

Cotton futures trading on MCX to restart soon: textile secretary

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Cotton futures trading, suspended on the Multi Commodity Exchange of India Ltd (MCX) to curb excessive speculation, is set to resume after a five-month gap in relief for farmers reliant on the market for price signals.

After cotton prices rose to ₹100,000 per candy in August following unseasonal rain, speculative trading and a global cotton shortage, the Securities and Exchange Board of India shut cotton futures on MCX to cool prices. Cotton prices have now eased, in line with global prices, as demand softened this year.

"The advantage with MCX is that it helps in price discovery and also risk hedging, and we do feel that it should continue to function in that respect," textiles secretary Rachna Shah said in an interview. "While there were concerns on speculation, to address those, the product advisory committee was constituted with representatives of the industry. The committee has engaged with Sebi in terms of contract specification and quality standards. I am very hopeful that future trading will be restarted very

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shortly. Most of the issues are now resolved, and it is really a matter of time," she added.

The committee was reconstituted under T. Raj Kumar, chairman of the Confederation of Indian Textile Industry (CITI), amid price volatility and the widening gap between Intercontinental Exchange Inc. (ICE) and MCX. "Negotiations with MCX are in the finalization stage, and the new restructured contract should be coming out shortly," Kumar said.

Industry representatives said that while the ban was necessary to curb speculative trading by a few large companies that drove prices to record levels, it also took away price indicators for farmers who rely on the futures trends provided by the exchanges. As a result, farmers have been hoarding cotton, and the actual volume in MCX warehouses has fallen.

"Farmers have been hoarding cotton as they are not sure of the price. The farmers give seed cotton to ginners, and ginners give lint cotton to MCX. So, at the moment, this cycle itself is not starting because of a lack of price discovery," a person aware of the development said. Ginning is the



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process of separating cotton from seeds and debris.

Another person aware of the development added that certain changes had been proposed, including incentives to ginners to put more cotton in the MCX warehouse.

"So far, the actual volume on the MCX was less...largely for speculation, and not delivery. It has been proposed that there has to be some coverage of the logistics cost for the ginners to put cotton to the MCX warehouse," the second person aware of the develop-

ment said on condition of anonymity.

The lack of price discovery sparked protests by farmers on 23 January next to Sebi headquarters in Mumbai.

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"Last year, when cotton prices surged, small-holder farmers, below 2 ha, did not benefit from the high prices. And now, they have realized that the futures market is one way to

be informed. Futures are a price discovery mode for farmers," said Manish Daga, farmer representative in the product advisory committee and presi-

dent of All India Cotton Farmer Producer Organization.

"There are several changes that have been proposed that would help boost liquidity. Sebi has opened up after the farmers' agitation on 23 January. Farmers had warned in December to sort out commodity futures. There were three months to sort out the issue, but now, there is a gap in the contract," Daga added.

Meanwhile, textiles secretary Shah said prices have eased, and the domestic and international prices are also more or less at par. While domestic prices compared to the minimum support price remain about 28% higher, cotton prices in the country have come down to about ₹62,000 per candy compared to international prices of ₹64,000-65,000 per candy, she added.

"This committee which comprises the major ginners who supply quality cotton to MCX and the users of the cotton, have been working to improve futures contracts, and the sole purpose is to make the futures prices more representative and not speculative. Cotton prices have been speculative, and this has led to very high volatility," said Chandrima Chatterjee, secretary-general, CITI.