



Pakistan Cotton Weekly Report

W/E August 6, 2010

COTTON OUTLOOK

Pakistan is likely to miss the target, set for the production of cotton, by 3 million bales owing to the heavy rains and floods during the current fiscal year which would adversely affect the exports of textile. Government has set a production target of 14 million bales, to be cultivated on 3.2 million hectares for the year 2010-11.

This target was set after the introduction of eight kinds of certified seeds of cotton. According to initial estimates, country would hardly achieve 11 million bales mark, because of the monsoon rains and floods that have badly hit the crop in major cotton producing provinces Punjab and Sindh.

At the beginning of monsoon season, experts hoped the government might be able to achieve the cotton crop target, but heavy rains and floods in country have dampened their hopes. Industry sources claimed, the value-added textile industry of the country might also face a difficult situation in current fiscal year as the price of cotton would go up due to its low production.

Total consumption of local industry is about 15.5 million bales of cotton against the targeted production of 14 billion bales, showing a shortfall of about one million bales. However after the flash floods, the shortfall might well be around 4.5 million bales. Country would need to import 4.5 million bales to meet the domestic requirements.

TEXTILE EXPORTS: Government is likely to miss the textile exports target, set for the current fiscal year 2010-11 in textile policy (2009-14), because of the heavy rains and floods. In the new textile policy (2009-14), government had set a mark of \$25 billion for the exports of textile in next five years, which implies 14 billion dollars for the current fiscal year. Country also failed to increase the exports of textile during 2009-10, which stood at \$10.5 billion.

Government has failed to achieve the cotton-sowing target, and except Punjab, all the remaining three provinces have missed the sowing targets. Dera Ghazi Khan, Taunsa, Bhakkar, Layya, Mianwali and Muzaffargarh are the main areas where the cotton crops have been damaged badly.

AGRICULTURAL CROP

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Heavy Rains & Floods Damaged Cotton

Experts expressing that after calming down during last fortnight of the previous month, lint prices have leapt up again due to fears that the worst rains and floods seen since the past several years in Pakistan may have damaged the standing cotton crop (2010-2011) in meaningful numbers.

Monsoon rains are still continuing to pour their fury over a vast area throughout Pakistan and consequently the swollen rivers remain a credible threat to the cotton fields, particularly in the river tracts where cotton has been sown. It is too early to say how much damage to the quantity or quality of cotton has been inflicted due to the severely inclement weather, but some damage is bound to accrue.

Floods have already ravaged and now threaten the towns and cities in Punjab including many cotton growing areas like Muzzafargarh, Taunsa Sharif, Layyah, Dera Ghazi Khan, Alipur, Fazilpur, Kot Mithan, Rahimyar Khan and Mianwali. Rains continued to pour not only in Rahimyar Khan and Sadiqabad, but they extended over the cotton belt stretching from Khanewal to Sahiwal.

In Sindh, besides fearing the rage of the mighty river Indus which is flowing with extra fury, rains are also being reported from lower Sindh in areas like Badin, Kunri, Kot Ghulam Mohammad and also Sanghar and Mirpur Khas. This situation is not only likely to compromise output of cotton during the current season (August 2010-July 2011), but is also likely to effect the quality of lint.

Very initial reports, however, suggest that a loss of cotton output of 500,000 (170 Kgs) domestic size bales may have been suffered from an earlier total output projection of 13.5 to 14 million bales for the current cotton season on an ex-gin basis. Any quality loss to the output will have to be accounted for separately. Rough estimates suggest that till now the cotton economy, including growers and the loss of precious fiber, cottonseed, edible oil and its by-products may have suffered an estimated loss of up to Rupees ten billions due to the rains and floods.

Seedcotton/Lint Prices

Highlights

- **Pakistan may have damaged the standing cotton crop (2010-2011) in meaningful numbers due to the heavy rains and floods**
- **Very initial reports, however, suggest that a loss of cotton output of 500,000 (170 Kgs) Bales.**

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Seedcotton/Lint Prices**



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Seedcotton/Lint Prices

Highlights

- Till 1st of August 2010 Cotton arrivals recorded @ 267, 389 Bales for the year 2010/11
- lint prices have risen by Rs 300 to Rs 400 per maund (37.32 Kgs) in Sindh & about Rs 500 to Rs 600 per maund in Punjab

Next >> Supply & Demand

COTTON ARRIVALS

Till the 1st of August 2010, however, Pakistan Cotton Ginners Association (PCGA) has reported record seedcotton arrivals of 267,389 lint equivalent bales of (170 Kgs) from the current (2010-2011) season. Henceforth, seedcotton arrivals may be hampered due to the ongoing rains and floods in several cotton growing areas.

