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Essential Oils, Ingredients, F & F



MARKET REPORT

FEBRUARY 2016

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CITRUS FEBRUARY 2016

ARGENTINA

Lemon Oil

Excess rain during the summer of 2015 delayed the lemon harvest and affected the fruit quality and yield but despite the slow start **LEMON PRODUCTION IS ESTIMATED AT 1.10 MILLION METRIC TONS.** This is an increase from 780,000 metric tons in 2013/14 but still down on previous years.

Argentina has a significantly bigger impact on the global processed lemon market owing to the fact that it **PROCESSES UP TO 85% OF ITS LARGE CROP.** This figure in 2015 was 820,000 MT, **2.5 TIMES LARGER THAN THE COMBINED LEMONS PROCESSED ACROSS THE EU.** This is why Argentina's crop is so important for our oil markets more so than the fresh fruit market.

Over the past 40 years Argentina's processed lemon volumes have increased significantly decade on decade, from an average annual volume of 80,000 MT in the 1970s, to 200,000 MT in the 1980s, to 540,000 MT in the 1990s and 900,000 MT since 2000. This is why today its contribution is very important to our markets.



The chart shows how today's improved production figures of 1.1 million tons is a continuation of a return to normal after the 2014 disaster

It is thought that around half of all Argentinian production is allocated to the large global beverage companies so producers always fulfil these commitments before making offers to the general market. In a good year this doesn't have a great impact but in lesser years the general market suffers.

More good news for the international markets is the government's decision to remove the export taxes in an effort to counter the recent devaluation of the local currency. For lemon oil this reflects a 3.5% decrease in local taxes which many producers are looking to pass on to their customers to gain a competitive edge.

There is no doubt that Argentina will be the main source for lemon in 2016 and no doubt the most competitive, especially given some of the issues other producing countries are having. Whether we get back to the attractive prices of 2012/13 remains to be seen as many producers have recently learnt of their importance and influence on the global scene.

 **Market prices USD 25.00 – 30.00 /kilo**

Orange Oil Bitter

Production of both green and mature fruits has been quite good. In view of some unusual climatic conditions, a very rare second bloom occurred in November and some extra processing has been carried over. Demand is expanding substantially for this material for both flavour and fragrance applications and with reduced availability from Italy and Ivory Coast demand remains firm.

 **Market prices USD 59.00 – 62.00 /kilo**

BRAZIL

Kumquat Oil

Interest continues to grow for fine fragrance applications with the Far East market particularly receptive to its unique character.

Kumquat oil is extracted from the peel of the fruit *Fortunella japonica* using a cold pressed method. It is native to South Asia, the Asia-Pacific and South America regions.

Kumquat is a short tree with orange coloured fruits similar to that of orange, but with an oval shape.

Kumquats consist of many isolates including limonene, alpha-pinene, monoterpenes, and many others, which have some beneficial effects on the body, as well as fibre, potassium, calcium, vitamin C, beneficial fats, and vitamin A.

As kumquats have a very sweet but tart flavour, they are popular for garnishes, cocktails, jams, jellies, preserves, candies, and desserts. Furthermore kumquats are used in a number of types of liqueurs and flavoured teas.

Kumquat notes have been very popular in modern perfumes. In various perfumery and aromatherapy accords it is known to blend well with some spices including cinnamon, ginger, clove and black pepper as well as some woody notes such as vetiver and sandalwood.



 **Market prices USD 170.00 /kilo**

Lime Oil (Tahiti & Persian)

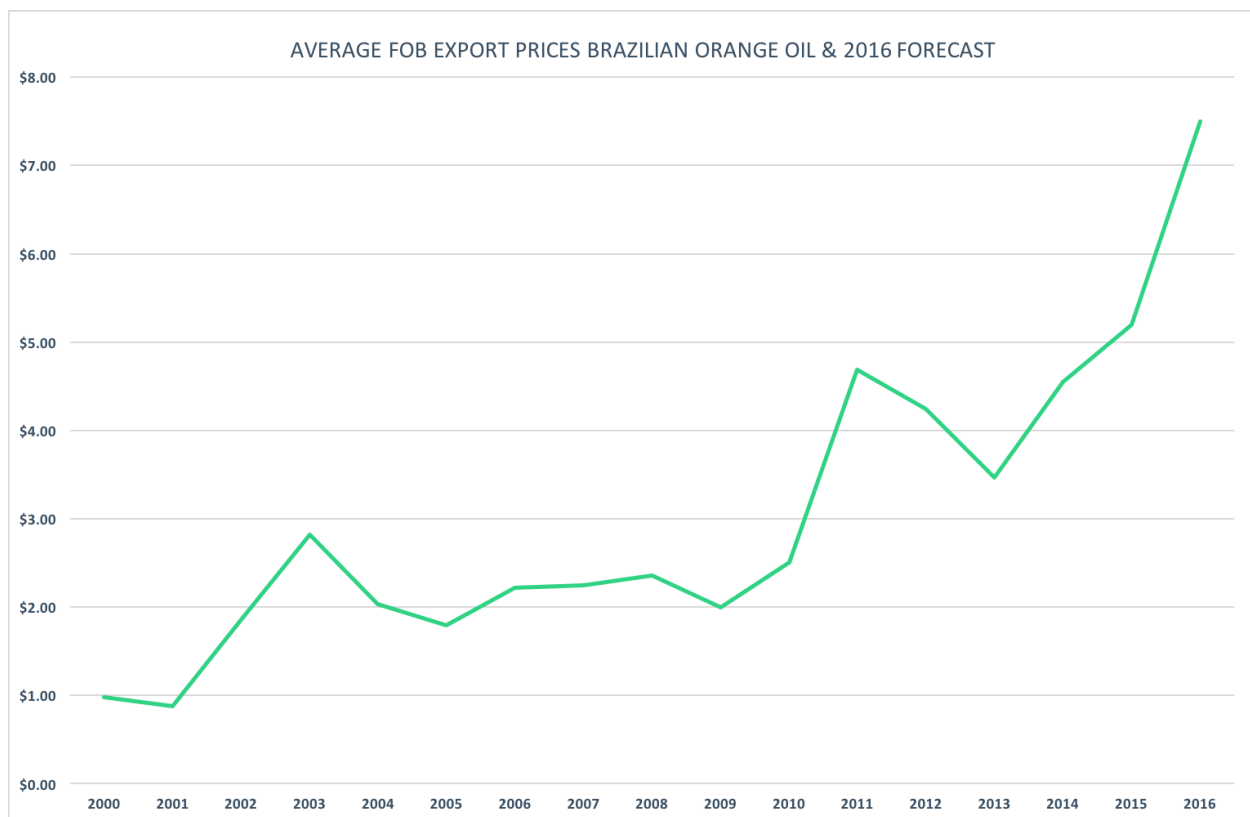
New production will commence around mid-February but forecasters are already predicting a poor crop. Continued droughts and a growing domestic demand for fresh fruit are keeping supplies tight and prices firm. It is expected that prices will continue to firm as oil demand is expected to continue given forecast shortages elsewhere.

