



# NEWSLETTER OCTOBER 2013



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GLOBAL AGRI TRADING NEWS

## COCOA

Consumers from California to Switzerland are developing a taste for dark chocolate, driving up candy prices in both high-end boutiques and mass-market drugstores. The cost of one kilogram of chocolate in the U.S. is expected to hit a record \$12.25 this year. This is a 45% increase from 2007, according to market-research firm *Euro monitor International*. Prices are on the rise due to a shortage of cocoa beans, which are roasted and ground to make chocolate. Market experts estimate that supplies will fall short of demand this year for the first time since 2010 and dry weather is expected to hurt the next harvest in West Africa, where 70% of cocoa beans are produced.

## COFFEE

The long-awaited switch by coffee buyers back to Arabica, from less expensive Robusta supplies, will happen next season. Changes in market dynamics have set the scene for this 'material' shift in 2013-14, of potentially some 2m bags. Brazil is the top coffee growing country - mainly of Arabica beans and ranks second in the consumption league. This should see a switch of some 1.25m bags in Brazil according to the *International Coffee Organization*.

The Ugandan Coffee Development Authority have forecasted that the country's coffee exports for the month of September 2013 shall be 70% higher than the same month last year, at approximately 300,000 bags. With its approximate mix of 74 to 26 Robusta and Arabica coffees to register an export volume in excess of 3.65 million bags

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this year, Uganda would match and perhaps even jump in front of Ethiopia as the largest coffee exporter from the African continent.

Vietnam will harvest a record 30 million bags of coffee in the 2013-14 season, estimates *Volcafe, one of the leading Coffee merchants of the world*. Beans from the new crop are being offered for sale at a discount of \$30 a ton to the exchange price, while coffee from the old crop is at a premium of \$80 a ton to \$100 a ton, said reports. Lower prices prompted farmers in Vietnam to hold back beans. Growers were still holding 9 percent of the 2012-13 crop, reports said.

## CORN

Corn sowings in the US will fall for the first time in six years in 2014, with farmers turning en masse to soybeans - for which plantings will hit a record high. *The US Department of Agriculture* pegs US corn sowings this year at 99.5m acres..

*The US Department of Agriculture* last week forecast corn output at a record 13.8 billion bushels, while *Informa* raised its estimate for the 2013 corn crop to 13.889 billion bushels, above the *USDA's* forecast of 13.843 billion.

After being a net corn exporter until a few years ago, China has now turned into a major importer. China had imported 3 million tons of corn in 2012-13 and as per *USDA* estimates, they would import 7 million tons in 2013-14. They are trying to source the product from a variety of sources in order to reduce the risk of relying heavily on one country,

which so far has been the United States. They have recently established protocol to import corn from Brazil and Argentina.

Due to delayed plantings in February, the harvest of Brazil's second corn crop (safrinha) is slow to finish, according to *Brazil's National Supply Company (Conab)*. Impeded by rains, the country has reached over 95% of the safrinha harvest. The last *Conab* report estimated 46.1 million tons for the second corn crop, which is a new record. As of September, the total domestic consumption in the country is estimated at 52.3 million tons (45 million for animals, approximately), and 18.7 million tons exported.

## COTTON

The price of cotton increased to six-month high of Rs 7,150 per maund (37.324 kilograms) at the local markets of Pakistan, after the demand for the commodity surged from cotton yarn manufacturers. There were unconfirmed reports of likely low production of the commodity during the ongoing fiscal year 2013-14, which could jack up the prices even higher.

Indian Cotton yarn exports could double to hit a new milestone of 2,000 million kg this year due to a dramatic shift in Chinese policy on textile raw material import, which promotes purchase of yarn over cotton. The increase in yarn export will support the Indian government's objective to process the raw material locally for employment generation and higher earnings.

## DAIRY PRODUCTS

Fonterra has announced a second farming hub in China to be located at Ying Country in Shanxi Province. This is the next step in the dairy giant's goal of producing one billion litres of milk in China by 2020. The hub will have five 3000 cow farms which is expected to be in production in the second half of next year. It shall be launching its own branded milk formula in China, following the recent allegations that its products contained botulism-causing bacteria. The company expects its Annum infant milk formula brand to be available in 70 cities in the country within next three years. The expansion plans in China are part of the company's strategy to prioritize growth in its consumer brands and food services in the country compared with other regions

Danone, Canada's largest yogurt producer has announced plans to invest C\$40m (US\$38.5m) to expand production of *Oikos Greek yogurt* at its facility in Boucherville, Quebec. This move would create 25 direct and 250 indirect jobs. The company said it has purchased precision equipment that provides versatility in the manufacturing and packaging of its product.

