Around Bombay Markets

Developments in Cotton

Thursday, Morning

THE cotton market has, turned easier again. The August contract which had risen from Rs 568 to Rs 578 in the preceding week was sold down to Rs 565.50 and Wednesday's (17th May) closing rate was only a little higher at Rs 567.75. The 50,000-bale export quota for short staple cotton, Shri Manubhai Shah's statement in Lok Sabha that the Government was taking necessary steps to help Gujarat tide over the 'crisis' of accumulation of stocks and the Indian Cotton Mills' Federation's entry into the market as a bulk buyer of cotton, particularly Gujarat varieties, had a temporary steadying effect on the market. Recovery in futures proved to be extremely short-lived due to lack of follow-up support on the rise mainly because of the unsatisfactory spinner inquiry.

Contrary to general expectations, the response to the export quota for short staple cotton has not been encouraging because the ceiling has yet to be reached even though the shipping bills began to be accepted from the 12th. Overseas buyers are said to have been discouraged from making prompt purchases in the belief that the Indian Government was likely to release soon a further quota for short staple cotton and that the pressure of offerings would enable them to obtain their supplies more cheaply. The Indian Cotton Mills' Federation which had started purchasing Gujarat cotton, presumably at the instance of the Government, has been obliged to go very slow because of mounting opposition from the trade and also from some of the mills. The trade fears that the Federation's collective bargaining power will adversely affect both growers and merchants.

Crisis of Accumulation

New Delhi's concern over the cotton Crisis' in Gujarat has prompted the Karnatak Chamber of Commerce and Industry to plead with the Union Government that any move aimed at encouraging the off-take of Gujarat cotton is likely to affect adversely the prices of cotton in other regions. The Chamber has requested the Government to make a fair and equitable allocation of cotton to the textile mills. And with the overseas response to the recent export quota for short staple cotton being far from encouraging, the market has not taken any serious notice of persistent rumours that a further quota for cotton stapling 3/4 inch and below is imminent. The marker also seems confident about an export quota for about 30,000 to 40,000 bales of Bengal Deshi.

It seems quite odd that some of the States should be using the language of crisis when the 1960-61 crop, around 51/52 lakh bales, is still short of the revised target of 55 lakh bales for the second plan (the original target was 65 lakh bales). particularly when the previous season's crop was almost a failure around 37.5 lakh bales. But the difficulties of the cotton market are due less to a better crop than to the quota system of mill buying and compulsory survey in spite of the comfortable supply position. Continued large imports including huge quantities of high-priced U S short staple cotton with which are linked to the mill quotas for indigenous cotton, have complicated the situation. De-link the quotas for indigenous cotton from the import of U S cotton, abolish quota system and compulsory survey and the cotton trade will perhaps have little to complain. Will the Government do that? Perhaps not.

Export Policy

It is very surprising that in his presidential address at the 39th annual general meeting of the Fast Indian Cotton Association, Shri Madanmohan R Ruia should not have cared to make even a passing reference to the various problems created by compulsory surveys, quotas for indigenous cotton despite improved supply, the linking of these quotas with imports of high-priced U S short staple cotton and the entry of the Indian Cotton Mills' Federation as a buyer of cotton even though the trade has been greatly exercised over these developments.

Instead, Shri Ruia stressed the need for a uniform procedure for collecting sales tax on cotton. In view of the yarying procedures for levying sales tax in different States, the arrivals of cotton in Bombay market, "emporium of cotton" for the country, had been seriously affected. As a result, the spot market in Bombay which used to carry a stock of about a million bales now carried only half this quantity even in the busy season, Shri Ruia's views on export policy for cotton will be widely endorsed It is not merely that the half-heartec manner in which the export quotas have been announced this seasor goes ill with the Government's slogan of 'export or perish' but the haphazard changes in the export procedure cause considerable avoid able hardship to the exporters here and buyers abroad. Fortunately. the procedure has recently been yen much simplified to the general satis faction of the trade. Shri Ruja's suggestion that the export policy a well as the procedure thereof should be fettled and made known in the beginning of the season merits careful consideration, but his other suggestion that the maximum possible quota should be announced early in October is not without risk because quite often calculations about the crop have been upset in the past after October.

