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Global Outlook 2020


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All change for 2020

Sustainability and ecology are the new big issues.

Hello and welcome to the latest Global Outlook, the first to come under the umbrella of our new owner, IHS Markit.

This is the best and most comprehensive overview of the agri-industrial sectors covered by IEG Vu. Once again, we are making our own forecasts for individual sectors for 2020 and it is worth pointing out that, in the past, our forecasts have been extremely accurate.

It is easy and tempting simply to look at data for (for example) harvest volumes over a period of years, or imports, or exports, or prices, and merely extrapolate from the posted data, but that does not really work for many agri-industrial items because so much can be affected by weather or political issues.

To take a contemporary example, two years ago there was no (or a negligible amount of) US duty on imports from China of fruit juices, canned tuna, a number of canned fruits, and more. Today, the Trump administration levies 25% duty on these items. This has had an obvious effect on price and an equally obvious effect on supply and demand.

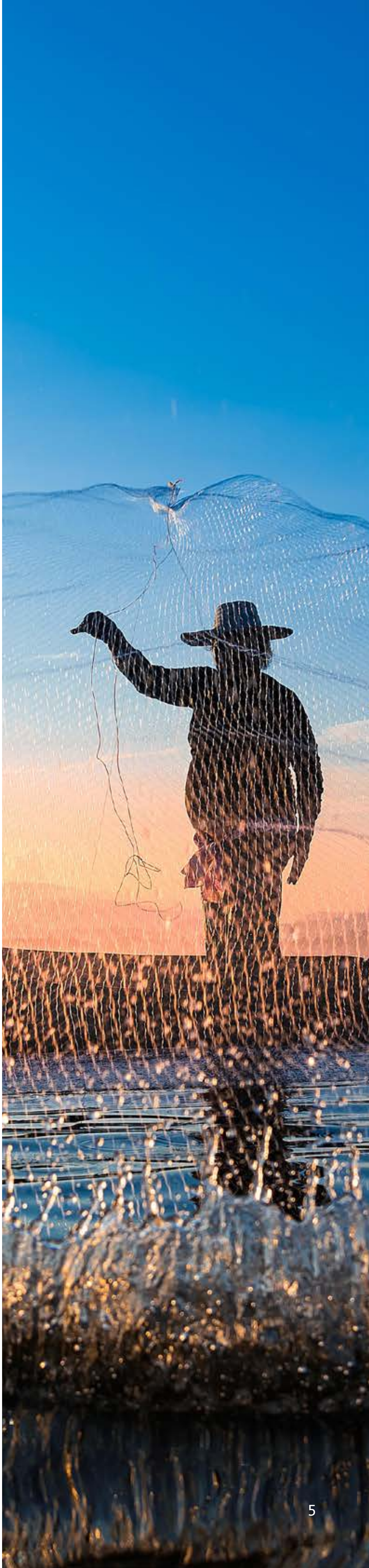
A basic extension of data would not have included this but here at IEG Vu, we get under the skin of the industry we serve in a way that few others can match. Also, with the back-up of IHS Markit's additional data and the way it can be integrated with our own painstakingly gathered information, we will be able to continue to improve our forecasts.

What are the main issues affecting the industry today? Weather and climate change – harvests are simply not as reliable as they were. Politics and trade disputes and tariffs – see above. Exchange rates, and general economics – look at what has happened to, for example, the UK pound and the South African rand. Organics – more and more consumers are demanding organic foods and beverages. Dietary change – less sugar, more natural ingredients, and traceability. And finally, charging up with a speed nobody would have suspected a couple of years ago, sustainability – plastics are on their way out.

This last is probably the biggest issue the industry will have to contend with in the next few years.

Enjoy our Global Outlook 2020.

Neil Murray
Head of Processed Commodities
IHS Markit | Agribusiness



Carry-over stock to lead prune prices

The global prune industry is suffering a blurred outlook where falling consumption and high carry-over stocks are pushing down prices despite weak crops in large supplying countries such as Argentina.

By Jose Gutierrez

The IPA estimates that the global crop may reach around 296,000 tonnes in 2024 unless there is some unexpected disaster

The prune industry enjoyed a global expansion in the 19th century, when California and Serbia joined France as global origins, southern hemisphere emerging growers such as South Africa, Chile or Argentina starting to compete with them between the second half of the twentieth and the beginning of the twenty-first centuries.

This growing and commercial pattern worked appropriately for suppliers, prices being led by a balance between offer and demand. However, consumption has been gradually falling since the beginning of the 21st century. And the worst of all: an increasing carry-over stock. Member of the International Prune Association (IPA) warned about this problem in the congress held in France last year.

The IPA comprises growers and packers from Australia, Argentina, Chile, France, Italy, Serbia, South Africa, and the US, which total around 85% of the global plum and prune crop.

The IPA estimates that the global crop may reach around 296,000 tonnes in 2024 unless there is some unexpected disaster, due to ongoing tree update processes in large origins such as Chile, the US and France.

The global 2018 carry-over stock reached around 146,330 tonnes despite a low crop in the US. The 2019 carry-over stocks increased by 6,000 tonnes year-on-year, though hailstorms hitting the Argentine crop dropped the global output to 209,952 tonnes.

We are accustomed to a gradual consumption growth due to emerging markets such as China, India, Brazil, South Africa or Russia, encouraging rising supply for most product categories. What is wrong? Prunes are disappearing from Millennials' preferences and they are choosing the product to feed their children. As a result, prune consumption may be restricted to mature consumers, even though the product's properties match the current global health trend.

Which scenario have the main origins experienced in 2019?

Argentina

The Argentine industry suffered a poor harvest in 2019. Its crop fell from 50,364 tonnes to 15,152 tonnes between 2018 and 2019 and the 2020 outlook is not optimistic. "We are also suffering poor rainfall and most orchards are outdated because around 80% of farmers have fewer than 10 hectares and they do not have the financial resources to modernise their plantations or to expand them," the delegate of the Argentine industry, Francisco Araujo, explained.

Australia

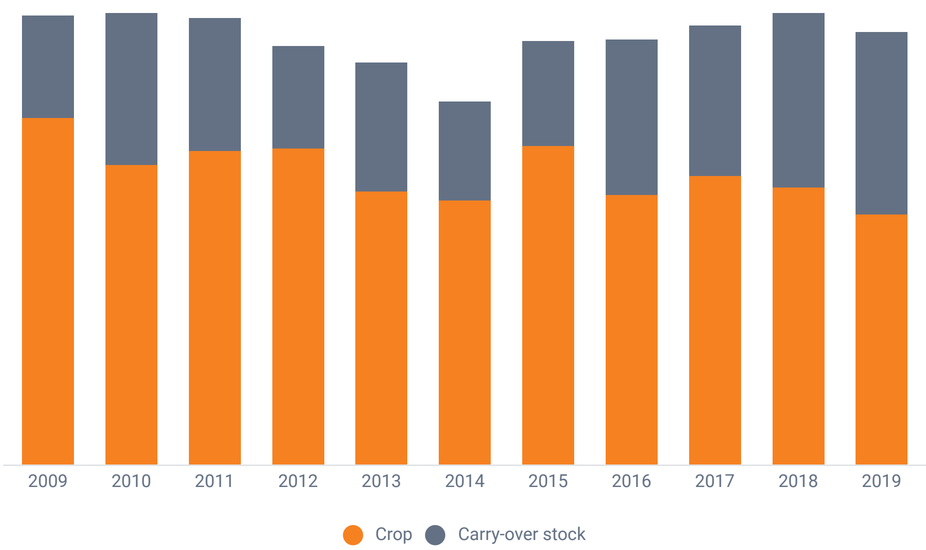
Australia is a small grower. Its 2019 crop reached around 3,500 tonnes, up from 3,000 tonnes in the previous season. The domestic crop may increase gradually, but not much more, due to a combination of high production costs in wages and water rights, the president of Aus Prunes, Grant Delves revealed. However, he explained that Aus Prunes was satisfied in achieving the sale of 100% of the domestic crop under Australian brands.

"Our marketing campaigns are successful, and we are recovering consumers with an age between 20 and 40 years due to health trends. These consumers demand high-quality product and they associate this quality with the domestic crop," Delves explained.

Chile

Water scarcity is a key problem for the Chilean industry. This is prompting the movement of new orchards to southern

Global Prune Crop and Carry-Over Stock, 2009-19 (tonnes)



Source: IPA

AVERAGE PRUNE EXPORT PRICE (USD/TONNE)					
	2014/15	2015/16	2016/17	2017/18	2018/19
US	3,882	4,183	4,316	3,927	4,020
Chile	3,582	2,694	2,194	2,319	2,235
France	3,812	4,284	3,789	3,628	2,522
Argentina	2,521	2,031	2,086	1,973	1,767
Australia	1,444	1,748	1,753	1,205	4,765
Italy	4,752	5,089	4,983	3,633	3,933
Serbia	2,858	2,403	2,023	2,705	2,162
Source: GTA					

regions in Chile, as the regions of Santiago and Valparaiso have been officially declared desert areas due to low snow level in the Andes mountain, the traditional water source for the Chilean industry. The O'Higgins region accounts for around 60% of the planted area, with around 30,000 ha.

The 2019-20 season is expected to be slightly lower than the previous season due to frosts. The 2018-19 season totalled 74,378 tonnes, with an 85.1% marketable crop, a record. "The Chilean industry has been enjoying a gradual increase in output, exported volumes and average sizes and this trend is not going to reverse in the mid-term. We are going to enjoy a robust growth but climate change is a reality and nobody can deny it," Diaz added.

"We are also suffering poor rainfall and most orchards are outdated"

France

France is still maintaining a high carry-over stock of 50,000 tonnes. "The 2019 crop is expected to reach around 50,000 tonnes, a volume similar to the previous season. The consumption is not growing, pushing up the carry-over stocks, especially for the smaller sizes," the French delegate, Frank Hayer, said.

As a result, the French efforts are focused on promoting domestic consumption through several marketing campaigns in communication media and special activities aimed at the young.

Italy and South Africa

Italy and South Africa are the smaller producers in the IPA. Italy has only 16 growers, concentrated in the Montere cooperative. "Italy is cutting its prune consumption gradually, and imports are falling. However, our sales and crop are growing because our product variety has less sugar than the average, matching the healthy demand from the young consumer," the Italian delegate, Alberto Levi explained.

"Italy imported 7,000 tonnes of prunes in 2018, down from 12,000 tonnes in 1991. On the other hand, we have pushed up our crop from 7,000 tonnes to 8,880 tonnes between these years," Levi added.

South Africa expects a very poor 2020 crop, with small size fruit, due to severe drought.

California

The 2020 California crop is expected to reach 82,000 tonnes, slightly down from the previous forecast, according to California Prunes. The carry-over stock is 75,680 tonnes.

“All our crop is matching our quality standards, being focused on promoting consumption in our main markets (the US, Canada, the EU, Japan, South Korea and Japan),” Donn Zea, executive director of the California Prune Board, explained.

Our main objective is highlighting the health properties of prunes and to increase consumption, choosing prune ambassadors such as influencers or chefs and developing new recipes where prunes are essential to get new flavours and proposals,” Zea noted.

