

Highest ever cotton import: nowhere in sight

The curtain has been lifted on FY21's foreign trade opening act, and it appears that the import compression efforts are a thing of the past. Food, metal, and transport imports have made a comeback in a big way. But textile group imports are still slow to pick up, confirming suspicions of a slowdown in global demand for textiles.

Readers will recall that Pakistan was set to record its highest ever cotton import volume in history, until Covid-19 lockdown kicked in. Consensus market expectations were not based in thin air: for the first nine-months of FY20, Pakistan's home textile and made up garment exports staged a comeback led by currency devaluation, while domestic cotton output had touched a 30-year low.

Given this context, Pakistan's cotton imports had nowhere to go except north, as spinners flocked to book long positions on forward contracts anticipating increase in international prices. Imports volume in February 2020 vindicated those expectations, as the country marked its highest ever monthly import volume of raw cotton.

What followed is well-known: worldwide lockdown to mitigate the impact of pandemic disrupted global trade supply chain, as demand for textile exports also nosedived. That Pakistan's raw cotton import and consumption expectations would also witness a significant readjustment as a result was also a logical outcome. Yet, market players remained insistent and adopted a contrarian view.

First came the "delay" theory. Channel checks with spinning industry in May 2020 suggested that shortfall in domestic cotton output is so massive that even with the slowdown in global textile demand, demand for raw cotton import will stay put. Lower import numbers between March and May were only an indication of disruption at ports and transit, the theory went, and soon enough Pakistan would witness a massive inflow of cotton between June and July 2020.

The summer of 2020 has come and gone, but the "massive" raw cotton imports are nowhere to be seen. July-2020 cotton volume is half of last month's, and lowest since January 2020 when tariff on imports were removed to fulfil demand from domestic spinning industry. Then came the "contract renegotiation" theory. This version peddled that domestic spinners had booked long contracts back in August 2019 when international cotton prices were at a 3-year low. When import tariffs were finally relaxed in January, spinners were all set to reap in benefit of their foresight, except international prices suddenly crashed beginning February 2020 as Covid-panic gripped international commodity markets.

Could the spinners not have cancelled contracts? Not likely, according to insiders at the time. Instead, import contracts were to be negotiated, and highest ever volume to be still imported at favourable rates.

Yet, none of it has transpired. Since March 2020, average unit price of Pakistan's monthly cotton import has been higher than the prevalent prices in the international market, a bizarre situation usually not seen for extended periods before. Whether importers cancelled orders also remains a mystery, although it does appeal to intuitive sense considering depressed demand for cotton consumption, along with higher prices.

But consider this: cotton import harvest season for marketing year 2021 is here, yet price of domestic cotton has remained on the down low in anticipation of "highest ever import volume" of better-quality foreign cotton. Which raises the question: has the high cotton import bill theory been peddled to keep domestic prices in check?