



TRENDS IN EGYPT GRAINS

This article is to look at Egypt's current situation, from its economic state to its geographic position. This piece discusses the background details, addresses some of the problems already facing the Egyptian government and trends that will affect the grain industry and mainly imports. First we will be looking at the US dollar situation, then we will move into the new projects that are underway in Egypt; Damietta and Suez Channel and lastly the ERGOT policy will be under the microscope.

Egypt is facing a dollar shortage and mounting pressure to devalue its currency. The central bank has been on a drive to indirectly support the pound and supply banks with dollar liquidity to cover imports despite declining foreign reserves. The central bank US Dollars at a bid/ask quote of 7.7301/7.8274 pounds to the dollar. The official rate is still far stronger than the black market rate, which was around 8.575 pounds to the dollar. Egypt, which depends on imports for food and energy, has run short of hard currency since a 2011 uprising drove tourists and investors away. Reserves have almost halved to \$16.4 billion.

In February of 2015, the central bank imposed capital controls, limiting dollar-denominated deposits to \$50,000 a month in an attempt to fight the black market. The move caused problems for importers who could no longer source foreign currency to clear goods, which piled up at ports. This led to three shipments getting held in French ports, as sellers awaited letters of credit from Egyptian suppliers, this will be discussed later in this article. Providing USD liquidity will massively help importers, as they wouldn't have to buy the USD at the black markets' price, which is around 11% more than the CBE, Central Bank of Egypt, price.

As there is always two sides of each argument, the liquidity that might be provided might cause further devaluation of the Egyptian Pound irrespective of the efforts that are underway by the Egyptian Government. Some of the indirect efforts by the government include, that the government has indirectly raised interest rates and injected dollars into the banking sector to relieve pressure on the currency.

Moving to the projects that are in progress in Egypt, the completion of Damietta project and the Suez Channel would be substantial to supply chain, warehousing and the whole Egyptian industry. Egypt's plan to build a logistics hub to store, trade and manufacture grains and seeds will cost a total of 13.1 billion EGP. The project, which will be built on 3.350² km in the Delta governorate of Damietta, is expected to trade up to 65 million tons annually of grain and basic food commodities. The project involves building high-tech storage silos, two new platforms capable of receiving large cargos in the Damietta marine port and five manufacturing areas. The new silos should triple Damietta's storage capacity to 7.5 million tons from the current 2.5 million tons. The manufacturing areas are meant to boost the food industry by producing flour, pasta, cooking oils and sugar for both domestic consumption and export to the MENA region.

As for the Suez Canal, in July 2015 before the induction of the New Suez Canal, the average daily number of transiting vessels was recorded at 47 vessels, with an average load of 2.758m tons per day. The Suez Canal accounts for 8% of the world's maritime trade and brings in \$5.5 billion annually into the Egyptian economy. When President Sisi proposed an ambitious plan to expand the canal, it was met with patriotic fervor from the public.

To accommodate modern ships and to adapt to an increase in world trade, Sisi planned to build a 37km channel parallel to the original canal: this would allow two-way traffic for the first time and reduce waiting times for vessels by as much as eight hours. The project was fully financed by Egypt military-backed government, which raised the 64 billion EGP budget in eight days and, despite projections that canal expansion would take three years to build, it was completed inside 12 months.

The Suez Canal and Damietta project will boost the country's economy and aid world trade. The logistics centers are supposed to increase the annual capacity of food commodity trading in Egypt and benefit several countries around the world. Both Italy and Russia are major investors, but the U.S. has also shown an interest in the logistics center project. Damietta is the proposed location of the logistics center because of Damietta Port and the close proximity to the Suez Canal. Technical and commercial studies have been conducted on the logistics project and it is expected to be a major game changer in the trading industry.

Last but not least, the ERGOT policy. ERGOT or Ergot fungi refers to a group of fungi that grows on rye and related plants, and produces alkaloids that can cause ergotism poisoning in humans and other mammals who consume grains contaminated with its fruiting structure. the world's largest wheat importer, said that it would be enforcing a "zero tolerance" policy on ergot contamination in wheat shipments, this caused French wheat hit a four-month low.

GASC, the Egyptian state grain buyer, currently accepts cargos with up to 0.05% contamination with ergot, a grain fungus that can pose a threat to human health. But Saad Moussa, the head of the agricultural quarantine authority told Reuters that cargoes containing any level of contamination would be rejected. Mr Moussa said that the zero tolerance for ergot contamination was designed to prevent contamination of Egypt's domestic wheat supply. A cargo of French wheat was rejected last month, after trace levels of ergot were detected.

However, in the last days of 2015, GASC permitted entry of wheat shipment containing traces of ergot fungi above regulatory limit. The General Authority for Supply Commodities agreed to import a 63,000 ton shipment of wheat from France, containing a 0.05% trace of ergot fungi, which exceeds the 6 January regulation. The regulation was made by the agricultural quarantine authority that prohibited imports of wheat that contain any trace of the common wheat fungus, according to GASC Vice President Mamdouh Abdel Fattah.

Looking at the future and keeping the past in mind, Egypt is trying its best to regain its power in the region by improving and refining its infrastructure to insure that it operates world class facilities. Even though it is facing obstacles with the currency issue and the countries strict Ergot policy, Egypt's trade is looking to improve in both the short and long term especially with the to be established EGYCOMEX, which in turn will help the infrastructure and supply chain of Egypt and the MENA region.