

June 2016 Market Report

Global Macro Market Update

USA

The dollar remains on the defensive against most currencies due to doubts over whether the Federal Reserve will hike interest rates in the next few months. The latest economic data has shown modest growth in the world's largest economy. It remains to be seen whether the uptick in inflation and improved employment will be enough for the Fed to raise interest rates for the second time in nearly a decade. Market experts are still confident that the dollar will appreciate gradually once the central bank tightens its monetary policy in the 2nd half of the year.

Europe

The euro remains firm against counterparts as the European Central Bank is expected to keep monetary policy unchanged until after summer. The exchange rate will be driven mostly by the policy action by the Federal Reserve in the coming quarter. The common currency is expected to gain ground against the dollar in the short term as a rate increase in the U.S. is deemed unlikely until fall this year.

EUR/USD 90 Day History



UK

British sterling has been highly volatile in recent months due to the uncertain outcome of the EU referendum taking place on 23 June.

GBP/USD 90 Day History



China

The yuan has been weakening against the USD in recent months on anticipation of rate hikes by the Fed. Chinese authorities are looking to control the steep depreciation and capital outflows by adjusting its yuan peg relative to dollar strength. Experts are predicting the Chinese currency to lose ground gradually against the dollar after the expected rate hikes by the Federal Reserve.

India

The rupee declined sharply in May amid an emerging-market selloff on speculation of U.S. Fed's policy moves. India's economic growth accelerated more than estimated during the beginning of the year. The data should act as the catalyst supporting the local currency in the medium term despite the threat of an imminent U.S. rate increase.



ESSENTIAL OILS AND EXTRACTS

In the recent few weeks we have seen the prices of several essential oils getting firmer: bay, eucalyptus, grapefruit, litsea cubeba and rose amongst others.

Aniseed oil

For the last four years the market price of aniseed oil has declined and has now reached a level where the farmers in China have little incentive in continuing the production. However, there are signs that the market is ready to change direction.

Bay oil

The supply situation is dire. The distillation units in the West Indies have been destroyed by hurricanes and there is no stock available there, nor in the hands of stockists in Europe or USA. There is no prospect of production restarting for several months. We have consequently seen much interest in our WONF quality.

Buchu Oil

The yield of buchu oil in Southern Africa is low due to difficult climatic conditions over the past year and we are subsequently seeing increases in prices from origin.

Cassia oil Chinese

The information received from the production area in China is that the output of cassia oil is 20% lower this year due to reduced availability of the raw material; however the quotes received are unchanged and steady. It may take a while before the market reacts to the lower output.



Chamomile oil Blue

The Egyptian crop is now finished and is reported to be of good quality and slightly above average size.

Chamomile oil Roman/English

The previous crop was nothing short of a disaster so we are all keeping our fingers crossed that this year will be better. Last year, as the harvest approached, the plants were half their usual size with far fewer flowers. However this year, after a mild winter, the fields look good. What is needed now is heat to bring on the flowers. The harvest is typically during the first half of August, however this year it may well be early.



Cinnamon leaf oil

There is very little availability on the market. The production in Sri Lanka has suffered because of several months of continuous rains. We are continuing to monitor the weather there. Because of this exceptionally long spell of wet weather, our producers in Sri Lanka are praying to see a dry spell soon and are hoping that in the next few weeks they will be able to restart production. For the time being, in absence of good news on the weather front, the market price is remaining very firm.

Eucalyptus oil Globulus Chinese

The market for eucalyptus oil has been steady for the last two years, moving within a low and narrow price range but the trend is changing.

It has been well reported that because the rainy season has been longer and more intense than usual, the farmers, had and still have, difficulties to distil. This has been longer

and more intense than usual, the farmers, had and still have, difficulties to distil. This has led to higher prices paid at the farm gates and a shortage of oil available for export. It is usual that during our summer months the demand for eucalyptus increases, therefore we do anticipate the market price to remain firm and possibly on the up for the time being.

Grapefruit oil

The situation remains unchanged since we last wrote of severe supply shortages back in March. The USDA has revised their forecast by a modest 385,000 boxes to a total of 10.85 million. With the vast majority of the crop harvested there is little sign of the situation improving. White oil is particularly hard to source although the situation is not much better for pink oil. We believe some end users are looking to make more use of pink oil given the US\$20/kg price difference and greater availability.



Lemon oil

In our last report in March we wrote about the difficulties faced by producers in Europe and how this contrasted with the good fortune of Argentina this year. Total production estimates for 15/16 in Spain remain at 710,000mt (down 35% on the previous year) and the situation in Italy is unchanged, with the crop estimated to be 30-50% smaller than normal.

Our current forecast for the Argentine crop remains 1,300,000mt, marking a full recovery from the freeze in 2014. With fresh fruit prices in Europe 2-3x higher than in Argentina, in spite of a normal crop

there is no incentive for Argentina to lower prices. We expect to see broadly stable prices, with small discounts from origin as a result of the removal of the 3.5% export tax on lemon products.



