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IBTEX No. 10 of 2020 January 14, 2020

US 70.96| EUR 79.01 | GBP 92.19| JPY 0.64

Cotton Market

Spot Price - Shankar 6 (Ex. Gin), 28.50-29 mm

Rs./Bale	Rs./Candy	USD Cent/lb
19474	40700	**73.14**

Domestic Futures Price (Ex. Warehouse Rajkot), January

Rs./Bale	Rs./Candy	USD Cent/lb
19970	41737	**75.01**

International Futures Price

NY ICE USD Cents/lb (March 2020)	71.53
ZCE Cotton: Yuan/MT (May 2020)	14,370
ZCE Cotton: USD Cents/lb	94.55
Cotlook A Index – Physical	**79.90**

Cotton Guide- The ICE prices have tested high figures of 71.96 cents per pound and settled with a change of +22 points [ICE March]. The ICE May prices were settled at 72.67 cents per pound with a change of +21 points. The volumes were high decent at 36,793 contracts. The prices started with the upward movement as soon as the day opened in the new week [Monday].

As expected the prices were high due to positive export sales data and negative supply figures. On the other hand the US Job [Employment] report was also considered to be positive. The supply was seen to have been cut by the US Government. The 2019 crop now is estimated at 20.10 million bales as compared to the previous figure of 20.21 million bales. The US Exports were kept similar to the previous number in spite of domestic ending stocks declining to 5.5 million bales. Also, while speaking about global stocks, reduction was seen from 80.32 million to 79.59 million.

Apart from the above reasons, the official singing of the US China trade deal is considered one of the important factors leading to this increased in prices. With all said and done, there seems to be some amount of correction happening this morning where prices are trading at 71.33 cents per pound for the ICE March contract.

The MCX contracts on the other hand after touching good highs have retreated to realistic figures. The MCX January contract settled at 19,970 Rs per Bale with a change of -30 Rs. The MCX February contract settled at 20,250 Rs per Bale with a change of -30 Rs. The MCX Prices were seen to have acted in tandem with ICE but also the MCX contracts were high the previous week as arbitrageurs took advantage of premium in futures. In other words, they took advantage of the rising gap between spot and future prices.

The Cotlook index A has been updated at 79.90 cents per pound +70 points. The prices of Shankar 6 are seen to be very high at 40,700 Rs per bale with a change of around 700 Rs.

On the fundamental front, expect prices to move higher for both MCX and ICE. On the technical front, in daily chart, ICE Cotton March price moved higher as it breached the psychological mark of 70, in last week. Price also breached 76.4% Fibonacci extension level at 70.94 and most likely approaching the 100% Fibonacci extension at 73.18. As per the daily charts price is moving in the upward sloping channel after breakout of the bullish inverted HNS pattern. For near term support exists around 5 day EMA at 70.96, followed by 9 day EMA at 70.45. The momentum indicator RSI at 72, suggesting firmness in the trend, implies rally in price. The immediate resistance for the price is at (73.18) 100% Fibonacci extension level. Thus for the day we expect price to trade in the range of 70.90-73.18 with a sideways to positive bias. In MCX Jan Cotton, we expect the price to trade within the range of 19820-20380 with a sideways to positive bias.

Compiled By Kotak Commodities Research Desk , contact us : mailto:research@kotakcommodities.com or can contact: allwyn.stewart@kotakcommodities.com, Source: Reuters, MCX, Market source

NEWS CLIPPINGS

INTERNATIONAL NEWS

American Firms Paid $42 Billion in Tariffs, and That Could Go Higher in 2020

American trade policy will likely result in more tariffs in 2020.

President Trump's tariffs have cost American companies $42 billion to date, and that figure could rise higher when new tariffs are put in place. And that's not a question of if, but when.

Already, there have been talks about U.S. retaliatory action over digital services tax imposed by France and Italy on American tech giants. As of now, U.S. firms mostly have felt the effect of tariffs stemming from the trade dispute with China. A report from Tariffs Hurt the Heartland says the trade war cost American consumers and businesses $42 billion through the end of October.

That's in contrast to Trump's claims that American consumers are "paying nothing." In truth, "U.S. tariffs continue to be almost entirely borne by U.S. firms and consumers," a study from the National Bureau of Economic Research said.

Tensions between the U.S. and China have eased somewhat, and China's vice premier Liu He is scheduled to sign a Phase One trade agreement on Jan. 15 in Washington, D.C. So far, there's no word yet on a timetable to get a Phase Two agreement officially inked.

The Phase One deal cuts the 15 percent tariff imposed on Chinese imports last September to half, and the tariffs that were slated to begin on December are on hold. The 25 percent tariffs on $250 billion in Chinese imports, including handbags and furniture, remain in place.

But with digital services tax seemingly on the rise, it appears only a matter of time before the U.S. puts retaliatory tariffs in place. That rise in costs will also be borne by U.S. consumers and businesses.

"A worsening of trade relations between the U.S. and the European Union could be the defining factor for global trade policy in 2020," S&P's report, "2020 Trade Outlook–Trump's Trade Wars," said.

Currently, the U.S. has implemented wide-ranging tariffs connected to a World Trade Organization case, and the EU could in turn exact some tariffs of its own when its case moves further along the legal pipeline.

But the bigger concern seems to be the digital services tax that's making the rounds as countries look for new sources of revenue to bolster their coffers and balance governmental budgets.

Source: sourcingjournal.com - Jan 13, 2020

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US-China deal: In phase-1, Beijing to buy products worth $200 bn over 2 yrs

Describing it as a "historic transaction", Mnuchin said further talks would be held for the remaining phases

China's purchase of $200 billion worth of additional American products over a period of two years is part of the phase one trade deal with Beijing, the US has said, as the world's two top economic powers look forward to end their bitter two-year tariff war this week.

US President Donald Trump has announced last week that the US will sign the first phase of a pending trade deal with China "probably" on January 15.

"We're signing, as you know, a very big deal among many other things with China...probably on January 15," Trump told reporters at a White House event. China's commerce ministry on Thursday last confirmed that Vice Premier Liu will be in the US capital from Monday to Wednesday to sign the "Phase One" trade deal with the US.

The phase one deal signals a de-escalation in a trade war pitting the two most powerful economic giants against each other for nearly two years.

The phase one of the trade deal with China includes the country buying $200 billion worth of additional American products, US Treasury Secretary Steven Mnuchin said on Sunday.

In an interview to ABC News, he said, "It is USD 200 billion of additional products across the board over the next two years, and, specifically, in agriculture, USD 40 billion to USD 50 billion." "This is a big opportunity for our farmers. I think some people have questioned whether they can produce it. The president said they are going to go out and buy more land and produce plenty of agriculture (products)," he said in response to a question.

Describing it as a "historic transaction", Mnuchin said further talks would be held for the remaining phases.

"As we have said, there will be a phase two. But this is the first time we have had a comprehensive agreement with China on technology issues, agricultural issues, financial services, purchases, and has a real enforcement mechanism. So this is a big win for the president," he asserted.

Mnuchin said the first phase of the trade deal includes real enforcement provision. "If they don't comply with the agreement, the president retains the authority to put on tariffs, both existing tariffs and additional tariffs," he said.

Source: business-standard.com- Jan 13, 2020

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USA: Textiles, Manufacturing, Mining among targets of new Iran sanctions

President Trump issued Jan. 10 an executive order authorizing the imposition of additional sanctions against any individual or entity owning, operating, trading with, or assisting the textiles, construction, manufacturing, and mining sectors of the Iranian economy.

Administration officials said these will be both primary and secondary sanctions, meaning they could be imposed against third-party countries in Europe, Asia, and elsewhere. Treasury Secretary Steve Mnuchin said the measures will remain in place until the Iranian regime “stops the funding of global terrorism and commits to never having nuclear weapons.”

