

Cotton spinning: searching for large orders?

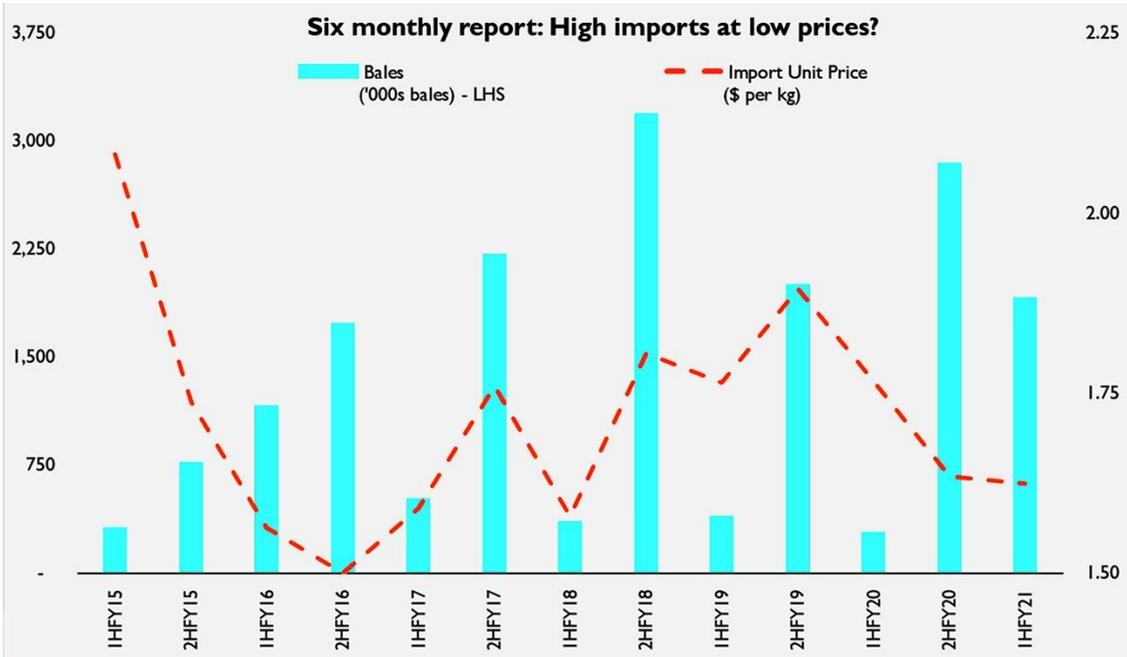
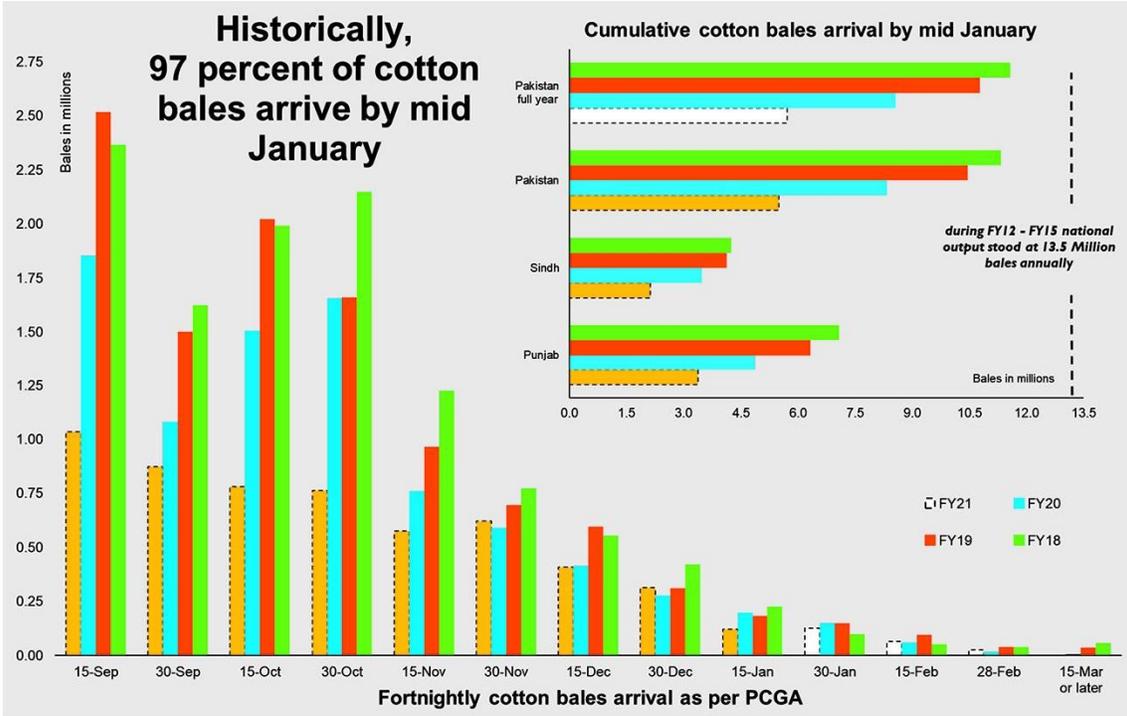
The words “highest” and “lowest” ever(s) have fast become clichés when it comes to Pakistan’s cotton industry. Few will be surprised to find out that at 4.75 million bales, Pakistan recorded its highest ever calendar year cotton import volume in 2020. That the country will record its lowest (in 36 years) domestic cotton output in 2020-21 season has also been repeated – especially in this space – ad nauseum. But missing from this discussion of peaks and bottoms is the matter of pricing, which may soon ring alarm bells for the ballooning import bill.

Pakistan’s spinning industry should be commended for taking full advantage of the downward slide in global commodity markets that began with the onset of the Covid pandemic (and the ensuing lockdown). Importers were able to average out their pricing, procuring raw material at lowest unit prices since at least 1HFY18, which also helped induce growth in exports by the value adding industry. But the bonhomie may not last.

Domestic cotton output of less than 6 million bales in 2020-21 means that the import volume recorded during the year of pandemic (CY20) may only be the tip of the iceberg. During 2HFY21, Pakistan may have to brace itself for import of another 4 million bales, which may not only balloon the fiscal year cotton import bill to the tune of \$2 billion but may also affect the competitiveness of value adding segment.

Why? Look no further than the outlook of global cotton prices. Consider that commodity prices are already on an upsurge globally, with CotlookA Index closing at 20-months high in December 2020. Textile demand has picked up universally, as global consumption is slated to rise by almost 15 percent over last year amid forecast of weaker output due to lower area sown. 2020 was not a great year for most cotton farmers across the globe, resulting in many switching to substitute crops due to losses in previous season. This means that if the price surge continues January onwards, domestic spinning industry may have to spend a lot more dollars to procure record levels of imported cotton. Add to this the poor interest expressed in import of cotton yarn despite removal of regulatory duties and tariffs by MoC over the past few months. Never mind also that cotton yarn prices (quite obviously) move in tandem with the underlying commodity prices and have been pointing upwards since at least August 2020.

Put together, increasing input prices poses risks to the nascent recovery of exports by the value adding segment, as price volatility may force spinners to stay on the side lines, creating a supply shortfall in local market. Given the grim prospects of domestic cotton output in next season, is it time for Pakistani spinners to search for and place large order and long term contracts in the international market?



Monthly raw cotton imports

Source: PBS; WB

