October 2012

TradeWinds

Monthly magazine on National and International Trade

BLASH — The International Trade Club

The Curious case of Iron-Ore price and Australian Dollar

All That Glitters is Gold

Key Challenges of Indian Logistics Industry

Overview of the Indian Logistics Industry

Industry Speaks— Mr. Aromal Jkoshi

Company Profile Wilmar International

IIFT AND SMU SINGAPORE MANAGEMENT UNIVERSITY

PRESENT A CONCLAVE ON

RESOURCE SCARCITIES IN RAPIDLY-CHANGING WORLD

Scarcity is the fundamental economic problem of having humans who have unlimited wants and needs in a world of limited resources

FRIDAY, SEPTEMBER 07, 2012
MOCHTAR RIADY AUDITORIUM, SINGAPORE MANAGEMENT UNIVERSITY

FEW NOTABLE SPEAKERS :

- **Mr Sunny Verghese**, Group MD, Olam International
- **Mr. Kaushik Das**, Partner, McKinsey & Co Singapore Pte Ltd.
- **Ms Shailaja Nair**, Managing Editor, Asia Central Editing Desk at Platts
- **Mr. Kasi, V B**, Regional Director Noble Resources Pte. Ltd

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Event Supported By IIFT Alumni Association Singapore

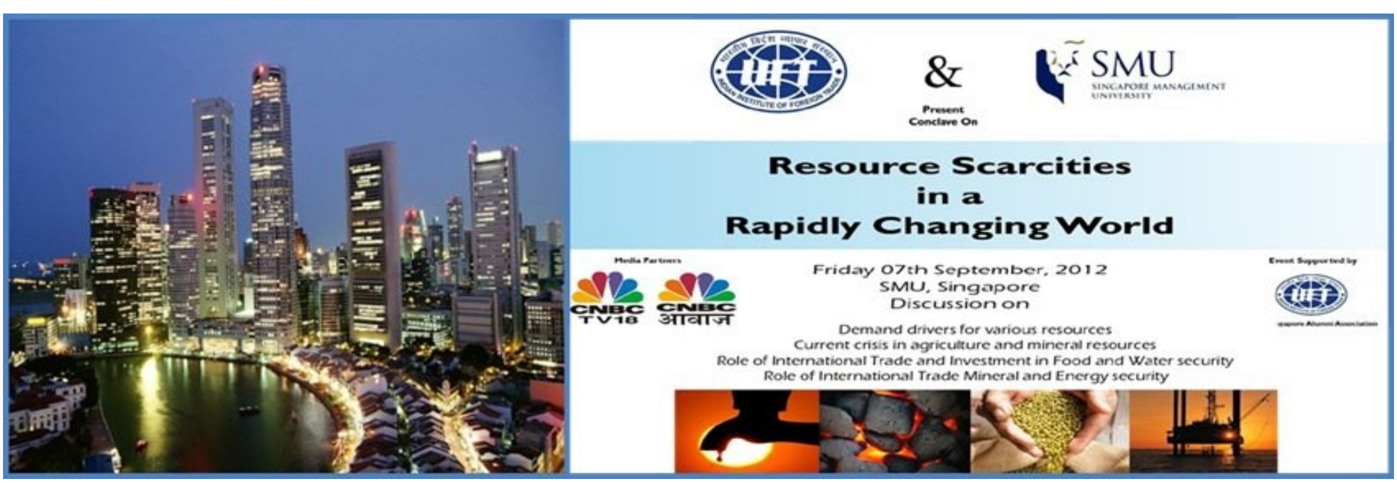
The **Indian Institute of Foreign Trade (IIFT)** and **Singapore Management University (SMU)** organized a conference on "**Resource Scarcities in a Rapidly Changing World**" on **07 September 2012**. The event was hosted at Mochtar Riady Auditorium, Singapore Management University, Victoria Street, **Singapore**, and saw the participation of corporate delegates representing leading commodity trading firms, banks, industry bodies, and academic organisations.

The welcome address was given by **Mrs. Vijaya Katti**, Chairperson, Graduates Studies Division, IIFT and **Professor Raj Srivastava**, Provost and Deputy President (Academic Affairs) SMU. **Mr Sunny Verghese, Group MD, Olam International and Chairman of Board, IE Singapore** gave the keynote address on the topic "**Food Price Inflation: Cyclical or Structural**".

They keynote address was followed by the first panel discussion of the day on the subtheme "**Food and Water Security**" in which eminent personalities from industry and academia - **Mr. Abah Ofon** Agriculture Analyst, Standard Chartered Bank, **Prof Dennis Wichelns** – Director, Institute of Water Policy, Singapore and **Prof Onur BOYABATLI** – Assistant Professor, SMU participated. The session was moderated by **Mr. Kasi, V B**, Regional Director, Noble Resources Pte. Ltd.

Second and the final panel discussion of the day was on the subtheme "**Energy and Natural Resources Supply**" on which a panel constituting **Mr. Kaushik Das**, Partner, McKinsey & Co Singapore Pte Ltd ; **Ms Shailaja Nair**, Managing Editor, Asia Central Editing Desk, Platts ;**Mr. Samuel Owen**, Adjunct Faculty, SMU and **Mr. Pinaki Rath**, Managing Director, Gold Matrix Resources Pte Ltd deliberated. The session was moderated by **Mr. K V Rao**, Managing Director, Trust Energy Resources Pte Ltd.

The conference was hosted at the initiative of **BLASH-The International Trade Club**, which is an entirely student driven body at IIFT.



Editor's Desk

Team Trade Winds is proud to bring to you the latest edition of IIFT's monthly trade digest.

Despite the uncertain environment in the Euro zone area, it seems business as usual for companies in emerging markets. Rain commodities (India) which boldly went ahead and bought CII Carbon (US) in 2007 has stuck a deal to buy Belgian Rutgers for $702 million. Another costly Victory for President Vladimir Putin seems to be coming in the form of Russian oil giant Rosneft buying BP's stake in the TNK-BP joint venture. This edition features articles on Logistics Industry in India with special emphasis on Key Challenges and Future Outlook, the emergence of Gold as an alternative asset class ,the curios correlation between iron-ore and Australian dollar. In the company profile section we bring to you a snap-shot of Wilmar International, Asia's Leading Agribusiness Group. Trade Winds wishes all its readers a happy and joyous festival season. The IIP numbers are responding to the fireworks (reforms) in Political Circles and the Mango Man in us is happy to witness a rally in the markets..!! Standing true to the identity of being the Center of Excellence in International Business, IIFT has organized Trade Conclave in Singapore with the theme" Resource Scarcities in a Rapidly Changing World" on 7th September .

- S.V.Praneet Varma

Inside this issue

The invisible hand of the market always moves faster and better than the heavy hand of government.

- Mitt Romney

Write to us at blash@iift.ac.in

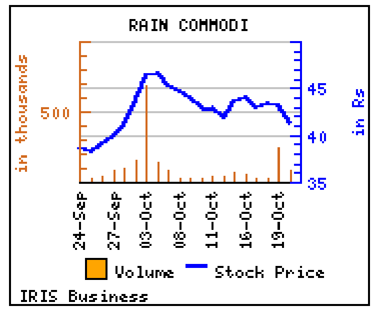
Hyderabad company Rain Commodities to buy Belgian Rutgers for Rs 4,914 crore

Rain Commodities from Hyderabad has agreed to buy Rutgers, a Belgium-based manufacturer of coal tar pitch, for 702 million, or 4,900 crore, in the biggest overseas acquisition this year by a private Indian company.

The all-cash deal highlights the ambitiousness of Rain Commodities, which in June 2007 bought calcined petroleum coke manufacturer CII Carbon in the US for nearly $600 million, or Rs 2,400 crore then.

The main use of coal tar pitch and calcined petroleum coke is to make electrodes for aluminium smelters. Rutgers is the world's second-largest coal tar pitch producer, and Rain Commodities the second biggest in the calcined petroleum coke business globally.

Rain, which is run by its reclusive managing director Jagan Mohan Reddy, is acquiring the stake from private equity firm Triton Partners through CII Carbon.



FMC suggests review of easy credit for trading in commodities

Commodities market regulator Forward Markets Commission (FMC) has suggested reviewing of easy credit by banks and other institutions for trading in commodities like guar, in a bid to curb speculation.

In the final report on 'Analysis of price movement and trading in guar complex" submitted to the Consumer Affairs Ministry, FMC has suggested various measures to check speculators participation in guar trading.

The regulator in May had come out with an initial report on guar futures trade during February-March 2012 and had highlighted irregularities in guar futures trade. It had also found involvement of some entities in the sharp rally during the period.

Futures prices of guar gum at the NCDEX platform had more than doubled between February-March this year on speculation, prompting the market regulator to stop traders from taking fresh positions in the running contracts.

