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# IBTEX No. 179 of 2018 August 29, 2018

USD 70.38| EUR 82.26 | GBP 90.54 | JPY 0.63

## Cotton Market

| | | |
|---|---|---|
| **Spot Price ( Ex. Gin), 28.50-29 mm** | | |
| **Rs./Bale** | **Rs./Candy** | **USD Cent/lb** |
| 22565 | 47200 | **85.88** |
| **Domestic Futures Price (Ex. Gin), October** | | |
| **Rs./Bale** | **Rs./Candy** | **USD Cent/lb** |
| 23190 | 48508 | **88.26** |

| | |
|---|---|
| **International Futures Price** | |
| NY ICE USD Cents/lb ( Dec 2018) | 83.58 |
| ZCE Cotton: Yuan/MT ( Jan 2019) | 16,115 |
| ZCE Cotton: USD Cents/lb | **91.16** |
| **Cotlook A Index – Physical** | **93.05** |

**Cotton Guide:** In last four trading sessions ICE US Cotton future for December delivery has moved up from 81.13 cents to 84+cents and this morning in early Asian session on Wednesday the counter is trading at 83.83 cents up by quarter per cent. On Tuesday the contract ended at 83.58 cents per pound. There has been buying in cotton for the past few days since it has taken good support near 81 cents.

While we connect to the commodity fundamentals there has been no major development except the fact that supply scenario in the US continues to be tight, uncertainty about Indian crop prevails, moderate funds involvement from lower levels and unfixed on-call sales positions have been booked near lower level has supported price to remain on the higher trajectory.

However, we are not so sure about the trend to hold so strong unless it clear the hurdle of 84.50/85 resistance zone or there has be so change in the fundamental factors to drive price higher. Besides, the trading volumes are also not being so high and maintaining aggregate volume of around 20K contracts while the aggregate open interests is maintaining around 250-255K contracts. Meanwhile, certificated stocks were last reported at 20,154 bales, unchanged for ten consecutive sessions. There were no bales awaiting review at the ICE exchange.

As discussed in the previous report, USDA announced details of their $12 billion farm aid package late yesterday. Cotton is included under the Market Facilitation Program. Further details of the program can be found at USDA Report

For the day ICE cotton to trade in the range of 83.30 to 84.60 cents per pound. The other counterpart ZCE cotton for active January 2019 contract this morning is seen trading steady to marginally lower. However, the overall trend for the day seen to be sideways to higher.

On the domestic front Indian spot price for S-6 of the remaining stocks of 2017-18 traded around Rs. 47200-47400 per candy ex-gin. The arrivals have been almost negligible. However, on the futures front the active October future which made an intraday low of Rs. 22990 rebounded to end the session at Rs. 23190 up by Rs. 160 from previous close. The trading range for the day would be Rs. 23000 to Rs. 23300 per bale. Note: As per parity the basis spread between ICE and MCX cotton is around 8.70 cents where the latter is trading at a premium.

**FX Guide:**

Indian rupee has depreciated by 0.3% to trade near 70.33 levels against the US dollar. The US dollar is supported by optimism about US economy amid better than expected economic data. Also weighing on rupee is choppiness in equity market amid waning optimism about US-Mexico bilateral deal and persisting worries about US-China trade conflict.

The general strength in Chinese Yuan amid central bank measures to prop up the currency has also pressurized rupee. Rupee may remain under pressure as optimism about US economy supports the US currency. USDINR may trade in a range of 70.05-70.4 and bias may be on the upside..

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

## NEWS CLIPPINGS

# INTERNATIONAL NEWS

## How the Trump Administration Can Make 'Made in USA' Fashionable Again

President Trump was swept into office on a promise to reset U.S. trade policy to promote U.S. manufacturing jobs. And while there seems no question that his rhetoric–whether it's on the stump or by the tweet–supports this, many question whether his actions will in fact accomplish this goal.

After all, one of his first actions in office was to pull the U.S. out of the Trans Pacific Partnership (TPP), even though that agreement would have been a boon for U.S. manufacturers, such as domestic leather shoe companies who are effectively shut out of the Japanese market by huge tariff rate quotas.

Similarly, the president's latest efforts in prosecuting the trade war with China have uncannily zeroed in on the very items (machinery, fabrics, components) that we use to make clothes, shoes and other finished textile products in the United States.

The president's tariff war, of course, has also triggered retaliation from top trading partners like Europe and China that would erect new barriers to U.S. products in foreign markets. Both developments harm U.S. manufacturing.

Although our industry supports many more U.S. jobs (about 4 million at last count) beyond those attributed to manufacturing, there is a definite interest on the part of the industry in growing its U.S. manufacturing footprint. Indeed, this is a trend that has been underway for about a decade, and we often hear from our members inquiring about what other steps can be taken to accelerate this process.

Here are four needle-ready ideas we are working on that Washington can embrace to create Made in USA jobs.

### Increase U.S. TPLs into Canada

Under the North American Free Trade Agreement (NAFTA), the United States can ship a certain amount of apparel duty-free into Canada, even though that apparel doesn't meet the strict yarn forward rules of origin. This means that apparel made in the U.S. can enter Canada duty-free even if it doesn’t contain originating yarns and fabrics. But there is a catch. Cotton and synthetic apparel can only enter up to a limit of 9 million Square Meter Equivalents (SME) per year. Wool apparel is capped at just over 900,000 SMEs. Unchanged since NAFTA took effect 25 years ago, these levels now act as a constraint on U.S. apparel exports to one of our top markets. Lifting these limits–as part of the NAFTA renegotiation that is entering the home stretch–would give us the ability to export more U.S.-made apparel to Canada virtually overnight.

