

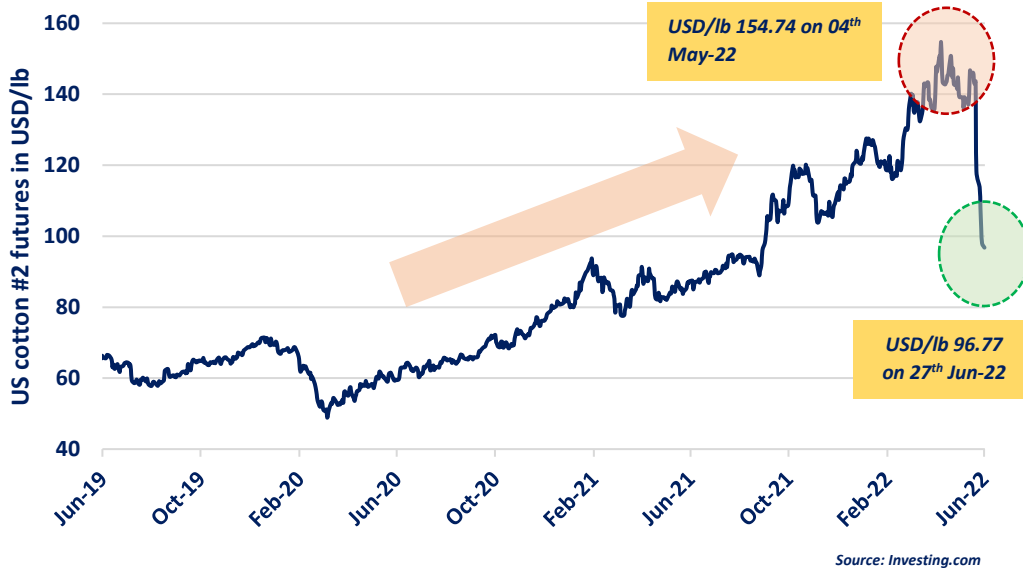


COTTON PRICE UPDATE

RECESSION SENSITIVE COTTON PRICE PLUNGE FAVOURS LOCAL FABRIC MAKERS

FLASH NOTE

Cotton price movement since Jun-19



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Cotton prices come under pressure as demand weakens

With demand weakening amid a slowdown in the global economy, cotton prices in the global market have come under pressure and lost 38% from the highest level recorded in early May-22. Although improving weather is considered as a factor contributing to the plunge, the overwhelming reason is fear of a US recession, as this is one of the most vulnerable commodities in times of an economic downturn. On 24th Jun-22 itself, US cotton futures lost almost 17%, tumbling to USD 98.05/lb relative to a week ago. Prior to that, US cotton futures hit a near 11-year high of USD 154.74, in response to Russia's war on Ukraine and the global raw materials supply squeeze and runaway inflation caused by that. Friday's collapse in cotton came amid fears that the Federal Reserve might impose more super-sized rate hikes this year on the US economy after 0.75% increase on 15th Jun-22, its highest increase in 28 years to battle inflation running at 40-year high.

Cool off in cotton prices to favour local fabric makers including TJL and MGT

Despite the fact that First Capital Research expected a correction in cotton prices by end 2022 with the unwinding of weather-related challenges, the recent fallout is earlier than our expectation, and is expected to favour TJL and MGT to enhance margins as majority of raw material cost is based on cotton prices and due to its ability to secure yarn at a better price through forward bookings. Among two textile manufactures, TJL is expected to be the main beneficiary owing to its higher exposure to cotton fabric relative to MGT (substantial amount of TJL's revenue is generated from cotton fabric).



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