According to the exchange data, guar gum prices stood at Rs 92,090 per quintal on March 22, as against Rs 42,019 per quintal on February 1 despite negligible participation. The prices, however on March 23 fell to Rs 71,970 per quintal after FMC intervention.

In order to bring more transparency in the commodities futures market, FMC is considering issuing directions to large position holders to declare their physical market positions.

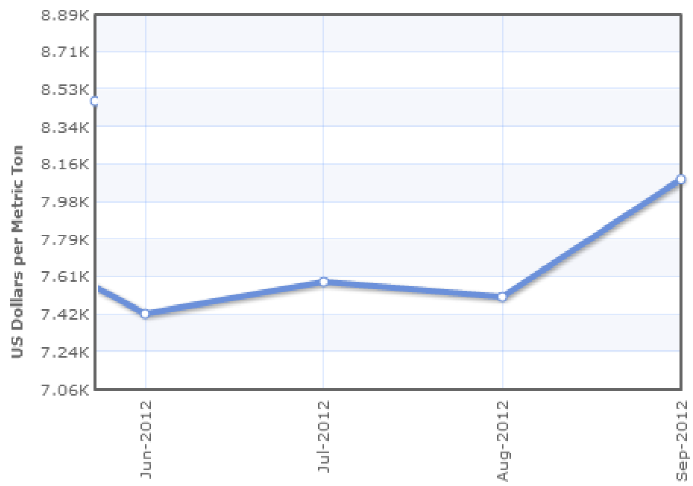
Copper rises from seven-week low on U.S. growth optimism

Copper rose from a 7-week low, after data showed U.S. economic growth picked up in the third quarter, quashing pessimism on the state of the global economy and boosting demand prospects for industrial metals.

Benchmark copper on the London Metal Exchange (LME) was at $7,835 by GMT, up 0.3 percent from Thursday's close of $7,815 a metric tonne and up from a 7-week low of $7,756.25.

Aluminum, lead, zinc and nickel also rose from a 1-1/2 month low hit previously while tin hovered around its lowest level since early September.

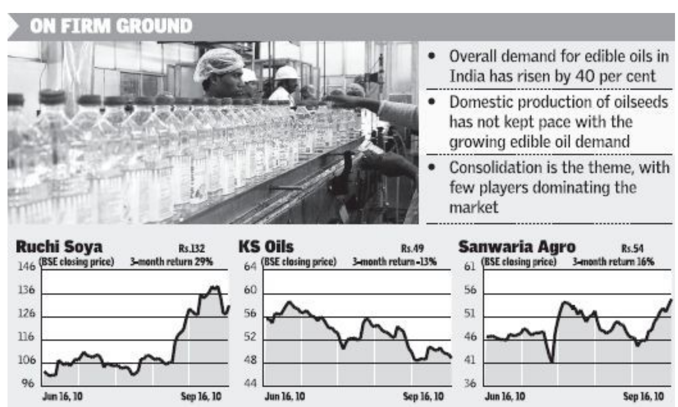
U.S economic growth picked up in the third quarter as a late burst in consumer spending offset the first cutbacks in investment in more than a year by cautious businesses.



Eyeing demand, stockists build edible oil inventories

Higher physical demand from retail and bulk consumers for Dusshera and Diwali boosted by extended gain in futures market pushed up overall sentiment and led to higher volumes. They continued building inventories on expectation of higher demand coming days.

Most edible oils prices ruled steady in physical market except palmolein which declined by Rs 2 for 10 kg. Fresh physical buying pushed up volumes higher as demand for Dusshera – Diwali emerged. The sentiment improved late evening as local refineries increased their rates for palmolein, soybean and sunflower oils in the range of Rs 5-9. In Mumbai market groundnut, cotton, soybean, rapeseed/mustard and sunflower oil ruled unchanged. Palmolein prices initially lost Rs 2 but later improved by more than Rs 5 on higher demand.



Russian oil giant Rosneft (ROSN:RM) to buy BP's stake in the TNK-BP joint venture

The deal, announced Oct. 22, costs Rosneft a total of $54 billion. The Russian company will buy BP's stake in TNK-BP for $26.8 billion in cash and shares and will pay a further $28 billion in cash for the remaining stake owned by a group of Russian billionaires. BP will take a 19.75 percent stake in Rosneft and will get two seats on its board.

Rosneft, already Russia's biggest oil producer, will pull neck-and-neck with Exxon Mobil (XOM) in worldwide oil production when it absorbs TNK-BP. That's a victory for President Vladimir Putin, who has sought to reassert Kremlin control over the country's energy industry.

Commodity markets regulator FMC may lift ban on guar futures

Commodity markets regulator is expected to allow relisting of guar futures due to a sharp decline in prices and expected higher output as farmers expanded the area under cultivation, a source close to the development and industry sources said.

In late March, local commodity exchanges had halted trading in guar futures amid a regulatory inquiry after prices soared more than 10-fold.

Commodity futures trade, which started about nine years ago in India, has witnessed bans and relisting of various farm products such as wheat, chana and sugar after excessive speculation, on the recommendation of the regulator. Other agri-commodities like tur, urad and rice are yet to get relisted.

Smallest Corn Crop in Six Years Better Than Worst Fears

The latest numbers from the USDA firm up the outlook for this year's corn crop, and the final numbers may not be as bad as some feared.

Despite the worst drought in half a century, the government only slightly reduced total projected production for the year to 10.72 billion bushels. That would be a 13 percent drop from last year and the smallest crop since 2006.

However, many analysts expected that number to drop to 10.3 billion, and many farmers feared the numbers could go even lower.

Nabors plans $1 bln more in asset sales next year

Nabors Industries Ltd, owner of the world's largest land-drilling rig fleet, is planning close to $1 billion of disposals in the next year to meet a debt reduction target, despite its recent struggles to offload certain assets. Chief Executive Tony Petrell has set a target of cutting net debt to 25 percent of total capital by the end of 2013, compared with about 40 percent now. Due to a weaker earnings outlook, it would take $970 million in divestitures to hit the target

Cabinet approves Forward Contract Regulation Act Bill

Giving a reform boost to commodity markets, the government today approved the FCRA Bill that seeks to provide more powers to sectoral regulator Forward Markets Commission (FMC) and allow a new category of products.

The Forward Contract Regulation Act (FCRA) Bill, considered vital for the development of futures trade, aims to provide financial autonomy to the regulator.

FMC can become self-sufficient by collecting revenues in form of fees from exchanges after the passage of this Bill in Parliament, Thomas said.

The retirement age of FMC Chairman and its members will go up to 65 years from 60 years, if Parliament passes the Bill. The number of members in FMC has also been proposed to increase from four to nine.

The Bill also seeks to facilitate entry of institutional investors and pave the way for introduction of new category of products, like Options.

The Bill seeks to increase penalty on defaulters to Rs 50 lakh from the existing Rs 25 lakh.

At present, the country has five national and 16 regional commodity exchanges. Recently, FMC had given its approval to the Universal Commodity Exchange to operate as a national bourse.

The cumulative turnover of the commodity exchanges is about Rs 80.30 lakh crore till September 15 of the current fiscal.

Cotton edges high on emerging demand

Cotton traded up in domestic market on good demand and active participation from mills and exporters. In addition, supply worries due to poor quality of fresh cotton crop delivery in the international market also boosted the price sentiment.

According to the China Cotton Association, September cotton imports rose 4% from a year earlier but fell 14% from August to 262,900 metric tons. Egypt Cotton Exports reached 566 Tons in the week ending Oct. 18. Switzerland, Bangladesh and India are among the top importers of Egyptian cotton.

India's food inflation to hit Aam Aadmi during festive season, says Assocham study

"Aam Aadmi" is likely to suffer more on account of further price increase in the upcoming festive season due to erratic rainfall and thin stocks coupled with high demand, says the ASSOCHAM's (Associated Chambers of Commerce and Industry of India) paper titled 'food inflation likely to rise in festive seasons'.

The prices of eight essential commodities like condiments & spices, pulses, wheat, sugar, edible oil, tea, coffee and milk have risen by 18% on an average from September 2011 to September 2012 while per capita income of an average Indian went up by 10%, the study noted. All essential pulses have witnessed extremely higher volatility in their prices, which went up to the extent of over 9% between September 2011 to October 2012.

