

WORLD NEWS

For Investors, a New Pick of the Crop

By LESLIE JOSEPHS

Hellen Li is helping fuel apple fever in China, and it isn't of the iPhone variety.

The 30-year-old administrative assistant said she has been buying more apples since she moved from a small eastern Chinese city two years ago to Shanghai to work for a U.S. company. "Chinese people are eating more and more fruit...as our lives get better," said Ms. Li, as she shopped in a grocery store. Indeed, wage income for urban households rose 13% in the first half compared with the year-ago period, according to China's National Bureau of Statistics.

Fresh apple consumption in China, which produces more than half of the global supply of the fruit, has soared 80% from the 2007-2008 crop year to the crop year ending in June 2012, according to the U.S. Department of Agriculture. That compares with growth of just 36% world-wide in the same period.

The surge is shaking up a small corner of the commodities world, the market for apple-juice concentrate in the U.S., and has led to the first-ever futures contract for the product. China's rising consumption of apples has pushed up prices, squeezing margins for producers of apple juice in the \$3 billion market for the concentrate, a molasses-like substance that is mixed with water before the juice reaches stores. The U.S. imports about two-thirds of its supply from China.

Prices for apple-juice concentrate from China have swung over

While China grows most of the world's apples...

World-wide apple production in millions of metric tons, 2011/12

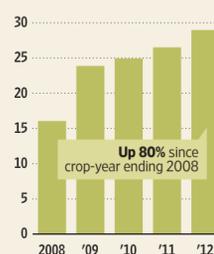


Total: 65.1 million metric tons

Note: 2012 data are projected harvest as of June. Apple juice, apple-juice concentrate and other processed products such as canned, frozen and dried apples. Source: USDA

...the Asian nation's appetite for fresh apples is rising...

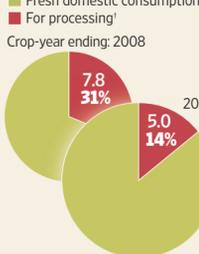
Fresh apple consumption in China in millions of metric tons



Up 80% since crop-year ending 2008

...leaving less to be used for concentrate.

China's apple production in millions of metric tons



Crop-year ending: 2008

Note: 2012 data are projected harvest as of June. Apple juice, apple-juice concentrate and other processed products such as canned, frozen and dried apples. Source: USDA

the past five years, dipping as low as \$4 a gallon and reaching as high as \$12 a gallon, estimates Michael Choi, president of Zhonglu America Corp., the California-based U.S. unit of China's Zhonglu Fruit Juice Co., one of the world's top-five apple-juice processors.

For the past few weeks, however, traders have had a new weapon to protect themselves against the vagaries of the apple-juice-concentrate market. The contract, which allows participants to lock in prices rather than having to pay the going rate at the time they need apples, started

trading on the **Minneapolis Grain Exchange** Inc. on Aug. 13 and was listed on **CME Group** Inc.'s Globex electronic-trading platform.

"We're trying to find a way to protect our profit," said Zhonglu's Mr. Choi. Mr. Choi said he likely would participate in the market in a few weeks.

To be sure, there is no certainty the futures contract will succeed. One concern is trading volume: Only a few more than 20 contracts have been traded since Aug. 13.

Joe Tadros, a floor trader and broker at the Minneapolis Grain Ex-

change who also trades for his own account, had planned on trading the contract on the first day but decided not to because of the low trading volume.

Another thinly traded contract, for frozen concentrated orange juice, has averaged 2,299 contracts a day, year to date.

The idea for the futures contract came from members of the Juice Products Association, whose members include **Coca-Cola** Co., **PepsiCo** Inc. and trading house **Louis Dreyfus Commodities**.

Kevin Barley, a senior vice presi-

dent at Morgan Stanley Smith Barney, who led an industry committee that drafted guidelines for the contract, said the risks in the cash market are high. He said sellers of apples sometimes are unwilling to price the raw material until the last minute, when they have a better sense of demand.

Chinese demand is putting the squeeze on the market for apple-juice concentrate.

With more apples being consumed fresh in China, the percentage used for processing has dwindled from 31% of its total crop in 2007-2008 to just over 14% in the 2011-2012 crop year, according to the USDA.

As China consumes more apples, prices are rising. Zhonglu's Mr. Choi said his production costs have doubled over the past decade.

Some analysts believe that the futures contract could play an additional role as a barometer for overall Chinese consumer consumption. "It is kind of a proxy for Chinese demand," said Joe Nikruto, a senior commodities analyst and broker at Chicago-based R.J. O'Brien. "It would be great to have another way to penetrate [China's] economic leanings."

—Yue Li in Shanghai contributed to this article.

THE COAT MAKES THE MAN



WSJ. Magazine With The Wall Street Journal this Friday.

©2012 Dow Jones & Company, Inc. All rights reserved. 3DJ2056

Hon Hai Factory Reopens After Riots

By PAUL MOZUR

BEIJING—Hon Hai Precision Industry Co., a major Apple Inc. supplier, said Tuesday its factory in China's Shanxi province reopened without incident after riots on Monday left 40 people injured and sparked a response by thousands of police.

Louis Woo, a spokesman for Hon Hai, which also trades as **Foxconn**, said that he didn't expect the shutdown of the plant on Monday to affect the company's production of finished goods.

"The campus primarily manufactures auto electronic components and consumer-electronics components. For those things, we normally have a few days [of] inventory, so there will be no impact on finished goods," he said.

He added that the company would maintain heightened security on the campus, where a fight that began late Sunday night escalated into a riot involving 2,000 workers that lasted into Monday morning.

The company also plans to beef up communications with employees, as "a lot of times it seems they are not aware of things," Mr. Woo said, adding, "that makes tensions a lot higher."

He said the company will strive to improve communications through its labor unions. Unlike conventional trade unions, unions in China are affiliated with the government.

The factory, in Taiyuan, has about 79,000 employees, the company said. The cause of the dispute wasn't clear, although employees

said staff brought in from distant locations have been discontent.

Hon Hai said the original dispute appeared "not to have been work-related" but that an investigation was continuing.

The incident put a spotlight on growing tension in China's factories as companies struggle to meet worker demands for better compensation and work conditions even as economic growth slows.

China's gross domestic product rose 7.6% in the second quarter from a year earlier, the slowest pace since the global financial crisis. The China Labour Bulletin, which tracks strikes and protests, reported an increase in such incidents, logging an average of 29 a month for the first eight months of this year, up from 11 a month for the same period last year.

To combat rising costs and worker attrition, Hon Hai has been moving its factories inland from the more expensive Chinese coasts.

But the plant first-generation migrant workers who staffed factories a decade ago have become more savvy about their rights and willing to stand up for them. The second generation that has joined them on the factory floor are better educated and more plugged in.

Average wages in China's manufacturing sector rose 18.9% last year, according to China's National Bureau of Statistics.

"Younger workers are definitely more aware of their rights and more demanding," said Geoff Crothall, a China Labour Bulletin spokesman. "They want more out of life than simply earning minimum wage."

CONGRATULATIONS MESSETURM, FRANKFURT

LEED SILVER CERTIFICATION FOR SUSTAINABILITY

A GLL REAL ESTATE PARTNERS PROPERTY

WWW.MESSETURM.COM

Photo: Michael Wicander, www.skyline-frankfurt.com / Design: Meckler Feuersstein Marketing Consultants GmbH

LED TECHNOLOGY BY POSCO LED
WWW.POSCOLED.COM