**Incentivize U.S. exported content in U.S. imports**

Every day, the U.S. exports cotton, wool, yarns, fabric and hides around the world. Every day, some of this exported U.S. content returns to the U.S. in the form of garments, handbags and shoes. A long-standing provision in U.S. law, known as Chapter 9802, allows importers to deduct the value of these components if they have not been advanced in value abroad, and only assembled into the final product.

By deducting the value of these U.S. components, importers can then pay tariffs on a lower value and achieve significant duty savings. Sadly, most of the stuff we export is advanced in value, making this provision largely useless.

But Congress can change this outdated concept to allow importers to deduct any U.S. content, whether it is in the form of a finished component or not. This amendment would instantly incentivize the use of U.S. content in offshore production operations, stimulating U.S. exports of yarns, fabric, hides and more.

And it would give importers who use that U.S. content a duty benefit, enabling them to cut the outsized duty burdens our industry faces.
Reduce duties on U.S. textile imports

U.S. trade policy regularly recognizes when goods are not commercially available. U.S. free trade agreements often relax strict yarn forward rules of origin in cases of short supply. The Miscellaneous Tariff Bill (MTB) provides a periodic opportunity to temporarily reduce or eliminate duties on items that are not found domestically.

We can build on these ideas to create a permanent way to eliminate duties on textile inputs, provided those inputs are not produced in the U.S. in commercial quantities. Such a program, which exist in Canada and other developed countries, would give domestic apparel manufacturers a tax break on their most expensive input. It would also eliminate a duty inversion that exists in some FTAs, which allow duty-free access for finished goods made with non-available inputs, but charges full duty on those same fabrics that are imported by domestic manufacturers.

**Rein in FPI**

Likely the single biggest threat to Made in USA apparel comes from the Federal Government itself through its insistence on awarding preferential status to the government-run system of prison factories known as Federal Prison Industries (FPI).

FPI get first pick of all federal contracts and gets to compete as small businesses even though private factories can perform the job faster, better and cheaper. Working conditions are so bad that prisoners often go on strike–and are striking this month–but that doesn't stop the Federal Government from featuring FPI in its slick Select USA marketing campaigns as a destination for foreign investment.

Although this is technically not a trade policy issue, our trade policy does magnify the absurdity of the problem. As the Trump administration has sought to expand opportunities for domestic prison factories, Congress has clamped down to make it illegal to import products into the U.S. if prison labor is used anywhere in that product's supply chain.

While U.S. companies aren't interested in importing goods made with foreign prison labor, they don't want to compete against subsidized domestic prison labor either. Reforming FPI should be a top priority of anybody who wants to earn their Made in USA cred.

Source: sourcingjournal.com- Aug 28, 2018

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# Philippines aims at FTA with Turkey to boost garment industry

The Philippines is aiming at a free trade agreement with Turkey. The aim is to help revive the garment industry and take advantage of Turkey's weak currency.

The Turkish lira has suffered a major beating following the country's trade standoff with the United States. The Philippines sees this is an opportunity for garment manufacturers because Turkish textiles have become more price competitive with the depreciation of the exchange rate.

The free trade agreement could introduce a zero-tariff regime. Rates are between 10 and 20 per cent currently. Since the abolition of textile quotas by the World Trade Organization in 2005, garment and textile enterprises in the Philippines which relied on quotas faced difficulties leading to closure of factories and downsizing.

Spinners, who turn raw material to yarn then to fabrics for garment factories, have dropped in numbers. Out of more than 30 spinner companies, only two have remained.

At present, 39 per cent of the industry is composed of exporters, and 61 per cent is subcontractors, which include small contractors catering to garment exporters, or backyard businesses.

The industry is gearing up to jumpstart its resurgence and gain back its reputation as a competitive player in the domestic and international markets.

Source: fashionatingworld.com- Aug 28, 2018

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## Used clothing as unlikely competition for Nigerian textile manufacturers

For many micro and small businesses who deal in clothing and apparels, second-hand clothes from many developed countries dominate their stalls, except in cases where cheaper materials are imported from Asia or sub-standard materials smuggled from neighbouring countries.

Bend down select or Okrika as they are popularly known in Lagos, Nigeria form the mainstay of informal traders, accounting for a high volume of clothing sales with the exception of unsewn fabrics.

With consumers' purchasing power declining by the day, second-hand clothes have become attractive to the low-income gap group who believe that such clothes, though affordable in some cases, have higher quality than the new sewn fabrics often imported from China and produced in the eastern part of the country with foreign designers' labels.

Overwhelmed by challenges of smuggling, power challenges, access to credit among others, the main stay for local manufacturers has been the cultural practice of procurement of local fabrics for ceremonies and sometimes institutions that make use of uniform wears.

Nigeria was hitherto ranked the second largest textile hub in Sub-Saharan Africa queuing behind South Africa, representing 63 percent of the textile capacity in the West African sub-region before the neglect and policy inconsistencies that capsized the sector.

Figures showed that the number of textile and garment factories after the storm, fell from 175 in the mid 1990's to less than 25 in 2010 while employment dropped from 137,000 in the 1990's to 60,000 in 2002 and further to 24,000 in 2010. The number has since continued to be on a decline.

As a consequence, this led to the decline in cotton lint production from 98,000 in 2006 to 55,000 tons in 2010 and export of cotton went down from $44 million to $31 million within the same period. The National Bureau of Statistics puts the value of the nation's trade cotton lint for the first quarter of 2018 at N139.15 million.