Hedge Contract

Answering the criticism that the prevailing hedge contract was quite unrealistic. completely divorced from spot cotton, Shri Ruia stated that under the circumstances that existed last year the trade was almost faced with the threat of going without a hedge contract. A realistic hedge contract is possible only when there is an adequate carryover, an assured production and supply throughout the year and prices are allowed to reflect demand and supply. " A proper realistic hedge contract of the days gone by " said Ruia. " has to await normal conditions. " But this raises a basic issue. Is it necessary to have a futures market in a commodity if it is not possible to frame a hedge contract which can be used as a hedge by growers, merchants and spinners?

With the carryover at the end of the current season likely to be around two millions bales it should have been possible for the authorities to frame a balanced contract which could be used as a good hedge. But the few changes that have been proposed by the E I C A and the Hedge Contract Committee do not improve the position materially. Moglai fine 25/32" will continue to be the basis of the contract and there lies its biggest drawback. The tolerance which was hitherto 2/32'' has been uniformly fixed at 1/32" for all growths except Cambodia 'A' where there is no tolerance. The delivery months will be February, May and August provided the Forward Markets Commission permits trading concurrently in February and May contracts; if such permission were not given delivery months may be March, May and August instead of April and August as at present. It has also been recommended that by-law 55 should be so revised that the tendering differences could be fixed on the basis of the difference between the hedge contract rate and the spot rate of the tenderable description subject to a flat deduction of 15 per cent of such difference. By-law 61 which deals with invoicing back of rejected cotton is also to be revised so that invoicing back could be done at the hedge contract rate plus 50 per cent of the difference between the hedge contract rate and the spot rate of the basic cotton. These changes are welcome in so far as they go, but they do not go far enough.

Oilseeds

Dull and Subdued

THE oilseeds market continued to have an extremely dull time. Fluctuations were irregular but small and the price pattern was rather mixed. While castor and cottonseed (September contracts) suffered small losses over the week, linseed recorded a moderate rise. Activity in futures appeared to be virtually at a standstill most of the time. The only outstanding feature of the week's trading was provided by the changes in the spread between the maturing contracts and distant positions. Castor May which were quoted about 75 nP per 250 kilos lower than the September contract at the end of the previous week fetched a premium of a rupee last week-end. Linseed May which were quoted 60 nP lower came to almost par with the September contract, The backwardation charges in cottonseed May increased from 25 nP to Rs 1.25 per 250 kilos. The marked strength in the maturing contracts seems surprising in face of the improved supply position in respect of almost all the oilseeds. Apparently, the contracts are held in strong hands. It is surprising that despite negligible carryforward charges in linseed no tenders have been issued up to now, The same is the case with cottonseed where the 'budla' rate is against sellers. In astorseed too tenders have been rather small, around 1500 metric tons.

Export Activity

Castor futures continue to drift lower for want of fresh export business in castor oil. Overseas buyers appear to have gone on a 'strike.' Export houses are intrigued by persistent reports of Brazilian offerings of castor oil to the U S for July-August-September shipments, which is rather unusual for this time of the year. Prospects for the new castor crop in Brazil are reported to be very encouraging. Of late the U K buyers too have been keeping quiet and there has been very little even of the routine export business in castor oil. The latest U K quotations are mentioned around £ 132 per ton for BSS and £ 126 for Commercial. Indian prices are only about £ 1 higher which is quite normal but what is worrying the trade is the virtual absence of overseas inquiry.

Among oils, only castor oil had been saleable abroad and here too prospects are considered to be far from encouraging. If overseas demand does not revive appreciably in the near future the Government will perhaps have to think of some sort of incentive. Oilcakes also have not been faring well since recently. Hardly any important business was reported during the week. Prices of groundnut extractions suffered a further setback, presumably due to some re-selling pressure. The U K buyers quoted £ 26-17i for groundnut extractions, May shipment, £ 27 for June and £ 27-17£ for July-December. The difficulty in selling linseed cake is said to arise mainly on account of lack of confidence in the quality of Indian cake.