▲ Market prices USD 30.00 – 35.00 /kilo

Orange Oil CP

In 2014 orange oil exports from Brazil became a **100-MILLION-DOLLAR BUSINESS** as average prices hit historical highs. In 2015 those trends have continued but while total exports maybe down on last year, average export FOB prices continue to rise.

The highest monthly average export FOB price ever recorded was in July 2014 at **\$6.56 /kilo** but the average yearly prices peaked in 2015 (based on averages up to the end of Q3). Again in July 2015 average prices were at their highest at levels of **\$6.25 /kilo**. During Q4 2015 prices have continued to rise and will continue to do so throughout the first half of 2016.



The table shows how the average monthly export prices have continued to rise over the past 2 years and our 2016 forecast is based on the major producers 2016 contract prices. As last year's contracts close and the 2016 contracts start the increase gradient expected in average export prices is likely to rise in excess of \$7.00 /kilo on average.

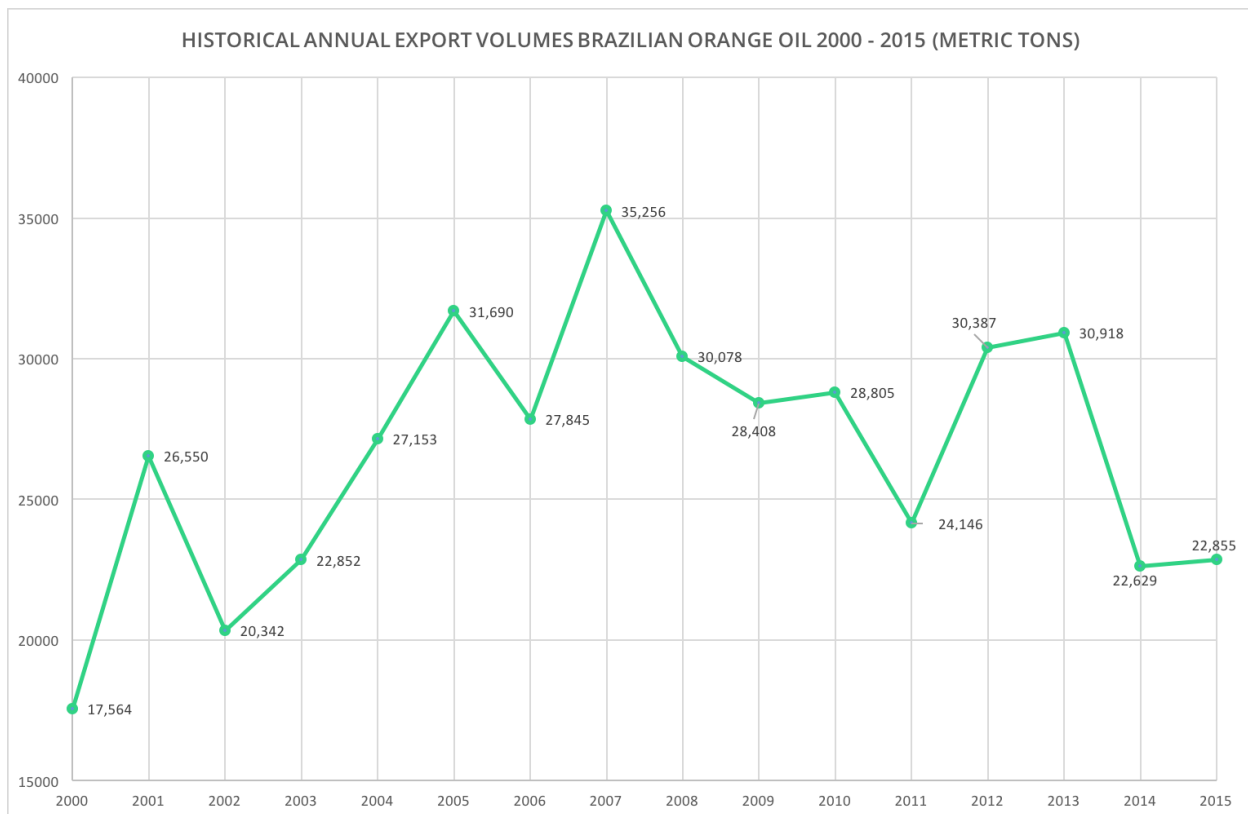
We need to also consider the fact that the bulk of exports are in multiple container / tanker loads which lowers the average price and doesn't always reflect the day-to-day pricing in the general markets which could be as high as 25% more for smaller shipments also factoring in handling and traders margins etc. but these average FOB export prices give you a trend of what is happening locally.