## Stakeholders explain perspective

Considering Nigeria's poverty index, trade in second-hand clothes may seem economically justifiable, but many eastern African nations are beginning to look beyond the effect of such practice on their domestic textile industries to issues of dignity preservation.

Director General, Nigerian Textile Manufacturers' Association (NTMA), Hamma Kwajaffa in chat with The Guardian, explained that the second-hand clothes are not seen as threats but activities of smugglers who imitate local brands and also sell below production costs of local producers.

“In our own case, we largely produce fabrics and are only contesting with the smugglers of our own fabric that come in through the borders, find their ways into our markets, compete with our products and sell it lower and cheaper prices to the detriment of our production.

“In this aspect, we are not winning because they are selling cheaper and consumers don't worry. For consumers, their concern is that once the product is okay for them, they go ahead and buy them. For us, we are unable to meet up with the kind of price competing brands offer because of high cost of production.

“What we want is for government to implement the executive order that mandates ministries to buy made in Nigeria directly from the manufacturers.

This order is presently being ignored, especially by agencies that need fabric for their uniforms. The Ministries of Defence and Interior are not complying with the directive. They keep importing their uniforms from China.

“We are not competing with second hand clothing at all. Once second hand clothes are sterilized, there will be no problem with used clothing because they are cheaper and okay”, he added.

Kwajaffa however acknowledged the vacuum second-hand clothing fill in terms of mass production of various sizes and bespoke designs which often times are expensive when produced based on individual demand.

Data from the Manufacturers Association of Nigeria (MAN) for the second half of 2017 showed that production in Textile, Wearing Apparel, Carpet, Leather and Leather products sectoral group increased to N25.03 billion while the value of production in the sector totalled N48.21 billion in 2017.
Why consumer prefer second-hand clothes

Some of the consumers affirmed the desire for new clothing but constrained by paucity of funds while also acknowledging the quality preference in procuring used clothes.

Oufunjumba Ruth told The Guardian that if she had money, she would prefer to buy new clothes, adding that second hand clothe is 'cheap and strong'.

"Nigerian clothes are not as good as second hand clothes, because once you wear them and wash once, the colour fades.

"I do not feel somehow wearing second hand clothe because I bought it with my money, and if I don't tell you it is second hand clothe how would you know?" she asked.

Obasa Precious said: "I prefer Okrika, because it has quality than new one. I save money and cost from buying new cloth by buying used one, and still if I wear it nobody will know it is used. Especially for my children who play around, new cloths are a waste of money; they need play wears so I buy used clothes for them. It is not like I don't like Nigerian-made clothes or fabric, the expenses are much. The money I will use to buy material to sew is enough for me to buy 10 clothes if not more that in okrika. And again most of the Nigeria-made clothe doesn't last".

Ogunfeso Tolani said: "I prefer new clothe. I cannot afford to wear what has been worn by someone else. I don't know what possesses that person or even what that clothe has been used for before been sold".

Qudirat Opeyemi has no preference as long as the cloth looks good on her.

She said: "I can buy anyone both used and new. I pick anyone because any clothe I see that is nice I don't mind if it is new or second hand. I buy anyone that I like as long as it looks good on me. I don't mind the whereabouts of the cloth as far as it is nice and good to wear".

Ernest Chinedu prefers buying new clothes because of the value and quality tagged to it. “I buy new clothes to keep up with the latest trends and honour special occasions, he said.

Although many garment manufacturers are taking advantage of the African Growth and Opportunity Act (AGOA), which allows duty-free access to the U.S. market for more than 6,500 products, to gain access to the global markets, there are opportunities waiting to be harnessed in the mass market that seeks quality ready-made clothes in various sizes at cheaper prices.

Source: guardian.ng- Aug 28, 2018

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## USA: Pricey Denim Isn’t Always High Quality, New Study Finds

A new study reveals that price doesn’t always mean quality when it comes to denim.

The study, “Price and perceived product quality: a comparison of denim jeans in three price categories,” led by Behnoosh Ghaani Farashahi, a product development graduate researcher at North Carolina State University, tested and analyzed the quality of three denim brands. And the findings, she says, may make denim shoppers rethink their purchases.

The jeans analyzed in the study were from better ($129), moderate ($69) and budget ($9.95) price categories. All of the analyzed jeans were 100 percent cotton with similar coloring, aesthetic styling, and fit. And all pieces had a waist size of 36 inches and inseam of 34 inches.

“Without any stretch and they were all the same size. They were all medium weight denim, and they were pre-washed,” Farashahi said.

The experiment was a process of multiple launderings according to their care label. The jeans were evaluated after the first and fifth cycle for “color difference, colorfastness to dry and wet crocking, fabric breaking strength, seam strength, smoothness retention and dimensional change.” The results were then compared to determine the product quality in relation to the price.

In the results, Farashahi said the $129 better jean had the highest thread count and the most expensive supporting material. It had the least amount of color fading, which was then followed by the budget jean, and lastly the moderate jean.

However, both better and moderate jeans had poor colorfastness to crocking than the cheapest jean and had the lowest level of fabric and seam breaking strength.

Though the $129 jean was labeled “premium denim,” the fabric breaking strength rated low in performance standards for 100 percent cotton.

The $9.95 jean had the most irregularities in the fabric surface and stitch and seam defects, thus making it the lowest in fabric quality. Although the budget jean was lower quality in fabric, it had the closest to standard garment measurements for the selected size. The moderate jean was the most out of range where size standards were concerned.

After the washing, the study found that all of the jeans shrunk in inseam and hip measurements. The better jean had relatively low dimensional change as compared to the other jeans, which Farashahi said may have been due to the higher fabric count. The moderate and budget jeans experienced so much shrinkage that the jeans did not fit their original sizing.