Conclusion

Severe drought is impacting on southern hemisphere origins. However, the main barrier to increased prices is the strong carry-over inventory, which is gradually growing despite weak production in some origins. This scenario leads to stable or stagnant prices in the short and mid-term.

What does IPA propose to sort this blurred perspective? “We must stop a price competition and to increase global promotions through the IPA to cut carry-over stocks selling in new markets and attracting young consumers,” said the secretary general of IPA, Clement Le Dressay.

Drought is impacting on southern hemisphere origins but the main barrier to increased prices is the strong carry-over

“There are successful promotion experiences of growers and processors in their domestic markets. We must apply this learning to the global market,” Le Dressay added.

What is our forecast for the 2020 season? Essentially stagnant prices, pressing down the most expensive in the northern hemisphere (California and France) as the high carry-over stock will remain.

Notable recovery in global dried grape supply

California's Thompson crop fall may be offset by stronger carry-over stock and recovery in Turkish production.

By Jose Gutierrez

The global dried grape industry is set to experience a strong supply due to growth recovery in Turkey and strong production in most origins in the northern and southern hemispheres, it was announced at the International Seedless Dried Grape Producing Countries Conference, whose last congress held in Mildura (Victoria, Australia) from November 6-8 2019.

The 2018-19 seedless sultana and raisin crop increased by 7% year-on-year and the 2019-20 is expected to show a small increase, securing the global demand despite low carry-over stocks. Thompson raisin prices suffered a fall when Turkey and the US started to sell carry-over stocks from July onwards before the new harvest, leading South African prices.

What is the new scenario in the northern and southern hemispheres?

California is expected to maintain its gradual fall, which started in 2017, dropping to 228,900 tonnes (13% less year-on-year) in the 2019-20 season. However, its lower sales in the previous season may lead to an available export tonnage of 164,700 tonnes, 12,000 tonnes up from the previous season.

California is still facing the challenge of the Chinese retaliatory tariffs, which might mean a 37% increase for consumers and retailers. The industry is trying to find alternative importers, developing strong marketing campaigns in Japan, Canada and Latin American markets such as Mexico and Dominican Republic.

Turkey's crop is expected to reach 305,000 tonnes, 8.9% more year-on-year, taking its international supply to 265,000 tonnes, a similar volume to the previous year and negating any risk of a supply shortage. In addition, Uzbekistan may strengthen its global role as a key supplier to Asian markets and Russia, with a sultana and raisin output of 70,000 tonnes, 27.2% more.

EU members account for around 85% of total exports. The UK is still the largest importer, accounting for 28% of exported volumes. As a result, Brexit consequences (regulatory and tariff changes and the British pound's value against the Turkish lira) will have a strong impact on the domestic industry. Government and companies are trying to diversify sales, negotiating with Asian markets such as China, Malaysia and India.

Iran, another important supplier for Asian markets, is expected to follow a similar trend, its crop growing by 27% to 140,000 tonnes.

Finally, Greece is expected to enjoy a bigger currant crop, totalling 23,000 tonnes, 43.7% more year-on-year and alleviating the shortage suffered in previous years in which South Africa or Australia were not able to offset.

Southern hemisphere

Argentina, Chile and South Africa, the largest origins in the southern hemisphere, enjoyed strong harvests.

Argentina has experienced a gradual fall in its vineyard planted area to 218,233 hectares in 2018, 31% less than in 1979. The area of San Juan is the largest raisin origin, with a growing area of 16,800 ha. The 2019 output totalled 40,000 tonnes, about 1,500 tonnes down from the previous year due to some hailstorms.

"We have enjoyed bumper yields and a slight fall was expected," Carlos Huertas, director of the raisin processor and exporter Frutandina explained.

"We are quite optimistic about the output growth in the following year because we have secured water supply as three dams have been completed and a fourth is under construction," Huertas said. "The 2020 crop is expected to increase slightly."

Argentine dried grape exports are focused on South America, mainly Brazil. The US and the EU only account for around 10% of the total volume sold. As a result, Argentina's industry is dependent on the evolution of Brazilian consumption.

The 2019 South African crop reached around

"We are quite optimistic about the output growth in the following year because we have secured water supply as three dams have been completed and a fourth is under construction"

73,390 tonnes, up from 68,000 tonnes in 2018. Water supplies are secured due to good average rainfall in recent years, leading to record harvests in the last three years. However, frosts in the last week of October have damaged vineyards in the region of Upper Orange. The 2019-20 sultana and raisin crop may total around 44,500 tonnes, up 2,000 tonnes from the previous season. "We do not want to forecast a complete production, including currants and goldens, because we must assess the damage caused by frosts," the general manager of the South Africa Raisins association explained.

South Africa is another large Thompson raisin origin, accounting for around 58% of the total dried grape harvest. As a result, South African output would be essential to reverse the Thompson shortage experienced in the last couple of years.

Botha pointed out that there is a key danger for the industry in the long-term: the farm expropriation project launched by the government. "The current president, Cyril Ramaphosa, has shown common sense and business-friendly spirit, although the idea of a massive expropriation is still very popular despite negative experiences in other countries such as Zimbabwe," Both added.

The Chilean industry is still in a transitional period to develop vineyards dedicated to dried grapes, to avoid competition with fresh product for the wine industry and fresh fruit exporters. The 2019 raisin crop totalled 65,000 tonnes, obtaining a good price for Jumbo variety.

"The Chilean industry has enjoyed a very quick modernisation process, with four exporters selling half of the total crop. This structure has accelerated the specialisation of vineyards for raisins and established long-term relationships with farmers to increase the quality every year," the dried fruit product manager of Pacific Nut, Juan Widmer, explained.

Chile is suffering the worst drought in decades. Traditionally, Chile has obtained its water supply from melt snow in the Andes mountains but last winter was extremely dry. "We do not want to make any estimate, as the lack of irrigation may push down yields although trees are coming into fruit as usual," Widmer added.

Social riots started in Santiago last October and expanded to all the country, leading to a fall in the Chilean peso against the US dollar and higher interest rates and a downgrading of the official economic forecast for the next two years.

GOLDEN AND CURRANT CROP 2019

	Es. Stock (August 2018)	Goldens Est. 2019 Crop	Est. Available Product for Marketing	Est. Stock (August 19 (currants)	Est. 19 Crop (currants)	Est. Available Productfor Marketing (currants)
Greece	0	0	0	0	23,000	23,000
Iran	0	40,000	40,000	0	0	0
Turkey	0	0	0	0	0	0
US	1,003	18,756	19,759	343	1,632	1,975
India	0	0	0	0	0	0
Uzbekistan	0	15,000	15,000	0	0	0
China	0	0	0	0	0	0
Argentina	0	0	0	0	0	0
Australia	0	0	0	700	1,800	2,500
Chile	0	0	0	0	0	0
South Africa	0	25,000	25,000	0	3,800	3,800
Total 2019	1,003	98,756	99,759	1,043	30,232	31,275
Total 2018	800	94,000	94,000	1,869	21,592	21,341

Source: International Seedless Dried Grape Producing Countries Conference

The 2019 Australian crop totalled 15,248 tonnes, its vineyards having suffered severe heat in January. The Aussie industry is living a paradoxical situation. It is small and has only 300 growers and imports around 23,000 tonnes of dried grapes. Turkish sultanas account for 87% of the total. Meanwhile, its potential growth is limited by a fall in domestic consumption and its high labour costs, as it specialises in high-quality products.

The Australian industry should undertake several tasks, such as promotion of domestic consumption, especially for young consumers; development of new products, investment in research and development and modernisation of production techniques to cut costs.

"We have responsible processors such as Murray River Organics, APDF or Sunbeam Foods which are establishing long-term deals with growers, encouraging them to invest in modernising vineyards, and they are willing to collaborate with the Australian Dried Fruit Association with promotional campaigns. This good atmosphere makes me optimistic about the future of the industry," the chairman of the Australian Dried Fruit Association, Mark King, explained.

Global marketing campaign

All conference members shared that global dried grape consumption is falling and the solution is not to increase exports through large crops, sparking a price war.

As a result, they agreed to develop a global marketing campaign to promote dried grape consumption in the conference held in Mildura. The campaign is set to be launched in February 2020 through the Dried Fruit Alliance Association (DFA), which has had a similar experience in the UK, led by importers and wholesalers associated with the UK National Dried Fruit Association (NDFA), such as Whitworths, Sun Maid, the Californian Raisin Administrative Committee and the California Prune Board.

UK DFA's main objective is to promote dried fruit consumption in the country, the largest European importer, explaining its healthy properties throughout communication media and medical seminars, reverting its gradual fall in past years.

"We should make a similar global effort as falling consumption is worse than a temporary supply shortage," the chairman of NDFTA, and UK general manager of Besana, Simon Melik, noted.

"We have suffered media campaign attacks against dried fruit based on inconsistent information about its sugar content. The moderate consumption of dried fruit is not impacting on a balanced diet or dental health and we must invest in explaining it, looking for global partners such as the International Nut and Dried Fruit Council (INC)."

Conclusion

After analysing updated production forecasts, we expect a general price fall for raisins, especially Thompsons, and currants after Christmas from summer's levels, being steady once the southern harvests are completed. If Chile cuts prices and rumours of a possible technical recession is confirmed, a sudden fall may take place from February onwards.

SULTANA AND RAISINS CROP 2019

	Est. Stock (Aug.19)	Est. N. Hemisphere Prod. (Oct. 19)	Est. S. Hemisphere Prod. (Feb. 20)	Est. Available Product for Marketing	Est. Domestic Sales (Sep 19-August 20)	Balance availablefor export marketing	Estimated exports (Sep 19-Oct 20)	Est. Stock (Aug. 20)	Planned carry-over stock
Greece	0	2,000		2,000	1,500	500	500	0	0
Iran	10,000	140,000		150,000	30,000	120,000	100,000	20,000	0
Turkey	10,000	305,000		315,000	50,000	265,000	250,000	15,000	0
US	114,042	228,983		343,025	178,237	164,788	100,323	64,465	57,533
India	0	145,000		145,000	115,000	30,000	23,000	7,000	5,000
Uzbekistan	0	70,000		70,000	2,000	68,000	68,000	0	0
China	0	190,000		190,000	160,000	30,000	25,000	5,000	5,000
Argentina	1,000		40,500	41,500	3,000	38,500	35,000	3,500	1,500
Australia	5,000		13,450	18,450	10,500	7,950	5,570	2,380	1,500
Chile	3,000		65,000	68,000	3,000	65,000	62,000	3,000	3,000
South Africa	30,000		44,592	74,592	11,500	63,092	35,000	28,092	18,000
Total 2019	173,042	1,080,983	163,542	1,417,567	564,737	852,830	704,393	148,437	91,533
Total 2018	121,500	1,040,000	160,030	1,321,530	549,237	772,293	639,070	133,223	98,533

Source: International Seedless Dried Grape Producing Countries Conference

US pecan producers set sights on boosting demand

Efforts to increase demand for US pecans are being coordinated by the American Pecan Council.

By Julian Gale

US pecan demand is running significantly behind that of other nuts and the sector is keen to improve on this, it was revealed at the US Nuts and Dried Fruit Conference, held on November 19 at the US Embassy in London.