The fear at the moment comes with the stories emanating from South America, which don't make for happy reading. So as we look towards the rest of 2016, what are the experts advising?

Earlier in the year *Fundecitrus* produced figures disclosing the fruit estimates for the year, covering the growing areas along the citrus belt comprising the state of São Paulo and the Minas Triangle region in Minas Gerais. They calculated:

- Total number of oranges bearing trees is **174.13 MILLION TREES**
- Average projected productivity for the 2015/2016 season is 1.60 boxes of 40.8 kg per bearing tree
- Estimated total production of oranges in the 2015/16 season: **278.9 MILLION BOXES** of 40.8 kg each

This estimate of 278.9 million boxes produced, is greater than the USDA's estimate earlier in the year of 245 million boxes but significantly down on previous years.



Unfortunately, 30% of the blossoming happened in fruits from the third and fourth bloom which means a large part of the 2015/16 crop will be from late fruits which have low juice and yields. Most of these are **COMMERCIALY UNSUITABLE FRUITS** for processing which may be why there has been so many delays or mixed messages from producers at origin as they come to terms with these changing conditions?

Today Citrus BR is reporting lower than average brix levels for current harvests due to **ELEVATED RAINFALLS** observed during the summer and autumn of 2015 in the Brazilian Citrus Belt'. It also goes on to warn the market about the current threat of El Niño with the following statement.

The weather forecast from several meteorologists are already predicting and weekly confirming that the influence of EL NIÑO will be observed in South America, from early September to January 2016.

EL NIÑO BRINGS HIGHER THAN THE USUAL AVERAGE PRECIPITATION FOR THE CITRUS BELT.

The 2015/2016 orange crop was influenced by severe weather conditions from October – December 2014, when drought and high temperatures were observed in the whole State of Sao Paulo, generating several blooms on the trees and also hampering a uniform development of the fruits.'

It is evident that we are suffering a period of uncertainty and with it high prices and a continuing lack of availability. Based on what we can see in today's market, depleted stocks at origin and the projections for the next 6 months we do not expect the situation to improve. In fact it may well get more difficult for those of us looking to secure our short to medium term supply of orange oil.

 **Market prices USD 8.50 – 9.25 /kilo**

Tangerine Oil

Good quality oil is scarce so it is hard to gauge what is a fair market price today. Prices range from USD 25.00 /kilo to USD 35.00 /kilo depending on quality, type and origin.

Some expect that the season could be early this year, possibly as early as late may for some varieties.

 **Market prices USD 32.00 +/- /kilo**

ITALY

Lemon Oil

Last year's Italian fresh lemon production was down 2% on the previous year, with imports from Spain (55%) and Argentina (21%) increasing to support domestic demand. Italy's processing capacities were hit hard last year with **16% LESS LEMONS PROCESSED** than the previous year.

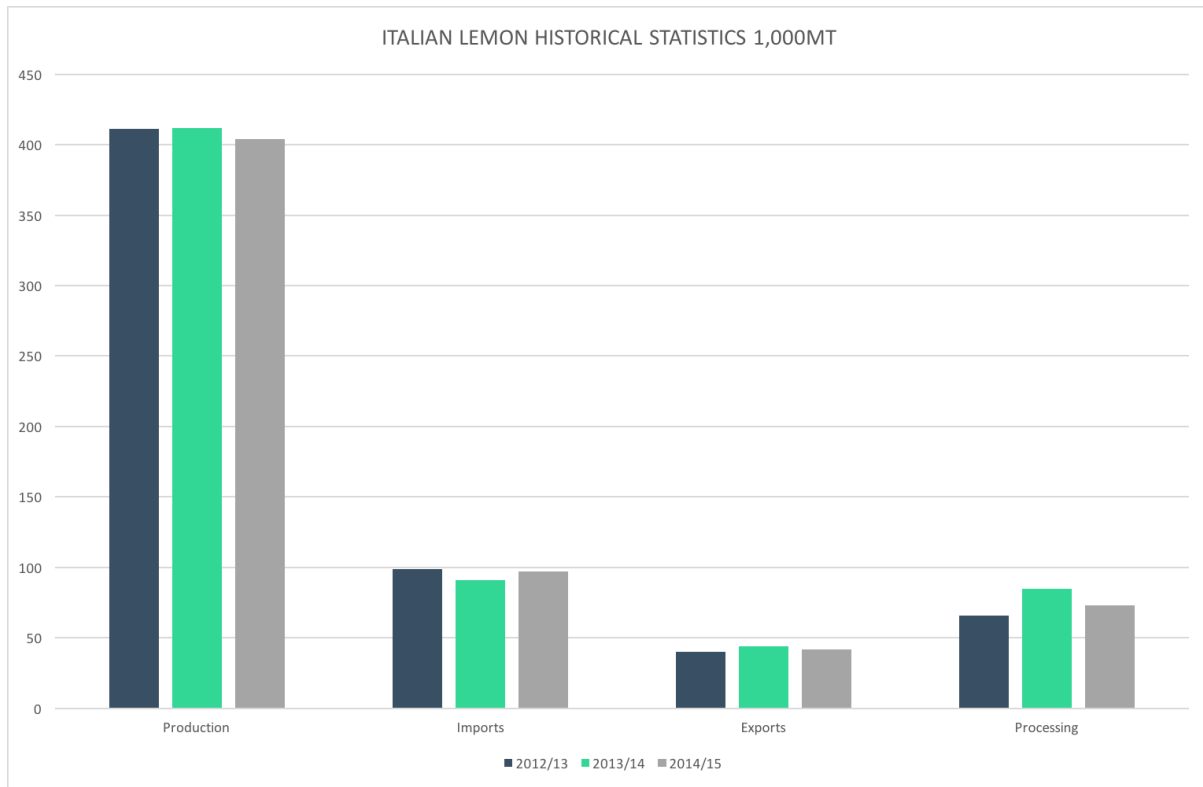
“Did you know that Sicily produces around 85% of all Italian lemons?”