In addition, the Treasury Department’s Office of Foreign Assets Control announced specific sanctions against Iran’s largest steel, iron, aluminum, and copper manufacturers; 17 Iranian metals producers and mining companies; a network of three China- and Seychelles-based entities doing business with Iranian metals producers; and a vessel involved in the purchase, sale, and transfer of Iranian metals products as well as the provision of critical metals production components to Iranian metal producers.

According to Treasury, all property and interests in property of these persons that are in the U.S. or in the possession or control of U.S. persons must be blocked and reported to OFAC. OFAC's regulations generally prohibit all dealings by U.S. persons or within (or transiting) the U.S. that involve any property or interests in property of blocked or designated persons.

Persons that engage in certain transactions with these persons may themselves be exposed to sanctions. Furthermore, any foreign financial institution that knowingly conducts or facilitates a significant transaction for or on behalf of these persons could be subject to U.S. correspondent or payable-through account sanctions.

Source: strtrade.com - Jan 14, 2020

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Chinese startup brings AI to the apparel industry

Chinese startup HeartDub has developed technology to provide virtual fabric samples to clothing manufacturers. The company says the technology, which uses artificial intelligence-based software, cuts product development costs and streamlines the production process.

HeartDub was founded in 2018. Its key technology gathers data on textile materials and digitizes the production process, using the software to create virtual fabrics that mimic the properties of the real thing. The startup aims to digitize logistics in the apparel industry and provide online solutions for the development and selection of textile materials, and production of clothing samples.

HeartDub's platform comprises a materials database, design images and simulated images of clothes worn by virtual models. The database contains information on various fabrics, patterns and colors. Designs are created by combining them, and the digital clothes put on a virtual model programmed to make various body movements to show how they would look in real life.

Li Ruohao, the company's chief technology officer, explains that virtual fabric-making starts with analyzing the structure of actual fabrics and inputting the data into the software, called a "physics-engine," to simulate a fabric's physical properties. HeartDub's laboratory already has extensive data on frequently used fabrics. The characteristics of these virtual fabrics correspond to those in the real world. allowing their texture, weight and movements to be accurately simulated.

The startup's main clients are fabric makers and fashion brands. Manufacturers upload newly developed textiles to the platform. Fashion labels then select the texture, pattern, and design online. After examining how the clothing looks on virtual models, they decide whether to purchase the fabric.

The digital presentation platform helps sharply lower the cost of developing and designing fabrics. The conventional method involves manufacturers creating fabrics, making samples and displaying them at trade shows, or sending them to apparel companies. The buyer then looks at the samples and decides whether to purchase the fabric. Then the fashion company makes samples of the finished clothing, presents them to buyers and waits for orders. Only after orders come in, can manufacturers determine which fabrics to buy and how much.

According to Lu Jianping of Tianyi Textile, a Chinese fabric maker, textile manufacturers introduce 50 to 100 new products a year and create 500-meter-long samples for each. This means they spend roughly 5 million yuan ($730,000) annually on product development. But only around 20% of these products generate purchase orders. Also, only about 20% of sample clothes make it to retailers.

HeartDub's Li said the company's digital platform allows fabric makers to complete the steps up to preorder presentation at no cost, thereby cutting their overall development cost by about half. Fashion brands also need to make fewer samples clothing because they can see how they will look, thanks to the virtual models. Production costs can be cut by 70% and sample delivery time is shortened by 90%, Li said.

HeartDub mostly offers basic designs at present. The company plans to team up with fashion-design software developers to make its platform compatible with any type of design.

Once it has enough data, it hopes to ask fashion houses to provide designs that will let consumers use virtual models to buy clothes directly from them. HeartDub also hopes to involve consumers in the process of fabric development to reflect their feedback, which would make the process more efficient and further reduce the cost of making samples.

Virtual fashion shows will provide an opportunity for businesses to showcase new products, helping transform the apparel industry into a digital one with the potential for sustainable growth. Li also disclosed plans by HeartDub to launch its own brand in the future.

The company provides services mostly to business clients and offers either flat-rate annual fees or piecework rates, depending on volume. It is currently in talks with fabric makers with annual sales of around 1 billion yuan.

HeartDub's technology team was launched in Seattle in 2013 by graduates of the Massachusetts Institute of Technology. They previously worked in fields ranging from software operating systems, to semiconductors, to clinical medicine.

The team believes its technology can be applied to videos, games and entertainment, in addition to apparel. HeartDub said it is working to secure financing with a pre-series A round.

Source: asia.nikkei.com - Jan 13, 2020

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Working in 'Big Cotton' in China's Xinjiang

China's northwestern Xinjiang Uygur Autonomous Region has been rife with controversy over the years as security had been stepped up to tackle sporadic terrorist attacks. Accusations regarding government policies in the region are manifold, with the latest being poverty alleviation programs are actually fronts for employing forced labor in cotton mills. However, CGTN's latest trip to the region paints a very different picture.

Xinjiang provides over 80 percent of China's cotton. Since this cash crop is a lucrative business, big factories and processing plants have popped up, many of which are affiliates of established companies from the more affluent inland.

Xinfa Cotton Industry Company – located in Awat, a county under southern Xinjiang's Aksu Prefecture – is one of the largest cotton processing plants in this "Town of Cotton." Awat produces one fifth of the world's long-staple cotton with silkier, lustrous and more durable fibers, filling markets from Europe to North America.

Established by a textile corporation headquartered in central China's Henan Province a decade ago, Xinfa so far has over 200 employees, mostly locals. "When we came from Henan to purchase cotton back then, we found that having a factory here, much closer to the source of supplies, could help us save costs and haulage time," said Liao Yongfeng, head of the factory's commodity department. The move has also increased the income of local villagers who can't find employment in the winter after harvest season.

One of them, Aytlam Mamt, started working here in 2010. Now responsible for leading one of the mills, she makes 2,800-3,000 yuan after tax each month. "I had worked in a textile plant before I got married, so I chose to come here when my son was six years old as I'm already quite familiar with the whole manufacturing process," the 35-year-old woman told CGTN.

If working in the mill means staying away from being a housewife and boosting household income, it means a lot more for Atkenm Kuwan, who started working as a knitter at Xinfa this April. Before that, she was a sanitation worker with a monthly income of 960 yuan, which, on top of her husband's monthly income of roughly the same amount, could hardly make ends meet.

"Now I have 2,300-2,500 per month. That's a big help for my family, especially to the education of my children. I have extra savings for them to take extracurricular classes now," Atkenm said. She noted that her biggest dream is to give a good education to her two kids, and then to buy a car like her colleagues. "I heard some of my colleagues used to come to work by bicycle or moped, but now they drive to work."

Employees work 12-hour shifts and then rest for the following 24 hours. "Though the job requires a lot of energy, I can get enough rest during the next day and attend to many other things," said Aytlam.

Training people to process cotton requires significant time and resources. The tremendous effort that has gone into Xinfa's employees, however, seems to have paid off. Most of them have worked at the company for years, according to Liao.

Many of them attend to the outsized machines responsible for much of the labor. The entire process is mechanized, with most of the equipment made domestically and the rest imported from Europe. Once ready to leave the factory floor, cotton products, notably threads in Xinfa's case, are delivered to coastal metropolises including Guangzhou, Shenzhen and Shanghai for subsequent export to clients in Europe and the U.S.

The China-U.S. trade war and media scrutiny surrounding Xinjiang, however, have put pressure on the local cotton industry. Global retailers who had previously sourced some of its cotton from Xinjiang, such as Gap and sportswear giant Adidas, were named in media investigations alleging that their products were made from involuntary labor in the region.

Despite these firestorms, Xinfa and other cotton producers in the region are eyeing further growth, hoping to reduce overheads while continuously improving their technology. "For now, sales and production volume have not dropped, and everything is business as usual," Liao noted.