Bullion

"Irregular Tendency

TRADING in bullion futures last week was quite an unexciting affair. Turnover was small and activity continued to be predominantly professional. Fluctuations were irregular but small and the price pattern was mixed. Gold was slightly down over the week, while silver recorded a moderate rise. After rallying from Rs 117.25 to Rs 117.70 (per 10 grams) gold second Jeth contract eased to Rs 117.05 and closed a little higher at Rs 117.35 against Rs 117.60 a week ago. After being marked down to Rs 195.50 (per kilo), silver second Jeth contract recovered to Rs 197,30 and closed at Rs 197.05 against Rs 196.05. Backwardation charges in gold — the spread between Adhik Jeth and second Jeth contracts — fluctuated between Rs 1.20 and 80 nP and the 'budla' rate in silver eased from Rs 1.45 to Rs 1.30 against sellers. The premiums on spot metals which had suffered a sizable decline in the preceding week recorded a further setback last week. The premium of spot gold over the second Jeth contract price declined from Rs 2.05 to Rs 1.05 and that of spot silver from Rs 2.95 to Rs 1.30. The decline in spot premiums and in the backwardation charges indicate poor off-take which is quite normal for this time of the year.

The Board of the Bombay Bullion Association is reported to have approved the final draft of the by-laws in respect of the scheme for a three-monthly contract which is proposed to be introduced in place of the present monthly contracts. This will now require the approval of the general body meeting which is likely to be held on 20th May. The Board will approach the Forward Markets Commission for its sanction after the by-laws have been duly approved by the general body. It is really unfortunate that the market authorities should be encouraging useless speculation through a three-monthly contract when the need is to regulate business even in ready metals. The view is widely shared that the existence of a futures market and unlicensed spot business encourage smuggling activity because these facilitate the marketing of smuggled material.

Stock Exchange

Equities Drift Lower

DALAL Street wore an unusually dull appearance last week. Excepting a few isolated spells of activity in certain select counters, the market appeared to almost at a standstill most of the time. In slow dealings equities drifted gradually lower due more to lack of fresh support than to any important selling. "Vyapar's" equity share index which had touched a high of 144.68 on 10th May eased gradually to 140.80 by the 17th and closed at 141.13 against 143.73 a week ago. The market's performance might have been better but for the continued weakness in cash shares due to virtual absence of fresh buying inquiries. This is presumably because investors have had their funds locked up in some of the recent issues. The Goodyear issue alone is said to have attracted as much as Rs 17 crores. " Vyapar's" index for new issues sought a new low of 88.65 last week. It had touched high of 100.62 on 20th March. Not all the investment counters, however, have been subdued. For there has been a marked revival of inquiry in Electric shares which have recorded sizable gains recently. Bank shares too have been holding distinctly steady.

Corporate News

Equities drifted lower even though the croporate news during the week was generally encouraging. Indu Mills shares are on the dividend list again. Indore Malwa's results for 1960 are quite encouraging. The Tata group of textile mills — Tata Mills, Svadeshi and Ahmedabad Advance —have stepped up their dividends. The directors of Hindustan Motors have proposed a dividend of Rs 1.20 per share, taxable, for the year to March 1961, against 90 nP in the previous year. All this is good news. But this has only induced caution among bears; bulls have not turned aggressive presumably because of the continued stringency in the money market. Margins, particularly the special deposit making-up prices have also dampened bulls' enthusiasm. If the authorities wish well of the stock exchange community they will be well-advised to devise some sort of automatic system of special deposit making-up prices which is partial neither to bulls nor bears. That the authorities should have continued to maintain the special deposit making-up prices for bulls at Rs 585 for Bombay Burmah and Rs 310 for Tata Locomotive for many settlements despite the substantial setback in prices seems quite unfair, the more so when speculative activity in these counters is not known to be excessive.

In the past, quite a striking similarity has often been noticed in the behaviour of Wall Street, London and Dalai Street, Both Wall Street and London Stock Exchange touched new all-time highs last week. Will Dalal Street lag behind for long when the expansionary impulse in the economy here is? stronger than elsewhere?