

# November 2015 Market Report

## Global Macro Market Update

### USA

The U.S. dollar has been under significant pressure ever since the U.S. Federal Reserve postponed raising the benchmark interest rates back in September. All currencies gained ground against the greenback as the hike was assumed to be delayed until 2016.

However, on the back of improving economic data and an improving global economy, the markets now appear confident that the Fed will raise the borrowing costs before the end of the year. The dollar is expected to appreciate against all counterparts if a hike does materialise. It remains to be seen whether that is the case but the U.S. has been recovering at a much faster pace than the rest of the world.

### China

The yuan depreciated sharply in August on the back of stock market panic and disappointing economic data. It has been a struggle for the Chinese government to maintain growth as overcapacity has become increasingly problematic across the country. The central bank has made a total of six interest rate cuts this year to encourage investments and actions were taken to calm the panic in the markets.



The Chinese currency has resumed its decline against a strong dollar in November on the expectation of higher U.S. rates. How long the Chinese authorities will pursue this easy monetary policy is unclear.

The yuan will likely join the International Monetary Fund's basket of reserve currencies - the approval could be in early 2016. This historic inclusion may prove to be a major boost for China in the shift toward a more market-based economy.

### Europe

The Euro began its sharp descent in October after ECB President Draghi signaled the central bank is open to boosting stimulus. The terrorist attack in Paris in November has only added fuel to the slide.



With the Fed nearing a rate hike, the euro may reach parity during the month of December. However, the general market consensus remains cautiously optimistic on the Eurozone as the biggest economies have seen improving growth during the year. The euro weakness is expected to be short-lived in the medium term.

### India

The rupee made gains in October as the central bank moved to grant global funds greater access to sovereign bonds and allowed them to buy notes issued by state government. However, the imminent increases in U.S. rates will reduce the allure of assets in emerging-markets which will spur foreign fund outflows from domestic markets. India will surely be one of the most affected developing countries in the world and this is reflected in the recent weakening against the USD.



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### Bay Leaf Oil West Indian Light:

Still in global shortage with the market price still going up. Thus far the market price has doubled compared to 2014.

### Black pepper oil Indian

Production is underway and the availability at origin is good. Currently the market price is steady.



### Chamomile oil

Due to a very poor crop this year there is a shortage of oil globally. Prices are rising daily for all botanical types, but especially the Roman chamomile, *Anthemis nobilis L.*

### Coriander oil

We continue to receive a number of unsolicited offers from origin which indicates that there is stock available this year. It is nonetheless strange that the quotes received are all quite firm and within a tight range. This is indicative that exporters are not prepared to compete, even though demand is slack.

### Davana oil

This spring's production was good and there is sufficient stock at origin to cover the current demand.

### Eucalyptus oil/eucalyptol

The prices from origin are somewhat firmer as heavy rains have been responsible for the lower yields this year.

### Frankincense Oil

This year the price of carterri has increased by 40% against 2014 due to high demand in Europe, USA and lack of availability of the gum in Somalia.

### Ginger oil Chinese

The demand for fresh ginger locally remains

firm and reduced availability of ginger oil Cochin has encouraged price increases at origin. Large variations in quality continue to be a problem.

### Grapefruit oil

Changes in consumer preferences and the resulting reduced production of grapefruit continue to underpin the high prices we are seeing now. Good quality white oil of min. 0.2% nootkatone is hard to find with prices now approaching US\$50.00/kg. Pink oil as well as low/no nootkatone white oil are offered with some discount.

### Lemon oil cold pressed

Now that Argentina has finished processing we have final data for the 2015 crop; total fruit production was larger than anticipated (60% up on 2014) at approximately 1.2 million tons. Fruit quality this year was particularly poor and the size unusually large, yielding less oil than normal.

Juice prices from Argentina are weak as it seems larger than normal volumes of oil were sold by a single processor. Strong juice availability could weaken that market but this movement will prevent any fall in oil prices.

Mainstream buyers continue to purchase hand to mouth. This may be an error as prices have not fallen as much as many users anticipated. It is worth considering that there is



little incentive for Argentine stockists of lemon oil to sell too quickly; any foreign currency received from exports has to be converted back to pesos – not a desirable move with inflation estimated at 41% and the peso

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continuing to fall against hard currencies. Holding back lemon oil and thus supporting the price whilst maintaining an exchange rate and inflation proof store of value is clearly a better alternative.

