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THE INVESTMENT ATTRACTIVENESS OF THE GRAIN MARKET IN UKRAINE: MAJOR PLAYERS AND TRADING PARTNERS, RECENT TRENDS AND MID-TERM OUTLOOK

The article was conducted fundamentals analysis of the grain market, grain traders defined investment position in the global grain market, defined the investment attractiveness of the grain market in Ukraine, and determined the current trends in the development of the grain market of Ukraine.

Key words: grain market, investment, stock market, fundamental analysis of the grain market, grain traders' investment position, the global grain market, the investment attractiveness of the grain market in Ukraine.

Introduction. Current global economic and financial crisis are escalated. This is evidenced by the latest IMF report, which stressed: «Global financial conditions improved further in the fourth quarter of 2012. However, a broad set of indicators for global industrial production and trade suggests that global growth did not strengthen further» [1, p. 1].

The current chaotic stock market, banking system instability indicates worsening global economic and financial crisis.

Applications developed Engle Robert [4; 5] Model ARCH allowed anticipate volatility in any financial market. Thus, we can predict how much risk is contained in the financial market.

Based on research M. Friedman [3; 9–12], J. Stiglitz [2; 7], George A. Akerlof [8], R. Engle [4; 5], Sheng Andrew [6] and own the results of previous studies [13] we analyze shafts modern changes in the world economy, allocate existing relationship

between economic crises, monetary policy and allocate determinants impact on the quality of the investment attractiveness of the Ukraine.

For the world economy characterized primarily growing attention to issues of corporate governance in a globalized financial markets, liberalization of capital movements, current global trends in economy and society impose fundamentally new demands on businesses.

The entry of Ukraine into the world economy, globalization of the world economy and integration processes, increased risk, uncertainty and dynamism of the current economic situation in Ukraine and the world, reducing the reliability and stability of the domestic financial system, the emergence of legally separate financial institutions, which intersect the interests of many stakeholders led review the overall structure of the domestic economy.

As part of the transformation of the modern economic system is a specialization

of countries, including the types of economic activity. In this respect, the selection of investment priorities of Ukraine is by its dominance in a particular area of the world economy.

The definition of this priority will allow purposeful movement of investment flows and, consequently, the rapid growth of the domestic economy, which demonstrate the Asian countries.

Analysis of geographical, historical and economic factors allowed to ascertain the presence of investment potential in the grain market of Ukraine. Cereal production – is one of the main directions of agro-industrial complex of Ukraine.

So urgent is to conduct fundamental analysis of the grain market, distinguishing grain traders' investment position on the global grain market, determining the investment attractiveness of the grain market in Ukraine.

1. The overview of the investment attractiveness of the grain market in Ukraine. In conditions of current economic development, wheat, barley and corn are forming the main sector in the agrarian policy of Ukraine [14–16].

Ukraine is one of the leading exporters of grain: it occupies 7th place in wheat exporting (leaders U.S.A., EU and Australia), Ukraine took third place in export of barley (after EU and Australia), 4th place is occupied by Ukraine in corn exporting (after U.S.A., Argentina and Brazil) [15]. These indexes of export are making Ukraine attractive for foreign investors.

Volumes of direct foreign investments in 2002–2012 years are presented in fig. 1. Foreign direct investment in agriculture (including grain market) in Ukraine in 2002–2012 grew in series and made the corresponding 140 million US dollars in 2002, 400 million US dollars in 2007, 580 million US dollars in 2008, 810 million US dollars in 2009, 790 million US dollars in 2010, 830 million US dollars in 2011. The analysis confirms the positive trend and could serve as a good thing for investors.

The major players on the grain market are leaded on the fig. 2. and on the fig. 3. You can see the main exporting cereals. The main exporting cereals on the grain market in Ukraine are wheat, barley, corn.

Ltd. Nibulon [18] in 2011–2012 marketing year Ukraine exported about 24 mln tons of grain out of the record yield of 56 mln tons in the history of our country. Taking into account that Ukraine requires 26 mln tons of grain for consumption, an amount of unrealized export potential was not less than 5 mln tons. Under such difficult conditions Ltd. Nibulon managed to keep its leading positions among other grain traders and to increase the total amount of export of its own products by 10,5%, compared to 2010/11 marketing year. In addition, the total amount of export through the transshipment terminal of Ltd. Nibulon (Mykolayiv city) increased by 29,1%.