DAIRY player Clover has announced that it would exit its supply and service agreements with Danone Southern Africa, when it concludes in December 2013. Clover provides a range of services for Danone Southern Africa relating to yoghurt and other fermented products, including raw milk and other raw material procurement, manufacturing and packaging of custard, sales and merchandising services as well as distribution and certain IT services.

Danone has confirmed that it has begun investigations into bribery allegations at its Nutricia China unit. This was initiated after local paper *21st Century Business Herald* said executives from Nutricia had offered benefits of up to 300,000 yuan to doctors in two Beijing hospitals between July 2010 and August 2013. Foreign firms have been hit hard by a recent crackdown in China against corruption and bribery charges.

## EDIBLE OIL

Palm oil dropped for the first time this month on speculation that rain in the U.S. Midwest will halt deteriorating conditions of the soybean crop. This could boost supplies of the oilseed crushed to make a substitute oil.

Palm oil inventories in Malaysia, the second-ranked producer and exporter of the vegetable oil after Indonesia, rose by a modest 1,500 tons to 1.66m tons last month, the Malaysian Palm Oil Board said. The increase was well below the rise to 1.73m tons that investors had expected, reflecting a seasonal rise in production which, at 3.4% to 1.74m tons, was also a little lower than analysts had forecast.

Record inventories of palm in Indonesia, the largest producer, will add to the biggest global supply of vegetable oils in history, driving down costs for makers of everything from food to fuel to soap. Indonesian stockpiles of the most-used oil derived from crops will rise 66 percent to 3 million metric tons by the end of 2013-2014, the U.S. Department of Agriculture says. Global output of nine oils including soy, peanut and palm will expand 4.3 percent to 167.3 million tons, USDA data show.

Production of sunflower seed in Ukraine, Russia and Eastern Europe exceeded expectations, pushing sunflower oil to a discount to soybean oil, which will continue until June, experts say. That discount will enable sunflower oil to take market share. Rapeseed oil will trade at a considerably narrower premium to soybean oil.

## LIVESTOCK

Russia's Tver region has banned "private" pig farming for the next three years in a bid to bring African swine fever under control. Almost all pig farms in the region are to be closed and the pigs culled, reports the UK's National Pig Association (NPA). Farmers will be compensated. The ruling will not affect large commercial pig complexes in the region as they have, according to an official, "the highest level of biological protection.

In the latest food fraud scandal to hit China, authorities have seized a batch of

fake beef, after it was found to be chemically treated pork. According to reports, police in Xi'an have seized over 20,000 kgs of meat and closed down 6 factories. It is understood that pork was treated with paraffin wax and chemical salts in such a way that it resembled beef and thereafter sold to unsuspecting traders and markets. Reports suggest that the fraud has raised particular concern because Xi'an has a large Muslim population.

India emerged as a top exporter of buffalo meat in 2012-13, with 50 per cent market share and it is growing. This year, it could be a tough competition to basmati rice in becoming the top exporting agri item. The export, growing at 15 per cent per annum in the last decade, was \$3.2 billion in 2012-13, while in April-May this year it stood at \$578 million, according to data compiled by the Agricultural and Processed Food Products Export Development Authority (Apeda).

## RICE

Global rice production is expected to increase to a record 497 million tons in 2013-14, up about 1.3% from around 491 million tons in 2012-13, according to the FAO. Most of the increase in rice production will be seen in Asia. Rice consumption is also expected to increase in 2013-14, reaching around 490.4 million tons which is up about 2.5% from around 478.5 million tons in 2012-13. The FAO says that global rice inventories could increase to around 181 million tons in 2013-14, up about 4% from their opening levels of around 174 million tons.

The London-based *International Grains Council* has forecast Thailand's rice exports to rise 23% to 8 million tons for all of 2014. As Thailand makes a strong pitch to sell its surplus rice stock, it may surpass Vietnam to become world's second-largest exporter in 2014.

