



Rising yarn prices threaten garment export recovery



AT A GLANCE

- Garment export recovering gradually
- Yarn price rose **40%** during Dec-Jun
- Production cost of garments went up **25%** for yarn price hike
- Share of yarn in a finished t-shirt is **50%**
- Buyers offering **3-10%** higher prices for old work orders
- They are giving **15%** higher prices for fresh work orders

Local garment exporters are feeling the pinch of a sudden unusual rise in yarn prices in the local and international markets, a development that is threatening to derail the recovery of the apparel shipment from the pandemic-induced slowdown.

Yarn prices rose 40 per cent between December and June because of the cotton price hike in the international futures markets, exporters say.

Yarn accounts for 50 per cent of the cost to produce a t-shirt or a garment item, while button, zippers and other accessories comprise the rest.

The yarn prices increased in the local markets because of the cotton price spike, the abnormal rise in freight charge, and the hike in utilisation capacity at the mill level due to the resumption of production after a pause caused by lockdowns. In the international futures

markets, cotton was traded between 88.21 cents per pound and 87.72 cents per pound on June 11, up from 72.65 cents to 72.90 cents on December 14.

Cotton prices soared 21 per cent year-on-year to \$1.99 per kilogram in the January-March quarter of 2021, World Bank Commodities Price Data showed.

As a result, the widely consumed 30-count yarn sold for \$4.25 to \$4.30 per kg in the local markets on Sunday. It ranged from \$3.9 to \$4 in December.

The rise in the freight charge has affected the yarn price badly in the local market.

The freight rate was \$1,000 per 40-foot container in December. It rose to \$3,000 in June, said Monsoor Ahmed, additional director of the Bangladesh Textile Mills Association (BTMA), a platform of primary textile millers.

The demand for cotton rose 163 per cent between April and June compared to the corresponding period last year as almost all the local mills either enhanced their capacity or have gone for the highest use of the installed capacity because of the rise of demand for yarn, he said.

According to the US Department of Agriculture, global cotton production and consumption are expected to rise marginally from last month.

The record global trade will be boosted, led by robust demand in China, Bangladesh, and Turkey, it said.

Since Bangladesh is not a major cotton-producing nation, 99 per cent of the requirement for the raw material is met through imports.

Traders, importers and millers import 8 million bales of cotton, spending \$3 billion a year.

Last year, cotton imports fell to 7.2 million bales as production halted in many mills after the government had imposed nationwide restrictions to tame the coronavirus pandemic.

Bangladesh produces 1.5 lakh bales of cotton annually.

Despite the increase in the price of raw materials, international clothing retailers and brands are reluctant to offer a better price to local garment suppliers.

The increase in yarn price has pushed up the production cost of a finished exportable garment item by 25 per cent. But buyers are offering a 5 per cent to 10 per cent increase.

"One of my buyers had proposed a 3 per cent price hike. I rejected the offer," said a garment supplier.

"The buyer shifted the work orders to Sri Lanka, but the Sri Lankan supplier also did not accept the price. Finally, a Bangladeshi buying house received the order at a lower rate."

Md Fazlul Hoque, managing director of Narayanganj-based Plummy Fashions Ltd, said his buyers were offering a 5 per cent to 10 per cent hike.

"I am taking the orders to keep my factory up and running. Keeping the factory operational even at an abnormally lower price is also a business," he added.

Some local suppliers are not getting any additional prices from the buyers as retailers and brands booked the orders at least six months ago, according to a European buyer in Dhaka.

"Six months ago, the prices of cotton and yarn were lower. The suppliers should have bought the raw materials at that time. Then, they would not have faced the current situation," he said.

Last year, cotton production was lower in the US and India, the two major suppliers of the raw material for Bangladesh, said Mohammad Ali Khokon, president of the BTMA.

"So, the yarn prices have gone up in local markets," Khokon said.

Because of the depressed demand in the western markets and lower prices, Bangladesh is set to miss its apparel export target for the outgoing fiscal year.

At the beginning of the fiscal year, the government aimed to earn \$33.79 billion from apparel exports.

In the first 11 months of FY2020-21, the country earned \$28.57 billion from garment exports, registering 11.1 per cent year-on-year growth, according to data from the Export Promotion Bureau.

Knitwear shipments fetched \$15.36 billion, and woven garments brought home \$13.19 billion, registering 20.55 per cent and 1.80 per cent year-on-year growth respectively.

Faruque Hassan, president of the Bangladesh Garment Manufacturers and Exporters Association, said the retailers and brands raised the prices up to 15 per cent for new orders, although the cost had gone up by up to 25 per cent.

"We need to negotiate strongly with buyers," he added.