We are now beginning to see a clearer picture from the winter season with yields significantly down which is a direct result of last year's hot weather during June and July.

Many producers have a slightly different version of how bad the situation has become but a recent article from FOODNEWS suggested the fruit looked like “golf balls” and that the harvest would be reduced by around “30%”. Whilst these are not official statistics they do reflect the general consensus which will likely leave the market short over the coming months.



These figures are reflected in the local fresh fruit markets with today's fresh fruit prices around EURO 0.42 /kilo (ex grove). This has a direct impact on the input costs for juice and oil. With demand for Italian lemon oil growing, as it is often regarded as a premium product, these price increases are likely to continue throughout 2016.



Market prices € 36.00 - €37.00 /kilo

Orange Oil Blood

Although it is a little early to predict it is hoped that the new crop will provide us with some relief after last year's disappointing output. DOWN AROUND 45% ON 2014, this year was particularly bad but we are hopeful that come February/March 2016 there is better news for us all.

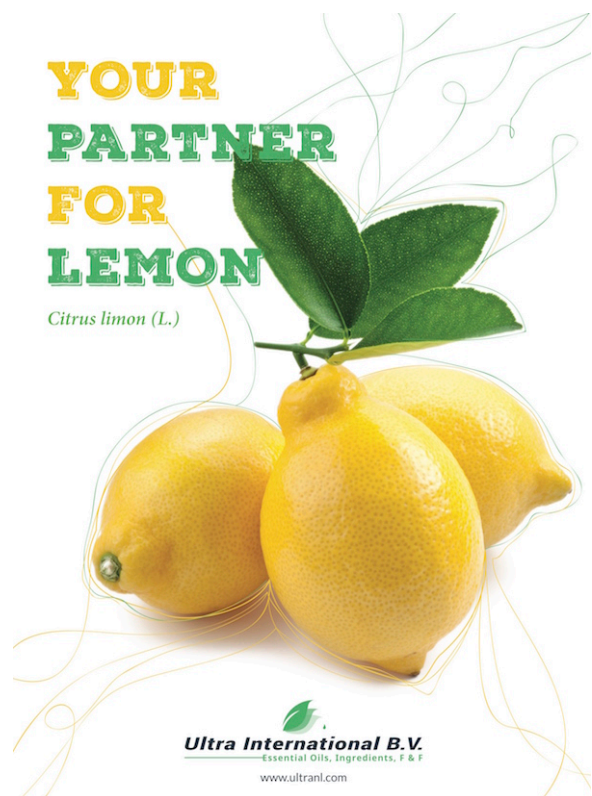
Early suggestions are for an overall crop of around 1,050,000 MT of which 450,000 MT blond and 600,000 MT of blood orange, of this around 260,000 MT and 165,000 MT respectively will be processed.

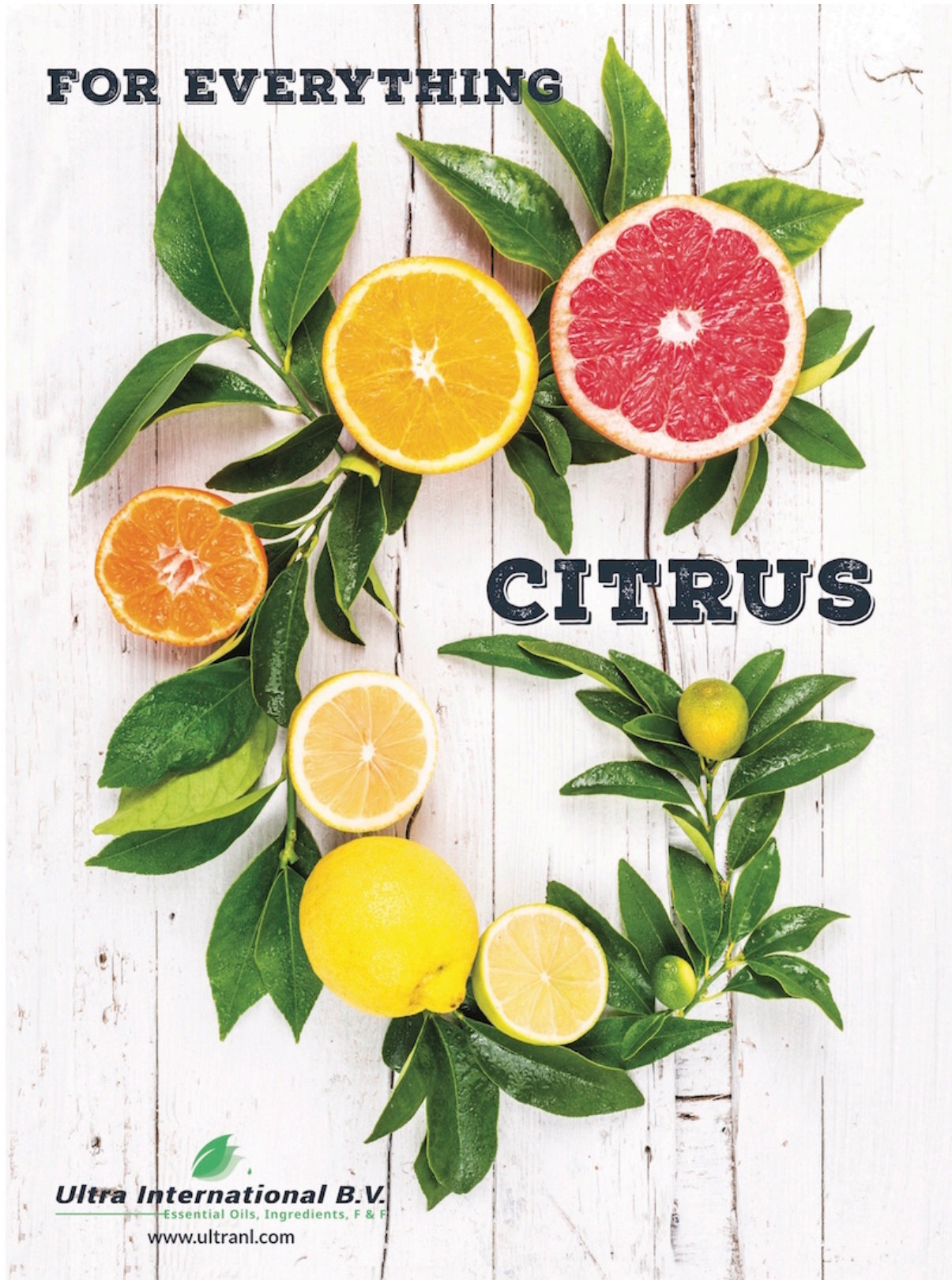
Demand for Italian orange is strong, as it is for all other origins, given the issues surrounding supplies in Brazil. This will further push up prices ahead of the new season although no one is currently willing to speculate on new season prices.

