

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Pakistan

Cotton and Products Update

Cotton and Products Update 2014

Approved By:

David Williams

Prepared By:

M. Shafiq Ur Rehman

Report Highlights:

Pakistani cotton is currently among lowest-priced cotton in the world. Farmers, who had hoped to benefit from the government's intervention program, have delivered large volumes of cotton to gins over the past month as they prepare for wheat planting. Procurement under the intervention program has reportedly been less than 20,000 170 kg bales, compared to an announced purchase amount of 1.0 million 170 kg bales. Despite the surge in arrivals, the production estimate is unchanged at 9.8 million bales of 480 lbs. Imports and exports are typically subdued during the first part of the marketing year, more clarity about future trade volumes should emerge in January.

Market Intervention Efforts Fizzle

On September 9, 2014, the Government of Pakistan announced a cotton intervention price designed to lift depressed seed cotton prices. In turn, the state-run Trading Corporation of Pakistan (TCP) was charged with purchasing up to 1.0 million 170 kg bales (780,000 480 lb bales) of seed cotton at a price of 36 cents per pound, well above the prevailing market price of 27 cents per pound for seed cotton. TCP does not own cotton gins and contracts with ginners to pay farmers for seed cotton at the intervention price. However, ginners were reportedly reluctant to pay the much higher intervention price without a guaranteed price for cotton fiber that would cover their ginning costs. In turn, the government established a lint price for ginners of 82 cents per pound, well above the prevailing Cotlook A Index price of 66 cents per pound, and well above the prevailing domestic cotton price of 56 cents per pound. The difference between the TCP price and the domestic price is a significant 26 cents per pound.

TCP has been very slow in implementing its procurement program. Thus far, TCP has established contracts with ginners to cover 400,000 170 kg bales of cotton (40 percent of the total), but actual purchases are reportedly less than 20,000 bales. Meanwhile, the pace of cotton arrivals has accelerated dramatically of late, climbing to 11.0 million 170 kg bales (8.59 million 480 lbs. bales) as of December 1, 2014 about a million bales ahead of the year-ago pace. Farmers, who have limited on-farm storage and had hoped to benefit from higher market prices due to the market intervention by TCP, are now rushing to harvest and market their cotton in order to get their wheat crops planted as soon as possible. When cotton prices are high, farmers are more likely to delay wheat planting (resulting in lower yields) in favor of more cotton pickings.

The prospect of raising market prices through intervention was slight as low international prices have weighed on the domestic market since the onset of harvest. Most farmers have marketed their cotton, missing any chance to benefit from intervention prices. The marketable supply of seed cotton is dwindling rapidly and TCP, if it fulfills its purchase quota, would become a primary buyer of the remaining supply of cotton. While it is increasingly unlikely the TCP will buy large volumes of cotton, TCP could face significant losses if it seeks to procure significant volumes of cotton the intervention price.

Production Estimate Unchanged

Pakistan's Cotton Crop Assessment Committee (CCAC) continues to estimate the 2014/15 crop at 13.5 million 170 kg bales (10.55 million 480 lbs. bales), a million bales higher than the current USDA estimate. The CCAC is expected to meet in January. FAS Islamabad continues to estimate the crop at 12.5 million 170 kg bales (9.8 million 480 lbs. bales). Arrivals from mid-December to March typically range from one to two million bales. Couple that with farmers moving on to wheat planting earlier than in recent years and there appears to be little cause for an adjustment in the estimate at this time.

Slow Moving Trade Numbers

Trade activity is generally subdued during the first few months of the marketing year and this year is no exception. The pace of imports generally accelerates in January, but cotton prices in India are currently significantly higher than in Pakistan, suggesting that the pace of imports could be subdued. Low-priced

Pakistani cotton could also result in higher than usual exports. The trade situation should become clearer in January.

Pakistan: Cotton Imports and Exports 480 lb bales, 2014/15 (Aug/Jul)		
Month	Imports	Exports
Aug	35,617	43,441
September	39,906	8,756
October	35,874	72,722
November	0	0
December	0	0
January	0	0
February	0	0
March	0	0
April	0	0
May	0	0
June	0	0
July	0	0
Total	111,397	124,919