PCGA Cotton Arrivals

As on August 01, 2010 (in Bales)

Province	Punjab	Sindh	Pakistan
Total Arrivals	206,589	60,800	267,389
Sales to TCP	0	0	0
Sales to Exporters	0	0	0
Sales to Mills	182,610	45,700	228,310
Unsold Stock	9,103	1,673	39,079
* un-ginned stock (28,303) is included with unsold stock			

COTTON / SEED-COTTON PRICES

Seedcotton (kapas/phutti) prices ranged higher and were obtaining between Rs 2550 to Rs 2650 per 40 kgs in Sindh, while they were said to have extended from Rs 2800 to Rs 3100 per 40 kgs in Punjab. Lint prices reportedly ranged from Rs 6100 to Rs 6200 per maund (37.32 kgs) in Sindh and they were said to have ranged from Rs 6700 to Rs 6800 per maund in Punjab. Price tone of cotton was described as being tight.

Therefore, lint prices have risen by Rs 300 to Rs 400 per maund (37.32 Kgs) in Sindh since the past one week, and have also escalated by about Rs 500 to Rs 600 per maund in Punjab.



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Supply & Demand

Logical Views

- Approximately 5000 bales of cotton changed hands between Rs 6200-6800
- Present situation due to floods, market will move on demand and supply factor as according to initial reports country is facing a loss of nearly Rs 10 billion as a result of damage to crop by floods.

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Weekly KCA Spot Rates

Date	Ex Gin Price Rs.	Up Country Expense Rs.	Total Price	
			PKR Rs.	US c/lb
31-July-10	6,200	100	6,300	89.50
02-Aug-10	6,200	120	6,320	89.67
04-Aug-10	6,300	120	6,420	91.09
05-Aug-10	6,500	120	6,620	93.99
06-Aug-10	6,600	120	6,720	95.35

* 37.324 Kg

SUPPLY & DEMAND

Trading activity picked up on cotton market on August 05/2010 as mills continue forward buying in anticipation of further rise in rates. KCA official spot was raised by Rs 200 to Rs 6,500 due to short supply position.

In ready business, approximately 5000 bales of cotton changed hands between Rs 6200-6800. Phutti prices were higher as rates in Sindh were at Rs 2550-2650 and in Punjab at Rs 2800-3100. Present situation due to floods, market will move on demand and supply factor as according to initial reports country is facing a loss of nearly Rs 10 billion as a result of damage to crop by floods.

In Punjab both cotton quality and quantity, in Sindh, cotton quality has been hurt by recent floods, this factor may affect prices in coming days. At other side, ginners, who missed the new high rate at Rs 7000, now hoping they would get the highest rate under the circumstances.

With mills stocks of cotton depleting day by day and supply becoming more and more difficult, prices are expected to remain firm for the time being.



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Garments Scam of Millions of Euros

European Union investigators have unearthed a garments scam of millions of euros in which European importers and Bangladeshi exporters were complicit. According to EU's anti-fraud agency commonly known under its French abbreviation OLAF, (Office de Lutte Anti-Fraud), Bangladesh clothing origin certificates issued since 2005 showed "hundreds of thousands" were false - and in fact cargoes had come from China.

According to OLAF "The scale of the trouble was much larger than thought, involving hundreds of importers across most EU member states. The fraud was to help exporters evade EU import controls on Chinese goods re-imposed temporarily in 2005, after their abolition in 2004 had led to a surge in China clothing exports.

As a least-developed country, Bangladeshi exports get privileged duty-free access to EU markets, so customs authorities recovered around 30 million euros in duties due for goods actually made in China. The probe was sparked, said the report, when the reintroduction of China export quotas prompted a "sharp drop in EU imports from China but a corresponding spike in imports from Bangladesh," so that "the scale of the imports did not match the manufacturing capacity of the country."

EU's import prices declined this year in a large number of clothing categories, reflecting the additional pressure from European buyers. A series of countries were lowering their prices or offering cheaper products, like China, Bangladesh or Sri Lanka, while other origins had to raise their prices or shift to higher-end clothing, like Indonesia, India and Vietnam. In 2006-07 Bangladesh garments exports increased by 18.2% to reach \$9.6 billion record level for the fifth consecutive year.

Bangladesh has an excellent opportunity to boost exports of garments to US and EU countries where demand for low-cost apparel is increasing. The introduction of quotas restricting EU and the US imports from China in 2005 and 2006 respectively has already provided it with a breathing space in which to gain market share. So has the EU's Generalized System of Preferences (GSP) scheme, which provides garment manufacturers in Bangladesh duty-free access to EU market - subject to certain conditions relating to the origin of materials used in manufacture of garment.

TEXTILE

Simple Business Strategy

- **European Union investigators have unearthed a garments scam of millions of euros in which European importers and Bangladeshi exporters were complicit.**
- **In 2006-07 Bangladesh garments exports increased by 18.2% to reach \$9.6 billion record level for the fifth consecutive year.**

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Pakistan Cotton Weekly Report

Highlights

- **Pakistan Yarn Merchants have expressed grave concern over complicated and anti-business taxation policy**
- **New turnover tax rate is being increased from 0.5% to 1% under the new provision in the Finance Bill.**

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TEXTILE

Yarn Manufacturer: Turnover Tax Rate

Pakistan Yarn Merchants have expressed grave concern over complicated and anti-business taxation policy and warned that if the new turnover tax rate is not withdrawn immediately, yarn traders would close their businesses as a mark of protest, resultantly; thousands of wage earners would become jobless.

