

African coffee market: how has it been affected by the current world economic status?

What the farmer does not know, and how it's going to affect him.

Justin Archer
Sangana Commodities Ltd

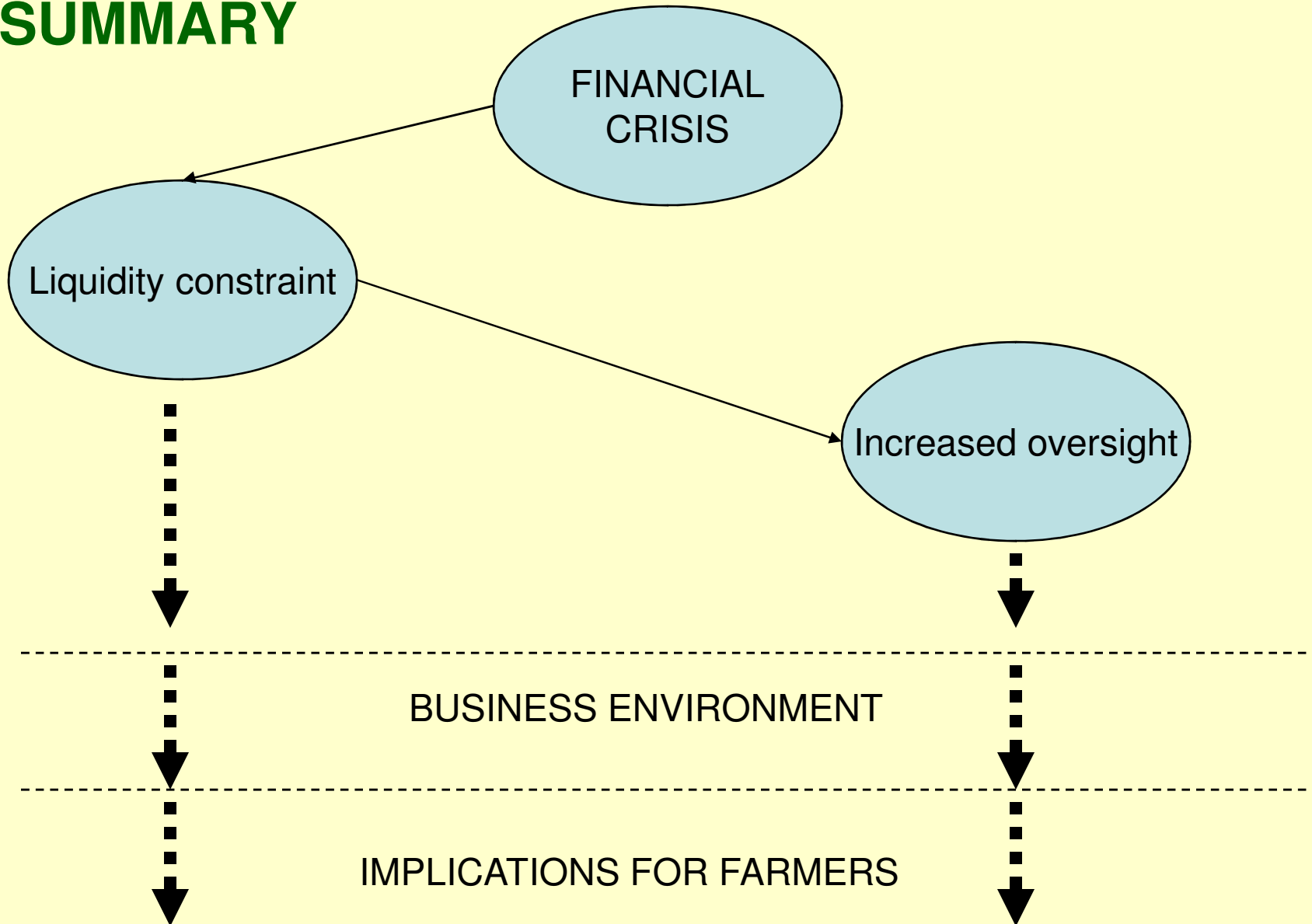
WHAT THE FARMER DOES NOT KNOW, AND HOW IT'S GOING TO AFFECT HIM

SUMMARY

- Effects of the financial crisis on coffee
 - Reduced liquidity
 - Increased oversight
- What it means for coffee trade
- What it means for producers