Market prices € 8.50 - €9.50 /kilo

**YOUR
PARTNER
FOR
LEMON**

Citrus limon (L.)



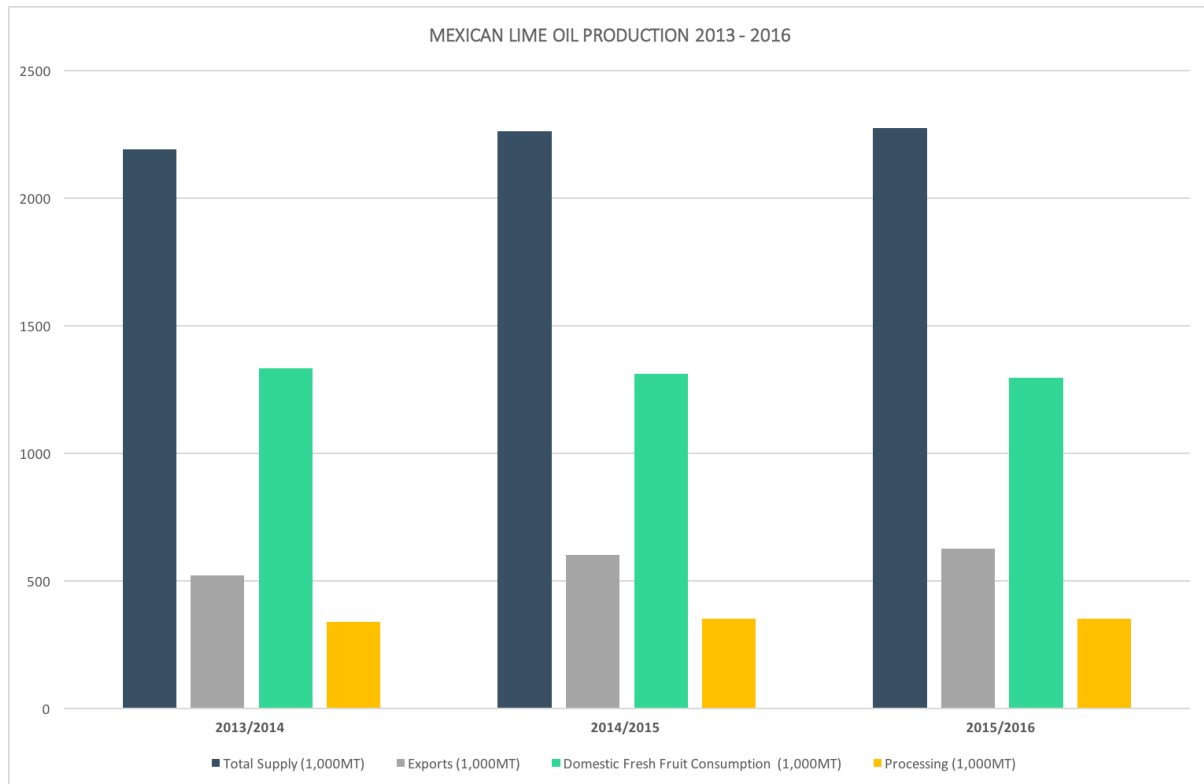


KEEP READING FOR MEXICO, SOUTH AFRICA, SPAIN & USA PRODUCTS!!!

MEXICO

Lime Oil Distilled (Key)

There are conflicting reports from different producers and traders regarding the conditions of lime plantations in Mexico. Some estimates suggest higher yields than recent crops whilst some suggest much lower crops, especially when it comes to this winter crop and how that will affect the carryover stocks heading into the summer season which starts late May.



