LETTER

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# News Highlights

# NATIONAL

Cotton Gains As Demand For India Cotton Continues To Be Strong.

RBI Monetary Policy 2024 Live: RBI raises GDP growth forecast to 7.2% for FY25 but retains inflation projection of 4.5%

Indian govt bond yields flattish as investors eye RBI guidance for cues

Quality control norms relaxed for import of polyester fibre

Eighth round of free trade talks between India and the EU to start on 23 June

# GLOBAL

UK Retail Sales To EU Drop £5.9 Bn Since Brexit; Clothing Exports Fall

RCEP, China FTA, Boost Cambodian Exports In Jan-May 2024

IPEF nations sign Clean and Fair Economy pacts, unlock $23 billion in investment opportunities

## NATIONAL

### Cotton Gains As Demand For India Cotton Continues To Be Strong.

Cotton candy prices rose by 0.85% to settle at 56,960, buoyed by robust demand for Indian cotton from countries like Bangladesh and Vietnam, despite concerns over sluggish milling demand and muted yarn demand globally. However, the upside was capped by expectations of a better crop in countries such as Australia. The International Cotton Advisory Committee (ICAC) has projected increases in cotton-producing area, production, consumption, and trade for the upcoming season, 2024-25.

India's cotton stocks are anticipated to decline by nearly 31% in the 2023/24 marketing year, reaching their lowest level in over three decades, driven by lower production and rising consumption. This reduction in stockpiles is expected to limit exports from the world's second-largest producer, supporting global prices while potentially lifting domestic prices and affecting the margins of local textile companies. India's cotton exports for the season could rise to 2.20 million bales from 1.55 million bales a year ago. Looking ahead to the 2024/25 marketing year, India's cotton production is estimated to decrease by two per cent due to farmers shifting acreage to higher-return crops. However, mill consumption is projected to increase by two per cent as yarn and textile demand improves internationally. Additionally, China's cotton imports for the same period are forecasted to rise to higher domestic and international demand for textile and apparel products.

Technically, the cotton candy market is witnessing short covering, with open interest remaining unchanged and prices increasing by 480 rupees. Support is found at 56,600, with a potential test of 56,230 if prices drop below this level. Resistance is likely at 57,260, with a move above possibly testing 57,550.

Home

### RBI Monetary Policy 2024 Live: RBI raises GDP growth forecast to 7.2% for FY25 but retains inflation projection of 4.5%

RBI Monetary Policy 2024 Live: In warning on unsecured lending, Guv Das says 'closely monitoring' (cnbctv18.com)

Home

**Indian govt bond yields flattish as investors eye RBI guidance for cues**

Indian government bond yields were flattish in the early session on Friday as investors awaited the Reserve Bank of India's monetary policy decision due at 10:00 a.m. IST, with a major focus on guidance.

India's benchmark 10-year yield was at 7.0143 per cent as of 9:45 a.m. IST, following its previous close of 7.0112 per cent.

"The policy is largely expected to be a non-event as major decisions are unlikely. It would take some strong positive commentary for the benchmark yield to dip below 7 per cent again," a trader with a primary dealership said.

Bond yields shot up on Tuesday and have largely remained elevated after a weakened mandate for Prime Minister Narendra Modi's party and alliance raised concerns about a potentially slower pace of fiscal consolidation, alongside increased welfare spending.

The RBI is widely expected to keep interest rates steady and retain its tighter monetary stance at its policy review, amid robust economic growth and an uncertain inflation outlook.

A weaker majority for the Modi-led alliance may increase welfare spending but not result in additional borrowing, limiting a rise in bond yields, said Rajeev Mohan, president of treasury and global markets at Kotak Mahindra Bank.

Fund managers have also said Indian government bonds will continue to attract foreign flows even as a narrower-than-expected victory margin could prompt a shift in policy.

Traders will also await fresh supply via a weekly debt auction from the central government as it aims to raise 290 billion rupees ($3.47 billion), which includes 200 billion rupees of the benchmark paper.

Meanwhile, the 10-year US yield stayed closer to the 4.30 per cent mark ahead of Friday's highly anticipated government employment report for May.

The latest data has boosted expectations that the Federal Reserve will deliver two rate cuts of 25 basis points (bps) each in 2024.

