

Cotton importers: at a loss?

If the monthly trade scorecard is any guide, Pakistan's cotton imports for FY20 are on a precipitous decline. With only one-month worth of imports to go, FY20 import forecast has been revised down from historic 5 million bales to just 3 million bales. But both textile firms and commodity traders insist otherwise, suggesting that import bill will be substantive, if not historic.

What is going on? Recall that domestic cotton output was slated to be three-decade lowest, led by alarmingly low yield despite efforts to improve acreage. Final estimates as reported by the Economic Survey last week place output at 9.2million bales – still at a 21-year low.

That figure is heavily contested by private-sector bodies such as Pakistan Cotton Ginners Association and Karachi Cotton Association, who estimate crop arrivals at 8.5 million bales. Although bias in private-sector reporting may be understandable for reasons of under-reporting due to cash transactions or to seek government support/subsidy in the form of support price, the claim receives support by United States Dept. of Agriculture (USDA), which places Pakistan domestic production at a little under 8 million bales!

Thus, import forecast of record 5 million bales did not seem all that far-fetched back in Jan-20 (against average annual import between 2-3 million bales), when domestic ginning season came to a close and customs duty was removed from imports for a period of 6 months. Monthly import volume also climbed up to 700,000 bales by Feb-20, with news of forward bookings from banking channels confirming import of at least 4 million bales by fiscal year end.

Came Mar-20, and the ensuing lockdown put a spanner in the works that delayed shipments. Reports of order cancellation for home textile and ready-made garments meant that spinning segment signalled a slump in demand, which has largely reflected in monthly cotton imports since. As per PBS, monthly cotton imports have fallen to 366,000 bales in May-20, less than half of volume recorded in Feb-20.

With only month worth imports to go, June imports will have to touch 1.2 million bales to meet the pre-Covid annual import forecast of 4 million bales. That appears to be an unrealistic assumption, considering the slump in textile exports, unsold inventory of 0.5 million bales with domestic ginners since Mar-20, falling domestic cotton price, and piling imports with spinners.

Yet, both USDA and domestic textile firms are insistent that will not be the case. USDA, which adjusts its forecast monthly, had estimated FY20 imports at 5.5 million bales back in Jan-20. Since then, it has revised down the figure each month, but interestingly

revised it slightly upwards in its June report to 4.2 million bales. At 2.76 million bales, Pakistan's 11MFY20 cotton imports are 1.44 million bales short of that figure.

Domestic textile also has an interesting tale to share. Speaking privately to BR Research, large textile importers insist that order cancellation have been far and few, as cancellation of confirmed import LCs can be taken to arbitration – a headache regular importers cannot afford as it risks long term supplier relationships. Instead, pricing has been negotiated downwards, as have credit terms from sight to deferred terms.

But renegotiation of credit terms should still reflect into quantity of imports, which has been falling in double-digits every month since Mar-20. According to big textile players, that is simply a reflection of logistical delays due to limited port activity both at home and in US, the source-country for most importers. That version is also confirmed by a private multi-national commodity trading firm.

Global supply chain does not care for annual fiscal report cards, so whether soon-to-be-imported cotton will reflect in June or be pushed into July matters little. What matters, however, is the piling cotton inventory which may not witness consumption unless exports pick up. Unit price of imported cotton by May-20 has also clocked in over and above prevailing cotton price in the international market. Are cotton importers at a loss of strategy?