Based on the study, price categories don’t necessarily reflect the different dimensions of product quality where denim is concerned. The most expensive jean had the best product specifications and visual appearance, but it didn’t display high performance in relation to fit, durability and color performance.

The better jean would appeal to consumers who are more interested in style and design than longevity.

Consumers who need a jean with durable and aesthetically pleasing aspects would be attracted to the moderate jean, while consumers who are price-conscious would be interested in the budget jean.

The study, according to Farashahi is significant for consumers because it reveals that neither jean is “100 percent bad or 100 percent good in quality.”

Consumers consider quality based on both performance and design, so not only should consumers be educated about their denim purchases, but retailers should be supplying them with the types of testing information that could help them make those decisions.

Source: sourcingjournal.com- Aug 28, 2018

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## Bangladesh: Garment exports to India up 115 per cent in 2017 fiscal

In fiscal 2018, Bangladesh's readymade garment exports to India were up 115 per cent compared to exports in fiscal 2017. Of the total amount, earnings from knitwear products were 89.75 per cent higher than the same period a year ago. Earnings from woven products were up 124.79 per cent.

Also, since India has raised duties on clothing imports from China, this has opened an opportunity for Bangladesh readymade garment exporters. India has doubled import duty on about 328 textile and apparel products from China.

As a non-traditional export destination, India is a potentially great market for Bangladesh. It is logical if India's textile products imports from China decrease, Bangladesh can grab the space.

Since India has a large population and a growing middle-income group, there is scope for exports from Bangladesh to Indian markets to see a sharp rise. Bangladesh already enjoys duty and quota-free market access to Indian markets.

Now Bangladesh manufacturers have to develop good relations with global retailers, who are opting to open outlets in India. Non-tariff barriers are a great challenge for Bangladesh in penetrating Indian markets.

In the last fiscal year, Bangladesh's export earnings from the apparel sector were 8.76 per cent higher compared to previous year earnings.

Source: fashionatingworld.com- Aug 28, 2018

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# Pakistan: Govt to promote regional trade, export-led growth: Razaq

Advisor to Prime Minister on Commerce, Textiles, Industries production and Investment, Abdul Razaq Dawood said Tuesday that the incumbent government was determined to promote regional trade and export-led growth of economy.

“Promotion of regional economic and trade integration is a priority of the government for increasing trade with regional countries including Iran, India, Afghanistan and Central Asian States,” he told APP in an exclusive interview here.

The advisor said the regional trade would benefit Pakistan in enhancing exports and reducing the ever-increasing trade deficit it has been facing for years now as it had touched around $37.6 billion figure during the fiscal year 2017-18.

He said that the government would give priority to promotion of export-led growth by enhancing exports and reduce dependence on imports, adding the it had identified many sectors that would boost exports from the country.

“Primarily, we are focusing on increasing exports in engineering and Information Technology (IT), chemicals and innovated technology items by enhancing their competitiveness in global market,” he added.

He said that export promotion strategy would focus on increasing country’s exports to compete with regional and global players in the international market.

Replying to a question, the advisor said that the agricultural exports alone would not enhance the country exports, highlighting the importance of switching to value addition in this particular field to promote export of its value-added products.

He said special attention would also be given towards promotion of textile exports, particularly knitwear, apparel, garments, leather products and rice besides promoting the furniture industry of the country which has great export potential.

He said that the government, in consultation with stakeholders, would devise comprehensive policy guidelines to promote textile and industrial exports.

“I would call representatives of textile and rice sectors and exporters as well as other stakeholders for consultations to devise future guidelines for growth in these sectors,” he remarked.

He added that Small and Medium Entrepreneur (SMEs) sector would also be encouraged for playing its role in economic growth and prosperity.

The advisor also hinted at revisiting the trade agreements with various countries to ensure enabling environment for Pakistan to promote its international trade.

“We have to revisit the Free Trade Agreement (FTA) with all countries including with Thailand, Turkey,” the advisor said while replying to another question.

He said that the government would also revisit trade policy to make it more result-oriented and in faovour of the country. “We would focus on promoting ‘made in Pakistan good’ and discourage imports,” he remarked.

Highlighting the need for reducing dependence on imports, the advisor said that the government would allow import of raw material for industry.

The advisor further said that the government would also explore new international markets for its exports, adding “we are committed to explore new market and mainly focuses on African continent.

“We are already in trade with North and South American countries including South East Asian Economic and there is more trade potential which needs to be explored.”

Source: dailytimes.com.pk- Aug 29, 2018

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## NATIONAL NEWS

# India, Vietnam review bilateral cooperation

India and Vietnam on Tuesday discussed bilateral cooperation across various sectors at the 16th Joint Commission meeting co-chaired by India's External Affairs Minister Sushma Swaraj and her Vietnamese counterpart Pham Binh Minh here.

India's External Affairs Ministry Spokesperson Raveesh Kumar later tweeted that the two leaders led delegation-level talks where trade, investment, maritime and defence cooperation were discussed.

The India-Vietnam relationship was elevated to a Comprehensive Strategic Partnership during the visit of Prime Minister Narendra Modi to the Southeast Asian nation in 2016.

With India increasing its engagements with Southeast Asia under New Delhi's 'Act East' Policy, Vietnam has become an important regional partner.

India and Vietnam closely cooperate in various regional forums such as Association of Southeast Asian Nations, East Asia Summit, Mekong Ganga Cooperation, Asia Europe Meeting, besides the United Nations and World Trade Organisation.

