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# Spinners face double trouble

REFAYET ULLAH MIRDHA

**D**EMAND for cotton in Bangladesh may decline this year for a reduction of consumption in the local markets. The distressed local spinners are saying there is no demand for the item.

Spinners produced yarn from high-priced, imported cotton, but now the price of cotton is on the decline. Businesspeople said they can hardly adjust the market price of yarn to imported cotton prices.

As a result, local markets are burdened by stockpiles of unsold yarn, they said.

Furthermore, the import of cotton may decline this year although the price of the fibre is declining worldwide because of a reduction in consumption by China, the largest cotton consuming country.

With the recent fall in global cotton prices, demand for the cheaper yarn from China and India has soared in the market, while local spinners have used expensive cotton for their spinning needs.

Local spinners are also unable to take advantage of low cotton prices, as they are yet to dispose of their previous stocks of yarn.

"The import of cotton was meant to be higher, as prices were falling, but for some reasons, it is not happening," said A Matin Chowdhury, managing director of Malek Spinning Mills Ltd, a major cotton importer.

He said primarily, some new mills were supposed go into operations this year, but for an unavailability of gas connections, they could not. As a result, cotton imports might not increase.

After two years of giving no new gas connections, the government is now planning to resume the connections to the industrial units soon.

Moreover, the current price of local yarn declined to \$4.20 a kilogram, dropping from a rate of nearly \$7 a kilogram a few months ago. Yarn is being stockpiled as the local spinners cannot sell the item at low prices, he said.

Banks are also losing interest in financing cotton imports, as the financial institutions do



Yarn bundles are staked at a factory in Gazipur. Cotton imports were on the rise, but may decline in future with falling demand for the fibre.

not want to take on more risks, he said. "Banks do not want to take risks by financing the import of cotton as the old stocks of yarn are yet to be finished."

"Cotton imports were on the rise as the export of readymade garments is increasing. This upward trend of cotton imports might not continue if demand for local yarn does not rise," he said.

Industry people predict cotton imports to increase to 5.5 million bales in the year that started July 1, when the country usually imports 5 million bales a year. Cotton was selling at \$1.17-\$1.13 per pound on the New York Futures trade yesterday.

The commodity traded between \$1.44 and \$1.48 per pound at the New York Futures in mid May. Cotton prices started declining globally on prospects of higher yield next year, and a reduction in consumption by China, the industry people said.

The price of cotton hit historic highs in March this year -- \$2.19 per pound on March 7 and \$2.04 on March 25.

But the market calmed down by the end of the month with forecasts of better output next year, as cotton producing countries like the US, China, India, Pakistan and the Commonwealth

of Independent States increased acreage for cotton cultivation this year.

The initial world cotton projections for 2011-12 show a sharp increase in production to a record 124.7 million bales, with India, China, and Pakistan accounting for 70 percent of the total output, said a report by the United States Department of Agriculture.

World trade is projected at 40 million bales, mainly reflecting higher import demand by China, the report said, adding that world ending stocks are projected to rise to nearly 48 million bales, a 13 percent increase from the beginning level.

Cotton importers and millers are now in a panic as they are unable to sell the yarn, said a senior official of DBL Group, an importer.

The official said many importers have already booked cotton at higher prices with the international cotton dealers, but the price of the fibre is now declining.

They are now in a dilemma as they cannot breach agreements with the dealers and as a result, the spinners have to import high-cost cotton, the official said. Again, the high-cost cotton will be used to spin yarn to sell to customers at lower prices, he said.

"I have already slashed my factory's produc-

tion volumes as yarn stockpiles are increasing for a low demand," said Shafiqul Islam Sarker, a director of Purbani Group.

If the normal trend continued, the import of cotton would have increased by 10-15 percent, but it will not happen as demand for yarn is declining in the local market, Sarker said.

"It is my forecast that the import of cotton will decline by 10-15 percent this year," he said.

Mohammad Ayub, president of Bangladesh Cotton Association (BCA), said Bangladesh needs to increase the stock of cotton as the country is totally dependent on imports.

The country could not take advantage of the price fall because of low demand for the local yarn, he said. Many spinners are running their factories in under-capacity, he said.

The industry people said the total investment of Tk 30,000 crore in the spinning, weaving, dyeing, printing and finishing sub-sectors will be at stake if the government does not take immediate steps to help the sector.

Bangladesh produces eight lakh tonnes of yarn a year from raw cotton imported mainly from the US, India, Uzbekistan, Pakistan and some African countries.

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# India withdraws its brief cotton export ban

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**T**HE Indian government has allocated one million bales of cotton to its exporters, withdrawing a ban on the export of the fibre for a brief period, local importers said.

The Indian cotton exporters received the allotment on July 6. The Director General of Foreign Trade (DGFT) of India has given the allocation of cotton export quota to 227 eligible applicants.

As per the government announcement, Indian exporters would have to register their shipments by July 15, said a DGFT circulation. The last date of shipment has been stipulated as September 15, the circulation said.

Earlier, a total of 5,270 bales of cotton entered Bangladesh through Benapole Land Port after the Indian government temporarily withdrew a ban on cotton exports on January 11.

The Indian government has already set an export ceiling of 5.5 million bales for the ongoing season from October 2010-September 2011. India imposed the ban for the sec-

*"The only benefit from the latest move is that the local importers will be able to get the cotton as early as possible as India is our neighbouring country. Now, we have no price benefit"*

ond time on December 15 last year to boost its stocks for the local market. In 2010, the first ban came on April 21 and continued till October 31.

Probir Kumar Saha, an importer of cotton from India, said the deadline for opening letter of credits to import cotton from the allotment is today. "But, demand for cotton this time is very low. The allotment for January

finished within the shortest period," he said.

Demand for cotton is low this time because the price of the item is declining worldwide, he added.

Moreover, spinners are careful in purchasing cotton as yarn stockpiles are increasing for the flood of cheaper Indian and Chinese yarn, he said.

Bangladesh would have benefitted from such a move by India if it came a lot earlier, he said.

"The only benefit from the latest move is that the local importers will be able to get the cotton as early as possible as India is our neighbouring country. Now, we have no price benefit," he said.

"Our government should sit with the Indian government to discuss the cotton issue, as India suddenly imposes a ban on export of cotton and lifts the ban, according to their will. Such sudden moves hamper growth of the local spinning sub-sector," said an importer. India is the second largest cotton producing country in the world.

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Cotton is scattered at a factory in Gazipur in the process of preparing yarns.