Things might turn bearish on cotton market

ARTICLE (January 07, 2013) : **Cotton:** The volume of business on the cotton market remained subdued a second week in running as both buyers and sellers remained on the sidelines amid pricing concerns. While the official spot rate at Rs 6,000 remained unchanged from last week, most of the transactions that took place in the ready market earlier on in the week were within the range of Rs 5,400 and Rs 6,100 per bale. Ginners are said to have been pushing for price increases as the fortnightly report by Pakistan Cotton Ginner's Association has pushed down production figures by 445,440 bales, earmarking total production till January 1st at about 11.6 million bales. Consequently, mill buying, which was stronger as the week started, tapered off as the weekend approached, with mills were reluctant to make deals at the current prices. Analysts however believe trade activity might improve next week as a fresh demand may emerge from millers looking to cover their immediate requirements. Global cotton prices this past week on the other hand have strengthened as the commoditymarkets rejoiced at the last minute deal struck by US lawmakers to stop the US economy falling off the "fiscal cliff". Consequently, initial euphoria saw prices go as high as 76.95 cents on Wednesday. However, the heady rush has been wearing off slightly, with the most active March contract on ICE Futures settling up by a moderate 0.04 percent, going for 75.39 cents/lb on Thursday. Additionally, traders have also been awaiting news from Beijing regarding changes to the import quota or possible reserve auctions that will see some of the country's older stockpiles go on sale. What it will do for the market remains to be seen; however some consensus remains that things might turn bearish in the next week or so if a stockpile auction is indeed in the works.

Rice

Prices for the benchmark Irri-6 5 percent variety have strengthened this week, climbing up to $420/ton as a flurry of orders from the Chinese markets continues. Prices for long grain white rice have predominantly been stagnated this last month or so, witnessing much competition from Indian quarters. While the prices for Pakistani Basmati have remained largely uncompetitive against India's offerings, this season the biggest focus for Pakistani exporters has been China, which has been the largest market for Pakistani long grain as well as the 386 variety which is considered as the poor man's Basmati. Among other news, Indonesia's rice buying board Bulog has announced that it will not be importing rice in the next few months as the country has amassed a record grain stock of some 2.28 million tons of rice. This news is going to hit Indian exporters hard as the Indonesian market remains one of the largest importers of Indian rice, having bought some 70,000 tons of it in 2012 alone. The prospects for Indian rice in the long-term, however, remain strong, as the nation officially overtakes Thailand as the biggest exporter of world rice this year. Struggling to find buyers in a tight market with prices which are high by as much as $150 against major competitors, Thailand's exports have suffered miserably at the hands of the Thai government's controversial pledging scheme throughout 2012.

Wheat

Wheat prices, touting an MoM surge of 2.78 percent in December, proved to be one of the major propellers fanning the flames of inflation towards the end of CY12. Flour prices which hovered at Rs 33 per kg during June, last year, rallied to Rs 39-45 per kg as the country welcomed the New Year, with wheat prices tallying Rs 3100 - 3400 per quintal, said Ibraheem Mughal, Chairman, Pakistan Agri Forum. With utter woe, he added, "Price will soar further as unfortunately our policymakers are more concerned about their personal interests rather than benefitting the country at large." Given that the new wheat crop will be harvested in April, informed sources said that the country's average domestic requirement stands at 1.8 million tons a month, with 4-monthly requirement totaling 7.2 million tons. With surplus stocks of 5.2 million tons drying up each day, the heightened concerns of wheat deficiency coupled with towering flour prices in the next few months comes with little blow. Realizing the gravity of the situation, Sindh and KPK have already switched to a stricter wheat disbursement schedule. While KPK food department has drastically lessened the wheat supply from 7000 tons a day to 2500 tons, Sindh food department has almost stopped wheat supply to flour mills. Thus, wheat and flour prices in these two provinces are recorded at higher plateaus than other parts of the country. In the wake of high prices and low supply, Tandoor owners have also increased the price of a Roti by Re.1. Delving into the flour price details, Mughal said that a 20 kg wheat bag is available to the flour mills with a price tag of Rs 525. If we slot in all additional outlays (transport, utility, milling etc) the cost tally hardly builds-up by Rs 50 per 20 kg. However, the price of a 20 kg flour bag in the open market ranges between Rs 700-780, howling a margin of over 30 percent. Thus, the government is critically required to look into flour pricing mechanism meticulously as amid revised wheat procurement prices, it is greatly feared that the flour prices will cross Rs 50/kg mark by June. Some market sources also stressed upon the fact that the shortage of wheat is triggered due to smuggling of wheat flour to Afghanistan and even some Central Asian countries. Exploring the global scenario, Rabobank anticipates grain prices to climb in 1HCY13 and then beat a retreat as production picks up from weather disasters and creates a global surplus. IGC also expects global wheat production next season to increase by 4% YoY. On the price front, US hard red wheat for Gulf delivery settled on $342 per ton. While the EU France grade-1 wheat clocks in at $335 per ton, as on January 4th, 2013.

Sugar

With surplus totaling 0.735 million tons at the end of CY12, over 1 million tons of sugar crushed from the new crop has made its ways to the open market, compelling the prices to shed some points. This week, wholesale prices lingered between Rs 47-50 per kg, as against last week when prices witnessed an uptick owing to rising demand of confectionery items towards the end of year. Besides the downtrend that is observed in the open market price, Utility Stores Corporation (USC) has also reduced sugar price by Rs 3 per kg to fix it at Rs 45 per kg at all the outlets, reportedly in an effort to provide relief to the people by bringing down the prices of essential commodities. Market sources believe that this move of USC has further troubled the millers who were already in hot waters due to incessant jerks - rise in sugar support prices, delayed government decision to allow exports because of which they are not getting competitive export contracts, rising cost of production and lessening prices due to a supply glut in the local market. Industry players further highlighted that the so-called "relief to people movement" by USC by bringing down the prices seems more like a Self-salutary tactic to get rid of the low-quality "Renuka brand" Indian sugar held in TCP reserves. However, sources from TCP underscored that the Indian sugar is not harmful for human consumption and is already approved by PSQCA. Millers appeal government to provide them either with export rebate or viable export deals to compensate them for their surging cost and prevent them from making huge losses. The Chairman, Pakistan Agri-Forum, expressed his opinion that even only if TCP procures 1 million tons of sugar from millers at a minimum price of Rs 63,400 per ton, that would alleviate much of millers' problem and render them in a better position to make timely payments to farmers besides covering their costs. If the scenario remains unbothered, there is an increased probability of sugar prices dropping off further, which albeit is an optimistic factor for the poor masses already grappling against severe food inflation, however this joy should not come at an expense of hurting the industry. Probing into the global scenario, Rabobank forecasts a global sugar surplus of 6.6 million tons in 2012-13, up from its previous forecast due to expected strong sugar output in top-producing Brazil. Higher sugar output from Brazil, Mexico and some other countries will also offset reductions in India, Thailand, Russia and Ukraine. On prices front, March 2013, No 11 raw sugar contract at ICE was traded at 18.85 cents/lb while No 5 white sugar contract at LIFFE was traded at $510.40/ton as on January 4th, 2013.