Global trade in services stopped growing in Q2

Global trade in commercial services such as tourism and air travel showed zero growth in the second quarter of 2012 . The figures, prepared jointly by the World Trade Organization and the U.N. economic think-tank UNCTAD, showed global growth slowing for the fourth consecutive quarter. European imports experienced a similar downward lurch this year, flipping from 18 percent growth in the second quarter of 2011 to a 7 percent contraction in the second quarter of 2012, having shrunk by 1 percent in the first quarter. The quarter's biggest increase in demand came from China, where imports of services grew 23 percent, slightly above the average growth rate in the previous four quarter

Vale puts $1.3 billion Simandou iron-ore mine in Guinea on hold

Brazil's Vale, the world's No. 2 mining company, put its giant Simandou iron ore project in Guinea on hold as a recent plunge in iron ore price forces a revision of investments, the company said Wednesday. Vale said in July that the $1.3 billion Zogota mine in the Simandou area was to have started output by the end of 2012. In a securities filing Wednesday it said that the mine's scope and timetable are now under review. It gave no date for a startup. Vale is the world's largest producer of iron ore, the main ingredient in steel.

VALE

Flags of Convenience: Making Cargo Safety Inconvenient

Two countries providing flags of convenience (FOC) to merchant vessels, Panama and Cyprus, threw up roadblocks to the safe carriage of containerized cargo last week. With over 80% of world cargo being moved on container ships and those ships getting ever larger, any measure that can make these shipments safer must be considered. Sadly, these countries find that some proposed measures are inconvenient.

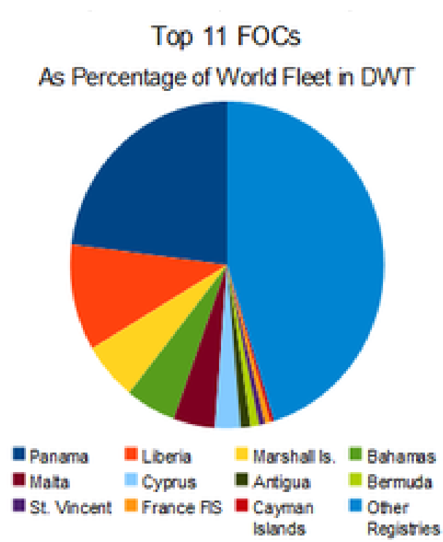
The International Maritime Organization's (IMO) Sub-Committee on Dangerous Goods, Solid Cargoes and Containers wrapped up its most recent meeting on 21 September 2012. Among the items on the agenda were measures to prevent the loss of containers at sea. Two proposals were submitted to the Sub-Committee requiring accurate container weights – one from a coalition of the World Shipping Council (WSC) and numerous industry advocacy groups and countries, and the other from Germany.

The WSC published a synopsis of maritime casualties involving overweight containers on 12 December 2011. The paper indicates that serious maritime casualties, including the capsizing of one vessel and structural failure of another, as well as significant cargo and vessel damage, can be directly attributed to misdeclared container weights. In some instances, the actual weight of containers was up to 350% higher than declared.

The two proposals differed in that the WSC proposal required the actual weighing of the stuffed container whereas the German proposal would also allow the calculation of the container weight by the shipper based on the tare weight of the container and the weight of the contents. While neither proposal received overwhelming support, member state delegations agreed that amendments to SOLAS were required to increase the responsibility of the shipper in regard to the declaration of container weights.

Due to "technical objections" by the delegations from Panama, Cyprus and Greece, further discussion on this matter has been pushed to a correspondence group with another report due in September 2013. At this point, the earliest a SOLAS amendment requiring the accurate weighing or declaration of weight of a container might come into effect is 2017. A WSC representative, possibly indicating what was discussed behind the scenes, stated, "Alternatively, those resisting change may continue to succeed in delaying an effective regulatory response by the IMO to this problem."

Meanwhile, those loading container ships or working in container yards are left with the question, "What does that container really weigh?" For now, we must accept the shipper's declaration for what it is – possibly useless. The monitoring of outside indicators such as strain on lashing or cargo gear or position of the load line may be the only true indication of what that container really weighs.



INDUSTRY SPEAKS -
AN INTERVIEW WITH AROMAL JKOSHI

Mr. Aromal Jkoshi is one of the illustrious alumni of IIFT, Delhi who pushed further and completed his MBA from the University of Cambridge. Currently, the Senior International Trader at Expolanka Commodities Pvt. Ltd. His previous stints include handling multiple commodities in Tanzania under Olam International. He also headed the Institutional Sales and Risk Management functions at Kamani Oil Industries Pvt. Ltd. His specialties include Commodity Risk Management, contract management, new business development, business strategy, procurement, logistics management etc.

Your assignments over the years indicate handling different responsibilities and wearing several hats in the process. How enriching is the Journey so far?

So far the journey has been quite exciting and eventful. I have been very fortunate to work in East Africa, Nigeria, India, Sri Lanka & the UK in a span of less than seven years. I have taken up assignments in commodities trading, institutional sales, logistics & shipping, risk management, new business development and international business strategy and am currently managing trading relationships in Indian subcontinent, Middle East & Africa and Australia. Over the years I have also handled some fifteen different commodities including pulses, edible oils, sugar, sesame, grains, cashew and peanuts. Also during my MBA at Cambridge, I could do completely off track assignments like evaluating financial viability of Jaipur metro rail corridor, project appraisal of a major cement plant in India, corporate strategy at Lloyds and even market development for genetically modified algae.

Having worked in the Agri based commodities at OLAM (Africa), can you throw some light on the opportunities and challenges in this area which is seeing increased investment from Indian companies?

Yes, the agri sector in Africa is attracting a lot of capital from Indian and other global companies. There is still lot of untapped potential and lot of companies are trying to do catching up game. As a result, competition is increasing and with it the pure trading margins are coming down. I can site and example where I was in Madagascar recently, and there were shop owners from Vashi market flying down to this small port town called Majunga and buying beans directly from local farmers.

Companies have to constantly re-invent their business model. When I was recruited by Olam in 2005, the biggest thing was 'going to the farm gate'. Now the philosophy has changed and companies are talking about investments in plantations and local processing assets. I think the Indian companies are still lagging behind and less proactive than the Chinese in monetizing these new opportunities in Africa.

Also there is more to Africa than agri based commodities. The continent is rich in metals & minerals, oil & natural gas and marine products. There are also ample investment opportunities in manufacturing plants and consumer based businesses.

How did the International Business focused course of IIFT shape your experience in different countries you worked and what are the key takeaways?

You will be pretty amazed to see how fast and easy it is for an IIFT'ian to transition from campus life to a career in international trading. The core & elective courses are designed in such a way that by the time one graduate he/she is armed with all the basic concepts and management tools required for building a career in IB. Moreover the first few trimesters at IIFT equip you to take pressure and meet deadlines. Also I have noticed that IIFT'ians in general have IB in their blood, and they find themselves quite at ease in new geographies and demonstrates good temperament and judgment when facing critical business issues.

A few courses at IIFT had been especially helpful for me and thought it would be worthwhile to highlight these to the current students – These are 'International Trade Operations', 'Commodities Trading & Price Risk Management', 'Derivatives & Risk Management', 'International Financial Management' and 'Macro Economics'.

What was your experience like during your 2 years of IIFT?(Campus Life, Guest lectures, Symposiums, Fest etc)

The time I spent at IIFT during 2003-05 has been amongst one of my best and I still cherish those days spent at the institute. The MBA program started off with late night 'personality development sessions' with senior batch followed by early morning assignment deadlines and surprise tests. Gradually we all fell into the rhythm of MBA programme and by second year, the focus was more on careers and life ahead.

At IIFT, I was in the 'Placement Committee', which took most of my time. I enjoyed giving corporate presentations, following up with recruiters and organizing summer placements and final placement weeks. I also participated in 'Cashanova' and 'Blash' and ended up co-writing a paper for automobile club, which was released by Mr. Venu Srinivasan of TVS Motors.

Also during 2003-05, IIFT was going through a transition as the institute was rebranding itself as an 'International Business' school. There were lot of good initiatives like kicking off CII-IIFT seminar in Delhi and strengthening the student 'Corporate Relationship Council (CRC)'. If I remember right the 'alumni council' and 'alumni awards' were also conceptualized around that time.

How has the 1 year Executive MBA at University of Cambridge helped you? What is your advice in that direction for the Students of IIFT?

MBA at University of Cambridge has been a completely different experience and I feel honored and privileged to be part of the Cambridge community.

Compared to the IIFT curriculum, the Cambridge MBA has more practical focus and encourages one to challenge his/her comfort zone, network with people who you don't even know and take risks in life. You would be amazed that at Cambridge, during the 12 month program, I spent close to 6 months on full time and part time live consulting assignments sponsored by the business school. As you are aware, western business schools leverage the experience and expertise of industry practitioners to the maximum extent – for example, the Global CEO's of McKinsey and Accenture turned up to share their experiences on business strategy and top practitioners from 'The City' took full time courses for us in 'Mergers & Acquisitions' and 'Private Equity'. While the bankers, investment managers and consultants lectured us on financial meltdown and asset bubble, people from government and FSA turned up to educate the students on greed and recklessness in financial system Also for those interested in entrepreneurship, Cambridge is the 'Silicon Valley' of UK with access to top class business angels and venture capitalists. You also can expect support of the full machinery of the University to connect you with the 'right people'.

