

Quote of the Week

“The start of 2014/15 will see sugar entering a proper bull market with production expected to see a slowdown”

**Kona Haque, Macquarie
Commodities Research p3**



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Reverse in global tea price fall set to continue into the coming year

By Emile Mehmet

After falling to their lowest in around three-and-a-half years, global tea prices could be set for a strong rebound in 2014, as a lack of rain in biggest exporter Kenya starts to rekindle buying interest.

Kenyan Best Pekoe Fanning 1 fell last month to USD2.25 a kilo, the lowest price in four years, and down by almost half from the record high USD4.14 a kg a year ago. However, over the last week, prices have recovered to USD2.76 a kg, a three-month peak.

The market could be set for further rises next year, according to industry players, due to lower-than-expected output in Kenya and a continued rise in demand from emerging markets.

“This time of year people do tend to start stocking up again because they don’t like inventories going into the new year, but they want everything arriving in January. Normally from now to until mid to late January the market is reasonably firm,” one European tea trader told *The Public Ledger*.

“Kenya has had a good couple of years production wise, and they now might be due a dry January/

February, which is normally the dry season, but we haven’t had a proper dry season for a while. They’ve had some bad short rains recently which isn’t good (for the crop). People are now thinking: ‘tea looks quite good value at the moment so we might as might fill our boots a little bit while the going is good’.”

Peter Kimanga, director at Kenya-based Global Tea & Commodities, a leading trading house, said: “We have reached the bottom and we are definitely going up. Earlier this year we had a lot of crop that coincided with a time when people were cutting stocks. And now we have less crop and people wanting to rebuild stocks.”

Initially there were thoughts the Kenyan crop might reach 420 million kg. “But the feeling now is more in the 408-410 mln kg region; 415 mln kg maximum. But that’s still more than they’ve ever produced before. It’s a decent wodge of tea,” the European trader noted.

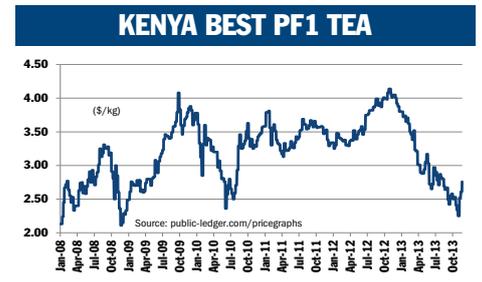
He added that Kenyan output is likely to remain in the 400-420 mln kg region over the next few seasons. “But that’s only if they avoid a dry January/February, because that can really clobber you,” he

remarked. “Then that figure can very easily drop to around 370 mln kg.”

The average price of top-grade Kenyan tea rose by half a dollar per kg at this week’s auction from a three-month low. The average tea price stood at USD4.10 per kg this week compared with USD3.57 per kg last week.

Africa Tea Brokers (ATB) said in a market report that Best Broke Pekoe Ones (BP1s) sold at USD3.20-5.00 per kg from USD2.36-4.78 per kg at the previous sale. Brighter Pekoe Fanning Ones (PF1s) fetched USD2.40-3.11 per kg compared

Continued on p7



IN THIS ISSUE

The USDA launches third “sugar-for-ethanol” program to offload almost 300,000 short tons **p5**

Ivorian cocoa buyers forced to buy beans at above fixed price **p6**

French wheat exports to Egypt set to continue rising on more competitive pricing **p8**

China to continue buying soybeans from its own farmers; keeping domestic prices higher **p9**

FULL CONTENTS PAGE 2

EU wheat export licences see increase

By Sandra Boga

EU wheat exporters have seen a sharp increase in export licences granted so far this 2013/14 year, according to new data from the European Commission.

Over 10 million tonnes of export licences for the current marketing year - which runs from July 1 until June 30 of each year - have been signed off, representing a significant increase over the same period last year, when the bloc had granted just 6.4 mln tonnes of licences.

Germany has requested just over 3.1 mln tonnes of export licences between the period of July 1 and November 12 - with France coming next at over 2.5 mln tonnes and Romania having requested approximately 1.4 mln tonnes. The Netherlands has nearly hit the 1 mln tonnes mark, sitting at 957,881 tonnes for the current year.

Export licences for barley totalled just over 4.5 mln tonnes over for the period, with Germany,

France and the Netherlands having the highest totals at around 1.6 mln tonnes, 1.1 mln tonnes and 750,000 tonnes respectively.