Source: news.cgtn.com- Jan 14, 2020

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China's dollar-denominated exports and imports beat expectations in December

China's dollar-denominated exports and imports were both higher in December, Reuters reported citing data from the General Administration of Customs.

In December, dollar-denominated exports rose 7.6% on-year, against a 1.3% drop in November. December imports were 16.3% higher from a year ago, Reuters reported citing data from the Chinese customs.

Economists polled by Reuters had expected dollar-denominated exports to rise 3.2% on-year and imports to rise 9.6% in the same period.

December trade surplus was $46.79 billion, against an expected $48 billion. In December China's trade surplus with the U.S. was $23.18 billion — down from $24.6 billion in November.

China's imports form the U.S. rebounded in November and December, Reuters reported citing China customs vice minister Zou Zhiwu. In particular, China's soybean and pork imports from the U.S. significantly rebounded in December.

Zou added that positive U.S-China sentiment on trade boosted the confidence of companies in December. The data comes as U.S. and China remain in a long-drawn trade war, but there may soon be light at the end of the tunnel.

U.S. and China trade representatives are expected to end intense bilateral negotiations with a "phase one" deal on Wednesday. The deal potentially promises billions of dollars' worth of agricultural purchases and is likely to mark the beginning of reforms to China's longstanding practice of forced technology transfer.

On Monday, the U.S. removed China from a list of countries considered currency manipulators, the Treasury Department announced.

Source: cnbc.com- Jan 14, 2020

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US' textiles imports up four per cent

US imports of textile and clothing increased in value by 4.9 per cent in 2018. In volume terms, these imports rose by 5.9 per cent in 2018.

The average price of US textile and clothing imports fell in 2018 for the seventh year in succession.

The average import price declined 14.2 per cent over the seven- year period.

The main cause for this was a decline in the average price of imports from China. US textile and clothing imports from China were up by 4.8 per cent in value and by 6.7 per cent in volume.

While the price per sq. m. equivalent dropped year on year, the value and volume increased. As a result, the share of US textile and clothing imports which came from China accounted for 49.3 per cent in volume terms and in terms of value it accounted for 36.5 per cent.

Cambodia, Bangladesh, India and Vietnam also showed a rise in value and volume to the USA.

However, the shares of US imports from these countries are not really significant in value and volume terms.

From January to October 2019, US apparel imports increased 2.6 per cent year on year, of which the cumulative value from China was down by 5.6 per cent.

Source: fashionatingworld.com- Jan 13, 2020

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2020 'slowbalisation' year for global economy: PwC

Global economic growth in 2020 is expected to grow at a rate of around 3.4 per cent in purchasing power parity terms compared to its long-term average of a 21st century average of 3.8 per cent per year, according to new projections by London-headquartered PwC, which recently predicted that 2020 will be a year of ‘slowbalisation’ in the global economy.

Trade tensions will continue to create challenges for global supply chains and further integration of the global economy this year, it said in a press release.

PwC expect that services will remain a bright spot for global trade, with the total global value of service export forecast to hit a record $7 trillion in 2020. The United States and the United Kingdom are likely to remain the leading exporters of services, although China is expected to overtake France in fourth place during the year.

The overall picture for 2020 is that global economic growth will continue at a modest pace, as the major economies will be buoyed by accommodative financial conditions and an increased reliance on household consumption as a source of growth instead of net exports and investment.

According to Barret Kupelian, senior economist at PwC UK, “Globalisation has been a defining feature of the global economy since the 1970s. Yet the global volume of merchandise traded slowed down dramatically and even went into reverse in 2019. Coupled with the effective disbandment of the World Trade Organisation’s (WTO) dispute settlement mechanism in December, we can expect more challenging times ahead for global trade.”

‘Yet we should be clear this is a period of “slowbalisation”—with integration and trade flows still growing but at a slower rate. Given the links between merchandise trade flows and economic growth, we can expect to see a similar effect of below-average growth in the global economy in 2020.’

PwC expect the G7 to continue to create jobs, to the tune of around 2 million. Four out of the five new jobs in the G7 will be created in the United States, the United Kingdom and Japan. As the pool of labour resources in the G7 gradually dries up, earnings will continue their upward trajectory. But in the absence of productivity improvements, corporate profit margins could be squeezed.

Global renewable energy and nuclear consumption will make up more than 20 per cent of global energy consumption, which is the highest it has ever been. The rise of renewable energy reflects how businesses, households and governments are adapting and changing their attitudes.

China is expected to be the largest consumer of this type of energy closely followed by Europe. However, oil is expected to continue to remain the most preferred source of energy in 2020 for the world economy followed by coal and natural gas. The United States and China will remain the largest consumer of oil in the world in 2020.

In 2020, the world's population is expected to reach 7.7 billion, which is around a 10 per cent increase compared to a decade ago. China, India and sub-Saharan Africa are expected to drive around half of the world's annual population increase. At the same time, the number of people above the age of 60 globally is expected to surpass the one billion mark. China is expected to have a larger number of people above the age of 65 than all the six other largest emerging economies put together.

Source: fibre2fashion.com- Jan 13, 2020

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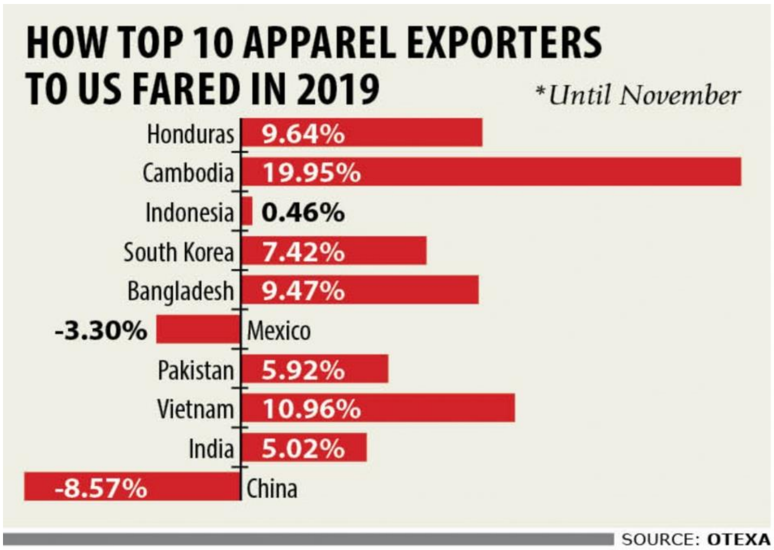
Bangladesh: US provides silver lining for garment exporters

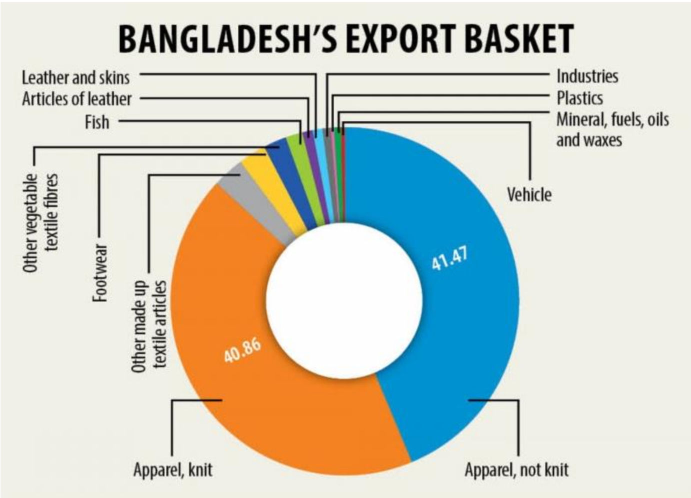


Bangladesh's apparel shipments to the US, its main export destination, edged up in the first 11 months of 2019 -- a heartening development given the inclement condition on the export front.