Finally, whether you want to do an MBA-II depends on what exactly you want from it. A lot of my colleagues were there at the MBA to change industry sector, functional role and geography. Some were sponsored by their employers while others wanted just to network and start off something on their own. Some of my banking and consulting friends were there because without a global MBA, they can't break through glass ceilings at their organizations.

Whatever be your reason, doing MBA-II requires substantial monetary investment and there are hidden costs in the form of leaving established careers, lost salary, sacrifices made by wife/ children etc. For those who are ready to take the plunge, spend at least 4-5 years after IIFT, be open to handling diverse assignments, make some good savings and then one would be able to appreciate the MBA better. And over time, for those who are looking for '1 Year that will change your life', go for Cambridge. By the way, you never know 'the guy you had dinner with last night' and 'the professor you met at the local pub' could end up being the PM of some country or a Nobel laureate after some years.

What do you suggest, to prepare the students of IIFT, to tap the opportunities in Trade Sector?

I have seen that students go through an identity crisis after they join IIFT– 'should he/she target opportunities in trade?' or 'should he/she focus on other careers in sales, marketing, finance or IT?'

I would recommend that 'BLASH' and other similar clubs with interest in trade should organize informal orientation sessions for incoming students in first semester of MBA itself. Alumni and industry practitioners from NCR could easily help the club in organizing these sessions. Those students who are interested in careers in 'international business' and 'commodities trading', I strongly encourage them to take up 'summer internships' and 'live projects' in this sector. After these live assignments, one know for sure whether he/she wants to pursue this career and if/ not one can easily re-align themselves to alternate career routes during the 2nd year of MBA.

I would also urge the students to talk to alumni from their companies of interest, and they will be more than glad to help. I can take example of a few students who had regular chats with me on Olam, and by the time the company visited the campus, they knew the tricks of cracking the Olam selection process.

How is your typical day as a Senior International Trader at ExpoLanka?

Expolanka Holdings is a diversified conglomerate listed on Colombo Stock Exchange and has got business interests in commodities, freight forwarding, travel & leisure and manufacturing. At Expolanka Commodities, I head pulses/beans trading, look after entrepot operations and take care of the interests of suppliers/buyers in Indian subcontinent, Middle East, Africa & Australia. I also support the sugar import business by getting them best deals from Singapore/Dubai traders. At present I am also working on expanding our Africa operations by establishing our own footprints there. Our company has a very entrepreneurial culture and is looking for right talent and ideas that will help us take our business to the next level.

ALL THAT GLITTERS IS GOLD

by Vivek Jurangal (MBA-IB—2011-2013)

There has been a growing interest in Gold in past years, in the whole world. Why all this?

Two main reasons that can be attributed to this growing interest is the economic turbulence that has engulfed almost whole of the world and the rising prices of Gold in the past decade (which are interrelated in nature). In times like these (economic turmoil), people want to move to a safer harbor of investment. Therefore they gravitate to precious metals like Gold and Silver. The primary reason is that it is very difficult to manipulate gold and silver, while it is very easy to manipulate paper currency and electronic markets. Consider the lot of those people who suffered through the Brazilian and other South American currency crises from 1992 to 1994, the South East Asia currency crises of 1997, or the Russian currency crisis in 1998. Many of these people lost almost their entire life's savings because of the collapse of their respective governments' currencies. Gold cannot suffer such a collapse in value because gold cannot be created by any government at will. Gold is the best form of money that we have because it does not lose the value as a store of wealth. This has been demonstrated in past a number of times, France after the French revolution, Germany after the World Wars, and of course in Russia very recently, those who held a significant portion of their wealth in gold suffered far less than people who had no gold. The glittering story has always been of Gold.

This leads us to think about some general questions like, why is Gold such a safe asset? Why opt for Gold? Where are the prices of Gold headed? What determines the price fluctuations of Gold? Is Gold overvalued? and some even more general questions of who supplies (producers) who demands (consumer) Gold. We shall seek the answers of all these questions as we go further.

Why Gold?

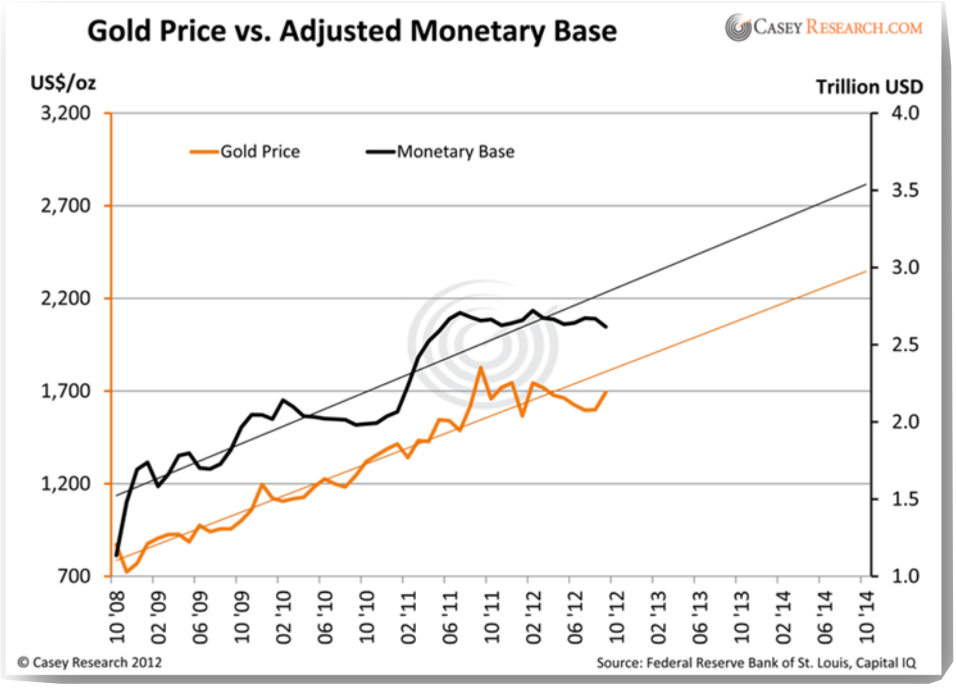
The uncertainty in the global economy in present times has dampened investment returns from different asset classes. Moreover, with inflation levels rising across the globe coupled by a surge in fuel prices, investors are increasingly looking at Gold as an investment instrument that can provide safety and value to their investments. This can be explained as follows. There is a competitive devaluation of the currencies that is happening. It started with US printing nearly $2.3 trillion since investment bank Lehman Brothers went bust in 2008 in order to revive a moribund US economy. Also QE3, the third round of money printing has been announced recently. So, the flooded US Dollar has been losing its value against other currencies because of this reason. This makes US exports competitive and imports expensive (thus forcing people to buy locally made stuff). This benefits USA but other countries suffer as their exports become less competitive. So these countries like Switzerland, Japan and China are also ready to print more currency to keep their exports more competitive. Now, whenever people see more and more currency being printed they buy gold. This is because, as more and more paper currency gets printed, and dumped into the financial systems around the world, there is more the danger that paper currency will lose its value. So people queue up to buy gold. Unlike paper money, gold cannot be created out of thin air.

Price Trend of Gold:

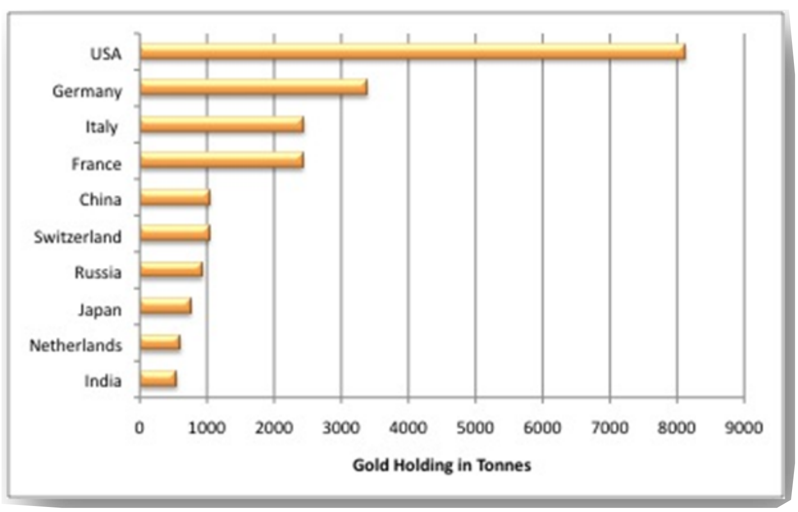
Over the last couple of years, gold's continued rise fueled causal theories, with some investors attributing it to **U.S. dollar weakness, others to a safe haven trade in the face of widespread market turmoil, an inflation hedge,** or whatever they could correlate a chart with. The yellow metal, though, appears as a Humean experiment in causality, marrying no single trends[1] although these are the general causes that explain the price changes of Gold. In the past years, gold price has expanded in a **direct relationship with money supply growth**, which suggests that it is, in reality, only moving counter to the decline in currency values caused by currency printing as explained earlier (in paragraph above). In addition to this, **supply constraints** have become a larger issue for Gold mining industry particularly because of the labor disruptions growing in South Africa.[2]

Gold has followed a general upward trend in the past decade and only in last 8 months has it shown an about steep turn from it's all time high of $1,900. Gold Prices were in the $350 per ounce range about 10 years ago. From 2009 through the end of 2011, Gold Prices rose steadily, from the $900 range to, at one point, well over $1,800 per ounce. Then, in the first half of 2012, we had a price retreat. Focusing on 2012, Gold Prices have bounced around between $1,600–1,750 per ounce. Gold prices have risen around 600 percent in 13 years.