Home

**Quality control norms relaxed for import of polyester fibre**

Quality control norms relaxed for import of polyester fibre - The Hindu

Home

**Eighth round of free trade talks between India and the EU to start on 23 June**

India and the European Union (EU) will resume talks for a free trade agreement (FTA) with the eighth round slated to start on 23 June, two people aware of the matter said. The two sides will likely take up sticky issues like the carbon tax, services, and India's demand for the EU to relax its rules on the maximum level of pesticide residues allowed in agricultural commodities, one of those mentioned above said requesting anonymity.

"India intends to take a firm stand on persistent challenges such as non-tariff barriers. To that extent, Indian negotiators have prepared an elaborate list of roadblocks and challenges in key sectors," the person added.

Non-tariff barriers hinder trade in sectors like agricultural commodities, pharmaceutical items, engineering goods, and electrical items.

However, defining non-tariff barriers can be tricky. Some rules enforced by the EU to protect the health and safety of its citizens, such as those over pesticide levels, are described as non-tariff barriers by India.

The matter centres around the EU's maximum residue level (MRL) rule. MRL is the highest level of a pesticide residue that is legally tolerated in food or feed when pesticides are applied correctly.

**Sticky issues on table**

The negotiators will also discuss sticky issues such as stringent EU safety standards for agricultural commodities and drugs, and high tariffs, the second person added.

As things stand, a phytosanitary certificate is necessary for exporting agricultural products to the EU, which comprises 27 countries.
This certificate confirms that the produce is free from pests and diseases and complies with health standards, including traceability to the farm.
Geographical indications (GIs) will also be on the agenda, with both sides aiming to advance discussions in this area, the second person mentioned above said, requesting anonymity.
The previous round of talks, held for about a week in New Delhi from 19 February, discussed services and investments, building on earlier talks that covered goods and public procurement.

Interestingly, the government has restructured its negotiating team to expedite the deal, assigning senior bureaucrat Darpan Jain to lead the negotiations.
Other key issues likely to be discussed include India's trade disputes with the World Trade Organization regarding products like mobile phones and components, as well as integrated circuits and optical instruments.

**Push for relaxation**

India is also pushing for its labour-intensive textiles and apparel products to be exempt from duty.
EU nations impose higher import duties, at about 10-12%, on textile products, placing India at a disadvantage compared to China, the EU's leading supplier of apparel and textiles.
Meanwhile, the EU is aiming to bargain hard to gain access to India's services and public procurement markets, ensure the protection of geographical indications, and uphold its ambitious commitments on trade and sustainable development. These commitments include imposing maximum residue level (MRL) limits on agricultural products.

The EU's proposed Carbon Border Adjustment Mechanism (CBAM) and Deforestation-free Regulation (EUDR), a key topic of discussion between both sides, are expected to impact around 8-10% of Indian agricultural, steel, and aluminium exports to the bloc.
"There is a concern that Indian products entering the EU and UK might face additional tariffs, potentially ranging from 20 to 35%, under the CBAM charges. A suitable text may be inserted in the FTA chapters dealing with this possibility," economy think tank Global Trade Research Initiative (GTRI) said in a recent report on India's trade.

## More regulations

"Other regulations that are expected to increase the cost of imports include the Deforestation Regulation, the Foreign Subsidies Regulation, and the Supply Chain Due Diligence Act.The path to a successful FTA requires a delicate balance of economic interests, political sensitivities, and a commitment to improving the quality of Indian goods," it added.
Queries emailed to the spokespersons of the commerce ministry and the EU remained unanswered till press time.
India's exports to Europe have been steadily rising since FY21, in tandem with the global economy emerging from the pandemic.

India's exports to Europe, in value terms, stood at $98.88 billion in FY24, while imports stood at $93.67 billion during the same period.

Home

# GLOBAL

## UK Retail Sales To EU Drop £5.9 Bn Since Brexit; Clothing Exports Fall

Despite a flourishing European e-commerce market, British brands and retailers have seen sales to the European Union (EU) drop by £5.9 billion (~$7.54 billion) since Brexit, according to Tradebyte research conducted in partnership with Retail Economics. Though online retail is projected to add £323 billion (~$413 billion) of annual sales to EU economies, additional trade frictions due to Brexit-linked complications are curtailing this international sales opportunity for UK-based brands and retailers.