Between the months of July and December last year, Bangladesh's apparel shipments fell 6.21 percent to $16.02 billion, according to data from the Export Promotion Bureau.

But exports to the US fetched $5.69 billion, up 9.47 percent from a year earlier, according to data from the Office of Textiles and Apparel (OTEXA).

"Primarily, the tariff war between the US and China played a vital role in raising the shipments to the US," said Rubana Huq, president of Bangladesh Garment Manufacturers and Exporters Association (BGMEA).



Furthermore, China, the largest apparel supplier to the US, saw its shipments slump during the period, in what can be viewed as a direct impact of the 25 percent tariff slapped by the Trump administration in May last year.

However, garment shipments from India and Vietnam, both Bangladesh's competitor in global apparel trade, grew to $7.43 billion and $13.35 billion respectively.

"The US's total imports from the world is declining since September, whereas it is increasing from Bangladesh. Vietnam's export growth to the US is faltering. That's the only piece of good news," Huq said. The first half was positive, but the second half saw a collapse. "We can't predict any increase based on previous growth. The current trend should be taken into consideration."

And shipments to the US increased just nominally in the first two weeks of 2020, according to the BGMEA president. The average price of Bangladeshi garment products though decreased 4.50 percent: it was $13.74, down from $14.39 a year earlier.

Earnings from garment exports is on the slow lane for appreciation of taka against the dollar, lack of diversified products and rise of other competing countries, particularly of Vietnam and Cambodia.

Source: thedailystar.net- Jan 14, 2020

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As Hong Kong's retail sales slump, France, Chile too see sales dip

Unrest in Hong Kong, France and Chile has affected retail sales as they have fallen 24 per cent in Hong Kong.

Even the Christmas season couldn't help fashion retailers to get their numbers up. Historically, Hong Kong is known for being one of the key markets for luxury in the world.

It represents five per cent of global luxury sales with a higher-than-average profitability for luxury groups. But the ongoing protests have led companies like Hugo Boss, Levi Strauss and Ralph Lauren to close some of their stores.

Similarly, retail sales have fallen in 30 per cent in France, and 27 per cent in Chile. Strikes have crippled French transport. Sales were down 30 per cent to 50 per cent in the holiday season, a time when most retailers expect to achieve their full year results.

French consumer confidence fell more than expected in December, hitting a five-month low. Paris is the headquarters of many of the fashion and luxury houses of the world.

Chile is one of the main regions in Latin America for fashion. About 60 per cent of Chilean consumers spent less amount of money during the season than the same period last year due to an increasing concern for the future of the economy as well as reducing debts.

Source: fashionatingworld.com- Jan 13, 2020

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Pakistan: A deeper look into textile industry's proposals

It is very common for the textile industry to make its proposals for the consideration of government authorities almost on a regular basis. In a recent meeting with the Prime Minister in Islamabad, a delegation of All Pakistan Textile Mills Association (APTMA) reportedly told the Prime Minister that the production cycle of their industry requires 185 days to complete and the FBR collects sales tax on value-added items at each stage but the refunds are only available after exports.

In this way, the FBR is overstating its revenues by Rs 22 billion per month which are actually refundable. Rs 108 billion was collected by the FBR during the first five months of FY20, out of which only Rs 15 billion was refunded, putting the industry in extreme distress. Continuation of energy package should be guaranteed for another five years, under which the export industry is being extended power tariff of 7.5 cents per unit and gas tariff at 6.5 per MMBTU.

A decrease in cotton production and imprudent government policies have taken a heavy toll on cotton production which has decreased from 13.86 million bales to around 8.5 million bales this year. The textile industry will have to import in the ongoing financial year five million bales to meet the requirements.

Pakistani textile industry has also been facing financial constraints over the last decade which has led to a fall in exports, decreased industrial production and low investment in the sector. Over the last one year, interest rates have been increased from 5.75 percent to 13.25 percent. It is also suggested that public-private collaboration is required to acquire advanced seed R&D technology for quality seed development and effective control on weeds and insects.

A closer look at the textile industry's proposals would reveal that there is hardly anything new in their pleas and their representatives continue to push their case on the same old lines, concentrating on seeking the attention of the government authorities on the withdrawal of zero-rating status of export-oriented sectors, high energy and interest costs and cotton shortages in the country. It may be mentioned here that some of the suggestions are worth consideration to be implemented while others may not be implementable under the current situation of the economy.

Coming to individual proposals, APTMA is quite right in complaining about the inordinate delays in the settlement of refund claims which continue to be delayed to show a better picture of the government finances but adversely affects the liquidity position of various enterprises. The figures stated by APTMA about the liquidity withheld by the FBR appear to be quite high but even if they are small, it is the government's duty to refund the claims in time. It must be remembered that owing to this fact, textile industry is unable to create employment and meet export orders to the desired extent. As such, the government needs to consider either the restoration of the textile industry's zero-rating status or to disburse refunds immediately.

It is also correct that cotton production has witnessed a huge drop in the country, necessitating import of about 5 million bales at a huge cost to the foreign exchange reserves held by the SBP. Cotton production within the country needs to be enhanced to about 14 million bales to meet the domestic requirements of the textile industry and earn huge foreign exchange. All steps including an increase in acreage under cotton crop, quality seed development and removal of weeds and eliminating of insects need to be adopted in this connection.

So far as extending the energy package for another five years is concerned, the approval of such a policy package is difficult at this stage as it would either involve a huge amount of subsidy from the budget or a further increase in energy costs for other consumers. Both these options would increase the amount of subsidy in the budget or burden the domestic consumers further. Given the present political climate and the problems of the common man, such a proposal is, therefore, not justifiable. Also, APTMA continues to harp on the theme of lowering the interest rates which is not possible due to high inflation rate in the country at the moment and the EFF agreement with the Fund which stipulates a stringent monetary policy to stabilise the economy.

Anyhow, we are surprised to see that APTMA and other lobbies continue to request the government to decrease the interest rates when this subject falls exclusively within the domain of the SBP which is autonomous in making monetary and credit decisions. The problem with this approach is that multilateral institutions would be constrained to think that monetary policy decisions are still framed in Islamabad rather than in Karachi despite the grant of autonomous status to the central bank. Finally, it is strange to see that APTMA is not appreciative of the relief given to the export sector in the form of massive devaluation of the rupee and other concessions.

Source: brecorder.com - Jan 14, 2020

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Bangladesh: Low cost fund sought for RMG accessory manufacturers

GARMENTECH and GAP EXPO-20 from January 15 to 18

Garment accessories and packaging manufacturers and exporters have demanded low cost fund and grant for improving safety standard and compliance issues as required by global retailers.

They made the demands at a press conference on the four-day GARMENTECH and GAP EXPO-20 to be held from January 15 and 18 at the International Convention Centre, Bashundhara in Dhaka.

Bangladesh Garment Accessories and Packaging Manufacturers and Exporters Association (BGAPMEA), Zakaria Trade and Fair International, ASK Trade and Exhibitions are jointly organizing the expos.

Commerce Minister Tipu Munshi is expected to inaugurate the expos as chief guest, while Salman F Rahman, MP, private sector industry and investment adviser to the prime minister, will be guest of honor and BGMEA President Rubana Huq special guest.

“Safety and compliance issues are crucial for accessories and packaging manufacturers as global buyers are unwilling to buy products from non-compliant factories,” BGAPMEA President Abdul Kader Khan said.

Most of the garment accessories and packaging makers were small and medium and unable to install very expensive safety equipment, said the leader.

So, to improve safety standard, the sector would need government financial supports in the form of grants and low cost fund from export readiness fund (ERF), he stated.

He also argued that if the government provided financial and policy support, the sector would be a great tool for export diversification as it already was exporting goods worth $1billion directly.