According to Gartman, Gold's latest price action confirms the trend line has clearly been broken, indicating we've been in a bear market for 12 months, since it peaked. Then there are others who propose that Gold is in bubble. But how long will this bubble expand cannot be answered. If this is just the initial stage of the bubble, then even $5,000 per Oz would be a digestible figure 5 years down the line (considering that 10 years back the price $1,900 was unimaginable when gold was trading at merely $350).



An interesting part here is the one played by Federal Reserve. Bernanke (Fed Chairman) has effectively devalued the dollar through QEs 1-3. So Gold prices have risen against the dollar or conversely dollar has fallen in value against Gold. Past few years have shown a **strong correlation between the US Monetary base and the gold price** (an coefficient of an incredible +0.94)[3] (see the graph). Central Banks controlling most of the currencies (countries like Japan, China, Britain, Switzerland and Europe) against which the dollar is valued on the markets have followed suit and are doing precisely the same thing.[4] So the dollar index is not falling against its peers, but the dollar has been falling against gold. In the wake of present economic conditions - Debt ridden Europe and Slow growing Emerging Economies and most importantly the Quantitative Easing (perhaps it should be called QEternal after QE1, QE2 and QE3) the global prices of Gold should continue to rise in the years ahead.



In addition to this, it would be interesting to know what countries produce and consume Gold and how they influence the market. Here (in the graph) are the top 10 countries with their Official Gold holdings in tonnes. In addition to this, it is essential to know that the demand for Gold is rising in India and China (biggest buyers of Gold in the world accounting for around 45%), due to the rising per capita income (we have a keen inclination towards Gold jewelry). However, the appetite for the yellow metal in these two Asian nations has been hit by slowing economic growth, record prices and slowing money supply. India's appetite for gold tumbled this year as prices soared in rupee terms, reaching a record high in September.

The yellow metal is mined in more than 90 countries. In 2011, over 1,800 tons of gold were mined in 10 countries. China (355 tonnes), Australia (270 tonnes), USA (237 tonnes), Russia (200 tonnes) and South Africa (190 tonnes) are the top producers of Gold in the decreasing order. In recent times, labor unrest in South Africa has negatively impacted production in the fifth largest producing nation. In a Reuters article, it was reported that strikes were costing AngloGold 32,000 ounces of gold each week, while Gold Fields is losing 2,300 ounces a day at the two mines affected.

So while supply issues often get scant attention in the financial press, it's important to realize that they too provide significant underpinnings to this market. Simple supply and demand economics, strong demand relative to available supply, suggest that the long-term secular bull market remains dominant and that short-term corrective activity should continue to be limited and short-lived. Moreover, as already seen the economic environment also plays a very important role and therefore if the cycle of money printing (Quantitative Easing) by Fed continues, the price of Gold in future would follow a bull run. So, investment in Gold would not be a bad option for securing some money in future. Perhaps we should change the famous proverb to All That Glitters is Gold.

Did you know:

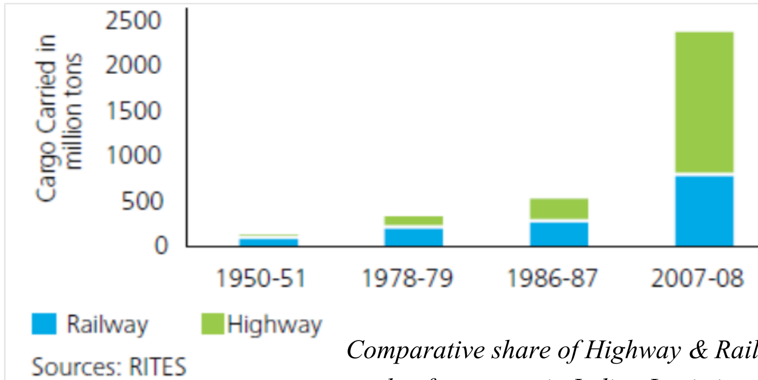
- *India's gold market is estimated to have more than 300,000 jewelers, mostly small, family-run businesses, a WGC study showed.*
- *India Ranks 47th in the International Logistics Performance Index (LPI) ranking 2012. Germany leads the list , while China is a respectable 13th and United states ranks 15th.*
- *Only 23 banks and some private and government trading agencies have licenses to import gold because of its implications for foreign exchange flows.*
- *The $950bn worth of gold held by Indian households is the equivalent of 50 per cent of the country's nominal GDP in dollar terms. All those gorgeous necklaces and other extravagances weigh 18,000 tonnes, or 11 per cent of the world's stock, according to the report.*
- *The worlds largest gold bar weighs 250kgs and is currently displayed at Toi museum, Japan.*

KEY CHALLENGES OF THE INDIAN LOGISTICS INDUSTRY AND THE WAY FORWARD

by Md Umair Ansari (MBA-IB—2012-2014)

Transportation related challenges:

The predominant mode of transportation of freight cargo in India is roads. In India nearly 61% of the cargo is transported by road, 30% by rail and rest by airways, inland waterways and pipelines. This as compared to a 37% share of road in USA and 22% in China. This is a well known fact that movement of bulk cargo by road is always less efficient as compared to rail.

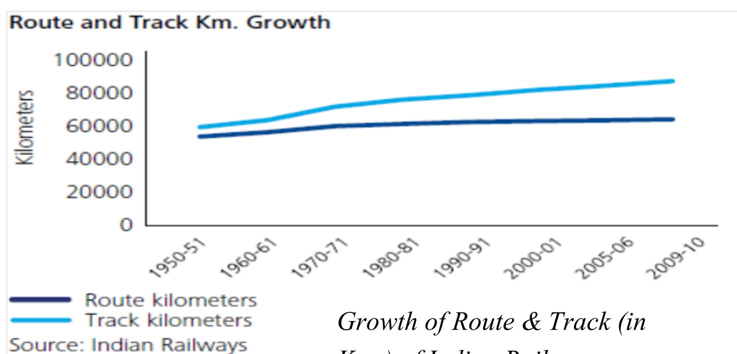


Comparative share of Highway & Railway as mode of transport in Indian Logistics sector

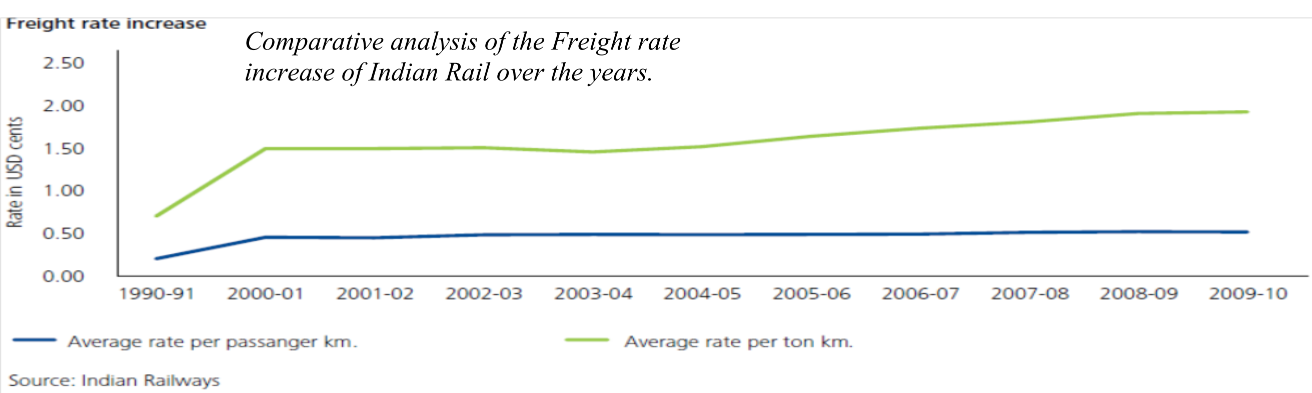
Why the Logistics Industry Prefers Transportation Through Road over Rail :

Following are the reasons why the Indian logistics sector prefers road over rail for transportation of goods.