## SUGAR

Sugar futures climbed to the highest in more than five months on concern that rains will limit supplies from Brazil, the world's biggest producer and exporter of Sugar. Rains in Sao Paulo, the main-growing state in the South American nation, will hinder the current sugar-cane harvest and may reduce yields. Sugar

output in the Center South, the top producing region, fell 5.6 percent in the month of September, *Unica, a Sao Paulo-based industry group*, said today.

The rainfall which has hampered Russian sowings of winter crops has hit the sugar beet harvest too, leaving a country which had come close to self-sufficiency in sugar likely to return to a steep production deficit. Forecast for Russian production of beet sugar in the 2013-14 season may cut below 3.5m tons, from 4.3m tons.

Global output will probably drop to 181.8 million tons in 2013-2014 from 185.8 million tons a year earlier and be smaller than a previous estimate of 182.8 million tons, according to London-based *Czarnikow*. Consumption in China, the world's second-largest economy, will climb to 16.25 million tons raw value in the 12 months starting on Oct. 1 from 15.80 million tons a year earlier. Demand in Indonesia will increase to 5.92 million tons from 5.74 million tons, reports said

## TEA

The Sri Lankan Tea crop of 26.6Mkgs recorded for August, 2013 shows an increase of 2.8% when compared with the corresponding month of last year. This increase was mainly attributed to the improved Low Grown tea output coupled with favourable weather conditions during the month. During the period January to August, 2013 a total of 223.5Mkgs has been harvested which is a gain of 8.4Mkgs over last year, driven largely by the increase in Low Grown production. Production is forecast to reach approx 335Mkgs by end 2013 as against 327.75Mkgs achieved in 2012.

The average price for Kenyan tea leaves has dropped 29 percent this year, according to data from Tea Brokers East Africa Ltd. The average price for

Kenyan tea currently is \$2.34 per kilogram. About 4.9 million kilograms were sold in 2013 compared with 4.3 kilograms a year earlier. Prices of tea from Kenya, the biggest exporter of the black variety, may fall further as political turmoil in some of the five largest importing nations curbs demand, an industry official said. Egypt is the biggest buyer, followed by Pakistan, the U.K., Afghanistan and Sudan. Tea is Kenya's top foreign-currency source, generating \$1.2 billion last year, according to the central bank.

## WHEAT

UK farmers have come up with a far better quality wheat crop, but that does not mean far better prices. The reality of continued imports, and a general much-better-quality UK wheat crop has left supplies struggling to find domestic buyers. The overall wheat harvest was constrained by a damp-affected autumn planting season, with official data on Thursday confirming that sowings in England, fell 18.9% to 1.51m hectares this year.

The U.S. and European Union are selling wheat at the fastest pace in at least six years, diminishing stockpiles even as farmers reap a record crop. Sales from the U.S. in the past three months surged 38 percent from last year and export licenses issued by the 28-nation EU more than doubled, government data show.

Chinese wheat prices have hit record peaks due to dwindling high-quality supplies and growing expectations that state purchase prices will rise before the planting season begins next month. Beijing, keen to encourage farmers to grow more wheat for the 2014 harvest, is expected to announce an increase in the price it pays for grain for its national stockpiles before planting begins in

October. The market expects Beijing to raise its minimum purchase price by 9 percent from last year's price of 2,240 yuan (\$370) per ton. Rising domestic prices could stoke Chinese demand for imported wheat, triggering another round of overseas purchases by the world's top wheat producer.

## COMPANY NEWS

Two-and-a-half months ago **Archer Daniels Midland and GrainCorp** agreed the terms for a recommended \$3.4 billion bid for the last of the major listed Australian agribusinesses. Since then there has been fierce lobbying from sections of the grower community and very strong statements against the bid by senior National Party politicians.

Underlying the specific issues that have been raised in opposition to the takeover, of course, is a more general unease about foreign ownership of agricultural land and businesses, even though (or perhaps because) AWB and ABB have previously been taken over by foreign competitors.

Following the sale of the UK refining business **Tate & Lyle** has now become US focused. More than half of the group's sales are generated from the US. A meaningful proportion of US sales relates to sweeteners used by the fizzy drinks business. The US had a cold summer this year reducing drinks demand. In the most recent trading update the group said profits for the first-half ended September 30 are now expected to be below last year's £195m. However, the company said it still expects to hit full-year forecasts for adjusted pre-tax profit of £338m

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8. Program Director - South Asia Rice Initiative, Mumbai, 15-18 years, US based NGO
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