Licences for durum wheat have meanwhile totalled just under 220,000 tonnes so far this marketing year - while wheat flour has seen just over 280,000 tonnes of licences granted. Corn has meanwhile saw just over 85,000 tonnes of export licences handed out by the bloc.

The Commission predicts EU28 usable soft wheat production will total 131.3 mln tonnes in the current in 2013/14 marketing year, according to its latest cereal supply and demand balance sheet. Total exports to non-EU countries for the season are pegged at 16.9 mln tonnes.

The 28 member states have granted a total of over 2.1 mln tonnes of corn import licences for the current marketing year, the new statistics indicated.

Meanwhile, the EU has granted over 740,000 tonnes of import licences for wheat and around 550,000 tonnes for durum wheat.

KEY INDICATOR SNAPSHOT

GSCI TOTAL
4692.73
Weds close

▲ 0.1%

GSCI AGRI
360.32
Weds close

▼ -1.5%

NYMEX CRUDE
93.85
USD/bbl, Weds close

▲ 0.0%

\$ vs €
0.74
Weds close

▼ -0.5%

\$ vs £
0.62
Weds close

▼ -0.6%

CONTENTS

SECTIONS

MAIN NEWS	1-4
SOFTS	5-7
GRAINS & FEED	8
OILS & OILSEEDS	9
MINORS	10-12
COMPANY	13
MARKETS REVIEW	14-15
PRICES	16-19
COUNTRY PROFILE	21
WEATHER	22
INTERVIEW	24

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Ukraine

Ukraine is seeing more much-needed investment in its agriculture sector as it prepares to handle a record grain crop.

See page 21

EDITORIAL

It seems as if tumbling tea prices have finally hit a floor.

After more than two years of healthy supply and slack demand, buyers are coming back into the market and stocking up.

Production in Kenya – the biggest exporter in the world – is probably not going to be as high this year as previously thought, although much will depend on the weather over the next three or four months.

Furthermore, our sources have suggested that consumption is continuing to grow, especially in emerging markets such as Russia, Iran and Kazakhstan. This is something backed up by quarterly customs data (see page 7).

If prices do continue to rise into 2014,

it will be greatly welcomed by producers in many parts of the world, who have seen profits fall over recent seasons.

A number of organisations have called for action in order to prevent any further declines; the East Africa Tea Trade Association, for example, recently advised producers in the country to slow production in order to ease oversupply.

It's hard to say how much of an effect this has had, or will continue to have, but there are several upstream companies that won't be bothered either way, as long as the market continues upwards.

Emile Mehmet

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QUOTE OF THE WEEK



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Kona Haque,
analyst at Macquarie Commodities Research

[Sugar prices to trade higher until end of 2013](#) page 3

THIS WEEK'S INTERVIEW

Brian Collins, CEO of Brady Physical Commodities Division, talks on how paperless trading will be absorbed into the commodities market, a hot topic of debate at Global Grain Geneva. Page 24



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Public Ledger

“A truly paperless environment is probably decades away”



Brian Collins, CEO of Brady Physical Commodities Division, talks on how paperless trading will be absorbed into the commodities market, a hot topic of debate at Global Grain Geneva. By Sandra Boga

Collins joined Brady Plc nine and half years ago having previously started out in derivatives, options and pricing risk management. Collins was most recently, head of Brady's Group product management activities, before moving into his current new role in April.

Brady Plc provides commodity solutions to producers, consumers, financial institutions and trading companies and is the largest European provider of Commodity Trading and Risk Management (CTRM) solutions with over 300 clients.

“Paperless trading is an extremely broad topic, encompassing a number of trading aspects and functions within an organisation. We could be talking about electronic document management and processing, such as electronic bills of lading; it could be automating trade flows including electronic broker reconciliation and matching confirmations electronically; we could be talking about risk monitoring and controls,” explains Collins. “There is a wealth of different processes that can be automated in a trading environment and people have to be mindful that to get a truly paperless environment is probably decades away, but certainly a worthy long-term objective.”

E-bills of lading

While a few initiatives of e-trading have been around for some time, with different levels of sophistication and adoption globally, one high-profile activity in the grains market is the introduction of electronic bills of lading.

