



## Newsletter July 2015



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### GLOBAL AGRI TRADING NEWS

#### COMPANY NEWS



McCain Foods will spend \$10 million expanding its potato processing plant in Smithton in Tasmania's north-west. The company will upgrade its storage facility, which will hold up to 55,000 tonnes of potatoes for processing. Company sources said that this upgrade would improve efficiency and create an opportunity to bring 95% of total potato storage at the plant. The Company is also planning to build a new \$ 1.6 million packing line. The up-gradation is a step towards being globally competitive and resist imports coming into Australia. The investment comes six years after McCain closed its vegetable processing plant at Smithton, affecting 200 workers. The company is confident that food manufacturing had a future in the region. The expansion is likely to increase the plant's production, which should benefit local suppliers and create new jobs.



PepsiCo and Starbucks have announced a major collaborative deal regarding Starbucks' ready-to-drink (RTD) beverages in Latin America. The RTD coffee category is currently worth around \$4bn and is expected to grow **22% by 2021**. The two companies will market, innovate and develop the brands in the region, and Starbucks will take advantage of PepsiCo's existing supply chain network across ten Latin American nations and parts of the Caribbean. According to Starbucks Company spokesperson, expansion throughout Latin America in 2016 shall enable the company to deliver high-quality Starbucks coffee in a convenient ready-to-drink format to their customers where they live, work and play. PepsiCo's sales expertise and distribution network makes them the ideal company to work with to unlock the Latin American ready-to-drink market and accelerate local demand for Starbucks.



Danone has announced plans to sell its **Dumex infant milk powder business in China to Yashili International Holdings**, which in turn would allow it to increase its stake in Mengniu Dairy. The move will also allow Danone to exit China's infant formula sector following a decline in demand for Chinese-made products, prompted by continuing food scandals. The latest is the country's food safety regulator's request for three milk producers to recall infant formula powders contaminated with dangerously high levels of nitrate. Falling consumer confidence in the market has led to increased Chinese investment overseas, particularly in New Zealand, where infant formula products are seen as being of higher quality. Details of Danone's increased stake in Mengniu were revealed in the company's half-year results for 2015, which also showed a **4.6% and 4.5% hike** in sales during the first and second quarters respectively. It said that solid, profitable growth during the first half of the year had been "shaped by favorable trends in currencies and commodities and by a significant increase in investments".

## AGRICULTURAL COMMODITIES

### COCOA

Cocoa prices are set to rise further as merchants in **Ivory Coast**, the top producer and exporter of the bean, move to corner more of the market, according to market survey. As a result, prices shall rise ahead the start of the next West African growing season due to continued shortage in supply and increasing global demand as well as the prospect of higher market prices in the coming season. With global demand recovering and expectations of a global deficit this season, prices are expected to strengthen further, with potential spikes in the run-up to the new season in October as farmers withhold beans from the market in expectation of higher fixed prices in **2015-16** according to the survey. Cocoa prices hit a **four-year** high in the current season thanks to a disappointing crop in the world's second largest producer, Ghana.

A deep decline in the demand data from Asia, which is viewed as a key growth market for the luxury bean Cocoa, has resulted in Cocoa futures falling to their lowest level in more than a month. The cocoa market which has been standing up amidst a complete rout in other commodities, has therefore been selling off during the latter half of July. After climbing **more than 20%** between March and July, prices have fallen 5.2% in the last week of July. The Cocoa Association of Asia said commercial demand in the region for grinding -- the process by which producers crush roasted cocoa nibs to release cocoa butter and eventually turn them into chocolate products -- fell 12% in the second quarter from year-ago levels. It was the fourth consecutive decline, and followed evidence of a decline in North America and barely perceptible growth in Europe.