Alexander Ott, executive director of the American Pecan Council (APC), remarked that one of the major challenges in trying to coordinate any strategy to drive demand is that the US pecan industry encompasses multiple groups. Five of these are national, two are regional and the balance comprises the various state groups.

The APC is a federal marketing order and oversees the sector's promotion and marketing, research, standardisation, data and statistics, and compliance.

Native nut

Pecans are the original native nut to the US and Mexico. "A lot of our trees have been there for 200 or 300 years so we are actually harvesting some of the native trees that the native Americans harvested," Ott noted.

There are a lot of costs associated with pecan nuts. "Specifically, the biggest challenge is the east to west differences," Ott explained. Pecans grown in the eastern states are more prone to scab disease and pest issues, whereas those grown in the west face water issues.

In the east, the growing costs are around USD3.40 per pound, while in the west they are USD2.30 lb. Much of this is down to the differing harvesting practices and average yields between the two regions.

Pecan trees take at least seven years to enter the production cycle, 10 years to achieve any significant volumes and 18 years to reach full production. "So we call pecans a generational crop," Ott said.

A lot of pecan trees in Georgia were lost to Hurricane Michael in October 2018 and the 2019 crop in this state is projected at 290 million lbs versus 315 mln lbs in 2018.

On the positive side, the western US states of New Mexico, Arizona and California are increasing their planted area.

Update on 2019 crop
At the time of writing this article (November 25) harvesting in the US was said to be close to the midway point.

US pecan reporting website pecanreport.com suggested: "The market could see an uptick in pricing as the eastern crop has come up shorter than originally expected. The western crop is expected to put good numbers this year, hopefully keeping the coldstores full enough to supply the market."

Consumer awareness
'Top of mind' awareness of pecans is low compared with that of other mainstream tree nuts. In a 2017 survey which ranked the percentages of respondents that recalled each tree nut, pecans were in fifth position with 15%. Pistachios were next with 18%; then walnuts with 31%; cashews with 43%; and almonds top with 56%.

In addition, a study of the percentages of US volume consumption from 2006 to 2016 showed that pecans achieved zero growth or declines of up to 3% over the period. Pistachios averaged a gain of 19%; cashews 25%; walnuts 52%; and almonds 72%.

Substantial supply is coming from South Africa and China and if there is no corresponding change in consumer demand, the market will be hit with a surplus. Projected supply growth is in line with the historic CAGR of 6.5%.

In 2017, global production was estimated at 680 million lbs and by 2027 this is expected to reach 1.2 billion lbs. Based on the historic demand, CAGR continuing at 4.5% this production forecast would put world pecan supply 15% ahead of demand, hence the strong need to redress the balance.

The US ranks as the second-largest producer, behind Mexico. "The other challenge we have is that we are actually a net importer of pecans. We do not produce enough pecans in the US for the consumption that we need," Ott noted.

A recent update from the US pecan reporting website pecan report.com noted that US pecan imports from Mexico hit all-time highs last year of around 293 million lbs and this year's overall imports to date were ahead by 6.2%.

Asia is seeing large growth in healthy snack foods

Pecan report.com also appears to take a more bullish view on world demand than that outlined by Ott, stating recently: "The pecan industry around the globe is experiencing enormous growth, that apparently not even a trade war can slow down. With a more global marketplace than ever before, pecans are managing navigating around trade barriers into consumers shopping carts."

Pecan report.com also stated that US retail sales of pecans continue to rise and observed there is a more consistent spread of domestic demand over the course of the year as this nut category changes its image from "just a pie and ice cream ingredient to a healthy snack food and ingredient".

Pecan report.com noted further that the Asia Pacific region is seeing strong growth in the snack food industry, particularly in pecans. "According to a recent study presented by Three Squirrels Food Company, an international snack food company based in China, Asia is seeing large growth in healthy snack foods," the website added.

The APC is also taking steps to improve the availability of industry data to support decision making and objective implementation of uniform standards and is looking to unite pecan stakeholders and formulate a common strategy to benefit the sector. It sees definite opportunities to coordinate marketing efforts across the various US pecan organisations.

The organisation has established industry reports which track shipments and inventory; Mexican exports and foreign purchases; destination reports; and end of year reports. It is creating electronic reporting and will provide relevant information to buyers and consumers. In addition, it will be working with other countries to develop global data on pecans and assist the market in driving demand.

Social media will be used to highlight the nutritional benefits of pecan nuts and the export marketing strategy will be consumer-driven and focused on a select few markets seen as offering the biggest potential growth.

"The top three international markets we are looking at are the EU, Canada, and

China. China, of course, with the tariff issues going on, means that those activities might have to be dialled back a bit," Ott explained.

US pecan exports to the EU started to increase significantly from 2016 and Ott said this was due to the industry pooling its resources and having a consistent, unified message.

Within the EU, Germany and the UK are specific target markets.

IEG Vu asked Ott whether the rise in exports to the EU has helped offset any adverse impacts of China's hike in import tariffs on US pecans. "Yes and no," Ott replied. "It depends which state you are from. What you see in the pecan industry is 80% of the Georgia crop was actually going to China. So the China tariffs were a setback for the industry because we had a large portion going to the country.

"One of the challenges is how we can decrease those tariffs and get those sales back. At the same time we are doing everything we can to look and recognise other markets and try to drive it. Since we have only had a full federal marketing programme in place for three years, the opportunities are definitely there to increase a lot of those exports and hopefully offset what we have lost. But we're pretty confident that this trade issue will be resolved quickly and hopefully we can see some of those other offsets to other markets."

"Low offers from Mexican suppliers continue to drag the market below fundamentals"

Price expectations

Meanwhile, pecan prices levelled off in Q4 with the onset of new crop indications. Prices for halves remained in line with projections with a premium on improved sizes (Fancy Junior Mammoth Halves and Fancy Mammoth Halves) while pecan pieces continued to trade at levels seen at the end of the 2018/19 crop.

Dutch broker QFN Trading & Agency remarked: "With a slightly smaller US crop than last season (projected at 305 mln lbs), current pecan prices could very well be undervalued. Low offers from Mexican suppliers continue to drag the market below fundamentals.

"With a concerted effort by the current US administration to iron out global trade issues in light of 2020 elections, all tree nuts of US origin could be in line for a price increase over the next 12 months. There have been some frost/freeze concerns in the western growing regions, as well as quality issues displayed by early varieties in the eastern growing regions. However, quality out of the US is still projected to be of average to above average."

Based on these factors, QFN Trading feels that improved halves will continue to command a premium compared with other sizes with a likely shortage in the second half of the crop (*June 2020 onwards*).

Pieces are likely to remain weak in price in view of a large Mexican crop, the firm noted.

It concluded: "A native crop of commercial size will allow smaller pecans halves to display some availability, but due to their specialised application, we expect a minimum impact on overall supply and price. Q4 prices will likely remain stable through the beginning of Q1 trading.

"Though there have been reports of softening prices, raw material costs have increased slightly over the last several weeks and all current indications are of a speculative nature with a minimum amount of raw material currently procured. Until the US-China trade dispute is resolved, prices will likely remain very similar to the 2018/19 crop continuing favourable and stable buying. environment."

US pistachio industry on track for continued expansion

US pistachio producers are confident that the sector will remain in a strong position over the 2019/20 season and beyond.

By Julian Gale

The US pistachio industry is going well and has a bright future ahead, Judy Hirigoyen, vice president of global marketing at American Pistachio Growers (APG) declared at the US Nuts & Dried Fruit Conference at the US Embassy in London on November 19.

More than 90% of US pistachios are grown in California, and less than 1% of the total are produced in Arizona and less than 1% in New Mexico respectively. More than 70% of US pistachios are exported each year.

The US became the biggest global producer of pistachios in 2008 and has held this position ever since.

The APG has more than 865 members who voluntarily provide it with funds to build a market for pistachios.

It had been hoped that US pistachio exports would reach 1 billion pounds this year but it now looks as though 750 million lbs is more likely

"Pistachios are now the third-largest export out of California," Hirigoyen explained. "I came to the industry in 2010 and, with the exception of the crop failure we had in 2015/16 during very poor weather for pistachio, we have continued to grow every year. This is an indication of how many more trees are being planted every year and they're coming into bearing."

It had been hoped that US pistachio exports would reach 1 billion pounds this year but it now looks as though 750 million lbs is more likely. "Next year we should surely make the 1 bln lbs mark and there are some industry leaders who think within 10 years we will be at 10 bln lbs and we have no worries about ever being in a surplus situation because we can't meet the demand as it is," Hirigoyen explained.

Exports to the UK continue to increase as do those to western Europe collectively and globally.

Despite the tariff issues, China remains the biggest market for US pistachios. "That doesn't mean we're celebrating because we don't know how much we could have done had we not had the tariffs. So we know there are opportunity costs there, we just don't know what they are," Hirigoyen said.

China's import tariffs are currently set at 55% for raw pistachios and 30% on roasted. These are in effect for mainland China only and do not include Hong Kong.

The tariff on US roasted pistachios is due to rise to 40% on December 15 this year. "That is based on what our president (Donald Trump) says will happen, so we don't know," Hirigoyen observed wryly.

Shipments to India have also increased in recent years.

"We have helped turn India into another China," Hirigoyen explained. US pistachio shipments to India in 2017/18 matched those made to China in 2014/15.

Impacts of Iran's crops

Hirigoyen noted that Iran had a poor crop in 2018, so the US gained from being the only main source for pistachios, hence the strong shipments to India and China. She added that Iran had a good 2019 crop.

Similarly, in a November 27 market update, US company Primex International Trading Corporation noted that US 2018 crop total export shipments (September 2018-August 2019) were up 37.6% from those of the 2017 crop mainly due to Iran's crop failure.

The firm observed that year-to-date (September and October 2019) export shipments were 13.5% down at 79.9 mln lbs, due to Iran's good 2019 crop of 400-440 mln lbs.

Year-to-date shipments to Asia were down 15% and those to Europe by 23%. "Some of this decrease is due to carry-over stocks in the hands of buyers," Primex observed. The company added that most European retailers covered their annual demand before the start of the Anuga food show on October 5 and some further deals were signed during the exhibition.

"A sustainable diet is one that protects the environment and also the people who are growing the product"

"Since opening prices on September 30, there have not been many enquiries from Asia to talk about. We expect to have very thin trading until the end of February when everyone is back from Chinese New Year holidays," Primex suggested.

The report also noted that 2018/19 total domestic shipments were 8.5% up from those of the previous season and year-to-date domestic shipments of 45.8 mln lbs were 12.5% ahead. "This increase in shipments is mostly due to lower priced 2018 contracts being delivered now, as prices have not yet been adjusted at the retail level, reflecting 2019 crop pricing," Primex added.

The year-to-date shipment totals were at 125.7 mln lbs, which was 5.6% less than the same time last year.

October 2019 domestic shipments were at 25.7 mln lbs, which was 8% above those of the same month last year, while export shipments of 58.2 mln lbs were 11% behind. This put October 2019 total shipments at 83.8 mln lbs, down 6.3% from a year ago.

Sustainable diet

Hirigoyen explained that pistachios are an invaluable source of plant-based protein in a sustainable diet. "A sustainable diet is one that protects the environment and also the people who are growing the product. It contributes to the food and nutrition security of people and in our case pistachios in the US can be labelled as a good source of protein," she added.