WHAT THE FARMER DOES NOT KNOW, AND HOW IT'S GOING TO AFFECT HIM

SUMMARY



WHAT THE FARMER DOES NOT KNOW, AND HOW IT'S GOING TO AFFECT HIM

FINANCIAL CRISIS & CONSEQUENCES

- 2008 FINANCIAL CRISIS!
- IMMEDIATE CONSEQUENCES FOR BIZ:
 - 1) LIQUIDITY CONSTRAINT...WHO'S GOT THE MONEY...CASH IS KING
 - 2) FINANCIERS, AUDITORS AND SHAREHOLDERS DEMAND GREATER ACCOUNTABILITY (INCREASED OVERSIGHT)

WHAT THE FARMER DOES NOT KNOW, AND HOW IT'S GOING TO AFFECT HIM

CONSEQUENCES

1) TIGHTENESS IN THE CREDIT MARKET:

- SOME BUSINESSES CAN NO LONGER ACCESS CREDIT CHEAPLY, OR AT ALL
 - FEWER COMPETITORS
 - MORE CONSOLIDATION AMONG BUYERS
-
- FEWER BUYERS FOR THE CROP
 - LOWER PRICES

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CONSEQUENCES

2) FEWER STOCKS – KEEP INVENTORIES LOW

- LOWER INVENTORIES
 - MORE “HAND TO MOUTH” BUSINESS
 - GREATER EXPOSURE TO FUNDAMENTAL SHIFTS?
 - DIFFERENTIAL VOLATILITY??
-
- SLOWER DEMAND
 - NEED TO CARRY CROP LONGER BEFORE SALES
 - PRICE VOLATILITY

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CONSEQUENCES

3) WORSENING TERMS OF TRADE

- STRICTER PAYMENT TERMS BETWEEN ROASTERS AND TRADE
- BUYERS DEMAND MORE CREDIT
- LESS CROP FINANCING / PREFINANCING
- LESS INVESTMENT AT FARM GATE

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CONSEQUENCES

4) DETERIORATING PUBLIC SECTOR

- GOVERNMENT BUDGET'S MORE CONSTRAINED
 - LESS PUBLIC SECTOR INVESTMENT
 - FARMERS, ESP SMALLHOLDERS, NOT AS GOOD AT LOBBYING AS MANUFACTURERS AND INDUSTRY
-
- POOR ROADS, INFRASTRUCTURE
 - REDUCTION OF GOVT INPUT AND FINANCING SCHEMES
 - GOVT EXTENSION & SUPPORT

WHAT THE FARMER DOES NOT KNOW, AND HOW IT'S GOING TO AFFECT HIM

INCREASED OVERSIGHT

5) MORE CONDITIONALITY ON LENDING & CREDIT

- MORE REPORTING TO, AND CONDITIONS FROM, BANKERS, AUDITORS, SHAREHOLDERS
 - HIGH COST OF COMPLIANCE
-
- TRANSACTION COSTS UP
 - LOWER % MARGINS TO GROWERS

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CONSEQUENCES

6) MORE CONTROLS ON RISK AND INVESTMENT

- RISK AVERSION – THE ACCOUNTANTS ARE IN CHARGE!
 - SPECULATIVE POSITIONS DIMINISHED
 - SLOWER DECISION MAKING
-
- NO BUSINESS WITHOUT PROFIT (RISK AVERSION)
 - LESS INVESTMENT AT FARM GATE?

