

Warehousing, Certification & Spot Trading

The recent initiative of the Central Bank with regards to Warehousing infrastructure and Certification of agricultural products is expected to go a long way in developing a transparent and vibrant market place for these products. The government seems to be focused and enthusiastic about developing the necessary infrastructure for the benefit of the farmers, being the primary beneficiary of such a system. Development of this mechanism will not only bring efficiency, transparency and better price discovery of domestic agricultural products, it will reduce the wastage to a bare minimum thereby improving overall output in these commodities significantly. PMEX, being the only commodity and the second largest exchange of the country, is fully committed to support the Central Bank in making this initiative successful.

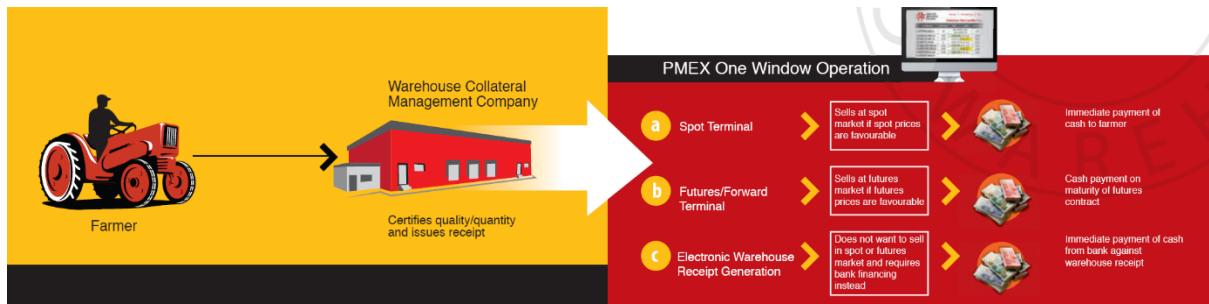
At present, Pakistan produces around 30 million tons of grains annually but due to lack of storage capacity in the country, post-harvest losses are estimated at more than 10 percent for grains and up to 35 percent for fruits and vegetables. This initiative will not only reduce such wastage, but also facilitate post-harvest financing to the value chain actors including farmers, aggregators, traders and processors.

With regards to the role of PMEX, currently multiple agricultural products are listed on the Exchange such as wheat, rice and sugar etc. However, despite being listed for many years, there has been hardly any activity in these products even though they are actively traded and consumed in spot markets. Absence of warehousing infrastructure and certification of agricultural produce are the two main hurdles contributing to low trading of agricultural products at the Exchange. PMEX is confident that the visionary decision of the government to better organize the agriculture sector by developing the required infrastructure will have a tremendous impact with regards to improved output and fair pricing of these products.

This initiative will also open the door for spot delivery. Once the issues of warehousing and certification are resolved and future contracts of agriculture products are terminated vide spot delivery, PMEX will be in an ideal position to provide spot platform to the farmers by merging the two markets making it a one window operation. Since PMEX already has the market know how, expertise, systems and qualified workforce, it will be cost effective, efficient and relatively quick for PMEX to achieve a one window solution for the entire country.

Once the complete infrastructure is in place, the farmer will be able to exercise any of the following three choices:

- ✦ Sell the produce at the spot price, if the price is fair (acceptable to the farmer)
- ✦ Sell the produce at a future price and store the produce at the warehouse until delivery
- ✦ Store the produce at the warehouse against a warehousing receipt. The farmer can either trade the receipt at the exchange OR get financing from a financial institution against it.



The above system will work wonders in terms of reducing wastage and bringing unprecedented efficiency and convenience. Moreover, the availability of both spot and futures market at a single trading platform to the market participants, would provide unique opportunity to them to sell their commodity either at spot or future date, whichever suits their needs.

This article was published in the following:

- *Pulse, Issue 3 April – June 2014*
- *PMEX Annual Report 2014*
- *Daily Ausaf, Special Supplement, Jan 16, 2015*