



## Newsletter November 2014



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### GLOBAL AGRI TRADING NEWS

#### COMPANY NEWS



Volcafe Ltd., the coffee unit of trader ED&F Man Holdings Ltd., formed a joint venture with Simao Arabica Coffee Co. to promote Arabica beans from Yunnan, China's biggest coffee-growing region. According to reports, Yunnan Volcafe Ltd. will source and process beans for export to global clients. Currently, Coffee output in Yunnan, which accounts for 95 percent of China's total production, regularly exceeds one million bags, about ten times the 104,000 bags China produced in 1998, according to a market report. Volcafe has been a major buyer of coffee from the region over the past ten years. A company statement of EDF& Man says that Chinese mild Arabica is still relatively new to the world coffee scene, but its improving consistency is rapidly gaining acceptance with global roasters. Volcafe estimates worldwide Arabica production will be 75.3 million bags in the 2014-15 season, down from 86.1 million bags in the prior year.



Danone has sealed a deal with Philippine food and beverage firm 'Universal Robina Corporation (URC) to establish a joint venture to manufacture and distribute beverage products in the Philippines. Danone Universal Robina Beverages, ownership of which will be split equally between Danone and URC, aims to diversify its beverage line, increase sales and expand its market share in the Philippines, through this joint venture. Currently, it is not clear whether the drinks manufacture by the new company would be dairy based or not. Capital of approximately PHP 266 m (US \$ 5.9 m) will initially be paid into the joint venture. If granted approval, it will begin operations in 2015.



Nestle SA, the Swiss multinational, markets in Europe and Japan, the black first flush Darjeeling tea from Jungpana, an organic garden in Kurseong, in the state of West Bengal, India. Tea from Jungpana, considered to be the paradise of great teas, is marketed under the recently created global marketing brand 'Special T'. Nestle has bought 1,500 kgs of spring flush from Jungpana. Nestle now sells a box of 10 capsules of Jungpana for 6.90 pounds which is at a significant premium over other varieties from Africa, Sri Lanka, China and Japan, sold under Nestles 'Special T' categories. The exclusive branding exercise by Nestle has given Jungpana great mileage, which it will use gradually in retail marketing.

## AGRICULTURAL COMMODITIES

### COCOA

Chocolate sales will climb to a record \$17.75 billion this year in the United States, according to the estimates of a market researcher. Consequently, producers including Hershey are raising prices to cover ingredient costs. Cocoa climbed 2.2 percent last month on concern that the deadly Ebola outbreak will disrupt shipments from West Africa, the world's biggest growing region. Cocoa futures climbed 15 percent this year, pushing the cost of cocoa butter, the main chocolate ingredient, up 5 percent. However, even with higher prices, chocolate sales rose 1.9 percent to 2.2 billion pounds (1 million metric tons) in the 52 weeks ended Oct. 5, compared with a year earlier, according to market research.

The world's chocolate makers are coming together to fight the Ebola outbreak in Liberia, Guinea and Sierra Leone. As part of the World Cocoa Foundation, Mondelez International Inc., Nestlé SA, Starbucks Corporation, and others recently announced a \$700,000 donation to combat the virus, which has already infected more than 9,000 people and killed at least 4,500 with no signs of slowing. The vast majority of the world's cocoa is produced in West Africa, mainly Ivory Coast and Ghana, which have not been affected but that hasn't stopped a ripple effect of price increases that could have a long-term impact. The World Bank and IMF predict massive economic fallout for the affected countries, whose fragile economies had just started making positive gains after years of instability. Experts have also warned of an impending food crisis, and even neighboring countries with no reported cases have felt the impact of trade and travel restrictions.

### COFFEE

Coffee growers in Brazil are withholding crop sales in expectation of higher prices ahead, despite forecasts for rain in drought-hit coffee plantations. Producers in Brazil's top coffee growing states have sold less than 20% of this year's coffee harvest, according to research institute Cepea. Production of Arabica beans has fallen particularly heavily this year, hurt by frost last year as well as a lack of moisture, tumbling 69% to 510m bags, according to the official Conab crop bureau. The reluctance to sell, despite prices which this month hit a two-year high of 225.50 cents a pound for New York-traded Arabica coffee futures, reflects expectations of further appreciation to come.

### COTTON

For the third year in a row, world cotton production will exceed consumption. Cotton stocks are set to reach new highs with a relative impact on prices. Both supply side and demand side factors are at work for the natural fibre 'cotton', often called white gold. While world consumption will trail production, global trade volumes are shrinking in 2014-15 by one million tonnes. This is expected to result in closing stocks of 21.4 million tonnes for the current year versus 19.7 million tonnes last year.

According to preliminary estimates, India has produced a record cotton crop (40 million bales), displacing China as the number one producer. But this has come at a time when export markets are not exactly favorable, thereby hitting export volumes and fall in domestic prices. World cotton prices are currently below India's minimum support price.

The risk of slowing export demand would mean there will be sizeable domestic purchases and stocking of cotton under the support programme. One factor that can help export parity is the currency. If the rupee were to weaken from its current levels, it may help promote exports.

### EDIBLE OIL

India's food ministry wants to double the import tax on crude edible oils and increase by 50%, the import tax on refined oils, according to reports from the Food Ministry. The world's biggest vegetable oil importer levies a 2.5 percent tax on the crude variety and 10 percent on refined oil. It imports nearly 60 percent of its 18-19 million tonnes annual demand, mostly as palm oil from top producers Indonesia and Malaysia. An increase in import duties could hit Malaysia's palm oil futures. A rising population, increasing prosperity and low oilseeds output are stoking India's vegetable oil demand. In the current year that began in November 2014, India is likely to import a record 13 million tonnes of edible oils, according to a leading importer, up from an estimated 11.6 million tonnes, including 8 million tonnes of palm oil, in 2013/14. Lower food inflation would make it easier for India to raise import taxes on vegetable oils, said a senior food ministry official.

