% of total crop
- Will carry minimal stocks into new crop year
- Sales pace in 14/15 will be slower than in 08/09
- MSP is very unlikely to decline in the next few years
- Planted area likely to remain stable due to price inelasticity
- Production volatility will be a function of weather



Low Prices and Government Intervention in India

WHAT DRIVES INDIAN CONSUMPTION GROWTH?

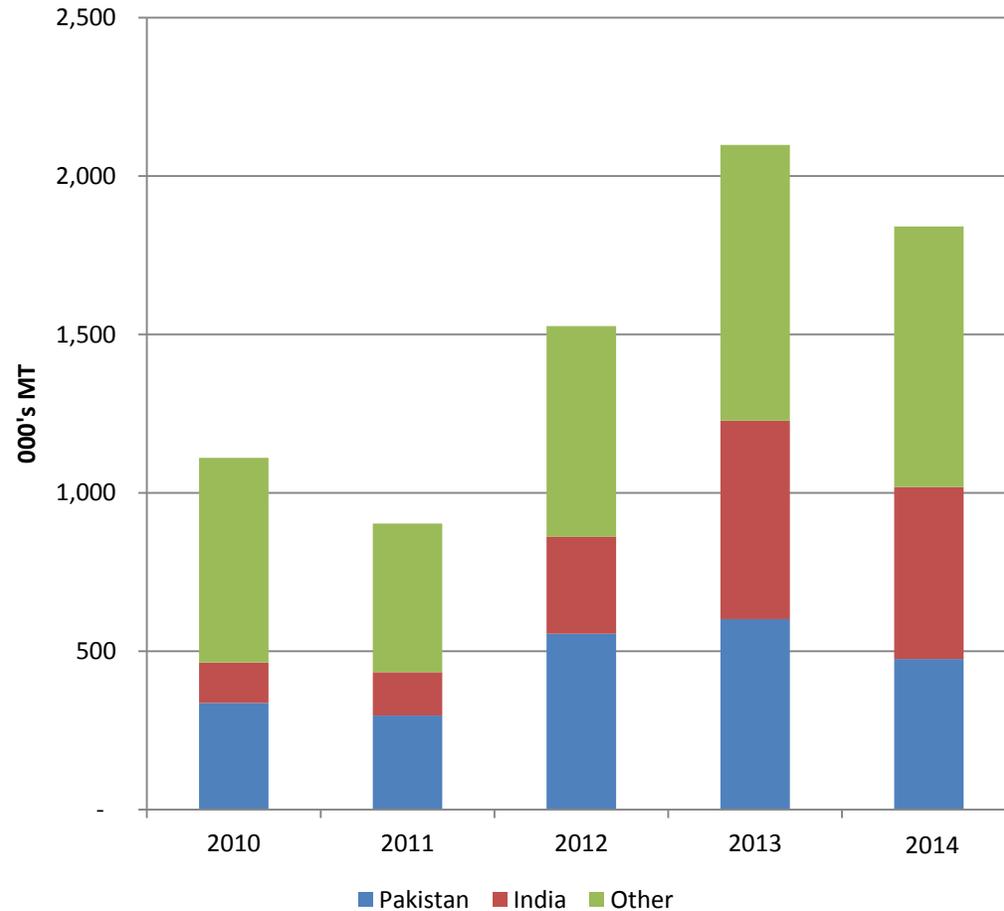
Indian Consumption Patterns



China Substitution



China Yarn Imports



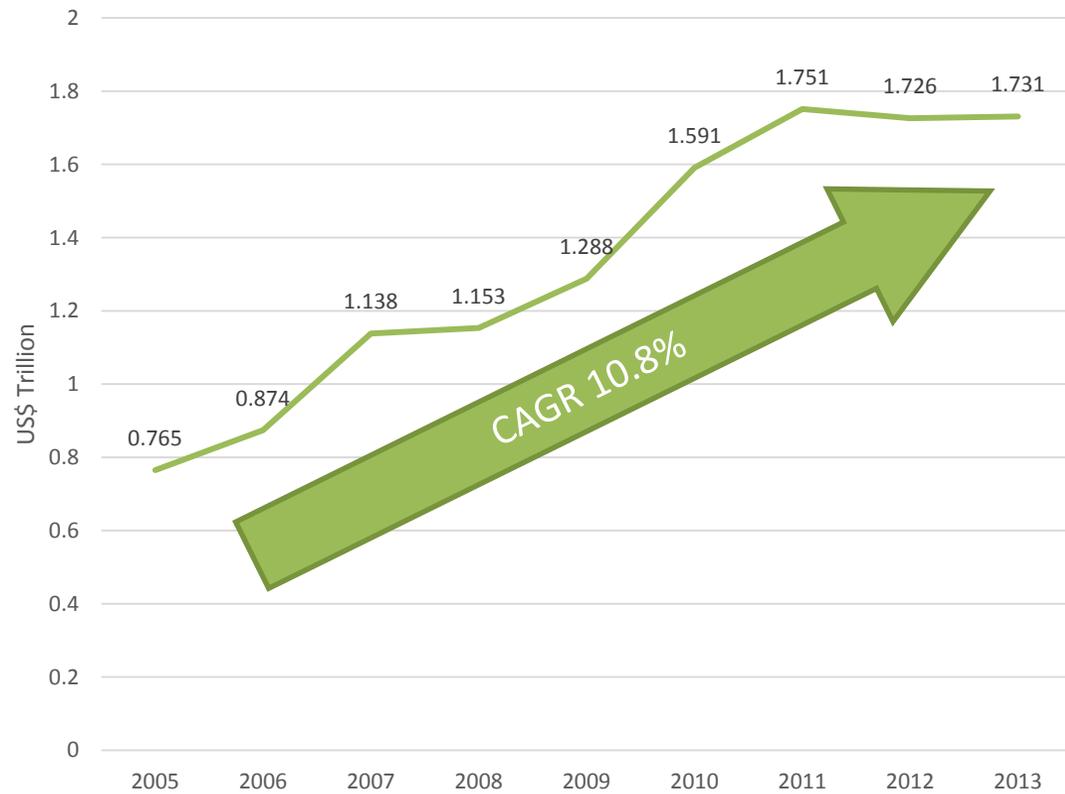
Country	2010-2014 consumption increase	Increase in yarn exports to China*	%age of growth due to China
India	860k mt	554	64%
