
Market report October 2013

The IFEAT congress plus the long Chinese national holiday meant trading during the first two weeks of October was fairly quiet however activity through the second half has been more dynamic.

The Indian market has slowed down as the country prepares to celebrate Diwali in early November.

Most citrus oils are still making the headlines due to supply difficulties and for the same reasons there has been renewed activity in some minor products, however both Chinese and Indian suppliers are complaining about the generally slow pace of trade at present.

The well publicised US government shutdown has added a sense of insecurity amongst many economies in the world, with the effect being seen on the rates of exchange against the dollar for numerous currencies.

India

After the highs seen in early September, the rate of exchange has stabilised nevertheless it remains high at between 61-62 rupees to the US dollar, making export prices weak to the benefit of western buyers.

The Diwali festival starts in early November. This influences the markets of most Indian produce due to the simple fact that the population, especially in northern India, is in a festive mood and thus not so active in the market.

In addition, the need for cash has a strong impact on small stock holders of mint, resulting in an influx of material being released into the market.

China

China's week long National Day holiday at the beginning of October brought trading activity to a standstill, although the latest economic data to surface showed China's manufacturing sector grew at the fastest pace in 18 months in October. In spite of signs that the world's second largest economy is stabilising, Beijing's worries are far from over with reports emerging of a sharp increase in bad loans held by mainland banks.

We continue to see stricter enforcement of environmental laws in China forcing some chemical factories to partially shutdown, leading to shortages in key aroma chemicals.

Aniseed oil China Star/anethole natural

As previously advised the market in China for both of these products has been slow, as synthetic substitutes are being more and more often used, especially by domestic flavour houses. With the new crop approaching, we are waiting to see if the farmers will expend much effort harvesting. Despite the fact that star anise is used for medicinal purposes in China, we believe that there is still a large carryover from the previous season, which could lead to neglect of the crops, a reduced harvest and consequently an increase, albeit small, in the market price.



Bay oil

Exports are somewhat hampered at origin but the overall supply appears to be good.



Cassia oil

We are currently in the middle of the production season with supply meeting demand. Some large users still prefer the quality of the oil from the traditional distillation method. The present quotes received from source are still in the high range but forward prices might ease slightly subject to demand remaining calm.

Citronella oil Java type

The price of citronella oil from all origins is very stable, trading within a narrow range and showing no signs of any drastic movement in either direction.

Clarysage oil

We understand from our Ukrainian and Russian sources that the crop is particularly short and the volume of oil will not be sufficient to meet global demand. Prices are going up for all origins; East European, French and Chinese.

Cloveleaf oil

The market prices of both Indonesian and Madagascan oils are moving up. A late starting dry season in Indonesia has limited the volumes of production so far. However the dry season in Indonesia may last longer than normal, like last year, therefore permitting the distillation to carry on for a further 2-3 months. We expect nonetheless that in Madagascar the farmers will be incentivised to restart the distillation of the leaves early as the clove bud crop is forecasted to be fairly small.

Coriander oil

Similarly to clarysage, this summer the coriander crops across the producing regions have suffered a period of drought followed by excessive rain which has reduced the volume of seeds available. The seed market will take precedence over the production of the essential oil, and as a consequence, the price of the oil has already gone up and is likely to carry on climbing due to this forecasted shortage.



Eucalyptus oil globulus

Stocks at origin are limited but it appears that there is sufficient stock in Europe to meet present demand. The next main production will be in December.



Garlic oil

During the last five years, the production of oil in China has been negligible as the price of new crop bulbs has been prohibitively high and local producers and speculators were sitting on huge stocks. Now that these stocks have diminished and that the remaining lots left are old and of questionable quality, consumers are reluctant to accept the prevailing high price tags for the genuine pure and 100 percent natural oil. For too long consumers have been used to the cheap prices offered from China and the bumper production in 2007/2008 gave a false impression of the economics of garlic oil production.

Lemon oil

We have previously written about the freeze and drought damage in Tucumán and neighbouring Salta affecting next year's Argentine crop.

Buyers seem to have taken heed and covered, as Argentina, which supplies the majority of the world's lemon, is largely sold out until the new crop in May/June next year. We expect prices to firm as we move into 2014, as even if all the other producing origins (California, Italy & Spain) have good crops, they account for less than 25% of global production.

Litsea cubeba oil

The production for this season is nearly over and we anticipate a smaller overall crop than last year. There is however still some carry over oil in stock, so unless demand picks up suddenly for citral, we anticipate a stable market for next few months.



Nutmeg oil

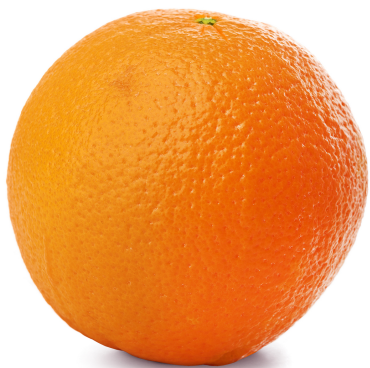
The production situation in Indonesia is unchanged. The currency plays its part in keeping the price more or less stable. The emergence of a new lower quality of oil is still creating confusion in the market as to what is the right price or right quality for nutmeg oil. The value of each batch offered ought to be assessed independently.

Orange

oil/d-limonene

Brazilian orange processors are sitting on full tanks of NFC which affects their pricing policy towards the by-products. Also the Real has lost over 10% of its value against the US dollar since the first quarter. The present crop is widely expected to be lower than last and thus for the time being it seems orange oil will remain firm. Having said that, we feel there may be signs that this situation could change, possibly due to financing pressures on one of the major processors.

D-limonene, and to a lesser degree orange terpenes, have reduced in price, with up to a dollar/kilo gap between them and cold pressed oil. Wild price swings over the last few years prompted many in the chemical industry to opt for cheaper substitutes leading to an oversupply. Folded oil prices are likely to move up to compensate for lower terpenes prices.



Peppermint oil Arvensis/menthol crystals natural

The fundamentals affecting pricing include a large volume crop in India this season; a substantial new source for synthetic menthol now on-stream; and a weak rupee. These factors put pressure on the Indian peppermint processors to keep their export prices low.

DMO and menthol should stay on a bearish trend barring a strengthening of the rupee. There is a feeling that derivatives prices (cis-3-hexenol/cis-3-hexenyl acetate, menthone) ought to go up as exporters look to claw back lost profits.

Peppermint oil Piperita

The supply situation for mentha piperita oil is different to that of arvensis. The production this season has been good, and since piperita is not used for menthol production, it does not face the same potential loss of market from the synthetic substitute. In recent weeks we have seen a small price reduction at origin, only because farmers and small stockists needed cash in preparation for Diwali and have released some of their stock. The market trend is stable.

Tea tree oil

Due to adverse weather conditions and some farm closures, we believe that the production from Australia will be down by a fifth from last year. The price has already risen by 15 % in the last 6 months and is expected to go up further. Production in China was larger this year thanks to new plantations coming to maturity, but the extra volume produced there will not compensate for the reduction from Australia.

Wintergreen oil

The most recent crop was very poor - our estimates put it at less than half of what is typical. With the next crop not until June 2014, supply will be tight and price increases very likely.

Talk to us

Should you have any questions regarding the materials we have discussed in this report, or indeed if you just fancy a chat, we're always pleased to hear from you. You can contact us in the following ways:

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