As of last fiscal year, the contribution of the apparel accessories to RMG exports stood at over $7.5billion.

In its long journey and entrepreneur's dedication, now the sub-sector of the apparel industry is capable of supplying 95% accessories.

“As the RMG sector is on fast track to reach the target of $50 billion of exports by 2021, productivity, safety, compliance, efficiency, value addition, product diversification, fabric sourcing and packaging solutions are the challenges facing the RMG sector,” Tipu Sultan Bhuyian, managing director of ASK Trade and Exhibitions, said.

In the given context, there needed concerted efforts to improve investment in technology, infrastructure and safety substandard improvement, he added.

GAP EXPO-2020 is aimed at showcasing latest innovative products and machinery under a common roof to establish bridge between the buyers and the manufacturers.

About 270 companies from 20 different countries are expected to participate in the mega exposition to showcase their latest garment accessories products and latest technology and machinery for the sector.

These countries are Germany, Indonesia, Malaysia, South Korea, Vietnam, the United Kingdom, China, Hong Kong, Italy, the Netherlands, Sweden, Thailand, the USA, Finland, India, Japan, Singapore, Switzerland and Turkey.

Meanwhile, GARMENTECH Bangladesh 2020 will showcase the latest sewing, knitting, embroidery, laundry, finishing, dyeing, CAD/CAM, printing, cutting, spreading machinery from leading companies from across the world.

Technology solutions on display at the show will address the pressing concerns of the industry viz., Safety, Compliance, Productivity, Efficiency, Value-Addition.

Source: dhakatribune.com- Jan 13, 2020

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Pakistan: Listless trading on cotton market

The trading on the cotton market remained slow and restricted on Monday as both buyers and sellers kept to the sidelines.

The following deals were reported to have changed hands on the ready counter: 200 bales, Sadiqabad, at Rs9,200; 600 bales, Rahim Yar Khan, at Rs9,150; 400 bales, Haroonabad, at Rs8,475; 200 bales, Lodhran, at Rs8,350; 800 bales, Khanpur, at Rs9,125; 400 bales Feroza, at Rs9,100; and 400 bales, Ghotki, at Rs9,225.

The Karachi Cotton Association kept its spot rates unchanged at Rs9,000 per maund.

Market watchers said the market lacked trading interest for second consecutive day due to ongoing rains in cotton growing areas of Punjab, while ginners were also reluctant to enter into deals adopting a wait-and-see policy ahead of government's possible decision on lifting of duty on imports.

Also the release of Pakistan Cotton Ginners Association's fortnightly report on Jan 18 is one of the factors stopping the ginners from entering into big-lot deals, they added.

They said despite import of cotton in huge quantities the spinners were ready to buy from the local market because shipments are not expected in short time, but ginners were not ready to oblige them at the prevailing rates.

However, ginners were of the view that local prices of the commodity will remain on the higher side given a short crop this season, they added.

Source: dawn.com- Jan 14, 2020

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NATIONAL NEWS

India's textile and apparel exports to reach $300 bn by FY25: Invest India

India's textile and apparel exports are expected to touch $300 billion by 2024-25, resulting in a tripling of the country's market share globally from 5 per cent to 15 per cent, according Invest India, the national investment promotion and facilitation agency.

The domestic textile and apparel industry including handicrafts stood at $140 billion in 2018, of which $100 billion was domestically consumed while the remaining portion worth $40 billion was exported to the world market.

The textile and garments industry in India is expected to reach $223 billion by 2021.

The textiles and apparel industry contributes 2.3 per cent to India's GDP and accounts for 13 per cent of industrial production, and 12 per cent of the country's export earnings.

It is the second-largest employer in the country providing employment to 45 million people at present, and this number is expected to rise to 55 million people by the end of 2020.

FDI in the textiles and apparel industry stood at $3.1 billion during 2018-19.

India is the largest producer of cotton and jute in the world, and the second largest producer of polyester, silk and fibre.

Invest India, set up in 2009, is a non-profit venture under the Department for Promotion of Industry and Internal Trade, Ministry of Commerce and Industry, Government of India.

Source: moneycontrol.com - Jan 13, 2020

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Macroscan | What role did exports play in India's growth acceleration?

A closer look at India's export performance challenges the view that high growth in the 2000s was due to improvements in export competitiveness, especially in manufacturing

While the role of decelerating domestic demand in driving India's growth slowdown is much discussed, there is a view that this tendency has been significantly aggravated by a fall in export demand as well. Underlying the latter view is the argument that India high growth in the 2000s was driven to a substantial extent by an increase in exports, resulting from improved competitiveness.

In the years since 2013, though the ratio of services exports to GDP has remained in the 7-8 per cent range, that of goods exports to GDP has fallen sharply from 17.2 per cent in 2013 to 12.2 per cent in 2018 (Chart 1). This would have affected growth adversely even if exports have not been the principal driver of growth and deceleration in post-reform India.

But going beyond this obvious conclusion, the negative role of exports in recent times has become the basis for a narrative that accords a dominant role for them, both in making India a high-growth economy and, more recently, in losing that position.

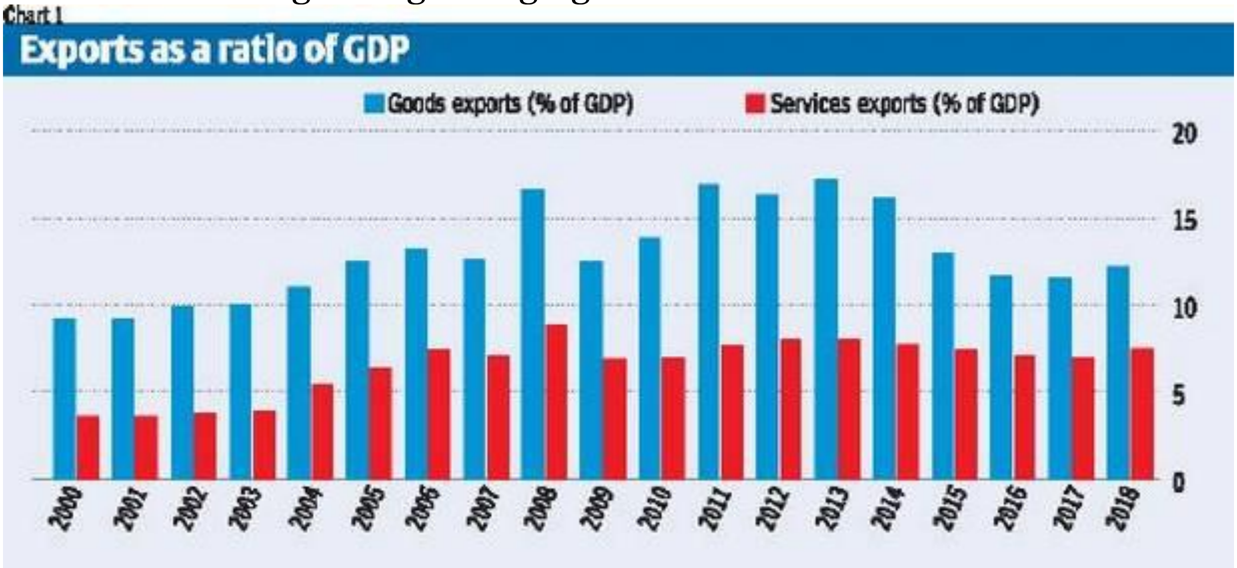
This claim is backed by evidence that during the high-growth years between 2003 and 2008, the ratio of exports of goods and services to GDP rose from around 14 per cent to more than 25 per cent.

While services exports accounted for around 5 percentage points of this 11-percentage point increase, exports of goods had also played an important role. This fact, combined with the congruence of decelerating export and GDP growth in recent years, has only strengthened the export-stimulus narrative.