Headquartered in Ansbach, Germany, Tradebyte helps brands and retailers connect seamlessly. London-based Retail Economics is an independent economics research consultancy. Their research drew upon official UK trade statistics compiled in the first quarter (Q1) this year.

The value of non-food retail exports has fallen by almost 18 per cent since 2019. The UK non-food export environment, particularly in the clothing and footwear sector, has faced significant challenges after Brexit, with exports in this category falling from £7.4 billion (~$9.46 billion) in 2019 to just £2.7 billion (~$3.45 billion) in 2023.

So for brands and retailers lacking the necessary expertise, resources or financial capacity to navigate the complexities of the new regulatory landscape, this has put substantial pressure, UK media outlets reported citing the research document.

Challenges for them include escalated logistics costs, the complications of registering an EU entity for trading and increased delays in an already fiercely competitive market characterised by tight profit margins and the need for rapid response to the latest trends.

Before Brexit, apparel was a top three exporter for non-food retail, but now it is not so.

Home

**RCEP, China FTA, Boost Cambodian Exports In Jan-May 2024**

Cambodia's foreign trade rose significantly in the first five months this year, growing by 12 per cent year on year (YoY), according to commerce ministry data. The country's total trade volume reached over $21.6 billion, up from $19.2 billion during the same period last year.

It exported goods worth $10.18 billion during the period—a YoY increase of 10.8 per cent, while it imported goods worth $11.4 billion—a 13.6-per cent YoY increase, said a report document by the ministry.

China, Vietnam and the United States were Cambodia's biggest partners during the period, with a trade value of $5.99 billion, $3.55 billion and $3.52 billion respectively.

The United States was the biggest market for Cambodia's exports with a value of $3.42 billion during the period—33.68 per cent of the country's total exports. Vietnam ranked second with imports from Cambodia reaching $1.88 billion.

The country's trade with the member countries of the Regional Comprehensive Economic Partnership (RCEP) rose to $14.17 billion during the period—up by 14.2 per cent YoY. Such trade accounted for 65.6 per cent of its total trade volume during the period.

It exported products worth $3.97 billion to RCEP countries during the period—up by 12.4 per cent YoY, and imported goods worth $10.2 billion from such countries—up by 14.9 per cent YoY, domestic media outlets reported citing the ministry document.

China, Vietnam, Thailand, Japan and Singapore are Cambodia's top five trading partners under the RCEP.

Cambodia’s free trade agreement with China and South Korea and the RCEP have contributed to the rise in trade, the ministry noted.

Home

**IPEF nations sign Clean and Fair Economy pacts, unlock $23 billion in investment opportunities**

The 14 member countries of the Indo-Pacific Economic Framework (IPEF) have signed agreements on a Clean Economy & Fair Economy in Singapore at the IPEF Clean Economy Investor Forum.

While over 25 Indian companies pitched Indian projects to over 100 global investors, 10 Indian companies were among the top 100 climate tech start-ups/companies selected by the IPEF.

The selected companies are: BluSmart, Recykal, LOHUM, Sea6 Energy, EVage Ventures Private Limited, Kabira Mobility Private Limited, Batx Energies Private Limited, Newtrace and Alt Mobility and igrenEnergi Inc. These companies were selected to pitch their innovative ideas, technologies and solutions that contribute to mitigating or adapting to climate change.

In the Sustainable Infrastructure track, four Indian companies, namely ReNew Power, Avaada Energy Pvt. Ltd, Indusbridge Capital Advisors LLP, SEIP, and Powerica Ltd were shortlisted for pitching their concepts on energy transition, transport and logistics, and waste management/waste to energy to global investors.

Leading the Indian delegation, Commerce Secretary Sunil Barthwal underlined that the investment opportunities in India are worth over $500 billion, particularly in the clean energy value chain including renewables, green hydrogen, EVs and infrastructure transition.

The first-of-its-kind forum resulted in $23 billion in investment opportunities for sustainable infrastructure projects in the Indo-Pacific region. According to India's Commerce Ministry, the coalition has estimated that its members cumulatively have over $25 billion in capital that can be deployed in Indo-Pacific emerging market infrastructure investments in the coming years.

DFC's Board has also approved an equity investment as part of the $900 million Eversource Climate Investment Partners II fund, which will provide capital, management, and expertise to innovative companies using new and existing capabilities to address climate change in India and Southeast Asia.

Home