The winter season was summarised by the leading producer in Mexico as being around 50% lower than that of 2015 and that they are not expecting a bumper summer crop, which would likely result in higher export prices later in the year.



That said we are expecting some newer plantations to come online this summer and having avoided the potential damaging hurricane season the weather forecasts are generally in favour of a positive crop, but then again have we seen the end of this long El Niño season which has managed to turn on its head many a weather forecast in recent months? Not forgetting our friend HLB (citrus greening) which continues to affect around 25% of fruits in the important Colima state.

2015 was deemed a normal year with production in Mexico recorded at 2,000,000 MT of Key Limes. The growing fresh fruit market took around 80% of this volume leaving 20% for processing. It is not expected that we will see much increase in overall production during 2016.

 **Market prices USD 35.00 – 37.00 /kilo**

SOUTH AFRICA

Lemon Oil

As the 6th largest producer of lemons globally South Africa is not always considered a large contributor, especially for oil, yet it proves to be very consistent and reliable.

Total production throughout the 2013/14 season reached 270,000 MT with almost 60,000 MT sent for processing. That is approximately 25% more than the previous year for oil production. South Africa can be very versatile when it comes to how many fresh fruits are sent for processing and so is capable of being in or out of the oil market as and when it is more commercially attractive to do so.

This season started with some **CAUSES FOR CONCERN** after larger areas of plantations were assessed. Droughts conditions are being experienced due to unusually low rainfalls and above average summer temperatures, which negatively affected fruit sizes.

As a result, forecasts are suggesting a **20-25% REDUCTION IN PRODUCTION** and although it is too early to estimate as to whether this will impact on the 60,000 MT desired for processing, it is safe to say it's most likely. This will impact on the volume of oil produced and may in turn increase prices.

 **Market prices N/A**

Orange Oil

The news from South Africa is disappointing to say the least. After many years of modest growth, it looks like this year could be very different.

Recently we have come to expect around 400 MT per year of South African orange oil, however the current droughts being experienced in the citrus growing regions are having a devastating effect. **BELOW AVERAGE RAINFALLS AND ABOVE AVERAGE SUMMER TEMPERATURES** during the past season, especially during the fruit-sizing period has had a negative impact on fruit sizes.

As a result, early indications are suggesting as much as a **35-40% DECREASE IN FRUIT PRODUCTION** which may not reflect in the same decrease of oil produced, it will certainly have an impact.

It is very early to fully assess the true impact, especially on the processed markets but already prices have started to rise and are likely to continue to do so early 2016 as the harvesting period progresses.

 **Market prices N/A**



We love our lemons – always find the latest market updates from all our Lemon origins by visiting www.ultranl.com

SPAIN

Lemon Oil

2014/15 Spain's fresh lemon production increased 30% reaching 1,065,000 MT, record levels both in production and exports. This increase has been attributed to good crop management (irrigation, fertilisation, treatments etc.) and favourable weather conditions during the flowering and fruit setting periods.

Today Spain's contribution to all EU production is around 65% so what happens in Spain generally makes the biggest impact of all producing EU countries. Production of the Fino variety is estimated at 800,000 MT while Verna is at 300,000 MT.

So as we turn our attention to this **2015/16 winter season** what are we forecasting as fresh fruit have prices continue to rise as they have in recent months?

This price rise is largely due to **DROUGHTS** and **HIGH TEMPERATURES** recorded during May, June and July which **DAMAGED** crops with the impact of this only recently being fully assessed. It appears the **REDUCED HARVEST COULD BE AS MUCH AS 25%** with farmers compensating for this loss with higher selling prices.

This figure is consistent throughout Spain with a crop reduction of 24.6% in Alicante, Castellon 25.2% and 20.4% in Valencia anticipated for this season.

How this impacts on the amount of lemons processed, the relative input costs and the market demand for Spanish lemon oil is yet to be seen. A number of producers have some carryover stocks from earlier this year but these volumes are not significant and there's little to suggest that prices for any fresh oil production will decrease. As per usual trends the volume of lemons in the market come January is significantly less and depending on external pressures from other producing countries we could see New Year oil prices rise and supplies tighten.

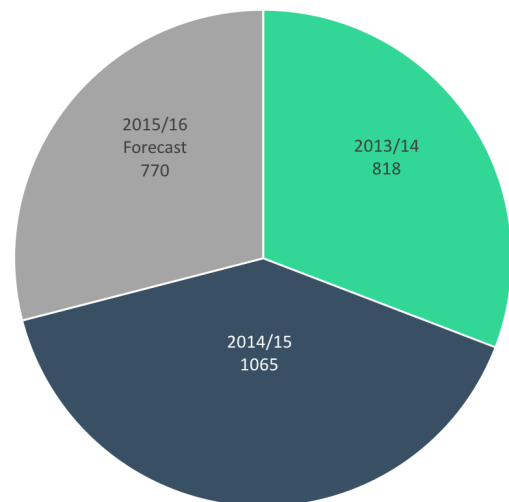
A **25% REDUCTION IN OUTPUT** would see Spanish fresh lemon production fall to levels below that of 2013/14, to somewhere in the region of 770,000 MT. Based on last year's fresh export figures of 695,000 MT and with demand growing, farmers will have the option to sell all their production into the fresh fruit markets leaving very little for processing, unless of course the processors can pay more for the fruits, which will only happen if oil prices rise. Watch this space!

 **Market prices €32.00 - €34.00 /kilo**

This increase of fresh fruit production also supported Spain's desire to fill the gap in the global processed fruit market, a hole left by Argentina following their disastrous 2014 crop. As a result, last year 300,000 mt of Spanish lemons went for processing, almost double that of the previous year.

