



## Newsletter August 2015



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### GLOBAL AGRI TRADING NEWS

#### COMPANY NEWS



**FMCG major ITC** is planning to venture into dairy business with the launch of ghee (clarified butter) by the end of the current quarter. The company is likely to roll out its range of dairy products within the next few years. The range would include packaged milk, butter, cheese and chocolate to compete against the current market leaders such as **Amul, Nestle, PepsiCo, and Hindustan Unilever**. According to media sources, work on this plan is at various stages and the products shall be launched based on how the market evolves. The company has already set up a milk-processing unit at Munger in the Indian state of Bihar, and is planning to set up similar facilities in other parts of the country. Details of the plan including the exact investment that the company would make for setting up the dairy business is not yet known. However, it is learnt that the company plans to invest around **INR 250bn (37.6 m)** for development of its food business.

**US-based food processing company Cargill** is investing \$100m to double its soybean crush operation in **Borg El Arab** in order to meet the increasing demand in Egypt for soybean meal and oil. The company will construct 42,000 metric tonne storage capacity within its current premises at the Port of Dekheila in Alexandria. The soybean crush plant expansion will add **3,000 metric ton** capacity to the current production line at Cargill's facility in Borg El Arab. With the construction of the new facility, the company will be able to make optimum utilization of its production process for soybean meal and oil. The facility at Dekheila will store, discharge and handle imported grains and oilseeds. This facility is also intended to help Cargill to optimize its supply chain by allowing timely delivery of grains to Egyptian customers and its crush plant at Borg El Arab.

**Nestlé's chocolate** brand Kit Kat is all set to use only sustainably sourced cocoa to manufacture its products by the first quarter of next year. This development is an affirmation of the company's existing policy of not using child labour in the manufacture of its products. Nestlé happens to be the first global chocolate brand to announce such a move. The new initiative is part of Nestlé's commitment to source 150,000t of sustainably produced cocoa **by 2017** through the Nestlé Cocoa Plan, which aims to enhance the lives of cocoa farming communities, as well as the quality of its cocoa. It will enable farmers to run profitable farms, improve social conditions, and source good quality, sustainable cocoa for Nestlé's products. . This announcement shall certainly go a long way in strengthening consumer trust in Kit Kat as a responsible brand.

## AGRICULTURAL COMMODITIES

### COCOA

Cocoa farmers and merchants in Ivory Coast are planning to store as much as the remains of the 2014-15 crop with the aim of profiting from a much expected rise in the **official price of cocoa** in the new season beginning October 2015. Cocoa harvest is winding down in the Ivory Coast, the world's top cocoa producer, with output expected to total around **1.75 million tonnes** by the end of September, almost at par with last years figures. The official farm gate price is currently set at **\$1.49 per kg** but the government is likely to raise the prices, according to sources in the Finance Ministry. Ivory Coast sets the farm gate price based on an average of the price received during forward sales. The price for farmers has risen every season since the government began using the system during the 2012/13 harvest.

Cocoa production in Indonesia, the world's third largest grower, may plunge to a record low this year, due to the dry spell cast by El-Nino. The harvest may fall by 13 percent to **325,000 metric tons** from 2014, according to government sources. The El Nino-induced dry weather may hurt flowering during the second harvest from September to December. A smaller Indonesian harvest may result in a reduction in global supplies, as dry weather also threatens the crop in Ghana, the biggest producer after Ivory Coast. Futures in New York are about 9 percent higher this year, heading for a fourth straight annual increase in contrast to losses in most commodities.

### COFFEE

Indian coffee exports have recorded a minor increase in spite of an unhurried trend in the world market and a general decline in prices, due to the demand for Robusta coffee. India exports **70 per cent of its coffee output** of over 3 lakh tonnes. The total exports stood at 2,20,113 tonnes from January 1 to August 25, as per data of the Coffee Board, up 1 per cent year-on-year. Robusta shipments rose up 22 per cent while the Arabica exports declined 33 per cent.

Nonetheless, a healthy demand for Robusta has offset the fall in Arabica shipments. The European countries are buying it to mix it in blends as the quality is superior. Robusta parchment price is around **Rs 134 a kg, only Rs 12 higher than the Robusta cherry**. The Robusta parchment shipments have risen nearly 50 per cent till August 25.

**Arabica coffee prices** have begun to decline as the currencies of Colombia and Brazil, the two largest producers of the mild- flavored Arabica coffee bean, weakened against the dollar. Arabica coffee for December delivery slipped **0.8% to \$1.3745 a pound on the ICE Futures U.S.** Exchange. The Colombian peso is down 21% so far this year, and the Brazilian real is down 24% against the dollar, which makes prices within those countries better for farmers looking to sell dollar-denominated coffee. Together, the two countries grow 58% of the world's Arabica coffee.

### CORN

**China, the world's No.2 consumer of corn**, will maintain its policy of stockpiling the grain for another year before it fully frees up domestic prices, according to industry analysts. The policy which was designed to boost rural incomes, was expected to be scrapped by early as this year. It has lifted domestic prices around 50 percent higher than their global counterparts, forcing animal feed mills to replace the use of domestic corn with imports or cheaper substitutes. **The National Development and Reform Commission (NDRC)** and agriculture ministry have said that they would let the market decide the domestic corn prices, signaling changes to the current government stockpile scheme. Analysts said that while stockpiling would continue in the marketing year that begins in October, the amount purchased would drop and that the state support price for corn would also fall, as the government looks to balance the interests of farmers and downstream processors.