### RICE

As of October 2014, planting for India's kharif rice crop has reached around 38.03 million ha of rice area, up about 1% from around 37.67 million hectares planted during the same time last year, according to sources from the Agriculture Ministry. In spite of late arrival of monsoon in many rice

growing areas, the improvement has taken place mostly due to the revival of rainfall in July. The Indian Government has estimated October 2014-sept2015 kharif rice production at around 88.02 million tons, down 4% from around 91.69 million tons produced during the same time last year. However the forecast is expected to be revised after the completion of kharif planting by the end of this month.

The recent audit of Thailand's estimated 18 million tons of rice in storage showed only 10 percent was of standard export quality, about 70 percent was deteriorating but still edible and 20 percent had spoiled. This can help prices stage some recovery as good quality rice fit for exports, has now reduced considerably. Thailand, when it was the world's top exporter of the grain, shipped around 10 million tons a year, meaning even 2 million tons of stockpiles is a significant amount for the market to absorb. However, Thailand has 12.6 million tons of rapidly deteriorating rice that it will become increasingly desperate to sell in the next year or so. 70 percent of the stockpile is discolored and of diminished quality, but still fit for sale, according to reports. The military government's current plan is to shift this rice within three years, but the likelihood is that they will have to do it far quicker or more of it will spoil, joining the 20 percent that already falls into this category. This means the government is likely to look to offload this rice at substantial discounts to buyers less concerned about quality.. The Thai authorities are likely to target less wealthy countries, particularly in Africa, but even if they are successful in selling some of the deteriorating rice, it's unlikely they will be able to move all of it.

## SUGAR

Bangladesh Sugar & Food Industries Corp has cancelled a tender to export 25,000 tonnes of sugar to the European Union, because of the very low quote which it has received from London-based ED&F Man Sugar of \$295 a ton. The state sugar agency issued its first tender since 2012 earlier this month as it struggles with huge stocks amid rising raw sugar imports by private refiners. The tender was cancelled because the bid is even lower than their local selling price. The state agency typically imports white sugar to build its reserves. However, strong output and high stocks allowed it to come up with a global tender in 2012 to export to the EU, under a preferential quota, sugar refined from locally-produced cane. White sugar from the government stockpile is being sold at the mill gates at 40 taka (\$0.51) a kg, which is almost half of the production cost. However, the government agency finds it difficult to sell the sweetener, as private refiners are offering the same price but with more incentives, such as free delivery.

Sugar production in Thailand will decline this season because a drought which has limited cane growth and cut yields, according to the report. Lower supply from Thailand may narrow a global surplus that's forecast by the International Sugar Organization at 473,000 tonnes in 2014-2015. Futures rose 11% from a three-year low in January on concern that dry weather may cut harvests from Brazil & Australia,. Drought across Thailand from May to July stunted cane growth, limiting the plants' height and cutting production, according to sources from the Ministry. The cane harvest is estimated to decline to about 90 million tonnes, yielding about 9.6

million tonnes of sugar, in the current season.

## WHEAT

Russian wheat prices fell slightly as warm weather eased risks for the next year's crop, according to analysts. Russian farmers were sowing winter grains for the next year's crop this autumn amid a lack of rain and in cold weather which triggered fears of a lower crop in 2015. Due to warm weather and rains in some regions recently, the situation with Russia's winter wheat plantings has slightly improved. Russia, one of the world's top wheat exporters, is expected to supply between 3.1 million and 3.3 million tonnes of all grains in November, down from 3.5 million tonnes in October, which included 2.5 million tonnes of wheat.

India has sought permission from Pakistan to export over a million tonnes of wheat through its territory to Afghanistan, a move opposed by the local milling industry which fears losing vast Afghan market due to cheap Indian supplies. The general subsidy on farm inputs makes Indian wheat cheaper as compared to Pakistan. Indian wheat would cost Pakistani Rupees 2,900 per tonne in Afghanistan, against the Pakistani price of Rs 3,400 per tonne. This difference of Rs 500 per tonne is bound to tilt the competitive edge in favour of the Indian wheat and Pakistan would lose its traditional market that consumes over half a million tonne of flour from Pakistan.

## DAIRY

Danish cheese company Arla has opted to donate 15 tons of cheese to homeless people in Denmark after sanctions prevented the usual exports to Russia. Since then, Arla has managed to find other markets for almost all the affected goods.

Arla, the world's biggest producer of organic milk and Denmark's largest dairy company, had previously hoped to sell its surplus product to Finland, according to [dairyreporter.com](http://dairyreporter.com), but was prevented because of the mere fact that it was produced in Denmark. Finland requires produce packaging to be labeled in both Finnish and Swedish. Besides, some of the cheese packs cannot be repacked without suffering any damage and in other cases cheese cannot be re-melted because of the added spice.

So the company has come up with an idea to donate its cheese to Food Bank, a Danish charity which takes surplus food from both supermarkets and wholesalers to redistribute among the poor and needy.

The Irish Dairy Board, which trades under the Kerrygold brand, has announced a major expansion into the lucrative Chinese market with the launch of the new whole milk product. The move, which comes in advance of the ending of milk quotas next year, forms a key part of Kerry gold's strategy to develop premium dairy products for markets in milk deficit regions, particularly in Asia. The new milk product, under the Chinese trade mark "Jin Kai Li", will be sold through Chinese retailers, regional shopping networks and e-commerce retailers. Kerrygold said China will be an immediate route to market for additional milk Irish farmers will produce when milk quotas are removed in April 2015.

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