Despite the increase in oil output the prices remained relatively firm as fresh fruit input costs for processing continued to rise as the global demand for fresh lemons increased, with Spain also exporting 10% more fresh lemons than in 2014.

RECENT SPANISH LEMON PRODUCTION (1,000MT)



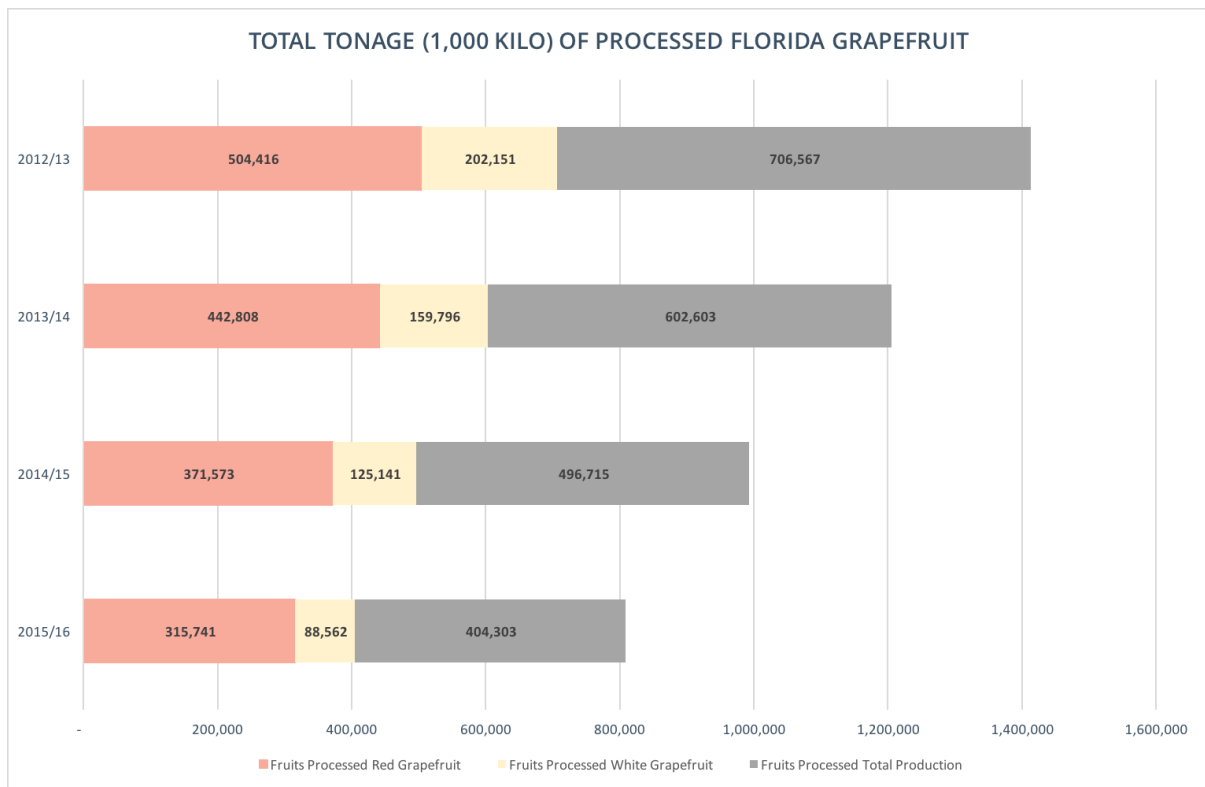
USA

Grapefruit Oil

THE LOWEST HARVEST IN 84 YEARS!

You can see from the chart that recent year's production has fallen and this year's forecast is set to be no different.

Recently the USDA revised their output figures once again to 10.8 million boxes, a significant **REDUCTION OF 700,000** since recent forecasts. White grapefruit is forecasted at 2.3 million boxes while red (or pink) is at 8.5 million boxes.



The chart shows these figures converted to kilos of fruits assuming the net weight of each box is 85 pounds. It clearly demonstrates how significant the decline has been in recent years and given the fact Florida represents over 50% of all production in the USA it has a major impact across all markets. Back in 2012 Florida would have represented 65% of all production which highlights Florida's troubles rather than gains in the other producing states of Texas and California.

The current fruit size of white grapefruit is below the minimum while current droppage is above the maximum. The current fruit size of red grapefruit is below average, while current droppage is above the maximum.

These reduced volumes continue to put pressure onto today's oil markets with prices increasing as a result. As we look ahead it is hard to envisage a situation where this improves quickly.

 **Market prices N/A**

Lemon Oil California

California is the largest lemon growing state in the United States with 47,000 acres in production. Arizona is second with 8,300 acres. During the 2014-2015 season, **CALIFORNIA'S LEMON PRODUCTION INCREASED 9%** over the previous season and Arizona's lemon production was up 11%.

It is expected that this season California production will be stable while Arizona production is expected to be down between 15 and 20%.

Lemon acreage increased this year by 1,000 acres to 56,300 acres and processed fruit increased to 260,000 MT. It is expected that this season will be similar to that of last year with prices remaining relatively firm as demand continues to rise.

The United States is now importing more lemons than ever before. With a growing domestic fruit market and a relatively static local production this is a trend that is likely to continue.

 **Market prices USD 35.00 – 40.00 /kilo**

Orange Oil Florida

Owing to the dreaded HLB Citrus Greening disease (*read more below*) we're sad to report that once again the USDA have reduced the output for this orange season in Florida. The new figures set in January and again confirmed 9th February reflects **THE LOWEST ORANGE HARVEST IN 52 YEARS** and almost a 30% decrease on just last year's total production output! Alarming figures leaving the Florida markets in a desperate situation.