### COFFEE

Coffee shipments from India may increase the most in four years as prospects for a record crop in **Asia's third-largest producer** encourage farmers to reduce

their stocks. Exports will rise as much as **10 percent** in the year through March 2016 from 286,516 metric tons last year, according to local sources. That would be the biggest gain since 2011-2012, when sales jumped 11 percent to 333,181 tons, data from the state-run Coffee Board show. Rising sales from India to mostly **Europe and Russia** will add to a global surplus, according to a forecast by a market survey. Supplies from India may help bridge a shortfall in shipments from Vietnam, where farmers are hoarding the most beans in at least five years on speculation prices will rally further. Robusta accounts for about 70 percent of India's exports. Market survey predicts a surplus of 905,000 bags of 60 kilograms each this year. Production in India will rise 8.7 percent to a record 355,600 tons in 2015-16, according to the Indian Coffee Board. Timely monsoon rains have boosted crop prospects, and a very good crop is expected. Exports **rose 12 percent to 102,850 tons between April 1 and July 13** from the same period a year earlier, provisional data from the board show. Italy, Germany and Russia were among the top buyers of Indian coffee.

**China** expects its railway links with Europe to give a much needed push in making the nation an important coffee trading hub in Southeast Asia. Yunnan based coffee producer **Hogood Coffee Company** is proposing to use the Chongqing -- Xinjiang -- Europe international railway line for exporting coffee products to Europe to cut costs and save time. The 11,000-kilometer Asia -- Europe rail link, which began operating in 2011, cuts across several Chinese provinces and crosses the border into Kazakhstan. Thereafter, it continues through Russia, Belarus and Poland before ending in Duisburg, Germany. The rail link is now the busiest cargo freight route between China and Europe. The company owns a quarter of the coffee plantations and is the largest instant coffee producer in China, with an annual output of 13,000 tons. It also accounts for half of China's coffee exports and has among its clients major brands, including **Nescafe, Maxwell and Kraft**.

The company along with **Chongqing Energy Investment Group and Chongqing YuXinQu Logistics Company** plan to transport 30,000 tons to 50,000 tons of coffee to Europe this year. Shipments will rise to 1,00,000 tons to 1,50,000 tons in 2016 and 2,50,000 tons to 3,00,000 tons in 2017.

### CORN

The **International Grains Council**, estimating that China holds more than half the world's corn stocks, has raised concerns over an imminent major shift in policy on the grain. A policy shift would address the issue of large, and rising, corn inventories in China encouraged by the government's offer of a guaranteed price, which has risen to an average of some **2,250 yuan a tonne (\$362) a tonne this year from 1,500 Yuan a tonne** when it was implemented seven years ago. This compares with current export prices, excluding shipping, of \$169 a tonne for US corn, \$162 for Brazilian supplies, and \$158 a tonne for Argentine shipments, according to IGC data. According to the IGC, the appeal of a guaranteed price has left China looking at overall corn inventories of 101.0m tonnes at the close of 2015-16, which is equivalent to 52% of world supplies, and an upgrade of 10.4m tonnes on the previous forecast.

### RICE

**Japan** is planning to propose a **70,000 tariff free rice import quota** for the US as part of its efforts to push forward the **Trans Pacific Partnership (TPP)** negotiations. Presently the negotiations have been stalled due to a deadlock between the US and Japan over US's access to Japanese rice markets and US tariffs on automotive parts, according to sources. The US has been demanding that the present rice import quota be raised to 1, 75,000 tons which Japan may not honour, in order to protect its rice sector. Japan is initially planning to set the rice quota at 50,000 tons and gradually increase it to 70,000 tons over the next decade. According to local sources, Japan's yearly import quota will also

depend on its domestic rice demand. Australia is also seeking an increase in its import quota. Japan may propose to set the Australian target at 12% of the US quota. Both United States and Australia quotas may be together set at 80,000 tons, according to sources.

The **Commerce Ministry of Cambodia** has agreed to invest about **450000 \$** as seed capital in the country's rice sector to help boost exports, according to political sources. The funds will be used for promoting exports through overseas exhibitions government to government discussions as well as local infrastructure development. Cambodian exports are severely affected due to lack of sufficient milling, storing and transportation facilities. The government is planning to export around 60000 tons this year. USDA estimates that Cambodia may export 1.1 million tons of rice including official and unofficial exports to Vietnam and Thailand through borders in 2015, which is an increase of 60 percent year on year.