APG will be promoting these benefits over the coming years.

California pistachios adhere to strict environmental and food safety standards and the industry has a highly-educated grower base, which is relatively young and technically-minded. The sector is resource-efficient with an undetermined lifespan.

Processors have also "gone green" with their own sustainability actions. This includes solar-powered plants; storing and recycling water; groundwater recharging; composting; and co-product uses, such as animal feed and road paving. Processors are also taking social responsibility through employee programmes and community development and outreach.

Drought debate

Hirigoyen recalled that, at a nutrition research conference three years ago, a number of nutrition experts informed her they had been told not to purchase nuts from California because "we caused the drought".

"So I found myself talking less about how pistachios are made and more about how rain is made. Plants don't cause drought," Hirigoyen noted.

In fact, California does not have a shortage of rain. "What we have in California is a political problem where we can't get dams built," Hirigoyen explained.

A total of 50% of the collected rainfall goes to environmental and restoration projects, such as wetlands and rivers and similar environmental resource management; 40% goes to irrigated agriculture which serves more than 400 crops; and 10% goes to cities.

"Most of California's water gets washed out to the ocean because we don't have enough dams to store it," Hirigoyen stated.

Efficient use of water

On the positive side, the pistachio industry has very high-tech irrigation which applies water and nutrients directly to the tree roots. Growers are able to use a mobile phone app which shows them which trees are lacking in nutrients.

A 2011 UNESCO study on world pistachio production and water efficiency showed that US pistachio growers are the most efficient in terms of gallons of water needed to produce a lb of pistachios.

The Public Policy Institute of California found that the state's pistachio growers and producers of other fruit and nut crops have dramatically increased yields while reducing water consumption. Farm production from the 9 mln acres of cropland generated 60% more gross product in 2014 than in 1980, despite water usage being 15% less.

Moreover, pistachio yields have improved as a result of sophisticated water and nutrient management and cultivation practices. Between 1979-1982 yields averaged 930 lbs/acre. This had escalated to 3,736 lbs/acre in 2018.

Pistachio bearing acres were at 1,700 in California in 1977, rising to 264,095 in 2018 and projected to reach 392,595 in 2026.

Vanilla market changes direction

World vanilla prices look set for continued downward pressure next year as production is projected to rise further, but anyone hoping for a complete collapse in prices might end up disappointed.

By Julian Gale

This downward pricing pressure has turned this sector into a buyer's market, as observed in late November by major supplier Aust & Hachmann Canada.

The firm stated in its latest market report: "As we approach the end of 2019 it has become abundantly clear the global vanilla market is now officially a buyer's market for the first time in more than four seasons."

Aust & Hachmann observed that there are varying degrees of price erosion. "While quite significant in secondary regions, like Indonesia and Papua New Guinea, thus far in Madagascar the reductions have been more tempered," the firm noted.

As of November 28, IEG Vu's own prices data listed Madagascar extract type grade vanilla beans at USD425 per kilo fob Vohemar, down from its peak of USD625/kg fob in January 2018. Even higher prices than this were reported by a number of sources at the time. Prices of Madagascar vanilla drifted lower over the course of 2018 and 2019.

David van der Walde, director of Aust & Hachmann Canada, told IEG Vu said he had seen indications of USD400/kg on Madagascar first grade extraction type vanilla beans and a range of USD325-350/kg on lower grades from this origin.

IEG Vu's data showed Papua New Guinea black vanilla beans at USD280/kg fob Wewak on November 28 and Indonesian black vanilla beans at USD260/kg fob Jakarta.

Van der Walde explained he had seen Papua New Guinea offers for lower grade vanilla at USD240-260/kg fob and Indonesian lower grade at USD250-275/kg fob. "Those prices were all double these levels three years ago," he recalled.

Supply

Papua New Guinea

Aust & Hachmann Canada reported that gourmet black vanilla from Papua New Guinea (*tahitensis* type) has taken significant market share from the traditional retail and food service quality usually supplied by Madagascar and the surrounding bourbon islands.

However, the firm cautioned that although this extraction grade has gained further market acceptance, particularly for the ground vanilla sector, it lags behind black gourmet quality vanilla in terms of global demand.

Moreover, in order to remain relevant this origin must raise its quality standards and improve sorting, preparation and packing methods for vanilla beans, Aust & Hachmann stressed.

"This is an area that may produce 250 tonnes in 2020. With the market in decline it will not be enough just to discount prices. Quality must improve as well," the firm added.

Indonesia

Production is increasing but the focus remains on the lower grade extraction qualities where Indonesia enjoys a niche market for its EP and regular cut qualities.

"Vanilla is being aggressively discounted and has already fallen 50% off the highs. Most of the high grade offerings, in particular black/gourmet quality, are for vanilla that has originated in Papua New Guinea," Aust & Hachmann noted.

Aust & Hachmann expects Indonesia to produce at least 200 tonnes of vanilla in 2020.

However, Francois Bernard of Indonesian producer Tripper said that predicting the likely outcome for Indonesian production at this time in the season is "ridiculous".

He explained that this year Indonesia produced around 200 tonnes and there should be a bigger crop in 2020, but recent drought has cast some doubts on this. In addition, if Indonesian producers are not pressured to do low quality early during the year, then the country could have a much bigger crop.

Bernard explained that the rainy season this year is very late. Drought conditions have caused many of the flowers to wilt and fall off the vine after pollination. "If the rain doesn't come soon, we could see a potential loss in production of almost 30%," he said.

Vanilla plantings are under way throughout Indonesia, but only 50% of these plantations will be mature enough to produce vanilla in 2020. Hence, the main gains in output can be expected beyond next year.

Bernard recalled that in 2019, Indonesian farmers sold their green vanilla beans at USD35/kg and, in some areas in late July, at USD42/kg. He estimated that 90% of 2019's production was sold before the opening of exports from Madagascar at an export price that was about USD100/tonne lower than that of 2018.

Uganda

Government assistance for crop management and quality control has had minimal impact so far. "Consistent high-quality vanilla remains elusive with far too much early picking of green beans occurring," Aust & Hachmann observed.

Instances of preparers able to produce a quality of vanilla to match that of Madagascar (by taking a disciplined approach to buying mature green vanilla and using proper curing techniques) are the exception rather than the rule.

The government has postponed harvesting of the new crop until January 15. "If this holds, it will go a long way to assuring better quality, albeit for a relatively small crop to start 2020," Aust & Hachmann predicted. However, buyers' interest is expected to be muted unless prices fall considerably.

"Vanilla is being aggressively discounted and has already fallen 50% off the highs"

Comoros

Aust & Hachmann reported that, based on what it had tested so far (i.e. to late November) the quality of the bourbon vanilla from Comoros in 2019 has been very good with average vanillin contents invariably superior to that from Madagascar.

The 2019 crop was said to be still below 100 tonnes, but this volume might be surpassed in 2020 as the origin has expanded plantations.

Madagascar

Quality of the 2019 crop has been much better than anticipated.

"We had incorrectly assumed an immature crop with the usual rampant early picking and theft of green vanilla. Combined with the late flowering, we expected an adverse impact on quality," Aust & Hachmann explained.

Some limited theft and harvesting of immature vanilla did occur but this was mostly at the early stages of the campaign so it can safely be said that overall quality is as good as that of 2018, the firm noted.

Douglas Daugherty, president of the Vanilla Corporation of America, appeared to be slightly more cautious in his assessment of 2019 crop quality, following his recent business trip to Madagascar.

"I would imagine that most of the 2019 vanilla bean crop is still unsold and in the hands of the vanilla farmers and vanilla bean collectors," he noted. "It is likely that much of this unsold material 2019 crop material still held by the farmers and collectors may not be of the same decent quality that I saw in the exporters' warehouses during my trip. Much of the 2019 crop material held by the farmers and collectors was picked early before the official harvest date in mid-July and also improperly cured due to poor weather conditions for curing after harvest."

Aust & Hachmann added: "Prices in Madagascar have continued to fall but perhaps not as much as many had anticipated."

Going green

Aust & Hachmann also reported that exporters who work with organic or Fairtrade vanilla had no choice but to actively engage in the green campaign to comply with traceability requirements. "Some exporters also purchased quite aggressively, whether for quick curing green vanilla or because they were pre-financed and not risking their own funds. Some simply felt buying green would yield a more favourable cost," it stated.

When the green campaign started in the north of Madagascar prices were "inexplicably bid" up to MGA220,000/kg (which equated to about USD62/kg at the time). The 'vrac' or bulk vanilla campaign is now under way and costs are significantly lower.

"Those who were active during the green campaign now find themselves with a higher cost base for their vanilla," Aust & Hachmann explained. "They may have no choice but to average down their costs through further buying, which is very risky in the context of the current market. Had the early buyers of vanilla not bid up prices

we feel the current offered price for vanilla would in fact be lower."

Aust & Hachmann feels that the practice of quick curing vanilla should be banned outright or, at the very least, restricted. "This would go a long way towards improving quality and stabilising the market over the long term," it suggested.

Madagascar's 2019 crop is seen as definitely down from that of 2018. The general expectation is that it will end up in the range of 1,100-1,200 cured beans.

Flowering for the 2020 crop is very favourable and if the 2020 crop reaches its full potential it could total 2,000 tonnes. However, it also has to be borne in mind that at this stage it is far too early to predict the next crop with any accuracy.

Van der Walde noted that even if a cyclone were to hit Madagascar ahead of its next crop, the production areas are so widespread that it would be unlikely to result in a substantial reduction in the overall volume.

The Malagasy government has declared that March 31 2020 is the last export date for any vanilla that has not been registered with it. This would be three months earlier than last year. However, given the state of the market, Aust & Hachmann doubts the government will adhere to this date.

Currently, there are more than 200 licensed exporters of vanilla in Madagascar. The government is under pressure to reduce the number of export licences for vanilla and set a minimum quantity for any exports as another way to better control production and quality.

Demand

The combination of Madagascar's likely 2019 crop total and that of other origins should be ample to satisfy world demand, which has been badly hit over the last four years, and remains subdued as 2019 draws to a close and we head into 2020.

Inevitably, in a falling market, buyers are inclined to hold out for further prices declines, so the continued lacklustre buying tone is no surprise.

"Demand for real vanilla beans is very low," Daugherty observed. "Vanilla bean selling prices have been far too high for far too long. When this happens, industrial food manufacturers reformulate their food products to cut back on the amount of pure vanilla used in the product or to eliminate the use of pure vanilla entirely."

Food manufacturers work with their flavour suppliers to activate this change in the formulation process. Unfortunately, for US consumers, many of these reformulations use artificial vanilla flavours that do not meet the US Federal Standards of Identity for vanilla.

Many of these food manufacturers then mislabel these artificial vanilla flavours as 'Natural Flavor' or 'Natural Flavor with other Natural Flavors' in an attempt to deceive US consumers into believing that they are buying food products, ice creams, and yogurts, that are made with real pure natural vanilla, Daugherty explained.