Bilateral trade for April-November in fiscal 2016-17 stood at $6.24 billion, according to figures provided by the Indian External Affairs Ministry.

The two countries have agreed to set a bilateral trade target at $15 billion by 2020.

Defence cooperation has emerged as a significant pillar of India's strategic partnership with Vietnam. Indian ships regularly make friendly port calls on Vietnam.

India is also an important development aid partner of Vietnam and has extended several lines of credit for capacity building projects.

On Monday, Sushma Swaraj addressed the 3rd Indian Ocean Conference here and reiterated New Delhi's call for peace and stability in the Indian Ocean region.

The Indian Minister arrived here on Sunday on the first leg of a five-day two-nation tour of Southeast Asia that will also take her to Cambodia.

Source: business-standard.com- Aug 28, 2018

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## Global trade war can't stop Indian economy's animal spirits as numbers show

India's economy is shrugging off global trade wars, relying on domestic consumption to stay on course to becoming the fastest-growing major economy this year.

Demand for bank loans remained solid going into the July quarter despite rising interest rates, and so was the case with services and manufactured goods, a cross-section of forward-looking indicators compiled by Bloomberg News show ahead of government data on economic growth due Aug. 31. Foreign investments slowed, highlighting risks to India's balance of payments position.

Other risks loom in the form of higher oil prices, tightening global financial conditions and a shortfall in taxes that can put budget targets out of reach. For now, the economy is showing steady expansion, with the International Monetary Fund forecasting growth of 7.3 percent in the fiscal year through March 2019 and 7.5 percent in the next as reforms initiated by Prime Minister Narendra Modi pay off.

Here are the full details of the dashboard:

### Business Activity

India's main services index rose at the fastest pace in 21 months in July, the latest purchasing managers survey showed, while manufacturing continued to expand, but at a slower pace.

These together pushed the composite index to its highest level since October 2016. The optimism stems from a rise in new orders, giving confidence to businesses to produce more.

On the price front though there are were mixed signs. Services providers were unable to fully pass on rising costs, while manufacturers increased output charges for the 12th straight month.

Data from the central bank also showed an uptick in capacity utilization to above 75 percent. That gain usually drives inflationary pressures and indicates improved pricing power, which eventually provides more incentive to invest.

**Exports**

Exports grew by a relatively strong 14.3 percent in July from a year earlier, although slower than the 18 percent pace in the previous month. Economists and policy makers are optimistic that the recent weakness in the rupee will help support the recovery in sectors such as textiles.

**Consumer Activity**

Data from the Society of Indian Automobile Manufacturers show that the industry produced more vehicles in July than a year ago, with the increase led by commercial vehicles and two-wheelers. Total sales were up 8 percent in the latest indicator, underpinning a view that domestic demand is holding up well.

With more consumption comes more demand for loans. Bank credit rose 12.7 percent in August from a year ago, with most of the loans being made to the services sector. Commercial paper issuances are also on the rise.

But those numbers aren’t telling the whole story. Bloomberg Economics’ Abhishek Gupta attributed the rise in bank credit over the past year largely due to favorable base effects.

Rising borrowing costs have instead crimped corporate bond issuances, indicating that total credit flowing to the corporate sector is weak, he said.

The Citi India Financial Conditions Index shows a tightening in markets amid back-to-back interest rate hikes by the Reserve Bank of India. The index incorporates among other indicators, short-term money market rates, government bond yields (short and long tenor), the yield curve, credit and credit default spreads.

**Economic Activity**

Foreign direct investments fell to their lowest since January, and that could weigh on India's balance of payments. Already, the current account deficit is expected to widen due to higher oil prices and slowing inflows into the capital markets. With a general election due in early 2019, concerns about policy paralysis and whether Modi will manage to repeat his 2014 landslide-win may keep many investors on the sidelines.

**Industrial Activity**

The risks notwithstanding, output of infrastructure industries -- which contribute 40 percent to the industrial production index -- lend hope. The 6.7 percent pace of expansion in June from a year earlier was the strongest in seven months.

Source: business-standard.com- Aug 28, 2018

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## Cotton output likely to decline by 3-4% this season, says CAI

Cotton production is likely to decline by 3-4 per cent this year to about 350 lakh bales following deficit rainfall, decline in acreage and the outbreak of the pink bollworm infestation on crops, according to the Cotton Association of India (CAI).

"Major cotton growing States are facing issues, including deficit rainfall and shifting away from cotton to other crops, resulting in a decline in acreage and the outbreak of the pink bollworm infestation.

This is likely to affect cotton production by 3-4 per cent this year to 350 lakh bales," CAI president Atul Ganatra told PTI.

However, Ganatra said, the next couple of months (September-October) are crucial for the cotton crop, and give an actual picture of production.

In its July estimate, CAI had pegged cotton output for the ongoing season (October-September) at 365 lakh bales.

The deficit rainfall in Gujarat has affected sowing in the State, he said.

"In Gujarat, the crops are already affected due to lack of adequate rainfall. The State is already facing a 7 per cent deficit," he added.

In the country overall, sowing till August 27 stood at 116 lakh hectares compared to 124.50 lakh hectares in the same period last year, he said.

Overall sowing is likely to reach 120 lakh hectares this season, Ganatra added.

He said that in Andhra Pradesh, Maharashtra, Punjab and Karnataka, farmers have shifted from cotton to other crops such as soybean, which they find more lucrative in the current scenario.

"Cotton has lost area in Andhra Pradesh, Maharashtra, Punjab and Karnataka to lucrative crops like soybean.

