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RECORDER REPORT

Bearish trend witnessed on cotton market

KARACHI: The local cotton market remained bearish on Saturday. Market sources told that mills were involved in cautious buying due to which the trading volume remained low. The business remained low in Sindh due to Diwali celebrations.

Cotton Analyst Naseem Usman told that according to the data released by USDA till November which shows that there is no chance of bullish trend in the market in near future.

Federation of All Pakistan Chambers of Commerce and Industry thanked Prime Minister Imran Khan for announcing cut in power tariff for Small and Medium-sized enterprises, Elimination of peak-hour charges from industrial electricity tariffs, 50% discount on consumption of additional units for B1, B2, B3 connections, and 25% discount on additional consumptions for industrial connection for 3 years.

Naseem also told that spinning industry may have to fulfil close to half of its cotton requirement through imports during the ongoing season, as domestic production may struggle to exceed 6 million bales. Damage due to extreme weather only partly explains the low output, which is primarily attributable to the crop falling out of favour with growers, a storm that has long been in the brewing.

The USDA has increased its outlook for upland cotton production and lowered the crop estimate for rice.

As of November 1st, upland cotton is seen at 16.535 million bales, a little bit more than in October, but down 2.692 million from 2019, with an average yield of 901 pounds per acre, up 2 on the month and 91 on the year. U.S. cotton stocks were unchanged at 7.2 million bales, with the higher production guess canceled out by an increase for unaccounted for supplies. The average 2020/21 farm price is estimated at $64 per pound, compared to $61 in the previous report and $596 in the prior marketing year.

Rice is pegged at 226.121 million hundredweight, slightly less than last month, but up 41.446 million from last year, with an average yield of 7,560 pounds per acre, 7 under a month ago, but 89 above a year ago. U.S. rice ending stocks of 49.5 million hundredweight were 1.8 million hundredweight higher on lower production and export expectations. The average 2020/21 farm price is estimated at $12.90 per hundredweight, compared to $12.80 in October and $13.50 last marketing year.

Globally, cotton and rice stocks were both up modestly from October at 101.44 million bales and 179.78 million tons, respectively.

Moreover, Pakistan is slated to record its slowest season of cotton production in 35 years, with ginneries struggling to achieve output of 6.5 million bales (of 170kg). It appears intuitive that the impact of poor crop performance on textile exports will be determined on pricing of imported cotton. But what exactly is the volume of Pakistan's cotton demand?

Cotton bales are processed into yarn by the spinning industry. Ergo, either a shortfall in domestic production should be fulfilled by increase in imports or lead to fall in yarn production. The latter has certainly not happened (barring Covid-19 related decline in FY20). Between FY10–FY19, domestic yarn production increased by one-fourth, an increase that is corroborated by various private and public sector sources, including APTMA, PBS, PCCC and MoIP.

Furthermore, cotton imports have increased, they haven't increased nearly fast enough to keep pace with falling domestic output. Recall that as recently as FY15 Pakistan was producing 13-14 million bales of cotton annually, while importing 1.5 million bales on average to fill the supply gap. Output has since fallen to average 9 million bales, yet imports have increased by a million bales only.

Meanwhile, Faisalabad is currently experiencing a financial boom with operationalization of 50,000 power looms and expecting the opening of another 30,000 units.

Known as the country's textile hub, Faisalabad for the first time after 1990 has seen a massive economic growth following a high demand of export items and the government's recently announced incentive of electricity supply for industrial sector at reduced rates.

Prime Minister Imran Khan in a tweet on Thursday shared a television news report about the increased economic activity in Faisalabad and the resultant shortage of 0.2 million labourers required to meet the high demand of orders in textile sector.

Factories and power looms in the past faced closure owing to power crisis as emerged due to apathy of previous governments. However, during the coronavirus situation, Pakistan witnessed orders in textile sector diverted towards it from various countries.

The news report mentioned that Faisalabad had overall 1.3 million workers with one million natives and 0.3 million belonging to other districts.

Naseem told that 3000 bales of Khairpur were sold at Rs 8500 per maund, 600 bales of Salehpat were sold at Rs 800 to Rs 9100 per maund, 200 bales of Liaquatpur were sold at Rs 9550 per maund, 200 bales of Ghani Goth were sold at Rs 9550 per maund, 600 bales of Khanpur, 200 bales of Feroza were sold at Rs 9500 per maund, 600 bales of Rahimyar Khan were sold at Rs 9450 to Rs 9500 per maund, 400 bales of Yazman Mandi were sold at Rs 9475 per maund, 200 bales of Noorpur Naunranga were sold at RS 9475 per maund, 1000 bales of Haroonabad were sold at Rs 9450 to Rs 9475 per maund, 200 bales of Dharanwala, 400 bales of Bahwalpur, 400 bales of Faqeerwali, 200 bales of Ahmedpur East, 200 bales of Sadiqabad were sold at Rs 9450 per maund and 600 bales of Layyah were sold at Rs 9000 per maund.

He told that rate of cotton in Sindh was in between Rs 8400 to Rs 9400 per maund. The rate of cotton in Punjab is in between Rs 9400 to Rs 9700. He also told that Phutti of Sindh was sold in between Rs 3200 to Rs 4400 per 40 Kg. The rate of Phutti in Punjab is in between Rs 3800 to Rs 4800 per 40 Kg.

The rate of Banola in Sindh was in between Rs 1450 to Rs 1800 while the price of Banola in Punjab was in between Rs 1750 to Rs 2000. The rate of cotton in Balochistan is in between Rs 9100 to Rs 9300 while the rate of Phutti is in between Rs 3800 to Rs 4500.

The Spot Rate remained unchanged at Rs 9400 per maund. The Polyester Fiber was available at Rs 158 per Kg.