Most often, these fraudulently mislabelled items are sold as 'premium' products with a higher selling price than non-premium artificially flavoured products. This is illegal, but the US Food and Drug Administration is failing to protect US consumers from this economic fraud, Daugherty observed. At the last count, 27 class action lawsuits had been filed against some of these companies/brands for fraudulently deceiving consumers through the mislabelling of so-called 'natural vanilla' food products.

Unfortunately, instances of honest firms/ brands (i.e. using pure vanilla extract in their premium natural food products, ice creams and yogurts and not fraudulently mislabelling their products to consumers) are the exception and not the rule, Daugherty remarked. In addition, due to high costs, these honest companies have had to reduce the strength and amount of pure vanilla extract used in their premium natural products.

Outlook for 2020

Despite some debate over the likely outcome for Indonesian production in 2020, the consensus is that world output is likely to be higher than that of 2019. The combination of this likely production increase and ongoing subdued demand suggests that there is a lot more scope for vanilla bean prices to decrease. However, the current stock holders have a relatively high cost price and will be reluctant to reduce prices too much.

"Now, with prices officially coming down for the last 18 months, demand will recover, like it did in 2004 and 2005, but it won't recover immediately. It might recover faster because of these lawsuits in the US against those who are cheating on their formulations," van der Walde suggested.

He forecast that next year prices could easily drop by 50%. This would still leave prices historically high. If it transpires that prices buckle more than 50% it seems most likely that this would not be until the second half of 2020 or later, after Madagascar's latest crop has been cured and finally reaches the market.

"That (expected price fall) is going to help demand recover, as it would with any commodity," van der Walde concluded.

Juice market in overall decline

Pure fruit juice consumption is falling in the major markets. Growth elsewhere has not compensated for this.

By Neil Murray

This is an industry under pressure. The problems facing it are many and varied. They include climate change, whose effects upon production of raw material (the fruits and, increasingly, the vegetables) have been profound. The issue is not so much actual warming, though this is happening, but wild fluctuations in the weather. We are seeing hotter and longer heatwaves and longer and heavier periods of rainfall.

This makes it harder and more expensive to plan production, especially in tropical zones where the variations are more pronounced.

Cold-pressed juices are gaining traction everywhere

Then there is the problem of consumption. Fruit juices are getting a bad press right now, although work by the AIJN and IFU is gamely fighting this. The many sugar taxes, actual and proposed, are focusing on sugar-sweetened soft drinks, which include nectars, and juices are largely excluded, but juices contain sugar and are being demonised just the same.

Consumption in the major world markets is falling. See the charts on this page. EU consumption of pure juice fell by 4% between 2014 and 2018 (the most recent data available) and is continuing to decline. The decline in nectars has been steeper. In the US, retail sales of orange juice, once a breakfast staple, have been declining for nearly a decade (though now look like bottoming out). Tariffs are hampering global trade, especially between China and the US and the US and Europe.

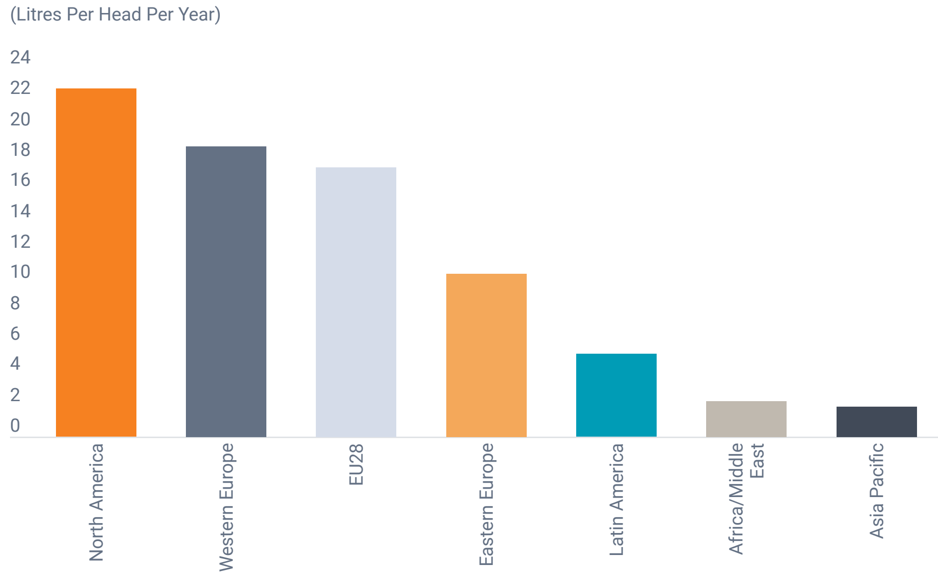
True, consumption is increasing in regions like Africa and Asia-Pacific, but consumption there is about one-tenth that of the combined EU and US, and it will take many years to reach the levels of these two giant consuming regions.

For all this, there are bright spots. Consumers are trading up: buying better, costlier products. China seems to have leaped (in the major cities, anyway) from juice drinks to cold-pressed NFC juices without bothering with reconstituted juice or even 'ordinary' NFC in the interim.

Cold-pressed juices are gaining traction everywhere, in fact. Consumers still hanker after new, exotic flavours and so the future looks quite bright for tropicals.

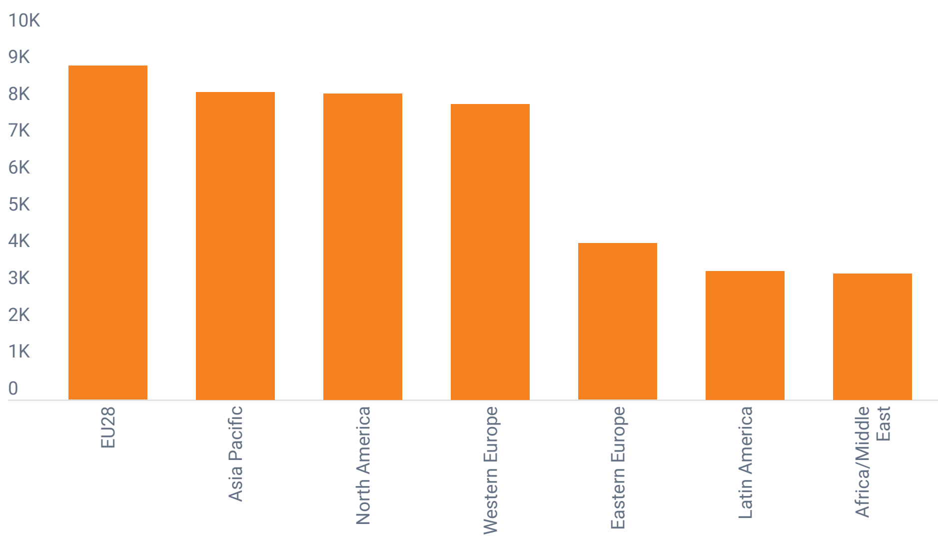
In the next few pages, we examine certain sectors in detail.

Regional juices and nectars markets by consumption



Source: AIJN

Largest regional juices & nectars markets (million litres)



Source: AIJN

Expensive pineapple juice is not in demand

Pineapple used to be the most expensive of the 'Big Three' juices. Then it became the cheapest. Now prices are soaring again.

By Neil Murray

Something strange happened at the end of 2015 and the start of 2016. A shortage drove prices up to USD4,000 per tonne and beyond. European consumers stopped buying pineapple juice

Processed pineapple has always been a boom-and-bust industry in Thailand. The cycle goes like this: prices for juice (and canned fruit) are high, so the farmers pile in and plant pineapple everywhere. This results in an over-supply, so prices tumble. Growing pineapple is no longer financially worthwhile, so the farmers switch to something else, like sweet corn or sugar cane, and in a season or two there is a shortage of raw material. This makes the fruit expensive, as processors compete for supplies (most exported Thai pineapple is processed: fresh exports are small), and the price goes up, so the farmers pile in again...

This cycle has been going on for decades and there is no sign of it ending. From time to time it is exacerbated, generally by climate change. Excessive heat or heavy rain, or a lethal succession of both, can seriously damage crops. Then there was the issue of excessive nitrate levels, caused by over-generous use of fertiliser, a few years ago.

Under pressure from the Thais, it was decided to raise the permissible nitrate level from 25 parts per billion to 50ppb. All that did was damage the perception of Thai juice as a top quality product. European buyers, especially, insisted on the original 'low nitrate' specifications.

Then something strange happened at the end of 2015 and the start of 2016. A shortage drove prices up to USD4,000 per tonne and beyond. European consumers stopped buying pineapple juice, partly because it was expensive and partly because supermarket chains pulled the product from their shelves some months before. Even Spain, by far the biggest consumer in Europe, held back. In Germany, multifruit and multivitamin drinks, with pineapple at their core, fell out of favour.

And pineapple juice has been out of favour ever since. Prices have plummeted and stayed weak: they have been below USD1,500/tonne for at least two years, below USD1,200/tonne for at least a year a half and as low as USD1,000/tonne for around a year. Even these low prices have failed to stimulate demand.

Juice production has been hit hard by poor harvests. Thailand has its summer and its winter pineapple crops. This year, there have been some small signs of a recovery in demand, but prices have remained low simply because it is feared that any increase in price will kill whatever demand is left. In summer, fruit prices were around THB9.00 per kilo (equivalent to USD290/tonne) and yet Thai PJC was still priced around USD1,300/tonne, perilously close to Costa Rican prices, and Costa Rican PJC is 65 brix rather than 60. "With Costa Rican NFC juice at about USD700/tonne, this price (on a brix basis) is ridiculously low," said IEG Vu.

The winter crop has been a disaster. Thailand had barely 1.1 million tonnes of fruit for processing (processors are generally canners and juice producers at the same time): the smallest raw material availability for at least 20 years. The problem now is that the factories have been competing for raw material, bidding the price higher and higher, and IEG Vu sources reckon that Thai PJC from the winter crop is around USD1,650-1,750/tonne and set to go higher.

European buyers would be happy with a price of around USD1,700/tonne but everything now hangs on the 2020 summer crop. If that is good, it will simply make up for the current shortfall in production and prices will be reasonably stable. If the crop is poor, especially if there is an El Niño (there was no such event this year), then all bets are off and prices will go up to USD2,000/tonne and any recovery in demand will probably be smashed.

Costa Rica has the advantage of processing MD2 pineapple, highly prized by lovers of the fruit

Costa Rica

Costa Rica has the advantage of processing MD2 pineapple, highly prized by lovers of the fruit. In the past, its pineapple juice production has focused on NFC juice but its production of concentrate has risen sharply over the years. However, in the last year or two there has been a price war between processors in the country that has driven down the cost of Costa Rican PJC to as low as USD1,175/tonne fob, earlier this year. To be fair, the very low price of Thai product also means that Costa Rica could not maintain a high price difference.

Prices have recovered now, but the discounting has not improved Costa Rica's foreign sales. Its PJC exports have more than halved since 2015. They were around 26,000 tonnes last year and should be somewhere between 22,000-24,000 tonnes this year. Its NFC juice exports have weathered the storm better. They peaked at some 176,000 tonnes in 2015 and 2016, then 190,000 tonnes in 2017, and should be around 165,000 tonnes this year.