1. Important rail networks are oversaturated. There has been no significant capacity addition to Indian Rail since Independence (Refer the graphs below).
2. Rail freight tariffs are comparatively higher
3. Transit times are long and uncertain
4. Rail terminal quality is poor
5. Less flexibility in carrying different types of Products
6. Railway carriage not easy for industries which cannot provide full train loads



Growth of Route & Track (in Kms) of Indian Railways



Comparative analysis of the Freight rate increase of Indian Rail over the years.

Issues plaguing the Road Transportation in India:

The road movement in India has its shares of problems which can be summarized below:

1. Coverage of road network is inadequate
2. Quality of the roads is inadequate
3. Expressway road network is in its infancy stage
4. Delays due to multiple checkpoint

Challenges faced by Air Transport sector in India:

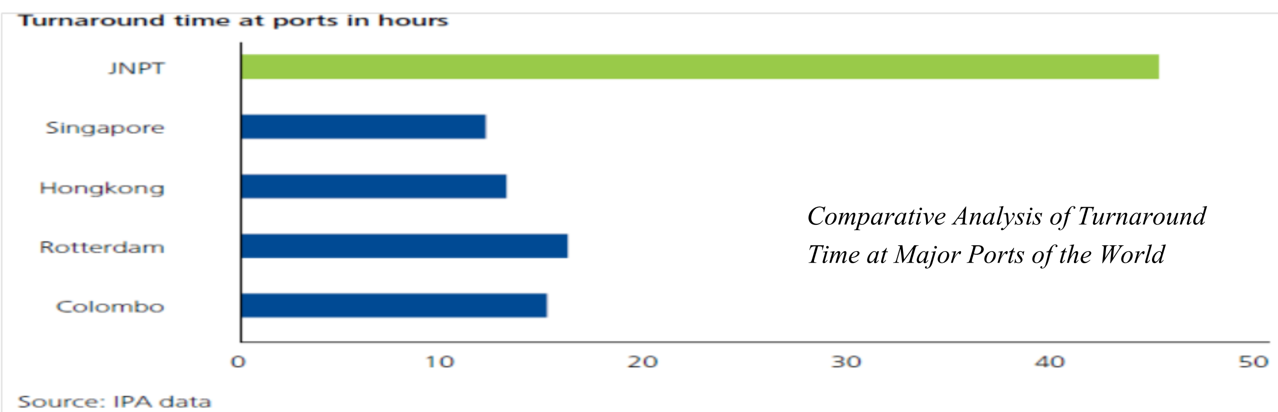
Given below are the strategic challenges of the Logistics Industry vis-a-vis air transport

1. Rising Air Turbine Fuel (ATF) prices
2. Ever growing congestion at Airports
3. Delay in cargo handling and clearances

Issues faced by Port Sector in India:

Following are some of the key problems being faced by the port sector in India

1. High turnaround times
2. Inadequate depth at ports
3. Costal shipping is yet to take off in India



Comparative Analysis of Turnaround Time at Major Ports of the World

Challenges relating to the Storage Infrastructure:

1.Poor state of Inland Container Depot (ICD) & Container Freight Stations (CFS)

2.Poor Warehousing Facilities

3.State of cold storages is poor

4.Multimodal Logistics parks is yet to take off in India

Technology & Skill Related Challenges:

1. The logistics sector in India has suffered a lot due to the low rates of technology adoption and poor skill levels.
2. There is a substantial opportunity to save on transportation and In Transit Losses with the adoption of technology.

Source: Logistics Performance Index Report 2010

Constituents of Total Logistics Cost	India
Transportation	35%
Warehouse & Handling	9%
Inventory	25%
Packaging	11%
Customers & Shopping	6%
Transit Losses	14%
Technology cost	< 1%

Impact of Challenges faced in the Logistics Sector:

The high levels of logistics cost in the economy adversely impacts the competitiveness of the Indian economy as well as the financial well-being of the individual citizen. Additions to product cost due to inefficient logistics add to inflation. Wastages lead to scarcity. This makes efforts for reducing logistics costs a critical goal to pursue.

Indian logistics Industry – The Way Forward:

In the years to come, the Indian economy will be driven by sectors like manufacturing and retail. So for these sectors to contribute effectively to the economy, the logistics industry in India will have to improve upon its lacunae and deliver value enabling solutions. To achieve this, the logistics industry needs to focus on the following fronts:

1. Expand distribution channels and increase consumer reach
2. Reduce operational cost & improve delivery time
3. Overcome infrastructure bottlenecks & implement E-Infrastructure
4. Efficient port utilization and decreasing the turnaround time
5. Increase investments in storage infrastructure i.e. warehouses & cold storages
6. Organize the trucking operations on a pan India basis
7. Adopt the latest technology
8. Address skill gaps issues

A Comparative Analysis of the KPI's of the Logistics Industry of Emerging Economies

Source: Logistics Performance Index Report 2010

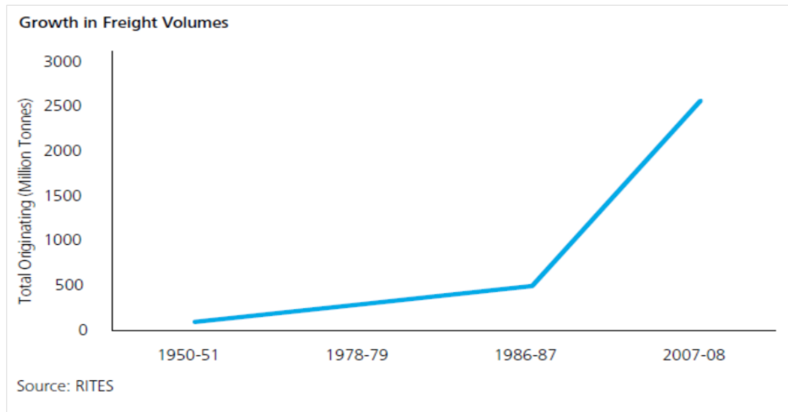
Indicator	India	China	Brazil	South Africa
Documents to Export (Number)	8	7	8	8
Time to Export (Days)	17	21	13	30
Cost to Export (US $ per container)	1055	500	17907	1531
Documents to Import (Number)	9	5	7	9
Time to Import (Days)	20	24	17	35
Cost to Import (US $ per container)	1025	545	1730	1807

OVERVIEW OF LOGISTICS INDUSTRY IN INDIA – KEY TRENDS AND FUTURE OUTLOOK

by Rahul Jain (IIFT 2012-2014)

Logistics Sector in India:

The logistics sector in India has today become a key performance indicator of the economy. One of the primary reasons for it is that years of high growth in the Indian economy has resulted in a significant rise in the volume of freight traffic moved. This large volume of traffic has opened up new growth opportunities in all facets of logistics including transportation, warehousing, freight forwarding, express cargo delivery, container services, shipping services etc. According to the World Bank's Logistic Performance Index (LPI), India is ranked 39th place among 150 countries of the world.



Why Logistics sector is important to India's Economic growth:

Logistics cost is 13% of India's GDP in comparison to 11% in Europe and 9% in the U.S. There is no doubt that in India; an increasing demand is being placed on the logistics sector to provide solutions which are required to support future growth.

Size of Logistics Industry in India:

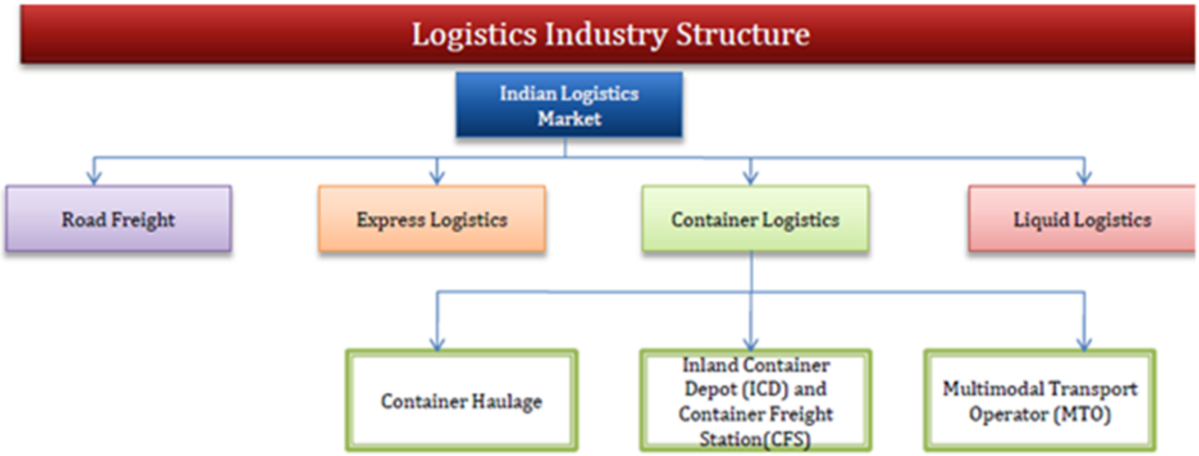
Various estimates put the total market size of the logistics sector in India to be between USD 90-125 billion. Sources also estimate that the logistics sector employs over 45 million people in India.