Fresh fruit prices in Spain are double the price paid, on average, compared to the previous year. The main reason for this increase is a decline in Spanish production of around 25% due to high temperatures during the months of May, June and July.



#### **Lime oil Mexican**

Prior to Hurricane Patricia many were talking about good availability of product and falling prices. The storm made landfall just north of Manzanilla in Colima, the province neighbouring Michoacán where key lime is now largely grown. Thus far pricing seems to be stable however it can take some time to assess the full extent of the damage caused.

#### **Lavandin**

The French Grosso crop this year was normal both in terms of quantity and quality, but the lack of carryover from last year meant that the producers were able to maintain their prices and even increase them slightly. The Abrialis and the Super qualities are becoming more expensive and less available because these botanical varieties are more fragile, less resistant to disease and therefore a less viable option for farmers.

#### **Lavender oil**

The price for 'fine' quality is stable but the volumes are still limited. The 'maillette' crop has been below average and prices are moving upwards.

In Bulgaria prices have increased due to the ongoing demand; many farmers have sold everything and so it is unlikely there will be much carry over for next year but for now there is still good quality oil if you are prepared to accept the higher prices being asked.

#### **Lemongrass oil Indian**

Availability is good and the export price is fairly stable, partly due to the strong US dollar versus the Indian rupee.

#### **Orange oil**

The run of industry events in October each year often provides the forum in which rumours regarding the state of a particular crop start to gather momentum. The availability of orange this year is a good example and since early October we have seen a huge amount of activity accompanied by rapid price increases for orange oil, orange terpenes and d-limonene.

Changes in market dynamics in the USA mean it has been leading the way, with prices above those in Europe for the first time in many years. The USDA's announcement on 10<sup>th</sup> November concerning the state of the 2015/2016 Florida crop will only encourage further price rises, with a 24% reduction on last year (74 million boxes) forecast. We do not expect to see any relief in the short term.

#### **Petitgrain oil Paraguay**

The supply situation is slowly improving at origin but we understand there is a backlog of orders yet to be fulfilled. The main season of production is from October till February, therefore we hope that within the next few months the price will ease as the availability improves. The trees are in good condition and barring any future adverse effects from the weather, there should be plenty of material available for distillation.



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### Peppermint *arvensis*

The availability is still good in India especially as the Chinese buyers have not been so active recently. Frequently around this time of year, in order to encourage farmers to plan the sowing of next year's crop in January/February, local processors and exporters will often purchase additional volumes of crude oil at somewhat inflated prices.



It is worth noting as well that during the 2015 season a new variety of *arvensis* mint plant has been trialed in some areas, and was found to give a very good yield of oil. It is likely that this new type will be used much more widely in the next season. Subject to favourable weather the total production in 2016 could again be quite large.

### Peppermint *Piperita*

The market price at source is stable, but the range of quotes being offered by exporters is wide. This is not unusual - when the price of *mentha piperita* is high, it is blended to various degrees by the addition of the cheaper *arvensis* quality.

### Patchouli oil Indonesia

Partly because of drought conditions earlier this year the production is lower. This is reflected in increasing export prices at the moment.

### Rose oil Bulgarian

Prices have come down a bit but are still firm. The large fragrance houses have secured material for their usage and now farmers are serving the smaller companies and those who

haven't secured material yet - the quantities on offer however are limited.

### Aroma Chemicals

In spite of low crude oil prices, we see many price increases for synthetic aroma chemicals, particularly those from China. Manufacturers there have been under pressure due to increasing labour costs for some time and whilst government crackdowns on polluting companies are not new either, the events in Tianjin earlier this year have brought about a profound change. Local governments do not want chemical companies operating in their jurisdiction and the level of inspections is now at such a level as to be actively hindering operations. Without doubt the industry requires greater oversight but as is often the way following a major tragedy such as this, the balance swings too far in the other direction.

The export of dangerous goods from China has never been straightforward but it is now a major exercise to get product out of the country. Some shipping lines simply refuse to carry dangerous goods and the costs associated with shipping legally only encourages unscrupulous exporters to falsely declare the products, thereby making the situation even worse.

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# Talk to us

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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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