Lime oil distilled Mexican (Key)

Since our last update on this product where we advised taking cover would do no harm, we would modify this slightly to suggest it would now be a good idea to do so. We base this upon news of high fresh fruit prices from origin.

Lime oil expressed Persian

Strong demand for fresh fruit (also true for Mexican/Key lime) means there is reduced availability for processing. Pricing is currently stable but it would not take much to upset this.

Mandarin oil

Little change since our report in March – high costs of cultivating new trees and harvesting the fruit mean farmers tend to direct their attention elsewhere. Combined with unusual climatic conditions in 2015 means the crop is smaller this year and prices are likely to remain firm as a result.

Neroli oil

Tight supply and a strong demand is pushing the market price up. There is no indication that the market will ease much this year.

Nutmeg oil Indonesia

We have received conflicting news about the market. Possibly because of their stock position, some large exporters/traders infer that the market for oil is tight but our local intelligence advises us that there is a good

stock of nutmegs being distilled. It appears that the nutmegs, due to the weather this season, show a high level of aflatoxin which make them unsaleable on the spice market but suitable for the oil production as the aflatoxin is removed by the distillation process. The situation should become clearer shortly.

Orange

Not for the first time, the outlook for orange oil is unclear. The results from Florida's crop are not pretty, with a latest forecast of just 81.1 million boxes, (USDA NASS 10th May), making it the smallest crop since 1962-63. The market remains on edge that a lack of fruit (real or otherwise) for crushing in Brazil will allow processors to justify further price hikes. We think on balance some price rises are likely.



Peppermint oil *arvensis* India

The harvest is now starting. The initial figures show that the crop will be bigger than last year (possibly by 4-5,000 tonnes). Although it is reported that the carry-over is not much, we do not anticipate any price increase, bar some exceptional weather event in the next two months. The weakness of the Indian rupee is also a bearish factor for the export prices. The Indian producers of menthol are hoping that the global world demand is increasing sufficiently to absorb this year extra production and also that the production of synthetic menthol, which appears to be stagnant at present, will have hardly any effect on the market.



Peppermint oil *piperita* India

The harvest is now in full swing, and it is reported that the production is up by a quarter on last year's figures. We can expect a similar market behaviour to last season as the price of *piperita* oil is partly affected by that of the cheaper *arvensis* which is used to cut the quality.

Rose oil Bulgarian

We were out in the main growing region of Bulgaria last week to see for ourselves how this year's crop is progressing. The year did not start well – although relatively mild, the lack of snowfall meant little insulation for the plants against the harsher nights. Spring then came comparatively early and was far warmer than usual, bringing the plants on faster than is typical. Rather more akin to a British summer, temperatures through May have stubbornly refused to rise coupled with persistent heavy rain. Roses require both heat and humidity in order to develop fully and the prevailing low temperatures mean that far fewer buds have opened to form blooms that can be picked. There is also a human consideration when discussing the weather – the collection of rose blooms is already unpopular work for many in Bulgaria and the persistent downpours mean that many of the temporary workers simply do not turn up to the fields. After the buds open there is a maximum 48 hour window to pick after which all the oil has dissipated so even in a good year, without sufficient manpower the results can be disappointing.



After such a poor crop last year we were all hoping that this year would be better; whilst the harvest is still underway it is too early to give final predictions but it seems highly likely that once again the crop will be short and that prices will be at least at the same level as last year, probably higher. As soon as the harvest concludes we will have material available from our own production and would encourage our customers to cover their requirements earlier rather than later.

Tangerine oil

Good quality material remains expensive and difficult to obtain. Overall production figures in the USA are estimated at 23.42m boxes, an increase of around 10% on last year.

Vetiver oil

We are without stock of this oil as the market has been short for last 9 months or so.

AROMA CHEMICALS

Hydroxycitronellal

This is a very popular product across the fragrance industry, mainly in perfumery. The current availability is very limited due to an unexpected shortage which has had a significant impact on the current market price.

Delta lactones

Prices are currently stable.

Gamma lactones

A mixed bunch currently with one rising, one stable and one falling; pricing for gamma nonalactone appears to have risen slightly over the last few weeks due to a shortage in raw material. Gamma decalactone pricing appears stable; however gamma undecalactone has weakened by 5-10% due to oversupply.

Raspberry ketone synthetic

The vast majority of production will cease for nearly two months due to the G20 in China making an already tight market situation even worse. Expect price rises and delays in deliveries with insufficient material to go around.



Pyrazines

We expected to see more impact upon the pricing and availability of products coming from Shandong as a result of one of the main players relocating. Fortunately the reality appears to be less dramatic and the other key factories have not raised prices in a bid to make short-term gains.

Maltol/Ethyl Maltol

Pricing remains at the same level following an increase of 5-10% earlier in the year. It does not appear to be going up further yet but we see no chance of reductions in the short term.

Vanillin/Ethyl vanillin

The supply is stable from all producers.

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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