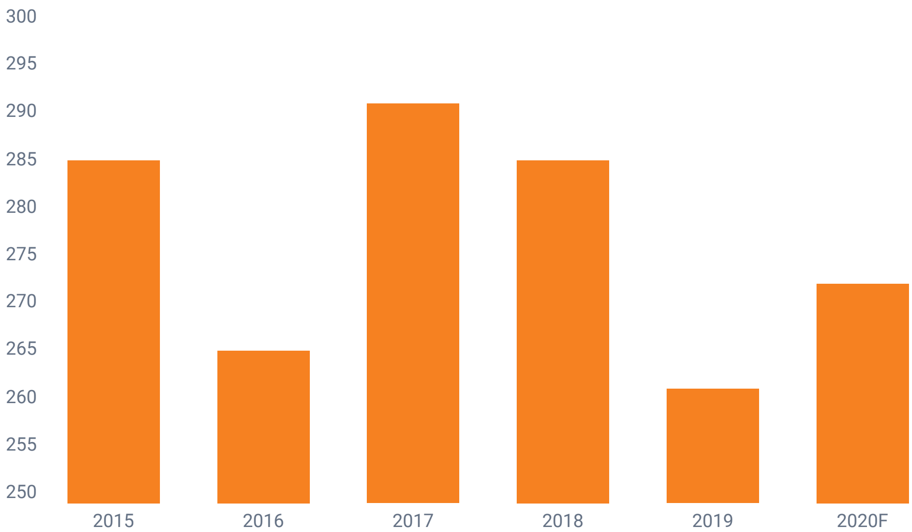
However, Costa Rica has other problems. The country is focusing very closely on eco-tourism (which is proving very lucrative) and environmental protection and has decided to limit, or reduce, the amount of growing land allocated to pineapple. Its production has grown in tandem with demand for many years, but in the next few years some 9,000 hectares of land under pineapple cultivation will be grubbed up. Henceforth, Costa Rican juice production will have little chance to grow and IEG Vu expects this will have an effect on price, assuming that demand for its MD2 juice remains strong(ish). If Thailand could be at USD2,000/tonne by late 2020, Costa Rica could be at USD2,300/tonne.

Indonesia and the Philippines

These two origins have suffered less than Thailand. While they produce less than Thailand (their combined juice production is about equivalent to Thailand's), their production has been much less affected. The 2020 Philippines harvest is predicted to be its highest ever. Indonesia tends to track Thai prices and can be expected to slightly underprice Thailand next year. The Philippines is forecast to produce some 58,000 tonnes of PJC next year, Indonesia 36,000 tonnes and Thailand 93,000 tonnes, down from 5,000 tonnes in 2019.

PJC production from all main origins ('000 tonnes)

Origins, in order of size: Thailand, the Philippines, Indonesia, Costa Rica, Kenya, South Africa, all others



Source: GGPC *Output for 2020 forecast*

Orange for danger

A recovery in processing orange production has relieved the orange juice drought, but prices remain volatile.

By Neil Murray

With a forecast 2019/20 orange crop of some 388 million boxes, Brazil is no longer short of orange juice. Production has risen in Florida, though it is still a long, long way from its zenith. Globally, orange juice consumption has been falling for some years. Not even increased consumption in the Far East and Africa has been enough to turn the tide (yet).

The combination of higher FCOJ production and stagnant, even falling, demand in the major markets of the US and Europe have brought the FCOJ price down to (at the time of writing) around USD1,700-1,750 per tonne cfr duty unpaid Rotterdam.

This is a fall of some USD600/tonne in a year and, ordinarily, one would expect that sort of price fall to have an effect on demand and consumption but it is not as simple as that.

Brazilian orange juice yields are also improving: from a low of just over 300 boxes of fruit to one tonne of FCOJ, in 2018/119 the yield improved to 270 boxes/tonne. These are still a lot worse than the pre-disease figures seen at the turn of the century (220-230 boxes/tonne), though.

The US first: retail sales of orange juice has been falling for seven or eight years. From around 540 mln gallons in the 2011/12 season, they dropped to 404 mln boxes in 2017/18. The figure for 2018/19 was 390 mln gallons (IEG Vu forecast 380 mln) so the rate of decline has slowed. More importantly, sales of reconstituted juice are actually starting to rise again. It is probably no coincidence that this category's retail price has dropped noticeably.

NFC prices, though, are still rising. In the last report of the season, they were USD8.55 per gallon, up from USD8.19/gallon in the preceding month. NFC sales continue to fall, so it does look as though US consumers are voting with their wallets.

IEG Vu thinks that this season will see a small increase in US consumption to 405 mln gallons, mostly driven by renewed interest in cheap reconstituted juice.

However, IEG Vu also reckons that Brazilian orange juice prices are going to rise in 2020, probably from the second half of the year. There are a number of reasons for this.

The first is that there has been some sort of internecine warfare going on in Brazil. Louis Dreyfus, which has openly stated that it wants to get out of the orange juice business, has partnered with a Chinese company, Luckin Coffee, to produce NFC orange (and other) fruit juices in China, which will be sold through Luckin's chain of coffee shops. IEG Vu thinks it is possible that this could eventually give China a toehold in Brazil.

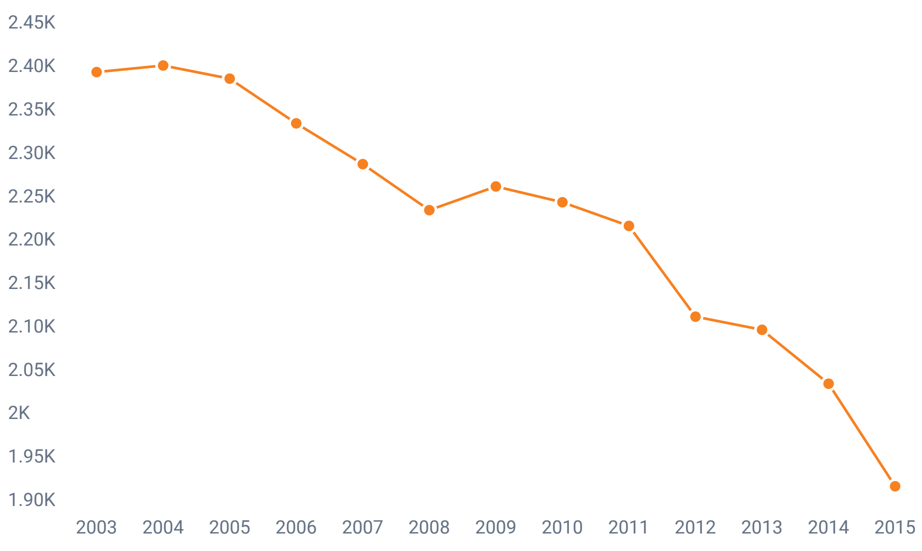
This would give other Brazilian processors, especially the biggest, Cutrale, heart failure. Louis Dreyfus has already sold its storage and blending facilities in the US to Prodalim and owns two orange juice processing plants in Brazil.

At Anuga this year, Brazil's FCOJ price bounced up and down by the day. Brazil has adopted a tactic of paying top dollar for the processing fruit while cutting the price of FCOJ. This means that any competitor will have to pay more for raw material and slash their margins to compete with the 'official' Brazilian price. Therefore they are being squeezed at both ends.

"This is sending a very clear signal to the Chinese," commented an IEG Vu source. It is probably sending a similar signal to Prodalim, which is more of an immediate threat, and IEG Vu is watching this wrangle with great interest.

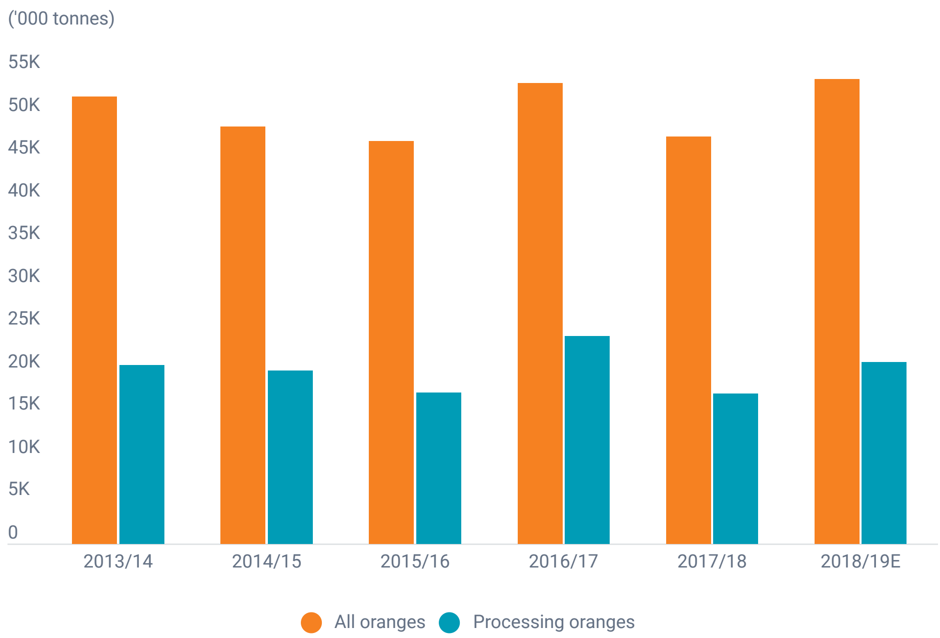
The next reason is that Europe needs to rebuild its FCOJ stocks, so will be buying more as this year ends and the next begins.

Global orange juice consumption ('000 tonnes)



Source: Markestrat

Global seasonal fresh and processing orange production



The final reason is that early indications for the 2020/21 Brazilian harvest are not good. Very hot weather has badly damaged Brazil's oranges. There seem to be only two assessments: bad and very bad.

IEG Vu has been told that there is even a possibility that the Hamlins will not be harvested at all, and that Brazil will go straight onto the later varieties. There is no second flowering for Hamlins, but there is a possibility of a decent second flowering for the others. Total production could be down to 240 mln boxes, though it really is too early to tell.

Brazil's Citrus Defence Fund (Fundecitrus) says that, despite an increase in the number of trees, the area planted with orange decreased by 1.42% across the Sao Paulo and Triângulo (western Minas Gerais state)/south-west of Minas Gerais state, citrus belt to 395,764 hectares.

The five regions that are part of the agricultural belt, the North (Bebedouro, Altinópolis and Triângulo Mineiro regions) and south-west (Avaré and Itapetininga regions) were the only regions with positive variation in the orange area, 1,384 and 275 hectares, respectively.

The less significant loss of orchards in these regions is probably due to low greening rates. According to a survey by Fundecitrus in 2018, the average incidence of greening in the citrus belt is 18.15%, but the north has 5.21% of contaminated trees and the south-west, 8.20%.

The question is what effect this will have on the FCOJ price. With 388 mln boxes for the 2019/20 harvest, there is plenty of orange juice around right now. The US NFC market is still shrinking while there are signs of increasing demand for FCOJ. European demand, however, is 25% up on last season's with nearly 285,000 tonnes of FCOJ shipped from Brazil between July and October this year.

IEG Vu forecast US 2018/19 retail OJ sales: 380 million gallons

Actual figure: 390 million gallons

IEG Vu forecast for US 2019/20 retail OJ sales: 405 million gallons

Bumper year for Poland

Poland has enjoyed record apple juice exports this season, seizing market share from China.