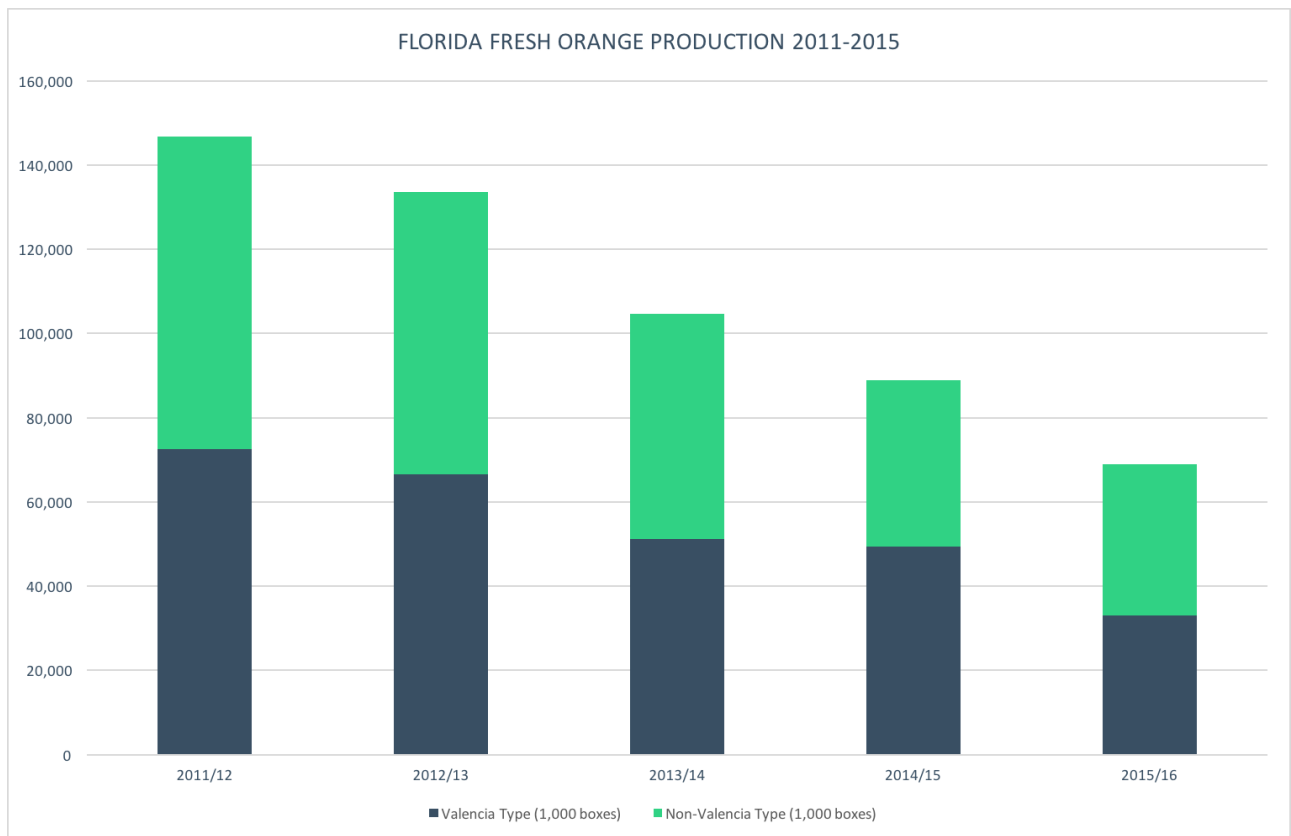
Revised down since November from 74 million boxes to now just 69 million boxes the main reduction has come in the Valencia orange where output revisions fell another 4 million boxes (approximately 163 million kilo!!). The non-Valencia types fell a further 1 million to 33 million. In total that's **11 MILLION FEWER BOXES** since the early season report in October 2015!

TYPE / SEASON	2011/12	2012/13	2013/14	2014/15	2015/16
Valencia Type (1,000 boxes)	72,500	66,500	51,300	49,400	33,000
Non-Valencia Type (1,000 boxes)	74,200	67,100	53,300	39,500	36,000

As mentioned, the USDA allocates much of these decreases to the **DAMAGING EFFECTS OF THE BACTERIAL DISEASE CITRUS GREENING** (HLB). Citrus greening in Florida remains the biggest challenge, as the impact on its citrus market is devastating. Greening's most significant effects on the crop are smaller fruit sizes and an increase in the amount of mature fruit that drops to the ground before it can be harvested.



HUANGLONGBING (HLB; CITRUS GREENING) is thought to be caused by the bacterium, *Candidatus Liberibacter asiaticus*. HLB has seriously affected citrus production in a number of countries in Asia, Africa, the Indian subcontinent and the Arabian Peninsula, and was discovered in July 2004 in Brazil. Wherever the disease has appeared, citrus production has been compromised with the loss of millions of trees. HLB has not been reported in Australia or in the Mediterranean Basin. In August 2005, the disease was found in the south Florida region of Homestead and Florida City. Since that time, HLB has been found in commercial and residential sites in all counties with commercial citrus.
University of Florida



This chart shows the latest figures from the USDA (February 9th) in comparison to previous years production

These historical lows have come as some surprise and is a sorry sign of the Florida citrus markets. Today market prices remain firm and may increase following these new sets of figures.

Interestingly Californian orange production was slightly up on recent years at 52,000,000 boxes. What was a historically a small contributor to the total US crop now represents over 40% of today's forecasts!

 **Market prices USD 8.50 – 8.75 /kilo**