Farmers are finding soybean more lucrative and the increase in minimum support price to ₹3,399 per quintal in 2018-19 from ₹3,050 per quintal in 2017-18, is providing an additional incentive," he added.

Further, Ganatra said that in Maharashtra, the cotton crop in 7 lakh villages has been found to be infested with the pink bollworm, out of the 21 lakh cotton growing villages.

Source: thehindubusinessline.com- Aug 29, 2018

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# Need of a new export strategy

Commerce Minister Suresh Prabhu on Monday chaired a meeting of different exports stakeholders to discuss a strategy for doubling India's exports by 2025.

According to the minister, this is necessary in view of the ongoing uncertainty in global trade. At a time when a trade war started by US President Trump is threatening the global trade order, this view sounds quite logical. The sector is already facing no dearth of challenges, and with the global trade war escalating, we must now brace for a changing world.

It deserves mention that the Commerce Ministry has already held two meetings with key Ministries for preparing sectoral export strategies. Exporters' body FIEO has also done a study identifying 100 billion exports in traditional, new markets and products. Similarly, the EXIM Bank has conducted market research and a draft export strategy is being prepared. Additionally, the Union Cabinet has already approved a proposal to give focused attention to 12 identified Champion Services Sectors. These efforts are welcome. We need to find a way out to improve and promote our exports.

However, protectionism cannot be the solution. Recently, the government said that a task force has been set up to identify various items and policy interventions for reducing India's import dependence. I think such inward-looking policies may do more harm than good. Instead, we should look for better alternatives. A new report has identified at least 100 products where India can replace US exports to China by benefiting from the ongoing tariff war. Such approaches can definitely be more beneficial.

Meanwhile, a report last week points out that imports of non-oil items like coal, electronics and leather products are contributing in a big way to India's import bill. Most importantly, it is domestic supply constraint that is responsible for such high imports. While avoiding protectionism, there is no harm in cutting down such unnecessary imports by increasing efficiency of the domestic supply chain.

Source: smetimes.in- Aug 28, 2018

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# India steps in to fill the gap as trade war makes US exports to China costlier; government lists 40 items

India has drawn a list of goods it can export to China, replacing U.S. exports that have become costlier in light of the trade spat between the world's two biggest economies, according to a person with knowledge of the matter.

The South Asian nation has identified more than 40 products, including fresh grapes, cotton linters, flue-cured tobacco and alloy steel seamless boiler, where it's in a position of advantage to replace or capture U.S. trade market share with China, the person said asking not to be identified as discussions are internal.

Boosting exports will help India reduce a $63 billion trade deficit it runs with China, which is also New Delhi's largest commercial partner.

A study found that India is strong in its capability to export about 20 products such as frozen bovine meat and almonds, but it faces market-access issues in China. Two calls made to India commerce ministry spokesperson's mobile phone weren't immediately answered.

China recently started purchasing soybean from Brazil after slapping a 25 percent tariff on the oilseed's shipments from the U.S. as the trade tensions between the two nations intensified.

Meetings between Chinese and U.S. officials last week made little headway, setting the stage for the U.S. to push ahead with the next round of tariffs on up to $200 billion worth of Chinese goods.

The Indian study shows at least 80 more items have potential for exports to China.

The government has instructed its departments and industry bodies to work out strategies to ramp up production in sectors where India has a clear advantage.

The commerce ministry has asked the embassy in China to be an enabler, while offering business-to-business meetings for Indian exporters interested in that market, the person said.

"One of the major impact of the trade war would be that there will be a lot of re-organisation and reconfiguration of supply chains," Amitendu Palit, a senior research fellow at the Institute of South Asian Studies, National University of Singapore, said by phone. "There is a possibility that India may become part of some production chains," he said.

It is still too early, however, to say that India will have immediate gains due to the trade war, Palit said.

Source: financialexpress.com- Aug 28, 2018

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## Punjab to relax norms for intra-state goods' movement

*Textile job workers to get major benefits; e-way bill limit up*

The Punjab government will soon allow a hassle-free movement of textile items for job work within the state and save thousands of small and medium enterprises (SMEs) from the trouble of getting e-way bills by enhancing the exemption limit from Rs 50,000 to Rs 1 lakh.

Textile and apparel value chain thrives on job works, which was hampered because of mandatory e-way bill requirement for items valued more than Rs 50,000. An exemption from mandatory e-way bill will help textile clusters in Ludhiana, Amritsar and Jalandhar.

"A decision has been taken on this matter. It will be implemented after the government issues a formal notification, which is expected soon," an official source said.

Under the Goods and Services Tax (GST) rules, ferrying goods worth over Rs 50,000 within or outside a state requires securing an electronic-way challan (e-way bill) through prior online registration of the consignment. States can tinker with e-way bills only for intra-state movement of goods.

"We are going to follow the Maharashtra model, which has already abolished requirement of e-way bill for transportation of hank, yarn, fabric and garments meant for job work," the source said.

Officials, however, say the Punjab government may trim down the number of items. Maharashtra gave relief to its textile industry from July this year, which allows intra-state movement of specified items within 50 km for job work.

Officials said, the Punjab Cabinet gave its nod to allow hassle-free movement of textile goods meant for job work and also extended the limit of intra-state e-way bill from Rs 50,000 to Rs 1 lakh on Monday. Tamil Nadu, Maharashtra and West Bengal are among other states to raise such limit.

Punjab Pradesh Beopar Mandal president Piara Lal Seth said the proposed move would help the traders and manufacturers from un-necessary burden and paper work.