Vietnam	386	166	43%
Pakistan	152	293	192%
World exChina	1,410	1,098	78%

* Cotton Equivalent

Indian Growth

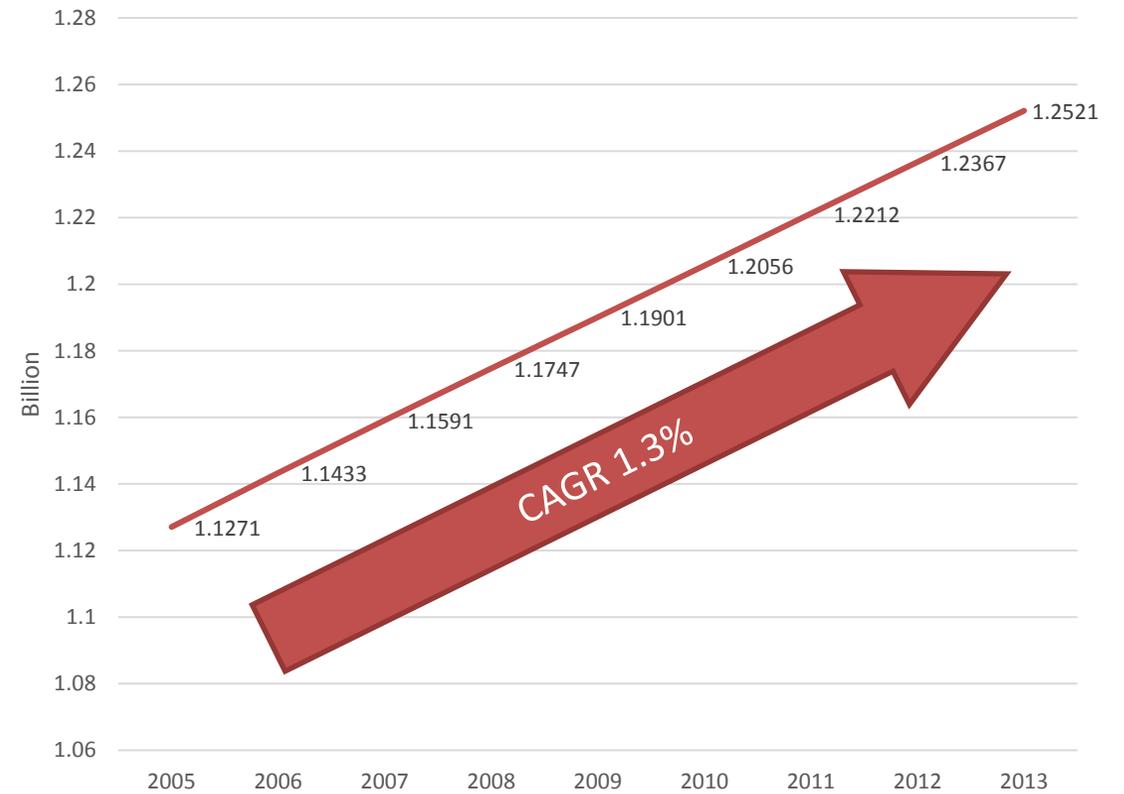


GDP



World Bank 2013 US\$

Population



World Bank 2013

Indian Consumption



- Long term modest upward trend underscored by GDP and population growth
- 4 year windfall in textile sector from China substitution amounts to nearly 5 percentage points of CAGR
- China yarn demand will be the biggest determinant of Indian consumption growth (or decline) in the next few years
- Relative increases in consumption in cotton surplus states (Gujarat. MP) at the expense of deficit states (Tamil Nadu)