### COTTON

India is once again heading for a bumper cotton crop, with record breaking sowing operations completed on around **110 hectares** so far this year. This has led to concerns in the industry on the possibility of weakening of cotton prices in the coming season owing to a huge carryover stock of around **138 lakh bales**. The highest ever cotton crop has been in the year 2007 when the country produced some **567 lakh bales**. In 2013-14, cotton production touched some 401 lakh bales. Among the 84 odd cotton growing nations, Indian productivity is at 32nd rank. China comes second having reduced its cotton acreage to some 38 lakh hectares from **54 lakh hectares** last year and US ranks third in cotton acreage with 33 lakh hectares under cotton. This year, after China stopped imports, there has been a surplus of cotton in the Indian market with a carry forward stock of some 138-148 lakh bales.

### RICE

**China** is seeking to boost rice production to meet increasing domestic consumption demand but is facing severe challenges due to the problems posed by soil and water pollution coupled with the problem created by rapid conversion of farmland to industrial use. According to sources, china produces **12 million tons** of heavy metal contaminated rice worth 3.2 billion USD annually. High levels of cadmium has also been found in rice grown in some provinces. Though China is taking all possible measures to address its soil and water problems, its import of rice is steadily on the increase. Unofficial imports are rising due to the vast difference in domestic and international prices. Smuggling of rice is a regular practice through the borders of Vietnam, Myanmar, Laos & Thailand, with the collusion of Chinese authorities. Nearly 4-5 million tons of rice is said to enter China illegally, every year. According to data available, China is expected to import around 4 million tons of rice officially in 2015, as against 3.7 million tons in 2014, while production is pegged at 144.6 million tons in the current year.

Production and imports are expected to rise to 145.6 and 4.2 million tons in 2016.

A **Kuwaiti farmer** has claimed that he has successfully grown Indian Basmati Rice under very hard and unfavorable conditions in his farm, according to the Kuwaiti News Agency. Kuwait is a large importer of Indian Basmati Rice, importing between **1,50,000 to 1,75,000 tons of rice** annually from India. However, since the name Basmati has more of geographical importance, it is not very clear whether Kuwait can name its rice 'Basmati'. India is very keen on getting legal protection for the Basmati name so that other countries are not able to use the same name.

### SOYABEAN

US soybeans have fallen to fresh **six-year lows** currently, having been trapped in the slide in commodity markets, aggravated by fears about the faltering economy in China, the largest importer of the oilseed. Soybeans were also under pressure from favorable crop weather in the United States, which was easing concern about damage from torrential rain at the start of the growing season. US soybean production has been pegged at **3.887 billion bushels** according to survey reports, with an average yield of 46.5 bushels per acre. This is very close to the US Department of Agriculture's estimate earlier this month of **3.916 billion bushels**. However, the market sees the USDA figure as over-optimistic, mainly due to the early-season flooding, but benign conditions during the crucial August growth period have improved prospects for the autumn harvest.

### SUGAR

The increase in **sugar import prices** is not sufficient to protect the industry in Mozambique, said the CTA, the country's Confederation of industrial associations, which again called for additional measures to make the industry more competitive. The government has decided to increase the import price from 385 dollars to 806 dollars per ton for brown sugar and that of white sugar from **450 dollars to 932 dollars**, in an attempt to

discourage the import of large amounts from other African nations where sugar production is supported by higher government subsidies. Producers are also calling for more infrastructure to facilitate the internal movement of goods and the diversification of export markets. Currently the sugar industry in Mozambique employs about 30,000 people. The country expects to produce over 306,000 tons for export in **2015-2016 mainly to the EU and the U.S.**

### WHEAT

**Russia, one of the world's top wheat exporters**, will harvest its third-largest grain crop in post-Soviet history this year, according to a leading Russian consultancy. Farmers have managed to reap a large crop despite unfavorable weather last autumn, a weakening ruble, which inflated their costs, and government regulation, which has periodically curbed wheat exports since late 2014. The ruble has been hit by low oil prices and Western sanctions imposed over Moscow since 2014. It has been also volatile against the dollar in the last few days, prompting some farmers to put sales of their wheat on hold. SovEcon has increased its forecast for **Russia's wheat to 61.3 million tons from 59.5 million**. Its estimate is still lower than the agriculture ministry, which sees the crop at 103 million tons of grain, down from 105 million in 2014 and a record crop of 108 million in 2008. Volatility of Ruble is also causing uncertainty for Russian wheat exporters, whose costs depend on the state's floating tax on wheat exports, imposed from July. For the year **2015/16 wheat surplus is pegged at 23 million tons, up 1 million year on year.**

### DAIRY

**Fonterra's decision** to reduce the volume of whole milk powder for sale have boosted prices. Prices at the global dairy trade auction went up 10.9 percent to \$US2226 a tonne, and the benchmark price of whole milk powder, used by Fonterra to predict its payouts to farmers, increased by **12.1 percent to \$US2078** a tonne. According to analysts, the increase is due to Fonterra's decision to reduce the amount of whole milk powder put up for

auction by about a third over the coming year. Volumes sold overnight totaled **35,865 tonnes - down more than 1000 tonnes on the previous auction and 21,000 tonnes below the amount sold this time last year.** The Company is putting all the excess into higher value consumer products like cheese and UHT longer life milk, or mixing the milk powder with vitamins or minerals for other customers.

Falling global prices have put **New Zealand's** once dominant dairy industry on the back foot. The dairy herd is set to shrink for the first time in a decade. Beef is the only option left for the hard hit New Zealand farmers.

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