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Journalism Without Fear or Favour

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[Economy \(/business/economy\)](#)

Surge in cotton price to weigh on RMG exports



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KEY POINTS

SOURCE: WOLRD BANK COMMODITIES PRICE DATA

- Cotton price rose **9.09pc** to reach **\$1.32** per pound in one month
- Russia-Ukraine war affected price level
- Bangladesh imports **9m** bales of cotton a year
- Bangladesh spends **\$3b** on cotton import
- Cotton price rose **51pc** in local market in the last one year
- Yarn price soared **60pc** in local market over the last one year

MONTHLY AVERAGE PRICES OF COTTON

In \$ per kg



TREND OF COTTON PRICES

Quarterly average \$/per kg



Cotton prices surged to more than a decade high in global market in the wake of the Russia-Ukraine war, abnormal hike in freight charge and drought in the US, which will drive up the production cost for readymade garment (RMG) makers in Bangladesh, thus affecting their profitability.

The price of the plant fibre reached \$1.3171 per pound (about 453 grammes) on the key US futures contract on Monday, the highest since July 2011, according to a report of the AFP news agency.

Even before the Russian-Ukraine war, the price of the key textile raw material had surged in the international market for pent-up demand following the reopening of economies after the pandemic-led lockdowns.

Because of the drought in some cotton-growing regions in the US, petroleum price hikes in the global markets, and the high volume of cotton purchase by China pushed up the price of the white fibre by 9.09 per cent in the past month.

As a result, the cost of production for garment manufacturers and exporters will go up further since Bangladesh is fully dependent on imported cotton to feed its main export earning sector.

Local growers can supply less than 2 per cent of 9 million bales of cotton consumed annually in the country, forcing the country to spend nearly \$3 billion to import the raw material for the growing apparel industry. Some 480 pounds, or 218 kilogrammes, make a bale.

Importers and millers say if the war prolongs, the price of cotton would jump further. This will ultimately increase the price of yarn in the local markets, which will raise the cost of production for garment manufacturing.

This will put the exporters in a difficult situation because while

process involves intense negotiation.

A Matin Chowdhury, managing director of Malek Spinning Mills Ltd, a major cotton importer and user, says the cost of yarn production will go up locally since cotton is the main raw material for the item.

Apart from the war, the abnormal hike in shipping cost, Chinese voluminous cotton purchase from the international markets, drought in the US and speculation are also responsible for the cotton price hike, he said.

Shahadat Hossain Sohel, chairman of Bangladesh Terry Towel and Linen Manufacturers and Exporters Association, says the country's garment exporters would face difficulties in the shipment of goods because of the cotton price hike as the country does not produce the raw material.

He has been complaining about the price hike of yarn in the local markets over the last one year as the thread's price has rocketed by nearly 60 per cent in keeping with the rise in demand for garment items in the western world following the improvement in the Covid-19 situation.

According to Mohammad Ali Khokon, president of the Bangladesh Textile Mills Association, if the buying price is \$1.32 per pound, another 20 US cents will have to be added to the total price because of the freight charge and other variable costs before they enter the mills.

"The prolonged war may hit the cotton and yarn markets further, which may also affect the garment export from Bangladesh."

Following the cotton price spike globally, the prices of yarn may go up in the local markets logically, he added.

Mohammad Hatem, executive president of the Bangladesh

cents on the sales of a kilogramme of the item in the local markets before August last year whenever their price went up globally.

Since August, spinners increased the price by 70 US cents to 80 US cents because of the surge in the cotton price internationally, Hatem said.

"Sometimes, the spinners increased the price by \$1 per kg in recent months."

Mustafizur Rahman, a distinguished fellow of the Centre for Policy Dialogue, says the higher cost of cotton will hurt the profitability of garment exporters.

In the volume-driven garment business, international retailers and brands are not absorbing the additional cost of production. It is the local exporters who are bearing the burden, he said.

Cotton price rose 51 per cent year-on-year in February. The price of the white fibre has increased further and this means a further squeeze on the profitability for garment exporters, Rahman said.

The fresh hike of cotton price is expected to affect the export of garment items from Bangladesh at a time when the industry is recovering from the severe fallout of Covid-19.

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