Former Chairman, Pakistan Yarn Merchants Association and central leader of Action Committee said the turnover tax rate would now be applicable to all yarn trade companies, APOs and individuals with a turnover above Rs 50 million.

Furthermore, this new turnover tax rate is being increased from 0.5% to 1% under the new provision in the Finance Bill. This is quite unreasonable considering that the margin for yarn traders is quite low. Anyone with over 50 million in turnover is to automatically become a withholding agent and is required to deduct a three and a half percent withholding tax. This step is unreasonable as most of yarn traders have more than Rs 50 million in turnover.

The high turnover, is a result of the high prices of yarn and because the textile business is one of high-volume and of low profit. A yarn trader paying a three and a half percent withholding tax, means that he must be making at least a 10% profit which is almost impossible in case of textile business. At average, normal profit margin of a yarn trader is only about one or 2%.

During this process, a yarn trader also provides the end users with some financing, which will be eliminated by this harsh tax. Yarn Officials demanded to the government that the new turnover tax should immediately be withdrawn in the best interest of the textile sector, especially small scale manufacturers, who are working as vendors for big and medium textile manufacturers and processors.



Pakistan Cotton Weekly Report

Highlights

- **APBUMA has showed deep concerns over the increase in Policy rate by SBP and said the textile industry is already under extreme pressure due to consistent energy shortage.**

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TEXTILE

APBUMA concerned at increase in policy rate

Chairman All Pakistan Bedsheets & Upholstery Manufacturers Association (APBUMA) has showed deep concerns over the increase in Policy rate by SBP and said the textile industry is already under extreme pressure due to consistent energy shortage.

Industrialists were repeatedly demanding to cut down the interest rate to single digit in order to save injured country's economy, but policy makers at SBP were ignorant of ground realities has further tightened the monetary policy, thus took the decision to increase the policy rate. Now both trade and industry are facing multiple challenges, and in dire need of some financial package.

APBUMA Chairman said that hike in the interest rate and power tariff will act, as upshot to inflation and prices of consumer goods will multiply owing to increase cost of manufacturing and doing business. It will adversely effect the medium and small units dealing in export of textile made ups and home textile items, which are already facing enormous problems and totally depends upon the banking loans. Referring to the odds of textile sector he said that the industry is surrounded by the heinous financial traumas.

At the moment billions of rupees of textile sector are stuck with the government on the account of sales tax refund. More to this, State Bank of Pakistan has stopped the payments of Drawback of Local Taxes & Levies Claims reportedly due to non-allocation of funds. In addition, ever rising cost of doing business owing to unprecedented increase in energy and raw material has squeezed major portion of liquidity available. He argued that how could be government so indifferent of the problems of the textile sector, which is the mainstay of the economy.



Pakistan Cotton Weekly Report

Highlights

- **APBUMA Officials said that out of total 5.6 million acres for the cotton cultivation in Punjab, 0.1 million acres have been erased by the floods.**
- **They appealed the government and of SBP authorities to revise the current increase in policy rate to single digit**

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TEXTILE

APBUMA concerned at increase in policy rate

He termed this increase in interest rate is contrary to on ground realities of industrial sector. In current circumstances, to keep the wheel of industry rolling there is need of immediate loans at lower interest rates. In context of disaster caused by the floods "these floods have not only caused irreparable loss of human lives but economic loss of hundred of billions rupees". He said that Monsoon rain and floods have caused an estimated loss of more that Rs 30 billions to standing crops.

Out of total 5.6 million acres for the cotton cultivation in Punjab, 0.1 million acres have been erased by the floods. He was of the view that it is quite obvious that in post flood scenario there will be needed of huge funding not only to restore the damaged infrastructure but to support the farmers with the concessionary loans at the least mark-up rates. While the current increase in the policy rate will undermine the recovery process from the great economic disaster.

He appealed the government and of SBP authorities to revise the current increase in policy rate to single digit. He stressed that before taking such steps the possible outcome should be carefully matched with economic price, which will have to be paid. This rise in policy rate will open the flood gates of unemployment due to closure of industry, which could push us to the edge of social unrest and anarchy.



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Highlights

- **August 06, 2010:**
6000 Bales were sold @
Rs 6,200-6,850

Weekly Sales

Weekly Sales (Sindh / Punjab)

Crop 2010-11

PUNJAB REGION

<i>Punjab Stations</i>	<i>Total Bales</i>	<i>Punjab Stations</i>	<i>Total Bales</i>
Arif Wala	200	Kabir Wala	1000
Bahawal Nagar	1300	Khanewal	1800
Burewala	200	Mian Chunno	1000
Burewala	5600	Mongi-Bangla	200
Chicha Watni	1600	Pakpattan	400
Dipalpur	200	Sahiwal	1000
Gojra	400	Vehari	900
Haroonabad	600		
Hasilpur	400		
Jhang	200		

SINDH REGION

<i>Sindh Stations</i>	<i>Total Bales</i>
Hyderabad	200
Mirpurkhas	1600
Sakrand	200
Sanghar	400
Shahdadpur	3600
Sultanabad	2000
Tando Adam	1800