Country / Region	Logistics Costs as % of GDP	Share of Organized Logistics	Size of the Logistics Industry ($ Billion)	Share of Logistics Industry in global Industry
India	12-14%	3-4%	145-160	2-3 %
China	18%	Less Than 10%	800-950	NA
USA	9.9%	34%	1200-1400	NA
Europe	7.1%	54%	1100-1300	NA

Country Wise Comparative Analysis of Logistics Sector
Source: Thomas Weisel International Estimates; Agile Advisory; IIM.ac.in

Indian Logistics Industry Structure:

The logistics sector in India operates in the following four broad segments as given in the chart below:



Comparative Analysis of various modes of Logistics Services:

Mode	Capital Requirement	Entry Barrier	Competition	Customer Needs	Drivers
Road Freight	High	Low	Highly Fragmented market and low profitability	Low service cost, Non time sensitive	1. Demand for higher quality of road infrastructure 2. Phase out of Central Sale Tax (CST) 3. Implementation of Value Add Tax (VAT)
Express	Capital intensive	High	High	Cost efficiency, High time sensitive	1. High growth in document shipments 2. Growth in high-value products such as mobile phones, network hardware and branded drug.
Container Haulage	Capital intensive	High entry barrier in road segment	Rail haulage market is mainly dominated by CONCOR	Scheduled services and strong ICD network	1. Government approval for privatization of rail container operation 2. Establishment of dedicated freight corridor
CFS	CFS business is characterized by high capital intensity.	Medium	High at key gateway ports	Quick turnaround time	1. Standardization of containers 2. Growing trade volume
MTO	Less Capital intensive	Low	High	Network strengths and service quality	1. Growing international trade 2. Expanding domestic demand for efficient supply chain
Bulk Liquid	Capital intensive	High	Low	Port Connectivity and Integrated service offerings	1. Booming oil demand, and rising trade flow

Key Trends in the Indian Logistics Sector:

1. Logistics industry is benefiting from the huge investments made in Infrastructure sector and the growth in domestic Retail and Manufacturing sectors
2. Reforms in government policy and pro-industry initiatives such as :

    a. Abolition of CST

    b. Private participation in rail, air and port freight services
3. Containerization is expanding as the demand for intermodal transport is rising in India
4. To enhance retail penetration in India, logistics will be utilized on a large scale
5. Third party logistics providers are expected to provide end-to-end supply chain logistics services to the automotive industry
6. Country's logistics market growth is also driven by rising number of multinational manufacturer setting up operations in India
7. Though the valuations of logistics stocks are strained, however, they are expected to be the best investment opportunity in the long term as the sector is poised to grow at a CAGR of around 12-15 %
8. Growing demand for quality commercial space is also anticipated to boost the logistics sector
9. Cold chains total market in India was estimated to be around INR 100bn in 2008.The market is estimated to reach INR 400 billion in 2015.Cold chains comprise two segments – surface storage and refrigerated transport. The industry is expected to grow at 22% per annum

Future Outlook of Logistics sector in India:

The industry is expected to grow annually at the rate of 15- 20 per cent, reaching revenues of approximately $ 385bn by 2015. Market share of organized logistics players is also expected to double to 12 per cent by 2015. Third party logistics (3PL) business in India is anticipated to hit US$ 90mn by 2012.

Growth Of Logistics Industry In India

	CAGR (2006–2010)
India's Total Logistics Market	10 – 12 %
Organized Logistics Outsourcing Market	25%
Unorganized Logistics Market	9 – 11 %
3 PL	35 %

Profile Of Indian Logistic Listed Companies

Company	Container Rail	CFS	Trucking	Warehousing	MTO	Express	Third party
Concor	YES	YES					
Gateway Distriparks	YES	YES		YES			
Allcargo Global		YES			YES		YES
TCI	YES		YES	YES		YES	YES
GATI			YES			YES	YES
Shreyas Logistics			YES				
Blue Dart						YES	YES

Source: Companies

Source: Thomas Weisel International Estimates; Agile Advisor

Factors Driving Growth in the Indian Logistics sector

- Increase in trade: Foreign trade has been growing at 25% CAGR over the past five years
- Reforms in Government policy
- Increased Government spending in infrastructure
- Rise in domestic consumption and retail market
- Containerization is a growing trend in India due to increasing demand for intermodal transport
- Large investment flow

The curious case of Australian Dollar and Iron-ore prices

by Varun Deep Sajja (IIFT 2011-2013)

Historical backdrop:

Traditionally there were two prices available for steel producers to buy iron ore – benchmark price and spot price. Benchmark price is the price arrived at after negotiations between large steel manufacturers and one of the "Big three" iron ore producers: BHP Billiton, Rio Tinto and Vale. This price acts as the benchmark for that particular year before being revised for the next year (after negotiations). This system worked well for all the stakeholders as it ensured stability and the cost of raw materials was known in advance. The benchmark price is for high grade Australian iron ore or the Brazilian ore as the above mentioned three companies are based out of these locations. The spot prices are typically for smaller mills which tend to buy ore at the prevailing market prices. It is mostly the lower grade Indian iron ore that is sold at the spot prices.

However this system of benchmarking iron ore prices has failed in recent times because of following reasons:

1. When spot prices were cheaper than benchmark prices Chinese companies broke their contracts with the big three and began buying in the spot market

2. When spot prices were costlier than benchmark prices big Chinese mills started selling iron ore to smaller mills (which traditionally dealt in spot markets) thereby booking a profit

3. Chinese steel mills wanted a lower price than the benchmark price that their counterparts from Japan and Korea dealt in thereby trying to wreck the system

4. Volatile iron ore prices meant that the iron ore producers preferred to sell the ore in the spot market (to profit from the commodity super cycle and the ensuing rally in the prices of the iron ore)

As a result of the breakdown of this system, Iron ore prices which remained constant for any particular year were left to market forces which meant they started fluctuating wildly from December 2008 (The system broke down in November 2008). Subsequently, it became important for all the concerned stakeholders to gauge the movements of iron ore as accurately as possible to minimize the adverse impact (if any) of its movement on the company's financial statements.

The primary aim of this article is to see if the prices of iron ore can be correlated with any other asset to gain from speculatory trading and it has been found that the value of Australian Dollar has witnessed movements similar to that of the price of iron ore. Now the larger question is why Australian Dollar? This question calls for a deeper analysis of the Australian exports and see what role the export of iron ore plays in its economy.

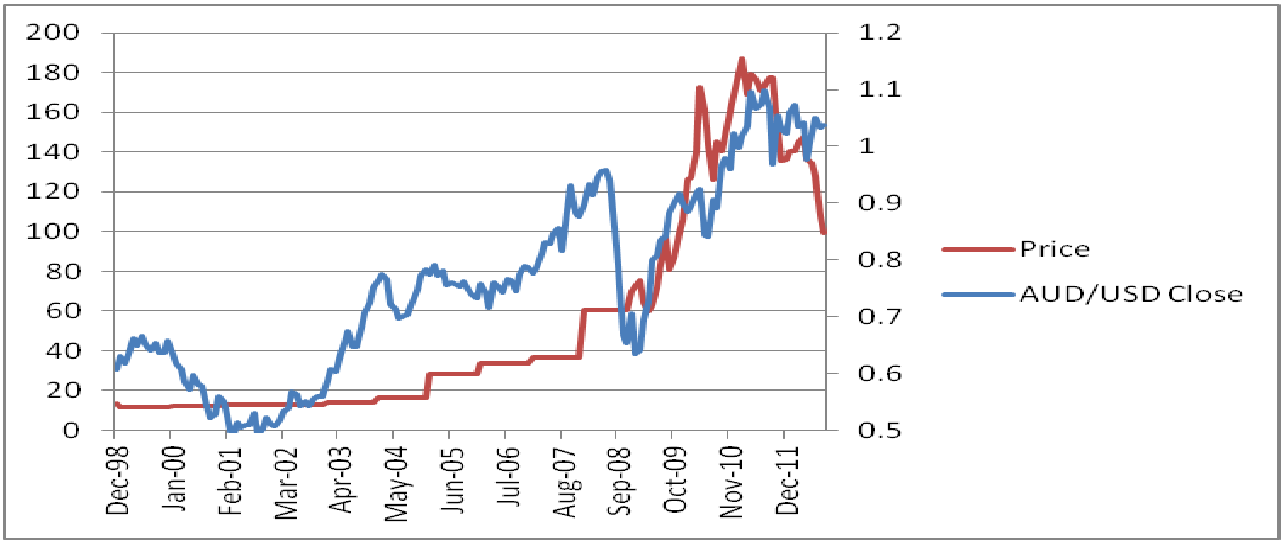
Australia's two way trade in the financial year 2010-11 totaled $522.4 billion of which exports constituted $284.6 billion.