## SOYABEAN

Rains returned to **India's** main soybean-growing areas, ending a three-week long dry spell that threatened to shrivel the nation's biggest oilseed crop. Some soybean fields in Madhya Pradesh, which produces more than 50 percent of the nation's crop, got more than 100 millimeters (3.9 inches) of rain over the weekend, according to the India Meteorological Department. The showers were timely for the crop as it eased the moisture stress. A bigger oilseed harvest may cut reliance on imports of palm and soybean oils. The first back-to-back monsoon shortfall in three decades is still possible as the first El Nino since 2010 strengthens, according to India's weather bureau. The area under soybeans jumped to **9.57 million hectares** (23.6 million acres) as of July this year, compared with 1.95 million hectares during the same period a year earlier after the early arrival of monsoon rains spurred planting, according to Ministry Sources. India imports more than **50 percent** of its cooking oil needs -- getting palm oil from **Indonesia and Malaysia and soybean oil from the U.S., Brazil and Argentina**. Palm oil imports may jump to a record 9.4

million tons in the 12 months starting November 1.

## SUGAR

**Sugar output in Thailand** is all set to create a record due to the recent rains defying a strengthening El Nino to boost cane-crop growth, according to official sources. The harvest may expand for a seventh year to an all-time high of 111 million metric tons in the season starting November, yielding 11.5 million metric tons of sugar. However, production is at a risk of falling short if drought persists. El Nino has kept central Thailand at its driest in about 30 years because of which sugar output in the world's second largest sugar exporter may reduce. Thailand produced an all-time high of 106 million tons of cane in the 2014-2015 season, with sugar output of 11.3 million tons.

Sugar prices have tumbled **23 percent** this year to the lowest level since December 2008. Futures for October delivery closed 2.4 percent lower at 11.24 cents a pound on the ICE Futures U.S., after touching as low as 11.20. Global production may drop 0.5 percent in the 2015-2016 season to **173.4 million tons**, almost matching demand, according to the USDA. Inventories may drop to 40.5 million tons at the end of the season from 44.3 million tons a year earlier, the first decline since 2009-2010, the data show.

## WHEAT

In the backdrop of increased supplies due to accelerated US yield and waning demand, wheat prices may not rise or even stabilize this season. Foreign buyers, such as Egypt, are waiting for better bargains, as they find no incentive to turn to U.S. markets to fulfill their needs. Unlike soybeans, which are grown and exported primarily from the Americas, wheat is produced in many continents and has escaped weather or other production threats, remaining abundant all over. High-protein, hard red winter wheat, which is now being harvested and is used primarily for breads, is actually below soft red winter wheat in price, indicating an unusual surplus of a major U.S. staple. Countries like **Canada, Australia, Russia, and even France** are taking market share away from the U.S.

Both Chicago and Kansas wheat have declined \$1.00 per bushel in the last 30 days alone

## DAIRY

The **Chinese population** is searching for better quality of life as their income and country development is improving, according to a market survey. Consumers are paying greater attention to their well-being and healthy food is becoming increasingly popular. Therefore dairy products are gaining popularity in China's market and the Yogurt market is leading the way. While the global growth rate of yogurt consumption has been expanding at a rate of **20 per cent annually**, the market increases on an annual rate of 30 per cent in China. The most successful products are the flavored yogurt drinks that are progressing over 40 per cent.

World Bank is addressing the key challenges in **Kyrgyzstan's dairy industry** as part of its new initiative to expand the reach of Kyrgyzstan's dairy products to global markets. The Dairy Sector Development Program has been launched by the World Bank, along with the Kyrgyzstan's government and other partners. This programme aims to boost the quantity and quality of raw milk at the farm level. The resulting dairy products with improved quality will then be exported to neighboring countries. The Dairy sector is crucial for this region as it provides income opportunities for thousands of people, contributing to the country's economic growth and reducing poverty in rural areas of the Kyrgyz Republic. "This groundbreaking new program will increase the competitiveness of local dairy products and expand their reach to regional and global markets. Beginning as a pilot project in the **Issyk Kul province** of Kyrgyzstan, the programme will begin with vaccinating all animals in the pilot zone, increasing the capacity of state-owned and private veterinary services and laboratories, while building the capacity of private dairy processing companies and their supply chains.

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