Volatile Cotton Prices Drive Stakeholders to Hedge Risks

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Pune: Increasing volatility in domestic cotton prices is making millers, ginners and spinners in the country rush to hedge against adverse market swings.

India is the largest cotton producer of the world.

Average daily volumes of cotton contracts on the Multi Commodity Exchange of India (MCX) have grown 48% year on year so far this fiscal, while average daily turnover has increased 81%.

MCX Cotton total volume till March 23 in 2016-17 stood at 13.27 lakh bales against 8.97 lakh bales in FY16. Corporates such as Louis Dreyfus, Manjeet Cotton, Arvind Ltd, Gill & Company, and Sport-King hedge against cotton price volatility on MCX.

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"Cotton is our biggest raw material cost and, so, managing the price risk of cotton is a priority for us. We endeavour to manage some of this risk by hedging on the MCX, which is the only platform available domestically for cotton," said Sapna Ghanekar, who heads commodity & forex risk management at Arvind Ltd. "Occasionally we have even hedged close to the limit available on the near month," she said.

BS Rajpal, a Maharashtra-based ginner and exporter, said, "Unlike the earlier days, now there is link of the exchange contracts with the physical market, which makes it more useful."

To encourage higher proportions of hedging, different stakeholders of cotton value chain have now demanded an increase, or even removal, of the near month position limits. According to International Cotton Advisory Committee (ICAC) report for March 2017, India is the largest cotton producing and second largest cotton exporting country.