By Neil Murray

There probably has not been a year like 2019 in the apple juice industry.

For a start, who would have foreseen, five years or more ago, that Poland would actually produce more apple juice concentrate than China? Who would have foreseen a season in which there would be a combination of a record apple harvest in Poland and a massive harvest slump in China?

While all eyes have been on Poland's AJC industry this year, as it elbows China aside and grabs a large share of the US market, the country's NFC juice industry has eschewed the limelight. This is strange, because its growth has been extraordinary.

Poland's 2018 apple harvest was the largest in the country's history. At the time of writing (mid-November), there has still been no definitive report of its actual size. Initial estimates were just under 5.0 million tonnes. These grew to 5.5 mln tonnes, and some people even believe that the total was close to 6.0 mln tonnes. Nobody not even the USDA, believed the estimate by GUS (the Polish National Statistics Institute) of 3.6 mln tonnes. Later in the season, it increased its estimate to 4.4 mln tonnes and that was also treated with derision.

At the time, everyone – including IEG Vu - wondered just what Poland would do with all that fruit. It was assumed that a lot would go for animal fewd, because nobody really thought it could all be consumed by the fresh and the processed industries.

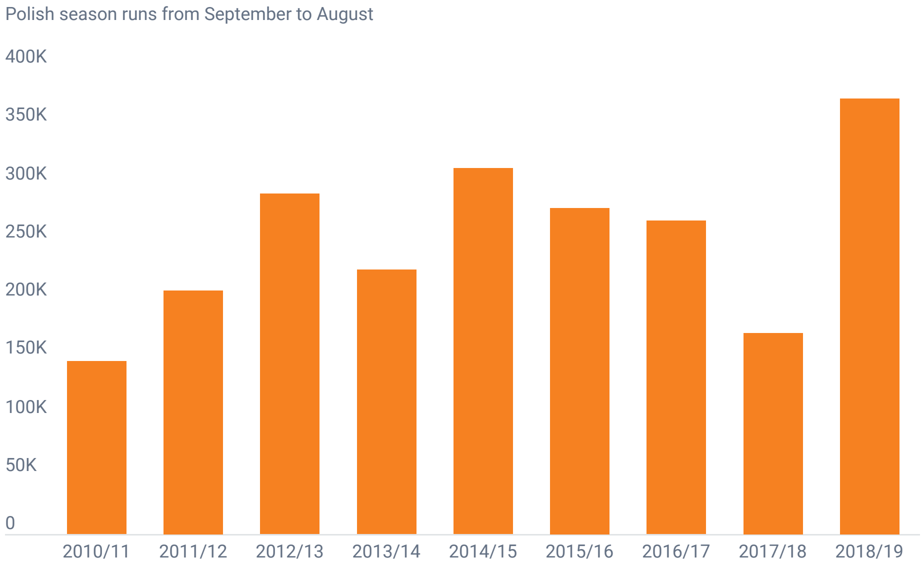
It turned out that it could.

The Polish apple farmers, of course, suffered from ridiculously low prices for their juicing apples: below five euro cents per kilo, in some cases. Unsurprisingly, they were restive, complaining that the prices they were getting were lower than the production cost but, as an IEG Vu source sagely remarked, they never complain when apple prices are too high. Also, Poland's farmers have benefited enormously from the EU's investment in (*some would say, with reason, 'subsidy of'*) their industry by funding not only a whole new network of coldstores but also the new high-yielding orchards that were responsible for the colossal harvest.

The Polish government decided to intervene in the market by buying up some of the surplus fruit and send it for juicing. Somewhat bizarrely, it tasked a frozen food company to do the job. Eskimos had absolutely no experience in the fresh fruit sector. Nor did it have the infrastructure to acquire and distribute 500,000 tonnes of apples, nor the financial resources to do that, and so had to rely on a loan from the government to pay the farmers for the fruit. Unsurprisingly, other (probably more eligible) companies complained, saying they had not had the chance to tender for the contract.

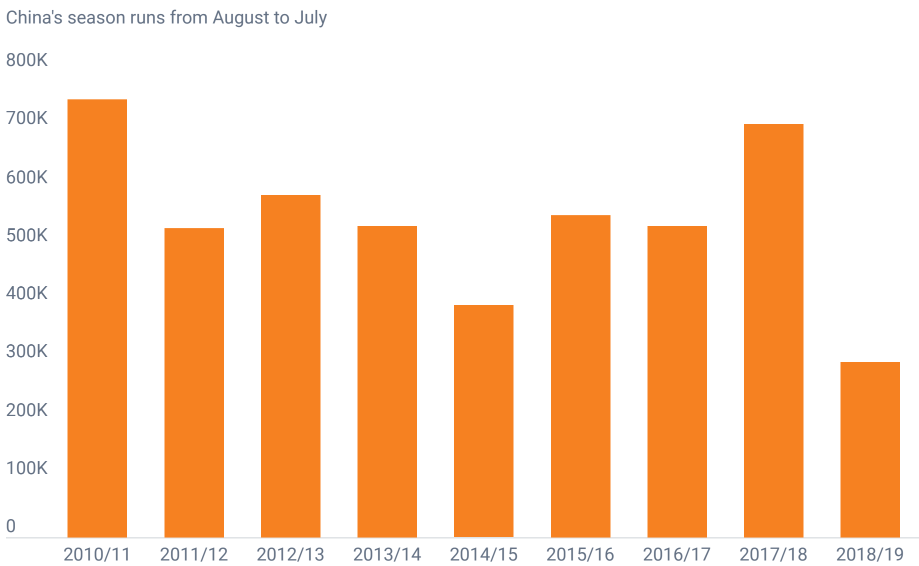
To cut a long story short, the farmers had to wait until May 2019 before they were all paid, the debacle drove Eskimos into a loss for Q1 2019, there is now an enquiry by Poland's anti-corruption body into the way the contract was awarded and only 200,000 tonnes of fruit were collected.

Polish seasonal AJC exports (tonnes)



Source: GTT

Chinese seasonal AJC exports (tonnes)



Source: GTT

However, and this is important, that figure represents a potential extra production of around 28,000 tonnes of AJC.

When it came to the start of the new (2018) apple harvest, to everyone's surprise, including that of IEG Vu, Poland had a carry-over stock of 104,000 tonnes of fresh apples, according to the World Apple & Pear Association (WAPA). While this was about double the usual carry-over volume, that meant that Poland had actually managed to swallow anything up to 2.0 mln tonnes of extra fruit, compared with what it would have used a few years before.

Quite how much AJC Poland made is unlikely ever to be tallied, but IEG Vu thinks it was at least 400,000 tonnes and could have been as high as 450,000 tonnes

IEG Vu had expected that, given the very low price of AJC from the 2018 harvest, the big bottlers and blenders would be filling every storage tank they could with product, which could easily be sold in the following season. We heard rumours to that effect, too. Our original estimate, made in last year's Global Outlook, was for up to 350,000 tonnes of AJC exported (which would have been a record figure) but in November, Polish customs suddenly revised their export figures upwards and that 350,000-tonne target was reached with a full month left to go. With the final date now in, we can see that Poland exported an incredible 373,300 tonnes. And that figure may yet be revised again.

Quite how much AJC Poland made is unlikely ever to be tallied, but IEG Vu thinks it was at least 400,000 tonnes and could have been as high as 450,000 tonnes. Processing was continuing right into March 2019 – and possibly later, in some cases, as processors worked through the inventory of fresh apples, many of which, it turned out, had been harvested too late, were soft, and thus unsuitable for fresh sale.

In March, fruit from coldstores was being offered at around PLN0.30/kg, equivalent to around USD75-80/tonne. At this point, the European market mostly switched to a

NFC apple juice

Poland exported nearly 76,000 tonnes of NFC apple juice in the 2013-14 season (September to August). In the following season, exports dropped by some 16,000 tonnes to between 59,000-60,000 tonnes.

That season, though, was Poland's *annus mirabilis*, when a bountiful harvest and Chinese production that was too expensive to compete gave Poland an entry into the US market, so NFC production was probably considered lower priority than AJC.

Since then, however, Polish exports and production have grown very quickly. Germany and the Netherlands, unsurprisingly, are by far the largest market for Polish product. This past season, the Netherlands has accounted for some 55,600 tonnes and Germany about 62,400 tonnes.

The UK is also a keen buyer, in third place with just over 39,000 tonnes. After these three countries, exports to other destinations are much smaller.

Polish seasonal NFC juice exports have showed annual growth rates of around 40% year-on-year since the 2014/15 season, culminating in a figure of nearly 180,000 tonnes last season. This season's figure is close to 188,000 tonnes.

spot basis as buyers, comfortable in the knowledge that there was plenty of product around (but very little high acid – see below) saw no need to cover well forward.

This, at the time of writing, is affecting exports because Poland has been shipping AJC right into the start of the new season, at volumes far above those of last year. In short, cheap juice from 2018 has been readily available and may continue to be for some time.

> With China's 2018 apple harvest cut to around 32 mln tonnes, there was always going to be a severe shortage of raw material for processing

China

If this article devotes less space to Chinese apple juice than Polish, that is simply because China has been an irrelevance for the past season, with the world stage belonging to Poland.

With China's 2018 apple harvest cut to around 32 mln tonnes, there was always going to be a severe shortage of raw material for processing and that fruit was going to be expensive. China acknowledged as much at the 2018 China Juice conference, the Chamber of Commerce saying it would only make 300,000-320,000 tonnes of AJC in the 2018/19 season: a figure that IEG found realistic. Paying the equivalent of USD150/tonne for juicing apples, China was never going to be able to compete with Europe whose raw material price was about half that.

Not only that, but in late 2018 the US introduced tariffs of 10% on Chinese AJC. This was greeted by the Chinese industry as workable, but then the US announced that from January 1 2019, the tariff would be lifted to 25%. So Chinese exports collapsed. December export figures were just over 21,000 tonnes (compared with nearly 91,000 tonnes in December 2017), and January's tonnage was just 15,000 tonnes (over 40,000 tonnes).

Basically, China lost the US market to Europe, Poland being accompanied by Turkey whose prices were equally enticing and whose low acid product is liked by the US. China managed to hold onto some markets in Asia-Pacific, to which freight costs were too expensive for Polish juice. Australia continued to buy and Japan proved a remarkably loyal customer – Japanese buyers work on very long-term contracts and a single year when prices are high can be ignored in favour of a good working relationship. India, though, found it worthwhile importing Polish AJC.

China cut its export prices for the US as the season drew to a close, to around USD7.50/gallon, equating to an fob price of around USD1,200/tonne.

Prospects for 2020

China ought to be back in the US with a vengeance but, so far, it is not. This is partly because the US tariff of 25% has lifted its price into the US to close to Poland's – China is cheaper at the time of writing, at around USD7.35/gallon whereas Polish juice is well over USD8.00/gallon. It may take some time before Chinese exports to the US, its key market, reach reasonable figures.

China may have to downgrade its production expectations accordingly. IEG Vu thinks it will export more than last season, but not much more, and so is pegging its estimate at 350,000 tonnes.