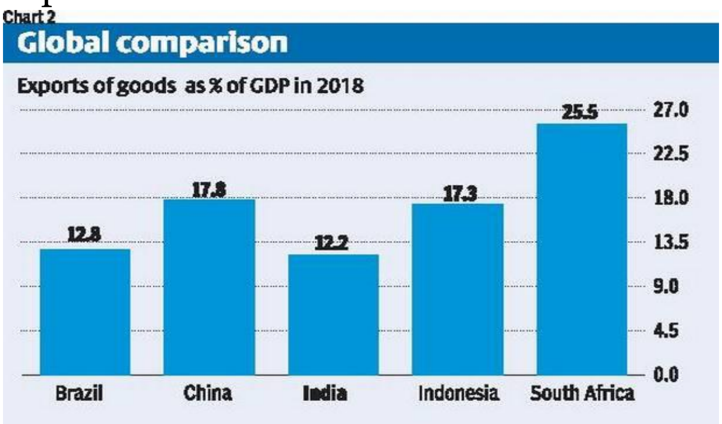
This narrative appears to be corroborated by the fact that manufactures have played an important part in India's improved export performance during the high-growth years. Thus, between 2002-03 and 2007-08, exports of manufactures contributed 12-19 per cent of the export growth in individual years, when the rate of growth of exports stood at 20-31 per cent.

Within manufactures, three important export growth areas that explained a significant part of export increases in individual years were chemicals, engineering goods and textiles.

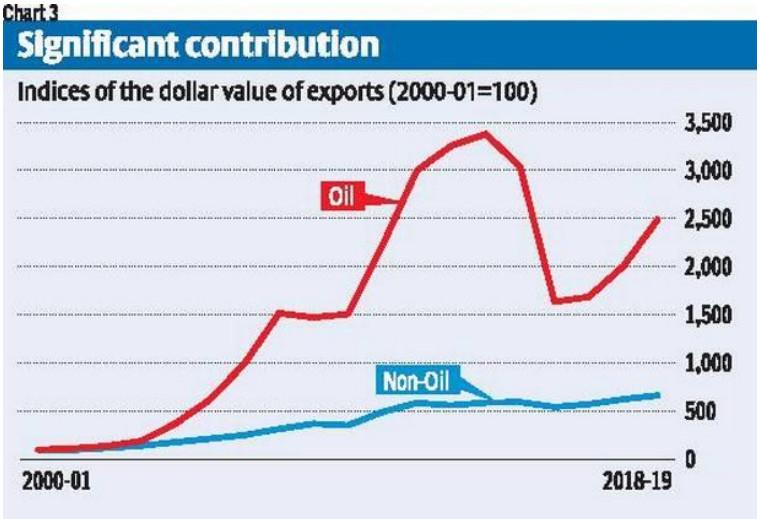
This broad-based expansion in manufactured exports, which in turn contributed a significant — even if not dominant — share of overall export growth lends credence to the view that exports played a role in making India one of the fastest growing emerging markets.



However, some aspects of India's export performance challenge this view. To start with, on average, the share in GDP of goods exports from India (12.2 per cent) is significantly lower than in other similarly-placed economies which are seen as successful exporters such as China (17.8 per cent), Indonesia (17.3 per cent) and South Africa (25.5 per cent) (Chart 2). Goods exports from India are more comparable with that from an economy like Brazil, which was neither a high-growth economy nor seen as a successful exporter.



Second, though India is a net oil importer, since it has surplus refining capacity, it exports petroleum products produced by refining imported crude. This factor, combined with the rise in oil prices during the high-growth years, resulted in significant increase in the dollar value of India's oil exports.



As Chart 3 shows, the index of the dollar value of oil exports rose distinctly more than that for non-oil exports between 2003-04 and 2013-14, resulting in a significant increase in the contribution of oil to total exports.

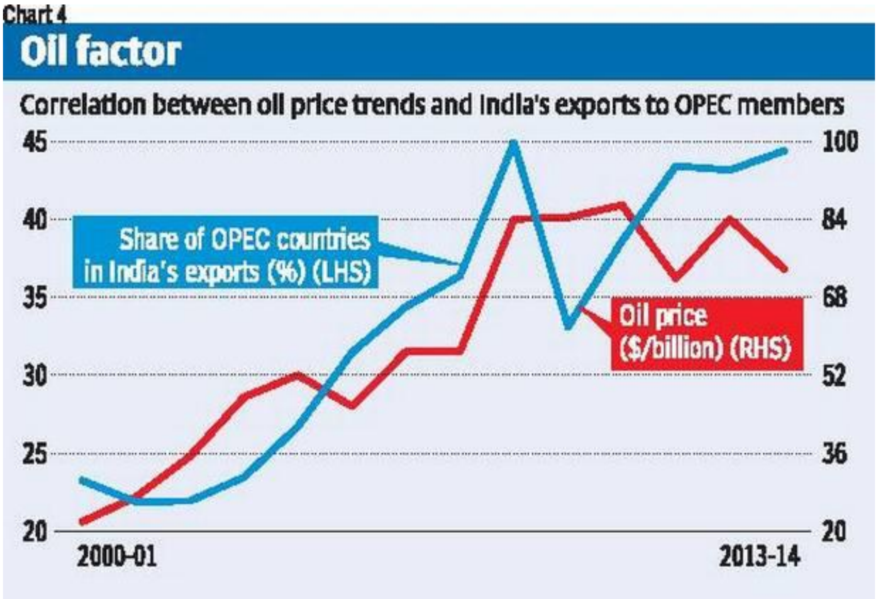
The share of petroleum products in total exports, which was less than 1 per cent in 2001-02, was between 5.4 per cent and 7.7 per cent between 2004-05 and 2007-08. Given the overall negative balance in the oil trade and the nature of the specific structural factors underlying the rise in share of petroleum product exports, this contribution cannot be seen as a meaningful explanation of India's rise to high-growth status.

Moreover, the "oil factor" seems to have played a role in the growth of non-oil exports as well. Between 2002-03 and 2008-09, the prices of West Texas Intermediate rose from a little more than $25 per barrel to close to $100 a barrel. This restored buoyancy to the countries that were members of OPEC, including the Gulf countries that have been important destinations for India's exports since the 1970s.

Oil prices

Not surprisingly, a collateral effect of the oil price rise was an increase in India's exports to the OPEC countries, whose share in India's total exports rose from 25 per cent to 40 per cent in that period. Since this was a period when aggregate non-oil exports were rising as well, the increased demand from the oil-exporting nations in the Gulf region must have played a significant role in driving that trend (Chart 4).

There are two implications of this correlation between oil price trends and exports to the Gulf. The first is that demand side influences resulting from developments in destination countries — rather than supply side factors, such as an improvement in India's competitiveness — account for this component of the increase in exports.



Second, since oil prices are volatile and are structurally on a downward trend because of the emergence of both new sources and forms of supply, the rise in exports due to this factor is not a longer-term tendency.

Put together, these features of India's export performance during the high-growth years suggest that higher growth was not the result of a change in India's competitiveness, especially in manufacturing competitiveness.

The acceleration of growth was the result of an expansion of domestic demand, which in turn was due to increased consumption and investment, substantially financed with credit.

This implies that the recent slowdown is primarily driven by a deceleration in domestic demand, rather than by the deceleration in India's export growth, though the latter makes an already adverse situation worse.

Source: thehindubusinessline.com - Jan 14, 2020

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Mills seek govt intervention for sale of cotton by CCI at market price

A spinning mills' body has asked the Union government to direct the Cotton Corporation of India (CCI) not to hoard the commodity and sell it at market price on a regular basis.