After stabilization in the regulation sphere of grain market, the company demonstrates positive dynamics of increase of shipment amount. Only during the first 6

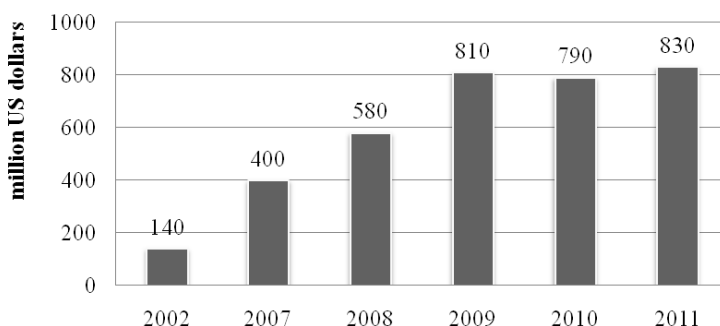


Fig. 1. Direct foreign investments in agriculture (including grain market) in Ukraine

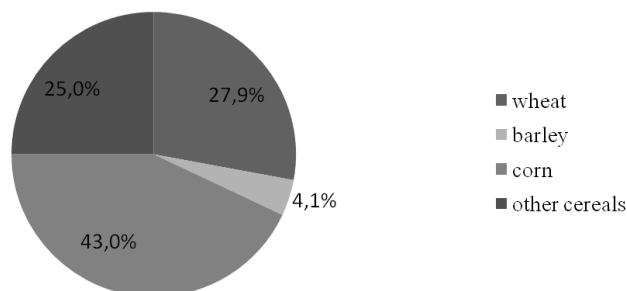


Fig. 2. The main exporting cereals on the grain market in Ukraine

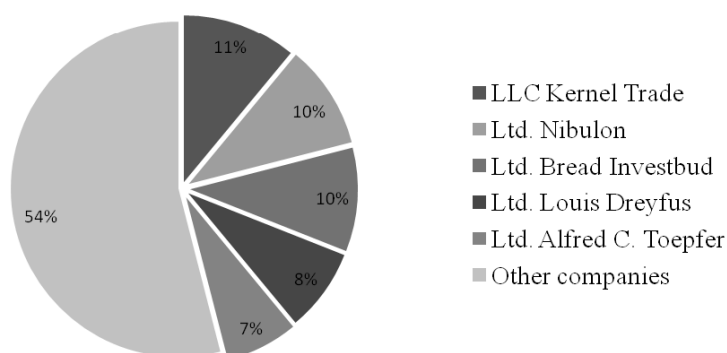


Fig. 3. The major players on the grain market in Ukraine

months of 2012 the company exported by 35,1% more than during the whole 2011. In the rating of Ukrainian exporters Ltd. Nibulon took the second place having the market share of about 11%. Ltd. Nibulon is the largest exporter of corn (11,5% of total export) and sorghum (66%) in Ukraine. Thus, in 2011/12 marketing year Ukrainian corn was shipped to Japan (50 400 tons) [18].

Louis Dreyfus Commodities – global merchandiser of commodities, major asset owner and processor of agricultural goods – helping to feed and clothe up to 500 million people, originating, processing and transporting approximately 70 million tons of food each year [19]. The Group closed H1-2012 with total assets of US\$ 23,975 million, up from US\$ 22,749 million as of 31 December 2011. This moderate Balance Sheet increase of 5% was well balanced between non-current assets (with the continuation of our expansion strategy) and current assets (with slightly higher level of Working Capital in line with Inventories mainly related to seasonality effect). The balance sheet was

closely monitored, and we have ensured sufficient liquidity. At the end of June 2012, total non-current assets stood at US\$ 7,687 million, with Fixed Assets and Investment in Associates representing 89% of the total in line with the December 2011 ratio. Fixed assets increased from US\$ 6,083 million as of 31 December 2011 to US\$ 6,436 million as of 30 June 2012 – a 6% progression. This increase was mainly the result of our asset expansion program through both external acquisitions and organic growth. The Proteins segment focused on logistics and industrial investments. Regarding logistics, this included the implementation of two key projects: the Port Allen investment in Baton Rouge (Louisiana, USA) which is on target, and the Bahia Blanca port in Argentina which was delivered on time, proceeding with initial shipments in April 2012 [19].

Ltd. Alfred C. Toepfer are founded in 1902 and incorporated in 1923, ADM is headquartered in Decatur, Illinois. Ltd. Alfred C. Toepfer and its shareholders

ADM and InVivo cover the entire spectrum of agricultural business from originating and processing in the producing countries to delivery to processors and consumers throughout the world. At the same time, shareholders are business partners and major buyers of the commodities Ltd. Alfred C. Toepfer trades. Today, ADM owns 80 per cent of the Ltd. Alfred C. Toepfer shares, while InVivo owns 20 per cent [20].