Goods/Service	Value in billions of dollars
Iron ore and concentrates	49.4
Coal	43.0
Education related travel services	17.7
Gold	15.0
Personal travel services	12.2
Crude petroleum	10.5
Natural gas	9.4
Aluminum ores and concentrates	5.3
Copper ore and concentrates	5.0
Aluminum	4.4
Beef	4.4
Wheat	4.2
Medicaments	3.6
Technical & other business services	3.5
Copper	3.2
Professional services	3.1
Business travel services	3.0
Passenger transport services	2.7
Refined petroleum	2.4
Meat (excluding beef)	2.3
Total exports	284.6

The following table shows the Australian exports.

From the above table it can be observed that Iron ore is the single largest export of Australia and makes up as much as 17.35% of Australian exports value wise. This tells us about the importance of iron ore to the country's economy.

The graph on the next page shows the movements of prices of iron ore and that of Australian dollar from December 1998 to September 2012.



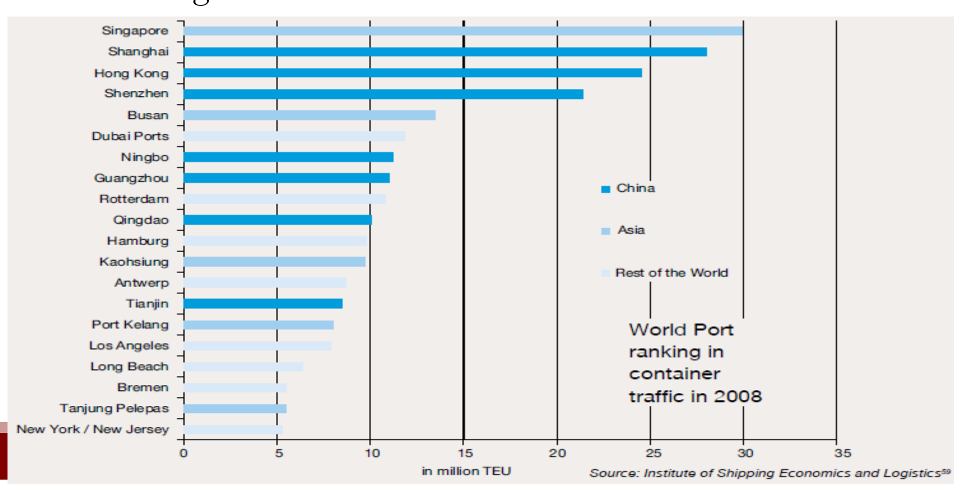
We can see that there is no correlation between the prices of both the assets from December 1998 to November 2008 because the prices of Iron ore were "fixed" during this period of time but once the prices of iron ore were left to the market forces in December 2008, we can observe a strong correlation between the price movements of both the assets.

The only month in which the prices between both the assets (after the prices were left to market forces) showed a strong negative correlation was in April 2010 when the prices of iron ore soared from $139 to $172 while the Australian Dollar showed a negative movement. This in itself should have acted as a strong indicator for anyone trading in iron ore that its price has been artificially inflated.

This trend of negative correlation seems to have repeated in the period between April 2012 and September 2012 where the prices of iron ore have dropped from $147 to $99 while the Australian Dollar remained at more or less the same value. So unless the demand for iron ore increases in the short term we expect the Australian Dollar to depreciate.

Interesting Fact on Port infrastructure

India does not have 1 port in the list of top 20 ports around the world while china has 7 and is leading the world in exports and imports. No wonder the markets respond immediately to changes in China.



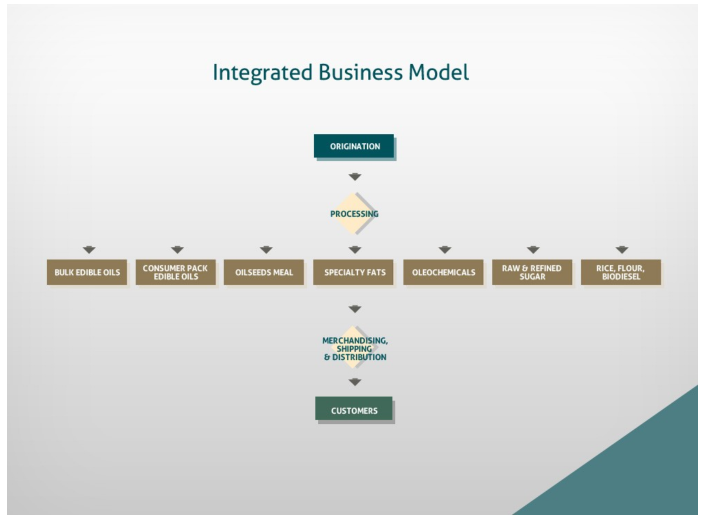
by Pavan Chandramouli (2nd Year MBA-IB)

Asia's Leading Agribusiness Group

Wilmar International Limited, founded in 1991 and headquartered in Singapore, is today Asia's leading agribusiness group. Wilmar is ranked amongst the largest listed companies by market capitalization on the Singapore Exchange.

Wilmar's business activities include

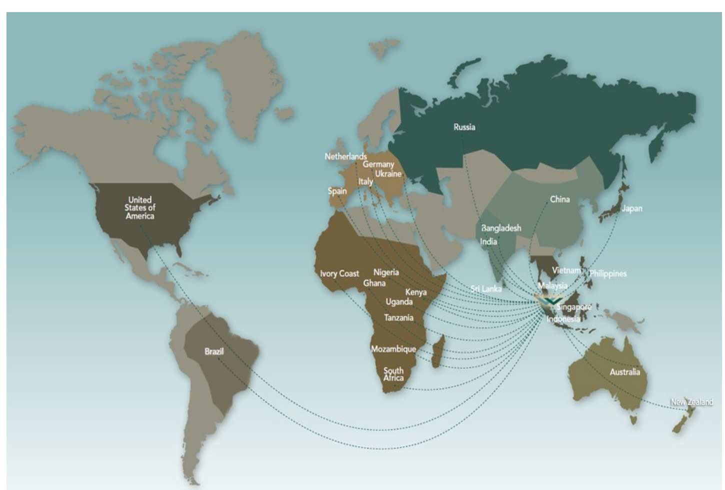
1. oil palm cultivation
2. oilseeds crushing
3. edible oils refining
4. sugar milling and refining
5. specialty fats
6. oleo chemicals
7. biodiesel and fertilisers manufacturing
8. grains processing



At the core of Wilmar's strategy is a resilient integrated agribusiness model that encompasses the entire value chain of the agricultural commodity processing business, from origination and processing to branding, merchandising and distribution of a wide range of agricultural products. It has over 400 manufacturing plants and an extensive distribution network covering China, India, Indonesia and some 50 other countries. The Group is backed by a multinational workforce of approximately 90,000 people.

Some facts:

1. World's largest processor and merchandiser of palm and lauric oils, as well as largest in edible oils refining and fractionation, oleochemicals, specialty fats and palm biodiesel
2. Largest merchandiser of consumer pack oils worldwide
3. Amongst the top 10 global raw sugar producers as well as the largest raw sugar producer and refiner, and a leading merchan-



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About IIFT

Indian Institute of Foreign Trade (IIFT) is India's nodal institution of excellence in the field of International Trade and Business. Since its inception in 1963, IIFT has kept pace with the extremely dynamic Global business environment by focusing on International Trade and Logistics-related issues. The rigorous, extremely dynamic and up-to-date course curriculum stands testimony to this fact. Supplementing the classroom, IIFT organizes several events and discussions on currently relevant issues in the field of Trade and Logistics, which are graced by pre-eminent professionals, industry veterans and academicians, alike. Our students have maintained and sustained IIFT's rich legacy by successfully exhibiting their skills time and again in various Live Projects and Competitions. The institution has groomed international business managers for over 40 years and boasts alumni base spread over geographies and business verticals.

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