“Electronic bills of lading are a constituent part of shipping process and govern the transfer of title from one part to another. Given the legal importance and the sheer volume of documents required and the number of different parties involved for a single cargo make this a natural candidate for electronic processing to introduce efficiency gains and is a significant driver for the grains industry,” says Collins.

However, Collins outlines that organisations have to be mindful of what they want to achieve when they go paperless and understand that moving towards this environment doesn't necessarily eradicate risk.

“It introduces efficiencies and it introduces process management and automation, but they by analogy introduce a different set of risks. It's not a panacea of “my life is going to be revolutionized and be risk free”. When it works and everything runs smoothly, it will be great, undoubtedly. That said, people need to be

mindful of the risks: understanding what may fail; the impact; and having adequate controls and processes in place to deal with that contingency,” says Collins.

Benefits

There is obviously significant operational efficiency to be gained with paperless trading, mostly by reducing the human element in processes, explains Collins.

“Indeed, you could argue that by having humans involved is a risk in its own right. For example in terms of letters of credit, we can receive these electronically; pull them into our system; associate with relevant contracts; and maintain a full audit of activity and associated document - all electronically. This was done manually in the past, letters were sent, faxes received, and these would then be manually validated and transcribed them into the system,” adds Collins. Some of Brady's clients have seen their end of month process now running in two days rather than 11, therefore showing one example of an electronic process providing tangible payback and cost savings.

E-Trading in the grains market

As the grains market currently finds itself in a growth cycle Collins sees an increase in the EU in terms of the Russian and Eastern European output which is having a profound effect on the market place. Looking outside Europe, the US and Asian markets are generally more visionary in terms of their electronic trading ambitions with a greater technical awareness and understanding of the factors influencing adoption of electronic processes and management of risk, according to Collins.

“I have heard some reports that “grains are the laggard in the commodity world”. I can see why that would've been said: we service many different asset classes, including metals, power and gas, recycling and of course softs and agricultural products. I think it is fair to say some of these are more advanced, both in terms of technology used and analysing risks involved, automation of processes, and electronic processes and documentation,” says Collins. “Maybe the grains market does have a little catching-up to do, but they do have the advantage that they can observe and learn from industry practices from other sectors, adapt to the specific needs of grains and adopt at a more progressive rate. I expect the adoption rate of paperless trading in the grains market to gain momentum because there's more knowledge out there and more ex-

pertise,” added Collins.

The main driver behind the adoption of e-trading into the grains trade is for people to have confidence and knowledge of the benefits involved, explains Collins. While the energy market is tending to lead the way as it already has infrastructure in place such as electronic matching and price dissemination, metals are swiftly behind and grains will undoubtedly follow.

“But there are some processes in the grains world that just do not lend themselves to being automated, like the auction process, cargos going round the world with a lot of negotiation done on the phone,” adds Collins.

Whether paperless trading will make the market more volatile as a result of greater transparency is also clearly a concern for most industries.

“What we have observed in other sectors is that greater price transparency can be a major factor in driving liquidity – introducing more and varied organisations to the market – and that can drive volatility. Efficient price dissemination is of course an inherent electronic process,” says Collins.

Total paperless trading?

The time scale for total adoption of e-trading is, according to Collins, dependable on the market's appetite for change, realisation of the benefits, managing the adoption process and ensuring the risks are understood and controlled. As each successive human generation is brought up in an increasingly electronic world – it is a natural evolution therefore to automate trading environments as it is many other commercial functions, he explains.

“Whereas I believe that is a great objective, there are still many topics to be covered and issues to be resolved: We see different levels of sophistication in different markets and different geographies; different legal issues; different technical infrastructures; and different organisations have a differing awareness of the pros and cons,” says Collins.

There is, however, a number of steps people can take now and embrace the initiatives that have occurred in other industries, and to start pushing the existing boundaries: with a lot to learn from the successes and failures of other electronic-based enterprises in the past, says Collins.

“I would suggest organisations adopting a practical incremental approach to evolve their e-trading environment and understanding – and the best way in my opinion is to embrace well founded initiatives from other sectors,” adds Collins. “With our experience across the majority of asset classes and processes, we see an increase in clients both streamlining their trade-flows, for instance through automated reconciliation and collateral management, but also advancing their risk capabilities to give more accurate and timely market exposure and credit risk. These are practical functions which can be implemented now and have observable benefits. But to ‘totally paperless’, though, I think we have a long way to go,” concludes Collins. ●