

X. Ethiopian Commodity Exchange

Introduction

Ethiopia Commodity Exchange (ECX), the first of its kind in Ethiopia, is a national multi-commodity exchange that provides market integrity, enhances market efficiency, enables market transparency and allows risk management, among others.

It also provides standardized ECX commodity-based contracts, which specify grade, delivery location, lot size and other contract terms.

The ECX trading system combines a physical trading floor located in Addis Ababa, where buyers and sellers participate in “open outcry” bidding for commodities, with electronic remote access to the trading system.

The number of warehouses ECX operates has grown to six in Addis Ababa, Adama, Shashemene, Nekempte, Bure and Humera.

ECX started its trading operations with four commodities; namely, white and mixed maize, hard and soft wheat processed and unprocessed haricot beans, and sesame. Besides it intends to develop trading in coffee teff (local

staple food), chickpeas, lentils and sorghum.

ECX is currently enjoying tremendous success in its trade operations. The Exchange has already gained the confidence of institutions such as UN World Food Program (WFP), the world’s largest grain buyer to use its system for their procurement.

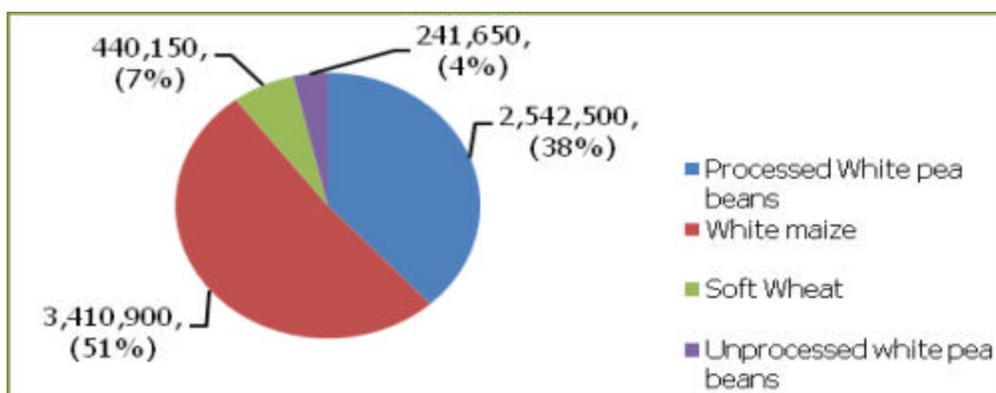
ECX Market Update (April – September 2008) Market Share by Commodity

ECX started trading on April 24, 2008 and has since been trading on a weekly basis. Despite the domestic and global food crisis that transpired in the same period, trade volumes have been encouraging, with a transaction value worth more than 7 million ETB over the last five months.

Trading has been primarily in white maize (51%), followed by processed pea beans (38%). In the case of white maize, sellers have included domestic grain traders and the Ethiopian Grain Trade Enterprise while buyers have included traders and processors. In the

case of pea beans, an important buyer, in addition to exporters, has been WFP which has piloted a direct ECX

procurement initiative with encouraging early results.



Comparative Prices and Volume since Launch

Due to a historically unique inflationary trend in which prices moved from Birr 334 in maize to Birr 555 per quintal between April and September, white maize trading

dropped significantly from 37 contracts traded to a low of 2 contracts.

In contrast, pea beans trading picked up over the period, from 200 to 650 quintals, while the price remained relatively constant at Birr 560 to 580.

Commodity	Closing Price Birr/quintal		% change	Volume/ quintal		% change
	Apr 24	Sep 24		Apr 24	Sep 24	
Processed White Pea Beans	560	580	3.57%	200	650	225.00%
White Maize Grade 1	334	555	66.16%	1850	100	94.59%
Soft Wheat Grade 1	549	549	0.00%	250	250	0.00%
Soft Wheat Grade 2	571	571	0.00%	100	100	0.00%
Soft Wheat Grade 3	533	563	5.62%	200	250	25.00%
Unprocessed White Pea Beans	537	537	0.00%	450	450	0.00%

ECX Prices Compared to Local and World Markets

Maize: Steep inflation in maize was seen as prices per quintal increased from Birr 334 to 553 between April and June in ECX and Birr 353 to 583 in Addis Ababa local market.

The price increase is attributed to the low supply of maize to the market. As compared to the local market, ECX's price was lower by a margin of Birr 4 to 50 per quintal except in the first week of July and August. As to that of to global prices, domestic prices remained significantly above import parity with a widening gap.

US corn prices at the Chicago Board of Trade also rose from 248 US\$ to 280 US\$ per ton, over the period, although at a much lower rate than domestic prices, hence leading to a widening import parity price gap from 15 US\$ to 309 US\$ per ton above parity.

From July to September, prices showed a modest downward trend, decreasing from Birr 609 to 555 per quintal in ECX, and from Birr 635 to 550 per quintal in the local market. International price declines, however, were been more significant, declining from 283 US\$ per ton to 221 US\$ per

ton. It remains a concern why domestic prices were not aligned with the global market, suggesting that the market was not efficient in responding to imports during this domestic crisis.

Pea Beans: Domestic prices for pea beans increased from Birr 560 to 610 per quintal in ECX, and from Birr 570 to 584 at Nazareth local market between April and June. Between July and September, prices went down from Birr 587 to 580 in ECX and rose from Birr 575 to 587 per quintal in Nazareth. Price differential between ECX and the local market is mainly because Pea Beans traded at ECX were certified and grade one processed white Pea Beans.

Wheat: Domestic prices for wheat increased dramatically between April and September, increasing by 7.1% in ECX and 13.9 % in local market. This is due to, the supply not catching up with demand despite the government's effort to close the gap by injecting imported wheat. The domestic trend was misaligned with the international market. For this quarter, US wheat prices at the Chicago Board of Trade (CBOT) decreased by 29.1%, while

rising again by 14.2% in mid-August. This deflationary trend in the global market is attributed to a good seasonal harvest in Northern Hemisphere countries, rising US dollar, falling crude oil prices and a general decrease in the price of other agricultural products.

Nonetheless, in this period, the high inflation in the domestic market led to a huge widening of the gap between domestic and import parity prices, from 116 US \$ per ton to a staggering 379 US\$ per ton above parity.