“The textile and garment industry is largely dependent on knitting, embroidery, printing and dyeing units, but all job workers are not that well-educated. They were facing problems in generating e-way bills. The decision of the state government will provide a sigh of relief to them,” said Superfine Industries’ managing director Ajit Lakra.

The government’s decision is also prompted by the fact that several people were avoiding generating e-way bills by using horse-carts (tongas) for transporting goods as non-motorised vehicles do not require e-way bills for transporting goods.

“Many industrialists had started transporting furniture, yarn, ready stocks above Rs 50,000 through the tongas to avoid e-way bills/taxes. Respite will be given to those who are doing business in a transparent manner,” said Federation of Punjab Small Industries Associations (FOPSIA) president Badish Jindal.

Source: tribuneindia.com- Aug 29, 2018

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# Tirupur knitwear exports down 13 per cent

In the first four months of the current year, knitwear exports from Tirupur have fallen 13 per cent. One reason is GST and the consequent reduction in duty drawback and rebate of state levies.

Tirupur garment exporters have greeted the increase in basic customs duty from 10 to 20 per cent on specified garments.

The duty hike on import of 23 knitted garment items and one knitted fabric is expected to help protect the domestic textile industry.

Knitwear exporters had been appealing for swift action in this regard as textile imports from countries such as China, Bangladesh, Vietnam and Cambodia have increased significantly.

Exporters say there is a need to restrict import of textile products. They have prepared a white paper detailing the threat from China, with Chinese companies setting up factories in countries bordering India to take advantage of labor, low wages and customs exemption available to these countries in EU and Canada.

Under the South Asian Free Trade Area agreement, specified garment items imported into India from Bangladesh are also exempted.

The Tirupur knitwear cluster is looking forward to the Indo-Pacific economic corridor as it would open up traditional apparel markets abroad.

The corridor is a treaty of 12 countries, including India, the US, Australia, Indonesia, Japan and New Zealand among others.

Source: fashionatingworld.com- Aug 28, 2018

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# Wastewater from textile mills could power batteries

A sapphire-coloured dye -- a common industrial pollutant from textile mills -- could be used to build rechargeable batteries for wind farms and solar homes to store electricity, a study has found.

Scientists from University at Buffalo in the US showed that the dye, when dissolved in water, is good at storing and releasing energy on cue.

This makes the compound a promising candidate material for redox flow batteries that can be used to stockpile electricity generated from solar or wind farms for days when there is no sunshine or electricity.

"Methylene blue is a widely used dye. It can be harmful to health, so it's not something you want to dump into the environment without treating it," said lead researcher Timothy Cook, an assistant professor at University at Buffalo.

"There's been a lot of work done on ways to sequester methylene blue out of water, but the problem with a lot of these methods is that they're expensive and generate other kinds of waste products," said Cook.

"But what if instead of just cleaning the water up, we could find a new way to use it? That's what really motivated this project," said Anjula Kosswattaarachchi, a PhD student at University at Buffalo.

The study, published in the journal ChemElectroChem, is the first step in assessing how -- and whether -- methylene blue from industrial wastewater can be used in batteries.

"For this to be practical, we would need to avoid the costly process of extracting the dye from the water," Cook said.

"One of the things we're interested in is whether there might be a way to literally repurpose the wastewater itself," he said.

"In textile-making, there are salts in the wastewater. Usually, to make a redox flow battery work, you have to add salt as a supporting electrolyte, so the salt in wastewater might be a built-in solution," he added.

Researchers showed that methylene blue is good at important tasks associated with energy storage. In experiments, the scientists built two simple batteries that employed the dye -- dissolved in salt water -- to capture, store and release electrons.

The first battery the researchers made operated with near-perfect efficiency when it was charged and drained 50 times.

The results mean that methylene blue is a viable material for liquid batteries. With this established, the team hopes to take the research one step further by obtaining real wastewater from a textile mill that uses the dye.

Source: business-standard.com- Aug 28, 2018

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## RCEP: India must safeguard its interests

Industry is concerned about tariff concessions, and the services sector isn't getting any meaningful market access

In recent years, the three mega free trade agreements (FTAs) — Trans Pacific Partnership (TPP), Regional Comprehensive Economic Partnership (RCEP) and Trans Atlantic Trade and Investment Partnership (TTIP) — have been at the centre of trade policy debate worldwide. However, US President Donald Trump and Brexit have abruptly changed the entire scenario. While TPP and TTIP appear to be in 'deep freeze', RCEP is the only one where the steady progress is being witnessed.

The RCEP is an ambitious proposal which intends to bring in the three largest economies of Asia — China, India and Japan — into a regional trading bloc, along with ASEAN member-countries, Australia, South Korea and New Zealand.

The trade area will be the largest in terms of population (3.4 billion or 49 per cent of world population), with a combined GDP of around $22 trillion and a trade share of 30 per cent. When fully established, it will become the largest trade bloc in the world.

As per conservative estimates, once implemented, RCEP would bring large income gains, of $260-644 billion, to the world economy in a decade or so. The RCEP can help regionalise the sophisticated global production networks that make Asia the world's factory and will also integrate the region's markets and production centres. It will also reduce the overlap among Asian FTAs, lest Asia becomes a confusing 'noodle bowl' of multiple trade rules.

India joined this mega grouping to advance its own trade integration. Although the country has entered into trading and investment agreements with ASEAN, Japan and Korea, its presence in the vibrant global supply-chains in the region is not commensurate with its manufacturing potential. India certainly cannot afford to be excluded from new regional trade chains and hence, its participation in RCEP is an imperative. However, legitimate concerns of Indian trade and commerce have to be addressed with a progressive look.

