Cotton Market

Devaluation Makes Pakistan Cotton Dearer

AS AGAINST eighteen or more countries devluing their currencies in terms of the Dollar, Pakistan has taken the plunge in a different direction altogether. It has decided not to devalue her rupee in relation to the U. S. dollar. Almost overnight, therefore, Pakistan has become a hard-currency country for the eighteen countries of Europe, Africa and Asia. The new rates of exchange for the Pakistan rupee will now be equal to 144 Indian rupees and 100 Indian rupees will be worth Rs. 69-8-0 in Pakistan currency. The Pakistan rupee will be exchangeable for 25s. 9d. as against 18d. at present.

This new rate being not at par with the Indian rupee in terms of the Indo-Pakistan payments agreement, the Reserve Bank has notified all member banks that it would not be in a position to quote the Pakistan rupee for sales or purchases. This was quite in the fitness of things.

To this date, India has been Pakistan's leading customer for her jute and raw cotton. That in the year ended June 30, 1949, Pakistan had a favourable balance of trade with her to the extent of Rs. 2470 crores reflects the volume of India's purchases of Pakistan's leading commodiities. This trade is likely to be considerably restrained in the immediate future.

India imported 375,000 bales of Pakistan cotton in 1948-49, as against the agreed intake of 650,000 bales, while her consumption, including the previous year's carryover, of Pakistan cotton totalled about 410,000 bales. India can very well manage to do without the 450,000 bales agreed to be bought from Pakistan during the new year 1949-50. Because, for one thing, she would be definitely harvesting a crop of 32 lakhs to 35 lakhs bales during the new season 1949-50, as against the last season's crop of 24 lakh bales.

In all, Pakistan exported about 760,000 bales of cotton in 1948-49, of which 375,000 bales were exported to India and the balance of 385,000 bales to the various countries of Europe.

Britain was one of the leading European purchasers of Pakistan cotton.

Now that Pakistan cotton will be 44 per cent dearer, neither Britain nor India can afford to buy the stuff.

Pakistan produced a crop of 980,000 bales in 1948-49. Exports of 760,000 bales and domestic mill consumption of about 95,000 bales have taken care of 855,000 bales, leaving a carryover of something like 125,000 bales at Karachi and in the interior. The new or the 1949-50 crop is likely to be in the vicinity of 1,100,000 bales. Total supplies, therefore, are likely to be of the order of 1,225,000 bales. To whom does Pakistan expect to sell so much of cotton? Whether it is India or Britain, or any other continental country with a devalued currency, no one will have the resources to buy the cotton. All the countries which have devalued their currencies will naturally try to buy as much of their requirements as possible from E. Africa, Egypt and Soudan. The continental countries, in addition, may have an opportunity to buy American cotton through the Marshall Aid almost free of cost. Japan may buy Pakistan cotton freely but her chances for selling her textiles in the countries would be correspondingly diminished.

Just how much difficult it will be for India to buy her usual requirements of Pakistan cotton will be obvious from the following illustration. Before India's devaluation and Pakistan's decision not to devalue, Pakistan's leading cotton was priced at Rs. 988. The breakdown of this price indicated a basic rate of Rs, 838 plus duties and charges of Rs. 30 *plus* Pakistan's export duty of Rs. 120 per candy. According to the present exchange rates, the landed cost of the *same* variety of Pakistan cotton in India, will go up to about Rs. 1,425 at which rate it will be possible to buy the qualitatively richer Pakistan cotton.

Had countries other than India not devalued their currencies, it would have been possible for Pakistan to find alternative markets for her produce.

Besides, prices in many soft currency areas, *e.g.* for oils, some cottons and other fibres, which were previously far more than 44 per cent above the dollar prices for these commodities are now expected to fall.

On the other hand, cotton textiles from India and other countries with devalued currencies will be selling cheaper than the cotton from which they are spun and woven, if that cotton has to be bought from Pakistan at pise-devaluation prices and at the current exchange rate.