"China, the largest consumer of cotton, has depleted its cotton reserves significantly in the last few years. Moreover, its trade war with the US is expected to end soon, China has geared up to import huge volume of cotton from the US and India (the largest cotton producing countries in the world), said Ashwin Chandran, chairman of the Southern India Mills' Association (SIMA) in a communication to the union textiles ministry.

As per the market information, over 20 lakh bales of cotton have already been exported from the current cotton crop, and export might reach the level of 60 lakh bales as against 50 lakh bales estimated by CAB.

If the same trend continues, it may result in panic situation in the Indian cotton market. Hence, the union textile minister should instruct CCI to sell the cotton at market price so that the spinning mills could procure the same at a competitive price, the SIMA chairman pointed out.

According to him, mills were not able to source cotton from CCI as the price quoted by CCI is exorbitantly high when compared to the market price. CCI is quoting Rs 46,000 as the base price as against the market price of Rs 40,000 per candy of 355 kg.

CCI should adopt industry-friendly trading policy which would not only facilitate to mitigate the current challenges, but also enable the industry to grab the market opportunities in the aftermath amidst the US-China talks to end the trade war, he added.

He said that the pre-dominantly cotton based Indian textile industry often faces crisis due to volatility in cotton prices. Apart from the multinational cotton traders, who cover cotton in large volume during peak season, hoard the cotton and speculate the prices. The trading policy of CCI also often aggravates the market.

Despite union textile minister Smriti Irani's efforts in revamping CCI cotton trading policy by bringing uniformity in the benefits extended by CCI irrespective of volume to protect the interests of MSME spinning units, CCI continues the practice of holding the cotton in large volume and quoting higher price than the actual market price that affects the competitiveness of the actual user industry, Ashwin said.

The minimum support price (MSP) was steeply increased by 26% to 28%. CCI has to exercise MSP operation during the current season. The government allotted Rs 2,017 crore in the union Budget 2019-20 to exercise MSP operation. As the cotton price varies between Rs 4,700 and Rs 5,250 per quintal depending upon the quality, and MSP is fixed at Rs 5,550 per quintal, CCI is covering around 50% of the cotton that arrives at the market under MSP operation.

Though CCI started the procurement during November, it has started the offer only during the last week after accumulating over 35 lakh bales of cotton and quoting at high price than the actual market price, he said.

Source: financialexpress.com - Jan 14, 2020

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Government may address inverted duty structure in Budget

To boost manufacturing as part of the 'Make In India' campaign, the government is expected to address the issue of inverted duty structure, especially in sectors such as chemicals and electronics, in the forthcoming Budget, sources said. Inverted duty structure refers to taxation of inputs at higher rates than finished products that results in build-up of credits and cascading costs.

Industry has been demanding that government should remove the anomalies with regard to taxation of raw material and other inputs, the sources said.

The commerce and industry ministry has proposed to the finance ministry to address the inverted duty structure on several products such as consoles, panels, certain steel products, calcined alumina, ethyl acetate, and viscose staple fibre, they added.

Inverted duty structure impacts the domestic industry adversely as manufacturers have to pay a higher price for raw material in terms of duty, while the finished product lands at lower duty and cost.

Further, concessions given by India under free trade agreements to its partner countries has also resulted in inverted duty structure that makes Indian manufactured goods (those dependent on imported raw materials) uncompetitive in domestic market.

India has implemented FTAs with many countries including Japan, South Korea and Singapore, and is in discussion with several other nations.

The Index of Industrial Production (IIP) growth during April-November period of the current fiscal came in at 0.6 per cent, down from 5 per cent in the same period of 2018-19.

Source: economictimes.com - Jan 13, 2020

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Textile minister urged to intervene in CCI cotton sale

The Southern India Mills Association on January 13 urged Union textile minister Smriti Irani to intervene in the Cotton Corporation of India trading policies and direct it to avoid holding cotton and sell it at market price on a regular basis to arrest price escalation.

SIMA Chairman Ashwin Chandran said that as per market information, over 20 lakh bales of cotton have already been exported from the current crop and export might touch 60 lakh bales as against 50 lakh estimated by Cotton Advisory Board.

If the same trend continues, it may result in panic situation in the Indian cotton market, he said in a statement. In view of this, Chandran urged the minister to instruct CCI to sell the cotton at market price so that spinning mills could procure the cotton at a competitive price.

He pointed out that mills were not able to source cotton from CCI as the price they quoted was exorbitantly high at Rs 46,000 as base price against the market price of Rs 40,000 per candy of 355 kg.

He also said industry friendly cotton trading policy by CCI would not only facilitate mitigating the current challenges, but also would enable the industry grab the market opportunities in the aftermath of US and China holding talks to end the trade war shortly.

As the China-US trade war was likely to end and also since China's cotton reserves had depleted significantly in the last few years, he said China has geared up to import huge volume of cotton from USA and India, the largest cotton producing countries in the world.

Source: moneycontrol.com - Jan 13, 2020

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Govt invites proposals to study Japan''s textile, apparel industry

The government has invited proposals from consulting firms to undertake a study on Japan''s textile and apparel industry to boost domestic exports and enhance mutual collaboration. The selected firm will assess areas of partnerships that can be explored between India and Japan.

It will also analyse various trade agreements signed by Japan, including the comprehensive economic partnership pact (CEPA) with India, tariff preferences received from major trading partners, its most traded products globally -- including in bilateral trade with India, tariff and non-tariff measures faced by Indian exporters, among others.

The proposed study will include aspects such as size and structure of industry, major units, role of Japanese importing conglomerates, trends in production (apparel & textiles), size of the domestic market, domestic consumption patterns, contribution of the sector to the Japanese economy, size of domestic textile machinery manufacturing, areas of partnerships that can be explored with India in the machinery segment etc, the Textiles Ministry said in the Request for Proposal.

Source: outlookindia.com - Jan 13, 2020

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Cotton Exports Gain Pace As Overseas Price Rise, Rupee Weakens

Rising exports from India could put pressure on global prices for cotton, which are trading near their highest in eight months.

Cotton exports from have gained momentum due to a depreciation in the rupee and as prices have rallied in overseas markets, prompting Asian buyers such as China, Bangladesh and Vietnam to raise Indian purchases, dealers said.

Rising exports from India could put pressure on global prices for cotton, which are trading near their highest in eight months, and hurt shipments from rivals such as the United States and Brazil to key Asian buyers.

"In the last fortnight very good business happened. China was making purchases for prompt shipment," Arun Sekhsaria, managing director of exporter D.D. Cotton, said.

India has shipped 1 million cotton bales since the 2019/20 marketing year started on October 1 and another 700,000 bales have been contracted for shipment in January and February, five exporters told Reuters.

Until few weeks ago, Indian traders had been struggling to sign export contracts as local prices exceeded global prices after New Delhi raised the minimum buying price to support farmers.

India has raised the minimum raw cotton buying price by 38 per cent in two years, to Rs 5,550 per 100 kg.

But a rebound in global prices and a fall in the rupee has made Indian cotton competitive in the world market, Mr Sekhsaria said.

Bangladesh and China were active buyers, while Vietnam and Indonesia are making small purchases, said a Mumbai-based dealer with a global trading firm.

Indian cotton was sold at around 75 cents per pound on a cost and freight basis (C&F) to China and 76 cents to Bangladesh for shipments in January, dealers said.

India's cotton production in 2019/20 is likely to jump 13.6 per cent to 35.5 million bales due to a bigger cultivated area and a boost to yields from above-average monsoon rains, a leading trade body has forecast.

New Delhi's exports in 2019/20 could rise 19 per cent from a year ago to 5 million bales if global prices remain firm in the rest of the season, said a New Delhi-based dealer whose firm trades globally.

"Right now, Indian cotton is 3 to 4 cents cheaper than the supplies from Brazil and the United States. There is good demand," the dealer said.

