

Voluntary Report – Voluntary - Public Distribution

Date: February 05,2020

Report Number: EG2020-0003

Report Name: The Egyptian Commodity Exchange to Be Operational by January 2021

Country: Egypt

Post: Cairo

Report Category: Agricultural Situation, Grain and Feed, Sugar, Agriculture in the News

Prepared By: Ahmed Wally, Agricultural Specialist and Olutayo O. Akingbe, Agricultural Attaché

Approved By: Ali Abdi, Minister-Counselor for Agricultural Affairs

Report Highlights:

By January 2021, Egypt will operate its first commodity exchange which can provide commodity markets with greater price stability by reducing risk and increasing the number of traders as well as trade volume, value, and efficiencies. On October 20, 2019 The Egyptian Exchange (EGX) celebrated the completion of new commodity exchange feasibility study that was developed in collaboration with the Ministry of Supply and Internal Trade (MOSIT) and the Federation of Egyptian Chambers of Commerce (FEDCOC). The new exchange will initially offer trading of four agricultural commodities which are wheat, corn, rice and sugar. The Exchange would be for spot commodities that have large market volumes and could be stored for long periods.

Management of Egypt's First Commodity Exchange:

On January 22, 2020 The Egyptian Prime Minister Dr. Mostafa Madbouly, issued Decree No. 182 authorizing EGX, MOSIT's Internal Development Agency and the General Authority for Supply Commodities (GASC) to establish a joint stock company called "The Egyptian Commodity Exchange." This company will be responsible for all tasks related to the management of the commodity exchange, including the facility of trading systems, quotations, pricing and control mechanisms, and risk management.

According to media reports, LE100 million (\$6.3 million) of capital will be allocated to run the new commodity exchange. Investors in the company include major state banks (Misr Bank, The National Bank of Egypt and The Agricultural Bank), EGX, and MOSIT. Other stakeholders will include IC Capital, the Hermes Financial Group, the Misr Insurance Holding Company, the Misr Authority for Central Clearing, Depository and Registry, and the FEDCOC.

The company's board will be made up of stakeholders with the Egyptian government holding 51 percent of the shares and the remaining 49 percent for private entities.

The Exchange Feasibility Study:

Over the past year, EGX worked extensively with MOSIT, FEDCOC, and other stakeholders to develop a comprehensive feasibility study for establishing a commodity exchange in Egypt. According to the study, the commodity exchange will be an electronic platform that is connected to logistics centers, crop collection centers, warehouses and silos to identify commodity supply and demand and ensure a more efficient value chain.

The exchange will initially offer trading of four agricultural commodities — wheat, corn, rice and sugar. The Exchange would be for spot commodities that have large market volumes and are storable for long periods. Futures will not be offered on the exchange for the foreseeable future.

The aim of establishing a commodity stock exchange is to ensure fair, clear, and transparent trading and pricing of commodities through market mechanisms of supply and demand. The Exchange is expected to contribute to reducing inflation resulting from fluctuating commodity prices, in addition to enhancing the marketability of smallholder production.

Establishing a commodities exchange means the creation of an organized market for trading storable goods, and it addresses problems resulting from multiple mediators, monopoly over some commodities, the need to provide better market data.

The study also highlighted several benefits for establishing a commodity exchange which includes:

- Reducing costs of production, transportation and storage by 20 percent;

- Providing safety to smallholder farmers by collecting, classifying and pricing their production in a transparent way that will enhance the marketability and quality of their produce;
- Eliminating many of the bottlenecks across the value chain and reducing losses and waste;
- Ensuring an organized market of traded commodities that will help policy makers to better evaluate food availability, access, and utilization;
- Establishing more qualified warehouses, crop collection centers and logistic hubs that would link to the exchange and gradually bring the informal trading sector into a formal one.

In conclusion, the Exchange is expected to provide greater stability for whenever there are commodity price fluctuations by reducing risk and increasing the number of traders, trade volume, trade value and enhance overall product quality. This will increase trade effectiveness and promote efficiencies that will result in higher income for small scale farmers, and consumers will have access to higher quality and affordable goods. This commodity exchange can also act as a vehicle to create new ideas and innovations across the food value chains, thus attracting new investments into the agri-food sector.

Attachments:

No Attachments.