Pakistan is quite aware of the fact that while the prices of all imported goods in Pakistan is expected to go down—though not to the extent by which the Pakistan rupee has been appreciated in relation to the £ and the Indian rupee,—her exports are likely to suffer.

Hence inspired reports from Karachi that Pakistan's jute and cotton prices will have to be brought down to enable the world markets to buy these commodities from Pakistan.

If prices of Pakistan's two leading commodities, namely cotton and raw jute, are not suitably lowered, it will be a question of only a few months within which Pakistan will be compelled to toe the line of those who have already devalued their currencies.

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The Bombay forward market opened for new crop contracts on Saturday last. It had, unfortunately, to remain closed for three days from Monday onwards on account of the devaluation move. For the same reason, Jarilla is creeping towards the ceiling. The Jarillay February 1950 contract was being quoted unofficially at around Rs. 612 on Wednesday.

The Stock Exchange

Devaluation And The Stock Market

Thursday, Morning

WHILE devaluation of currencies was not altogether unexpected, nevertheless, the event has apparently stunned the world. In any case, the momentous changes in the international monetary sphere found the stock exchanges unprepared. There has been a mad scramble for gold mining shares, which is reminiscent of the Californian gold rush of the 1850s. Prices of gold shares in London, Johannesburg and Sydney stock markets soared 50 to 120 per cent overnight. There has also been a buying spree in planatation and some mining shares.

In India also the initial recation to devaluation was bullish and prices were marked up by about 5 per cent overnight. Tata Steel Deferred—the Bombay market's barometer—was bid up from Rs. 1,430 to 1,510. Similarly, in Calcutta, Indian Irons were marked up from Rs. 29 to Rs. 31.

On second thought, however, bullish enthusiasm waned, and prices have been marked down again to a considerable extent though they are still moderately above the pre-devaluation levels. Partly this has been due to the possible adverse repercussions of Pakistan's decision not to fall in line with the sterling area and to retain the exchange value of her currency at the same unchanged rate.

That devaluation of the pound sterling and along with it, that of the Indian rupee in terms of the dollar and of other hard currency areas (which now includes Pakistan also) has had no spectacular effect on local stock markets is mainly due to the fact that unlike in U. K. and other industrialised countries of Europe, India's export and import trade forms only a small percentage of her total production. Of this again, import and export to hard currency areas amounted only 30 per cent and with the inclusion of Pakistan (because of its decision not to devalue her currency), will now form about 40 per cent.

Amongst the various implications of the devaluation of the rupee marketwise, the most important are: higher cost of capital equipment and industrial raw materials imported from hard currency areas in cases where alternative sources of supply are not available; 'possible inflationery pressure due to likely rise in the cost of living which might lead to demand for higher wages; depreciation of sterling balances in terms of dollars and gold and fillip to our export trade to the dollar area and particularly to countries which were traditionally buying from such areas but have now devalued their currencies. In view of the numerous imponderables involved any conclusive judgment must be reserved till such time as a clearer picture emerges regarding the probable trends of prices in various countries. It would be worthwhile however, to attempt an analysis of the possible repercussions of devaluation on industries likely to be directly affected.

Our traditional exports to the dollar areas consist of cotton, jute, tea, textiles, mica, manganese, shellac, hides and skin, and oilseeds. Marketwise, the most important shares that are likely to be affected, are jute, cotton, cotton textiles, manganese and tea.

In regard to jute it has to be stressed that we depend mainly on Pakistan for imports of raw jute. Pakistan's refusal to devalue its currency will increase the cost of raw material. To what extent costs will go up will depend on the resistance that the growers of raw jute in Pakistan are able to put up against a downward pressure. Since raw jute accounts for roughly 60 per cent of the cost of jute manufactures, our cost of production of manufactured goods may rise anything from 15 to 25 per cent.