Characterization and volume of exports are shown in table 1.

Products for export for Ltd. Bread Investbud are compound feed, foodstuffs. Country of exportation (share of Ltd. Bread Investbud in total export) are Egypt (17%), Saudi Arabia (24%), Italy (3%). Products for export for Ltd. Louis Dreyfus are foodstuffs, oil-bearing crops and cereals. Country of exportation (share of Ltd. Louis Dreyfus in total export) are Algeria (3%), Portugal (3%), Spain (7%). Products for export for Ltd. Alfred C. Toepfer are wheat, barley, oats, corn, haricot. Country of exportation (share

Table 1

In the type of activity and market share in Ukraine

Companies	Product for export	Country of exportation (share of the company in total export)
LLC Kernel Trade	Oil and cereals	India (21,4%), Egypt (16,6%), Algeria (7,3%)
Ltd. Nibulon	Wheat, corn, barley	United Arab Emirates (100%), Palestine (100%), Jordan (67,6%)
Ltd. Bread Investbud	Compound feed, foodstuffs	Egypt (17%), Saudi Arabia (24%), Italy (3%)
Ltd. Louis Dreyfus	Foodstuffs, oil-bearing crops and cereals	Algeria (3%), Portugal (3%), Spain (7%)
Ltd. Alfred C. Toepfer	Wheat, barley, oats, corn, haricot	Georgia (2%), Israel (7%)

Products for export for LLC Kernel Trade are oil and cereals. Country of exportation (share of LLC Kernel Trade in total export) are India (21,4%), Egypt (16,6%), Algeria (7,3%). Products for export for Ltd. Nibulon are wheat, corn, barley. Country of exportation (share of Ltd. Nibulon in total export) are United Arab Emirates (100%), Palestine (100%), Jordan (67,6%).

of Ltd. Alfred C. Toepfer in total export) are Georgia (2%), Israel (7%).

2. The current trends in the development of the grain market of Ukraine

Current trends in the development of the grain market of Ukraine (fig. 4) are:

1) Increase profitability trough innovation in management;

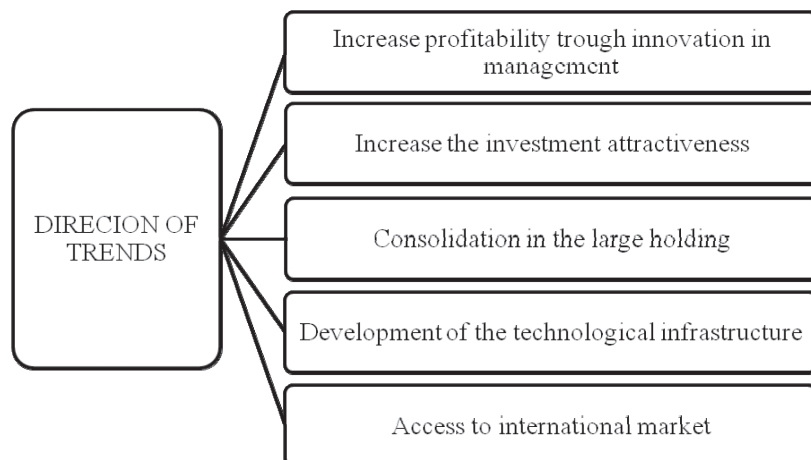


Fig. 4. Current trends in the development of the grain market of Ukraine

- 2) Increase the investment attractiveness;
- 3) Consolidation in the large holding;
- 4) Development of the technological infrastructure;
- 5) Access to international market.

The further development of the sector and the forecast of the grain industry are given in fig. 5 and fig. 6.

Intellectual dynamics of grain yields in Ukraine of the largest exporters of grain in 2011–2013, will be according to the calculations using the methods of forecasting the next value. For 2013: for wheat its will be productivity of about grain 38 kg/ha, for barley its will be productivity of about grain 26 kg/ha, for corn its will be productivity of about grain 53 kg/ha.

The net profit of the largest exporters of grain in Ukraine in 2011–2013, will be according to the calculations using the

methods of forecasting the next value. For 2013: for wheat its will be about 226,4 million UAH, for barley its will be about 163,7 million UAH, for corn its will be about 257,3 million UAH.

