

BUILDING ROBUST SPOT MARKETS

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Overview



- Introduction
- Commodities Exchange Creation – Incremental Evolution
- The Physical Market
- A Commodities Trading Model

Introduction



- The Chicago Midwest connection
- Spot Market Trading and diversification
- African Engagement
 - AGOA
 - African commodities
 - African ethnic food
 - Development of Spot Market Trading Model

Commodities Exchanges – Incremental Evolution

- The Lesson of Chicago
 - ▣ Unstructured to ‘Sell Before You Produce’
- The Contract – Evolution & Integration Driver
 - ▣ Spot Trading (Contract)
 - ▣ Forward Contract (modified)
 - ▣ Futures Contract
- Connecting Local Exchanges to established Global exchanges

Medium Term Goals



- Get the fundamentals right
 - ▣ Build structured and functional Physical Exchange Market (Spot Market) Environment
 - ▣ Build Contract Culture
 - ▣ Build Investor Culture
 - ▣ Education of all stakeholders

Spot Trading



- Physical Exchange Market
- Complete knowledge purchased commodity
- Immediate or limited time lag delivery

Physical Exchange Environment



- Environment Requirements
 - Storage
 - Transportation infrastructure
 - Lending (liquidity)
 - Insurance
 - Legal environment
 - Quality Control
 - Standardization
 - Professional and independent Oversight

A Physical Contract Paradigm



- Commodity driven
- Based on
 - ▣ Product Stocks
 - ▣ Warehouse Receipt
- Warehouse Receipts
 - ▣ Ownership instrument
 - ▣ Loan instrument
 - ▣ Negotiable instrument
 - Investment instrument
- Contract
 - ▣ Contract = Warehouse Receipts/Warranties + Sell/buy Parameters

Forward Contract



- Spot market contracts are for ‘immediate’ physical transactions.
- Forward contracts are agreements on delivery of a commodity on a particular day, with specific requirements and a specific (forward) price.
- Favored position of producers – ‘Sell before you produce’
- Need to create Forward Contract environment

Futures Contract

- Same as a Forward Contract but executed in the framework of a Commodity Exchange
- Futures trading – reduce price risk for those who produce or deal in cash commodities through hedging
- Key requirements
 - ▣ The Clearing House
 - ▣ Brokerage environment
 - ▣ Financing environment
 - ▣ Technology systems
- **Commodity Futures Exchange transactions are predicated on physical exchanges although less than 3% are executed**

Important Notes



- Incremental development towards a Commodity Exchange Market mirrors contract evolution
- Structured Physical Markets are a prerequisite for Commodity Exchange Markets
- Mechanism to connect the Cameroon Exchange must be carefully planned and executed.

Spot Markets

An Approach to Building A Structured Physical Market

Spot Market Model



- Origin
 - ▣ Ekondo Titi Cocoa Producers' plea
 - Limited farmer market clout
 - ▣ Zimbabwe corn price surge
 - High Inter seasonal prices

Goals of Market Model



- Enhance farm production
- Mitigate inter seasonal price fluctuation
- Create new marketing avenues for farmers
 - ▣ Connect Producers to global Markets
- **Enhance Producer value**
 - ▣ **The fact that all coffee or cocoa is sold does not mean that the producer economy has received the best value and cash influx**

Success Factors



- Profit driven
- Small government foot print
- Simplicity
- Unique to Cameroon environment
- Leverages the strengths of Chicago Midwest and Makuna International
- Total Buy-in of Stakeholders

CME and MI Strengths



- Location in Chicago at the Chicago Board of Trade
- 40 years in the Commodities business
- Relationships with Banks that specialize in Commodity futures, and US EXIM Bank
- Relationship with the Illinois Dept of International Trade

The Model



- The Tiered Warehousing Model
- Main Elements
 - Tiered warehousing
 - Local investors
 - Insurance
 - Market Information System
 - Lenders

Tiered Warehousing

- Key component of Concept
- Three levels of warehouses
 - ▣ Levels
 - Tier 1: Local
 - Tier 2: Local Consolidation
 - Tier 3: Regional
 - ▣ Technology
 - ▣ Financing
- Cash and Food Crops models
- Transportation advantage
- Contract formulation advantage

Local Investors



- A new investment paradigm
- Opportunity for agro non agro sector business actors
 - ▣ Traders and Speculators
 - ▣ The Chicago advantage
 - Unique access to pool of business actors

Insurance



- Provides baseline confidence for the entire system
- Application
 - Bonded warehouses
 - Inventory insurance
 - Natural disaster
 - Arson
 - Life

MIS



- Information is a requirement for fair pricing
- Knowledge of prevailing global prices ultimately results in better pricing and higher cash inflows.
- Disseminate information through several channels
 - Radio
 - Phone
 - Mail

Lenders



- Confidence in commodity and contract based collateral instruments
- Participate in use of insurance to add confidence to the system
- Swift reaction to lending requests

Next Steps



- Prepare Project Plans
 - ▣ Identify and define project areas
 - ▣ Perform detailed timeline analysis
 - ▣ Create PMO (Project Management Office)
- Perform in-depth Gap Analysis of Cameroon
 - ▣ Concentration on Physical Market Requirements
- Perform Adaptation Analysis
- Design detailed Incremental Strategy
- Create Project teams and detailed project plans
- Project execution and monitoring



THANK YOU

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