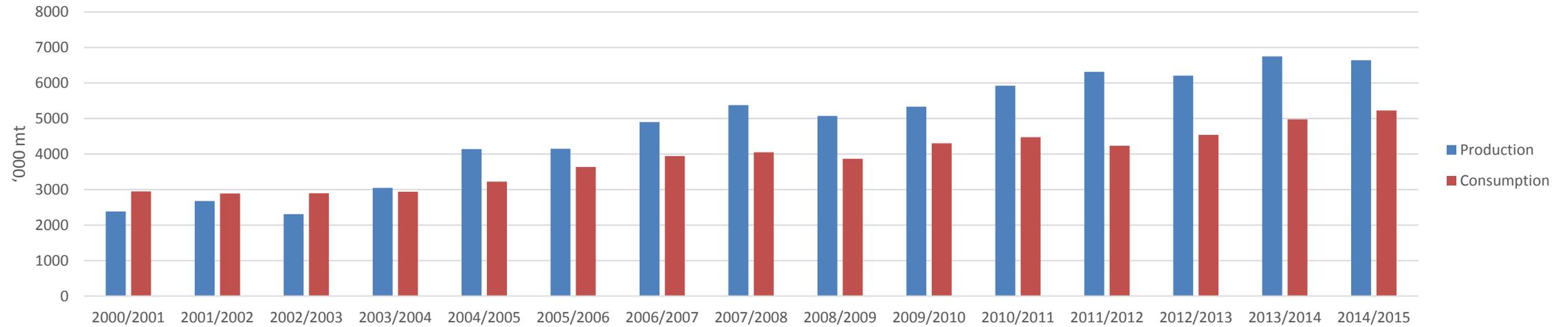
Low Prices and Government Intervention in India

WILL INDIA REMAIN A SIGNIFICANT EXPORTER?

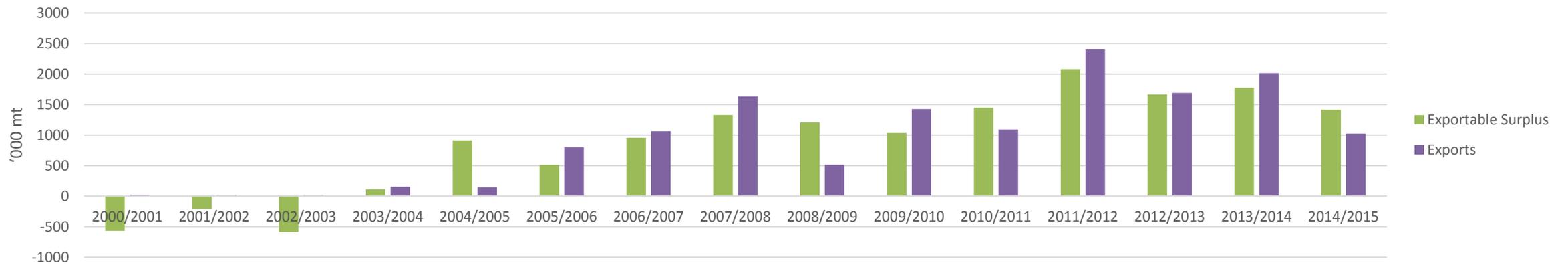
Declining Exports



Production vs. Consumption



Production Surplus vs. Exports



Export projections



- Consumption likely to grow faster than production, albeit with a potential challenge from reduced yarn demand from China
- CCI activity provides domestic mills with a carry vehicle reducing the normal incentives to export during harvest and import in the off-season
- If MSP is relatively high compared to the World price, mills may be incentivized to import even during the harvest – as witnessed this year



Low Prices and Government Intervention in India

SUMMARY

Summary



- MSP very unlikely to be reduced => Production should be stable
- CCI are committed to destock before 15/16 season
- Consumption trend is positive but heavily reliant on China yarn demand
- Export trend is downward from a high starting point. Will almost certainly remain a significant exporter for next few years



There's no chance that the iPhone is going to get any significant market share. No chance.

Steve Ballmer
Microsoft CEO, 2007