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## **Turkish Oriental - İzmir Type** **2009 Crop Market Report**

### **Production:**

The total İzmir 2009 crop production is estimated at 62,600 tons, which is up by 6,5% or 3,800 tons than the 2008 crop of 58,800 tons. The total contracted was 74,500 tons and the actual produced is estimated at 62,600 tons, this is a drop of 16 percent or 11,900 tons.

The dealers contracted -2,6% less or 73,000 tons than the 2008 crop of 75,000 tons but will get 62,300 tons or 15 percent less. As for Tekel (Turkish Monopoly) they did not contract for the 2009 crop as the government has decided to discontinue contracting after the sale of the Tekel Cigarette factories. We believe that around 300 tons should be available as un-contracted/free tobacco.

The total crop size of 62,200 tons is an average crop size. If we take the average of the last 8 years since we started contracting this figure is at 61,000 tons. The difference between the actual contracted and harvested i.e. 16 percent is the second closest level that we have achieved since the contracting system i.e. 2003 crop. They are several factors that affected this. As mentioned in our previous reports the rainfalls that took place during transplanting gave a better start to the crop. The average yield per hectare is estimated at 650 Kgs which is still 13 percent less than the historical average of 750 Kgs but also better than the last 2 crops that were at 600 Kgs. Also we have a better track record of what the farmers have produced in the last years so we can make a better assumption. The reason for the differential is caused by the farmers that keep inflating their numbers in order to get higher advances as well as a certain percent is double contracting.

### **Quality:**

The lower stalk leaves in certain regions are over ripe, on the reddish side and slightly above average in size. This occurred due to the wet weather conditions that prevailed during the late transplanting. The mid stalk is in general ripe with good color and texture. Some immature / greenish as well as some reddish/over ripe leaves are seen. This is caused from the fast ripening and the farmers could not harvest on time as they could not afford to pay for additional labor. For the previous crop as an industry we paid high advances during harvesting which was not the case this year. As for the top stalk its ripe, good color, bodied style, small in leaf size with some reddish/brown leaves.

The top grades i.e. AG and AB should be small in leaf size, with good texture and on the ripe side. The middle grades will be medium in leaf size, some white/bleached and some over ripe/reddish colored leaves will be seen, in overall average texture and on the ripe side. As for the lower grades you will have some reddish/brown and immature set green leaves. We anticipate that the lower grades i.e. KP and KK percentages will be around 19% and 2% respectively. This is nearly double than last year so in general we can say that the 2009 crop is an average crop.

## Market:

The dealers completed their village grading by the last week of December 2009.

The dealers paid a total advance of approx. 25 percent of the anticipated green purchase value. This is 44 percent less than the previous year, the 1<sup>st</sup> advance was paid in July i.e. 3 months later than last year.

We started taking delivery of the crop the 2<sup>nd</sup> half of January 2010. The intention was to start before the end of the year but due to the lower demand from certain major manufacturers the urge to start early was not there. We were getting very positive feedback from the growers after 3 years of pessimism due to the high advances and earlier deliveries but we could not take advantage of this enthusiasm due to the lower demand.

We also see, due to the economic crisis the un-employment level has exceeded 19 percent and as factories have made redundant their workforce a certain percent of these workers have moved back to their villages. Therefore, there was the opportunity to increase the farmer base but we had to do the opposite due to the weak demand and reduced in overall up to 25 percent or approx. 20,000 farmers. In the future in order to increase the production as well all know this can only be done with a financial stimulus and this will increase the cost.

## Prices:

	2008 Crop		2009 Crop		% Change	
	YTL/KG	USD/KG*	YTL/KG	USD/KG**	in YTL	In USD
<u>Top Price</u>	7,85	\$4.74	8,45	\$5.84	+7.6%	+23.2%

\* At exchange rate of YTL/USD 1,655 CBT rate on January 21st, 2009

\*\* At exchange rate of YTL/USD 1,447 CBT rate on January 18th, 2010

We anticipate the following village average for the 2009 crop:

	2008 Crop	2009 Crop	% Change
<u>YTL/KG</u>	YTL 7,38	YTL 7,26	-1.6%
<b>Equiv. in USD</b>	\$5,05 <sup>(1)</sup>	\$4.84 <sup>(2)</sup>	-4,2%

<sup>(1)</sup> YTL/USD 1,46.- anticipated dealer's average exchange rate for the 2008 crop.

<sup>(2)</sup> YTL/USD 1,50.- anticipated dealer's average exchange rate for the 2009 crop.

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The decrease of -1,6% in TL terms is the second time since we started contracting i.e. the 2003 crop. Traditionally the inflation rate was given to the farmer which should have been around 6 percent. But as mentioned before due to the weak demand and fewer amounts of farmers (nearly 25 percent) were needed for the coming year therefore the prices were reduced. The drop in USD terms is -4,2% and this is the second consecutive reduction. The impact of this reduction will not be seen in the export prices because as mentioned before the KP and KK yields have doubled in comparison to last year. If we were to take last years prices and get the weighted average according to the expected yields in overall we will receive 5 percent less than last year. So actually we would need an increase in order to compensate for the yield loss but we believe with the low demand this will not be the case.

### **Trade & Economic Developments:**

Turkey took a toll from the world wide economic crisis. Its GDP contracted by -5% in 2009. On the other hand we expect a growth of +5 percent in 2010. Certain figures are showing some recovery but it in general it's very modest. The main problem is un-employment which is at around 14 percent and this increases to above 24 percent for the younger population. Its public debt at 45% of GDP this looks reasonable compared to Greece's 113 % and Portugal's 77%. The current account deficit was around 2% of GDP, in 2009. This is expected to widen in 2010 to 4,5%. Inflation is down to 6,3% (CPI) from 8,4% or 25 percent. We expect inflation to increase in 2010 as economy starts to recover. Despite the weak TL against the other major currencies exports were negatively affected due to the lack of demand.

According to the economists the year end exchange rate for 2010 is expected at TL1,45 to the USD if the \$/€ rate remains at 1,37 which is the rate that we have at the moment but with all these turbulent news it is very difficult to make a forecast.