The strategy is also aligned to India's Act East Policy which builds on the Look East Policy for closer partnership with the Asian region. Changing geopolitics and growing focus on the Asia-Pacific region influenced India's decision to join RCEP. However, the biggest challenge India is facing in RCEP arises from its trade deficit with ten of the RCEP countries, particularly with China with whom India has a huge trade imbalance.

**Tariff levels**

It was to be expected that given the tariff levels in the important RCEP markets are already low, the negotiated tariff reductions from the Indian side will be relatively greater. Indian industry has been somewhat apprehensive about tariff reductions in RCEP, which would further open its markets to Asian goods, especially from China. Major sectors that may be impacted include steel, plastics, copper, aluminium, machine tools, chemicals, textiles and pharma, which would suffer from cheaper imports.

At the same time, India has been undertaking wide-ranging domestic reforms to make its manufacturing sector more competitive. The 'Make in India' initiative has targeted multiple areas such as investment facilitation, trade facilitation, and foreign direct investments with notable results. These efforts are now gaining increasing urgency and must be further fast-tracked to connect to the Asian production networks.

Another area where India can be particularly vulnerable is agri products. The huge concessions being sought by Australia in agri products can be an extremely sensitive issue for India's farmers. Indian farmers need support from the government in view of their low productivity and low income levels.

Since the start of the negotiations, the Indian government, supported by industry, has emphasised the need for a balanced agreement through access to services market and investments. Services are India's major trade strength, and it enjoys a 3 per cent share in global services exports, compared to 1.6 per cent in merchandise exports.

Indian industry has highlighted the need for parallel RCEP negotiations on all fronts of trade in goods, services and investments as 'single undertaking'. There has been a push from some countries to harness the 'tariff only' component before negotiations on services and investments as a fait accompli. India has a clear interest in services in the RCEP market that can be taken forward in the dialogue for better outcomes.

The RCEP negotiations seem to have entered a crucial phase as the 23rd round of negotiations was completed in July 2018. Members are in the process of making their revised/final tariff reduction offer.

Indian industry has raised its concerns about tariff concession to China. In services, the discussions have not gained much traction and India seems to be not getting any meaningful market access.

The government has constituted a Group of Ministers to further deliberate on the contours of its stance regarding RCEP. With the 33rd ASEAN Summit approaching, India would continue to face pressure for conclusion of RCEP. India must safeguard the interest of Indian industry — services and the agriculture sector.

Source: thehindubusinessline.com- Aug 29, 2018

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# India set to stress on RCEP in Singapore on Thursday after PMO nod

*The RCEP is a proposed pact between 10 Asean economies*

India is set to stress its commitment to the proposed Regional Comprehensive Economic Partnership (RCEP) pact at a crucial trade ministers meet beginning Thursday in Singapore, though a final call on the issue will be taken by the Prime Minister's Office.

Commerce Minister Suresh Prabhu, who skipped the last such meeting, will attend the August 30-31 event. “While he is set to assuage the concerns of other nations on India's commitment to the pact, we will stick to our position on differential tariff cuts that single out China,” a senior commerce department official said.

The future of the mega trade bloc, under planning since 2012, has been thrown into confusion since July when a large number of ministries in India opposed the talks in the face of growing opposition to the deal from domestic industry.

Disagreement among ministries had led to the government reportedly setting up a four-member group of ministers headed by Prabhu to advise the Prime Minister on whether to continue with or withdraw from the 16-member RCEP negotiations.

No date has been set for the next meeting of ministers but the government hopes to clear the confusion on RCEP by November, when Prime Minister Narendra Modi is expected to visit Singapore for the Asean summit, a senior official said.

Despite other ministries and stakeholders voicing concern on the RCEP, the commerce ministry will continue to bat for it, citing the advanced stage of negotiations and the expected benefits for India's services exports, sources said.

Last week, the commerce secretary briefed his counterparts across ministries, including finance, steel, textile and defence at the Cabinet Secretariat on the current state of negotiations and the way forward, sources said.

The RCEP is a proposed pact between 10 Asean economies and six others with which the grouping currently has free-trade agreements (FTAs) — New Zealand, Australia, China, India, Japan and South Korea. So far, 23 rounds of talks have concluded, apart from five minister-level meets.

There has been significant pushback against the proposed deal from the domestic manufacturing and export sectors.

They argue existing FTAs with Malaysia, Japan and South Korea are grossly unfavourable to India. Civil society groups have also voiced concerns over possibly drastic reductions in agricultural tariffs, making Indian products uncompetitive, as well as looser investment norms, exposing the country to litigation from foreign commercial interests.

The Asean bloc, which wants the deal done as soon as possible, have increasingly become concerned and a diplomat from the region said that the Singapore meet may become a definitive turning point.

RCEP is expected to be the world's largest regional trading bloc, with nearly 45 per cent of global population and combined gross domestic product of $21.3 trillion.

**STRENGTHENING TIES**

**India has significant trade deficit with RCEP nations**

| RCEP nations | **EXPORT** in 2017-18 ($ bn) | **IMPORT** in 2017-18 ($ bn) | **TRADE DEFICIT** ($ bn) |
|---|---|---|---|
| 10 ASEAN countries combined | 34.2 | 47.1 | 12.9 |
| China | 13.3 | 76.2 | 62.9 |
| Australia | 4.0 | 13.9 | 9.9 |
| New Zealand | 0.3 | 0.6 | 0.2 |
| South Korea | 4.4 | 16.3 | 11.9 |
| Japan | 4.7 | 10.9 | 6.2 |

Source: Department of commerce

Source: business-standard.com- Aug 29, 2018

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