But Pakistan, usually a leading buyer of Indian cotton, has not been making purchases due to tensions between the nuclear-armed nations over disputed the Kashmir region, exporters said.

Indian cotton is cheaper for Pakistani buyers, but they cannot purchase due to restrictions imposed by Islamabad, a New Delhi-based dealer said.

Source: ndtv.com - Jan 13, 2020

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Data analytics to curb fake input tax credit claims

The Department of Revenue has asked the GST data analysis wing to scrutinise all past and pending refund claims country wide for inverted duty structure, after 931 cases of fraudulent claims were identified using data analytics.

Revenue secretary Ajay Bhushan Pandey is reviewing the matter of fraud input tax credit (ITC) claims on a weekly basis, a government official said, adding that the department will verify and scrutinise taxpayers that have purchased goods from tax evading non-filers.

The direction has been issued to curtail ITC frauds at a time when the government wants to reach tax collection targets of Rs 4.45 lakh crore for the period between December 2019 and March 2020. The move assumes significance since refunds of over Rs 28,000 crore have been filed by over 27,000 taxpayers so far, on account of inverted duty structure in 2019-20.

“Data analytics will be used to look at all refunds since 2017 with the aim to weed out unscrupulous refund claimants or fly-by-night/shell business entities and their modus operandi for availing fake ITC,” the official said.

Data analytics has been used to zero in on fraudulent GST refund claims on many occasions across the country, examples of which were discussed during the second national conference on GST last week, and allowed authorities to identify a few exporters with ‘star’ status—untraceable at their registered addresses—that were fraudulently availing IGST refund through fake invoicing.

The official said GST authorities have booked 6,641cases involving 7,164 entities till November 2019 and have recovered around Rs 1,057 crore. Most cases are from the Kolkata zone followed by Delhi, Jaipur and Panchkula (Haryana).

Data analytics was used to unearth a fraud encashment of ITC credits in Delhi where a network of over 500 entities was created comprising fake billers, intermediary dealers, distributors and bogus manufacturers of hawai chappals.

The bogus ‘manufacturers’ created in Uttarakhand were making supplies to other fictitious entities and retailers in Gujarat, Maharashtra and Tamil Nadu.

Source: economictimes.com- Jan 13, 2020

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Pink bollworm infestation detected in Vidarbha

Officials blame the infestation to the Ratoon cropping method

The cotton season is almost over in the Vidarbha region of Maharashtra, but farmers, especially in areas such as Yavatmal, who have resorted to the Ratoon method of cropping cotton, have observed about 20 to 40 per cent pink bollworm infestation in their fields. The exact area of the infestation is being estimated by the Maharashtra Government.

In Ratoon cropping method, farmers don't remove the plants, but continue to take a smaller crop on the same area, which adds to their income. A Ratoon crop only gives one third or one-fourth of the regular yield.

A senior government official told BusinessLine that due to the Ratoon cropping method, pink bollworms are surviving and thriving in the region. Traditionally cotton has been a six-month crop, which isplanted in May and June, and harvested by December, but due to the introduction of BT seeds, the life of a six-month crop has increased to 10 to 12 months.

It has been observed that due to the Ratoon cropping method, the dormant larvae of pink bollworm survives in the cotton seeds after harvest, and when the time is right, it again enters the fields.

"Usually a cotton plants get infested by October, but Ratoon cropping has led to the plant being attacked even in July.If farmers continue to use such practices, then they will have to bid goodbye to BT cotton seeds in some years," the official said.

Source: thehindubusinessline.com- Jan 13, 2020

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CCI releases market study on e-com in India

Ensuring competition on the merits to harness efficiencies for consumers, increasing transparency to create incentive for competition and to reduce information asymmetry and fostering sustainable business relationships between all stakeholders are the enforcement and advocacy priorities in the e-commerce sector for India's Competition Commission of India (CCI).

CCI arrived at this conclusion after conducting a market study on e-commerce, which started in April 2019 and whose report was released recently. The objective was also to identify impediments to competition, if any, emerging from e-commerce and to ascertain CCI's enforcement and advocacy priorities in light of the same, according to an official release.

The insights gained from the study will inform anti-trust enforcement in these markets. Bargaining power imbalance and information asymmetry between e-commerce marketplace platforms and their business users are at the core of many issues that have come up in the study.

Without a formal determination of violation of competition law, improving transparency over certain areas of the platforms' functioning can reduce information asymmetry and can have a positive influence on competition outcomes, the study found.

The report enumerates certain areas for self-regulation by e-commerce marketplace platforms to reduce information asymmetry and promote merit-based competition.

CCI has urged e-commerce platforms to put in place transparency measures like search ranking; collection, use and sharing of data; an user review and rating mechanism; revision in contract terms and a transparent policy on discounts.

Source: fibre2fashion.com- Jan 13, 2020

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Retail inflation surges to over 5-year high of 7.35% in December

Retail inflation surged to an over five-year high in December on the back of rising food prices, breaching the Reserve Bank of India's (RBI) upper tolerance limit of 6 per cent at the time of economic growth slowdown.

Inflation based on the consumer price index (CPI) rose to 7.35 per cent in December, against 5.54 per cent in the previous month and 2.18 per cent in December 2018, data released by the Ministry of Statistics & Programme Implementation (MoSPI) showed on Monday. December inflation was the highest since July 2014, when it stood at 7.39 per cent. The CPI last breached RBI's upper band of inflation target in July 2016.

Food inflation shot up to 14.12 per cent in December from 10.01 per cent in November on account of rising prices of vegetables and pulses. In December 2018, food inflation was a negative 2.65 per cent. Cities witnessed higher inflation of 16.12 per cent, while rural areas saw 12.97 per cent inflation in food.

Economists say now it is up to the Budget to address the issues in agriculture to bring down high food inflation which keeps recurring.

"Though we expect headline CPI inflation to correct sharply in January and further in February, from the unpalatably high 7.35 per cent recorded in December 2019, it is expected to remain sticky above 4.3 per cent in the next few quarters," said Aditi Nayar, principal economist, ICRA.

The rate of price rise in vegetables surged to 60.5 per cent as against 36 per cent, mainly on account of triple-digit inflation in onion and garlic. Onion inflation doubled to 328 per cent in December from 128 per cent in the previous month.

Inflation in garlic inched up to 153 per cent from 144 per cent in November. Vegetable inflation in urban areas touched 75 per cent, while it was 53 per cent in the country-side. Price rise in pulses stood at 15.4 per cent.

Core inflation picked up marginally to 3.7 per cent in December, up 0.2 per cent from November. Tariff hike in December also pushed up inflation in telecom to 10.01 per cent against 2.83 per cent in the previous month.

CRISIL chief economist D K Joshi said a closer look shows that the current spike in inflation comes from transitory or idiosyncratic factors which typically don’t last long. “RBI targets headline inflation so it needs to contain that even if the rise is on account of transitory factors,” he said.

If food inflation returns to its trend level of over 5 per cent, maintaining the 4 per cent headline target will be challenging once the economy and core inflation rebound, Joshi said. Inflation in health fell to 3.80 per cent in December from 5.49 per cent in the previous month and in education to 3.73 per cent from 5.21 per cent.

Inflation in fuel was a mere 0.7 per cent. Inflationary risks on global crude oil increased on account of tensions in West Asia. The RBI monetary policy committee (MPC) had kept interest rates unchanged in December citing "much higher than expected" inflation. It followed five cuts of 135 basis points earlier in the year. The MPC will decide on the policy rate on February 6, days after Budget 2020-21.

“The job of RBI has become more complicated due to growth slowdown, very little window to play around with the policy rate on the down side and retail inflation now higher than the targeted level. Under such circumstances, all eyes are now on the forthcoming Budget,” said Devendra Pant, chief economist, India Ratings.

Source: business-standard.com- Jan 14, 2020

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