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CONCLUSION

TRADE & INDUSTRY

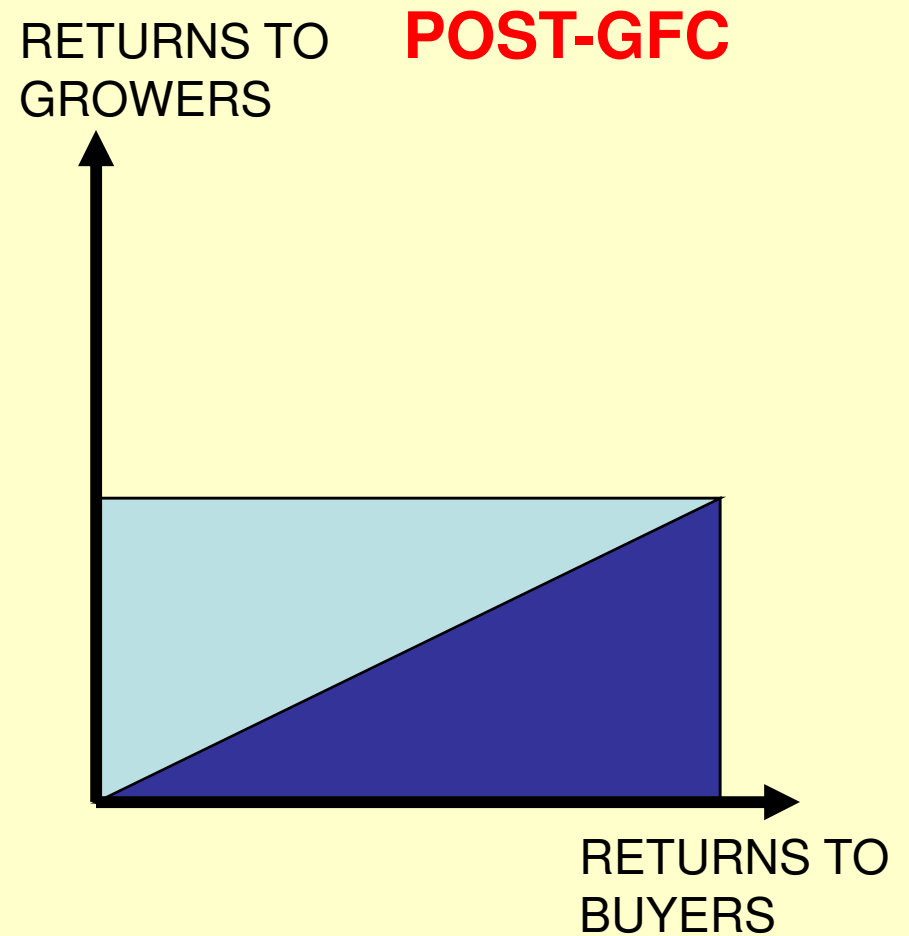
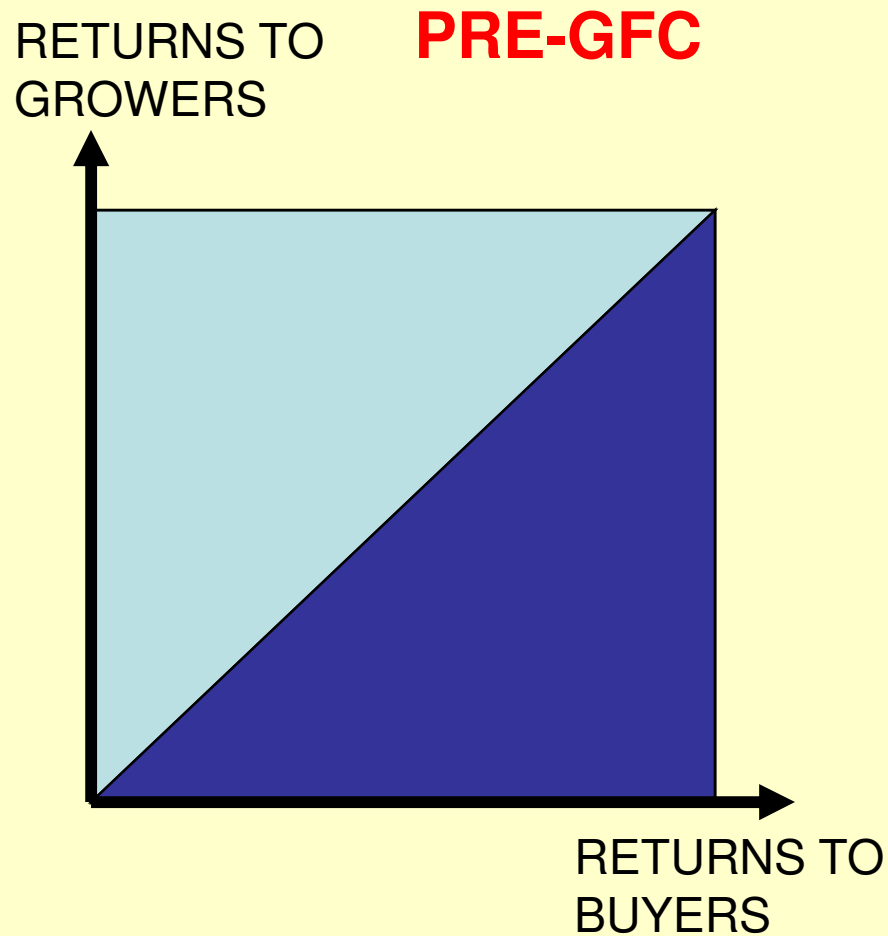
- Less Credit
- Lower Inventories
- Worse ToT
- Greater conditionality
- Higher transaction costs
- Risk aversion

FARMER

- Fewer buyers
- Price volatility
- Less financing
- Lower % returns
- Deteriorating infrastructure
- Less sustainable biz

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CONCLUSION



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CONSEQUENCES

PROFITS, NOT SUSTAINABILITY?

THANK YOU