Despite the fact that the grain harvest in 2012 is estimated as average, the country will be able to deliver to the world markets the maximum amount of grain. Exporting companies can sell all their products.

Conclusions. Increase in cereal production will bring more products to the world market. In the grain market, we are seeing a steady increase export earnings and the amount of the crop, making Ukraine one of the most reliable suppliers in the world market. Ukraine is very attractive for large investors.

It is conditioned to the fact that the world will feel the deficit of energy resources

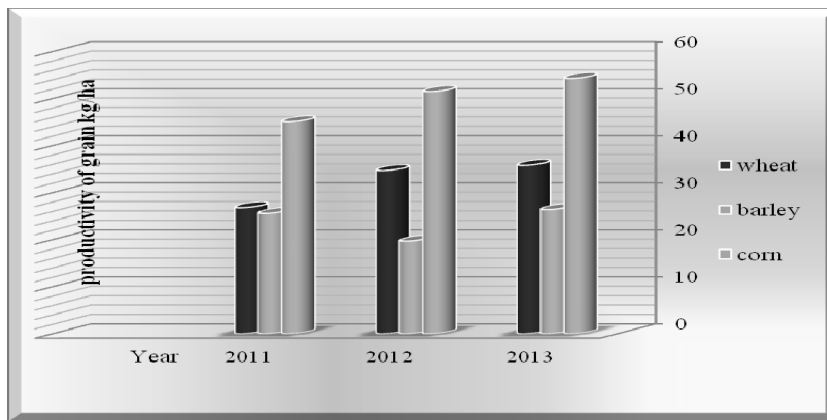


Fig. 5. Predictive dynamics of grain yields in Ukraine and net income largest exporters of cereals in 2011–2013 years

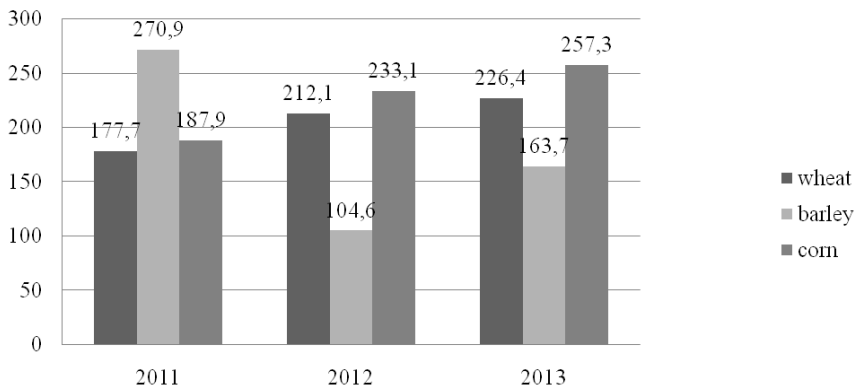


Fig. 6. Net profit of the largest exporters of grain (million UAH) in Ukraine

as well as deficit of food, in 20–25 years. This is a good prospect because in Ukraine there are no problems with climate, it does not change and there is no water deficit to grow cereals that are available in other exporting countries.

The priority is the development of the product supply to the countries of Middle East and North Africa, as these regions provide themselves with food for a quarter of all their needs, and climate change will further intensify the situation. Possible future investor on the grain market is overpopulated China, which will soon meet their inability in being provided with food by themselves.

In general, Ukrainian grain market is a very perspective sector for development, but it feels a strong lack in financial resources. In the future, Ukraine will return the status of «nurse of Europe», but it requires huge financial investments.

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У статті проведено фундаментальний аналіз ринку зерна, визначено інвестиційні позиції зернотрейдерів на світовому ринку зерна, інвестиційну привабливість ринку зерна в Україні, виокремлено сучасні тенденції розвитку зернового ринку України.

Ключові слова: *ринок зерна, інвестиції, фондовий ринок, фундаментальний аналіз ринку зерна, інвестиційні позиції зернових трейдерів на світовому ринку зерна, інвестиційна привабливість ринку зерна в Україні.*

В статье проведен фундаментальный анализ рынка зерна, определены инвестиционные позиции зернотрейдеров на мировом рынке зерна, инвестиционная привлекательность рынка зерна в Украине, выделены современные тенденции развития зернового рынка Украины.

Ключевые слова: *рынок зерна, инвестиции, фондовый рынок, фундаментальный анализ рынка зерна, инвестиционные позиции зерновых трейдеров на мировом рынке зерна, инвестиционная привлекательность рынка зерна в Украине.*

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