Poland? At the time of writing, we are waiting to see what will happen to Polish prices, which we still believe are too high. We also think Polish figures will be higher than expected because of the carry-over from last season. We expect about 300,000 tonnes, including redirected exports from other countries (Ukraine, Moldova).

IEG Vu forecast for Chinese 2018/19 AJC exports: 300,000-350,000 tonnes

Actual figure: 301,000 tonnes

IEG forecast for Polish 2018/19 AJC exports: 350,000 tonnes

Actual figure: 373,000 tonnes (however, some 38,500 tonnes is likely to be re-exported product from Moldova and Ukraine)

IEG Vu forecast for Chinese 2019/20 AJC exports 350,000 tonnes

IEG Vu forecast for Polish 2019/20 exports 300,000 tonnes

Tropicals and others

What are the prospects for minor juices such as lemon, mango, passionfruit?

By Neil Murray

There is always considerable volatility in the markets for tropical juices. This is usually due to shifts on the supply side rather than fluctuating demand. Tropical regions tend to be susceptible to sudden weather extremes, especially with present climate change. Searing heatwaves can be followed by huge rainfall, and the fruits are first baked and then washed away. Tropical fruits, generally, tend to be fragile anyway.

Also, some fruits tend to be quite fast-growing. This makes it easier for farmers to abandon fruit growing for other fast-growing crops if the prices for their fruit fall and their land can be more profitable if planted to something else.

Mango has been particularly problematic this year. Most of the world's mango comes from India (India grows about 15-17 million tonnes per year, or half the world's entire production) and the season is very short. Mango does not keep for long periods of time in coldstores like (for example) apples.

The vast majority of fruit is for fresh sale. Only about 7-10% of India's crop is processed, and most of this fruit goes for pickling (chutneys etc) leaving maybe 600,000 tonnes of fruit to go for purée. Canned purée has been declining in volume as, prompted by customer demand, the major processors have switched to aseptic packing, but India has over-capacity in aseptic processing. Its industry can handle up to 700,000 tonnes of fruit annually, but rarely processes more than 500,000 tonnes. The production capacity for canning of around 100,000 tonnes of fruit is at least double the utilised capacity.

In 2018, India had a huge fruit harvest and prices for raw material and finished product tumbled. In 2019, the world ignored the (entirely predictable) Indian warnings of hot weather damage to the fruit, particularly the Totapuri variety which, with the prized Alphonso, accounts for 90% of the quantity processed for juice and purée.

Buyers held back, assuming this was the usual series of false alarms and that production and prices would be normal, but this time the warnings were for real. Indian Totapuri, both purée (TMP) and concentrate (TMC), production was very small and prices started shooting up in the last quarter of the year.

As the year closes, prices are very high. TMC is around USD1,350 per tonne fob and TMP USD700-750/tonne and there is very little product available. Some processors may have a few containerloads of TMC tucked away: stocks of TMP are, to all intents and purposes, exhausted.

Those looking for product in early 2020 should be aware that because of the huge 2018 production, there are still some old stocks of TMC around. This may be blended with 2019 crop production, or even mis-labelled as 2019 production, so care must be taken. Anything at a price that seems too good to be true should be avoided.

Latin America cannot make up for the shortfall in Indian production, not this season, so prices are going to remain firm at least until the 2020 harvest in May/June. No forecasts can be made for that because the weather is impossible to predict.

Passionfruit

This is another juice that has experienced wildly differing highs and lows. The problem with passionfruit is that the vines themselves are fragile and their roots shallow.

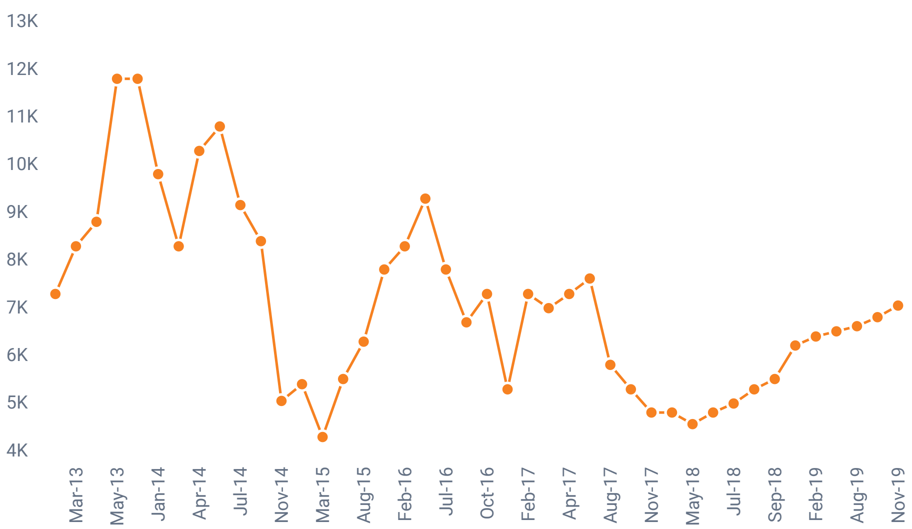
The biggest supplier of passionfruit concentrate (50 brix) to world markets is Ecuador. Peru is also a serious producer, and at least one Ecuadorian company has operations in Peru. Peru is actually growing more fruit than Ecuador these days.

Like pineapple, passionfruit juice has always been locked into 'boom and bust' cycles. Ecuador is emerging from one of the 'bust' cycles and prices are climbing. At the time of writing, concentrate is around USD7,000-7,250/tonne cfr Rotterdam and IEG thinks it will go to USD8,000/tonne before the early 2020 crop.

The loss of a major processor, Tropifrutas, whose owner, Concentra of Switzerland, has decided to quit the passionfruit business, is a problem. This may affect juice production, but Bernhard Frei of Quicornac, which processes in Ecuador and Peru, has told IEG Vu that his company is picking up contracts from farmers formerly supplying Tropifrutas, so there should not be a serious interruption in supply. Time will tell.

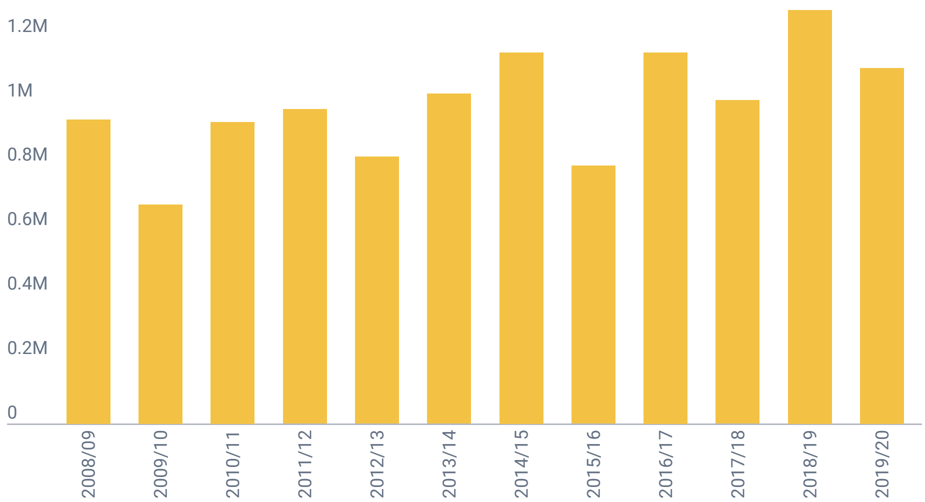
Vietnam is emerging as an interesting supplier. It grows around 200,000 tonnes of passionfruit annually (ie: a similar volume to Ecuador) but processes rather less (about 6,000 tonnes of concentrate). It also grows a different variety of the fruit (purple rather than yellow) and so the flavour/aroma is different, but it is very keenly priced and has its place in low-cost blends. Prodalim, the fast-expanding juice supplier, has signed a deal with Doveco, a Vietnamese passionfruit processor, and more Vietnamese product is likely to make its way to Europe and maybe the US in 2020.

Ecuadorian 50 brix passion fruit concentrate price (USD per tonne cfr Europe)



Source: IEG Vu

Spanish fresh lemon production (tonnes)



Source: AILIMPO

Lemon juice/oil

Lemon juice has experienced some volatility, but nothing like as extreme as that seen in processed pineapple or passionfruit. At the time of writing (early December), prices from Argentina are low at around USD2,000/tonne fob Buenos Aires. This is the result of large crops in that country and also Spain, the world's other major producer.

Lemon oil prices are also extremely low: around USD18 per kilo.

Vietnam grows around 200,000 tonnes of passionfruit annually

IEG Vu has noted some interesting new product development in lemon juice. Lemonades are becoming more popular (dollar sales in the US are up over 9% and volumes up nearly 5%). Lemon juice is perfectly positioned as a 'low sugar' juice, thus avoiding all the opprobrium doled out to sweet juices these days, and new 'adult' lemonades and similar drinks are appearing from carbonated soft drinks (CSDs) makers. Fentimans in the UK is a good example. Elsewhere, Coca-Cola has revived the Finleys brand and supermarkets are producing more sophisticated and higher quality private label lemon-based CSDs. Then there is the general trend for avoiding alcohol, especially among younger consumers.

In Europe, the EU is offering multi-million marketing support to promote European lemons and associated products and this will be bolstered by the formation of a global citrus trade association, the World Citrus Organisation

In Europe also, Spain's 2019/20 lemon crop is forecast to be smaller than the previous season's bumper production at around 1.11 mln tonnes. Spain processes 20-25% of its lemons, but supply of juice will be slightly tighter in 2020. For these reasons, we think that demand will increase and prices will firm in 2020.

Tomato market firmly out of the red

Tomato paste prices have been rising in 2019 as a sharp fall in the harvested volume in 2018 has rebalanced global supply and demand. Production is expected to increase in some main processing countries, but it might lead to a higher raw material price.

By Cristina Nanni

The World Processing Tomato Council (WPTC) has pegged global production of tomato for processing at 37.38 million tonnes for the 2019 season, 7% more than the 34.8 mln tonnes in the year before, which was the lowest volume harvested since 2013. The smaller supply has helped to rebalance supply and demand as consumption of tomato products is flattening.

Final production in California this season was 11.18 mln (short) tons (10.14 mln tonnes), about 8.9% less than the 11.13 mln tonnes harvested in 2018, but 5% above the 2016-2018 average of 10.7 mln tonnes.

Rainy weather and cooler temperatures delayed planting and slowed crop growth. High temperatures in July and August, as well as disease pressure, have impacted the crop in some processing areas. Harvesting began in the first week of July, in line with the past two years, but the tonnage delivered to factories was much lower. In the first two weeks of the harvest about 245,000 tonnes were collected, 6.5% less than in 2018 and 34% less than in 2017 when the cumulative volume exceeded 372,000 tonnes.

Most processing plants shut their lines by the first week of October with a few more still working until the end of the month, bringing the statewide total over 11.0 mln tonnes. Stocks figures are due in December, but the latest released by the California League of Food Processors show a sharp decline of inventories in June 2018 to 5.87 mln tons, followed by a further 8% drop for the same month in 2019, just before the start of the season. In June 2020, inventories are expected to drop further to 4.1-4.2 mln tons as estimated by Mike Montna, president of the California Tomato Growers Association (CTGA).

Tight inventories, coupled with an improvement of tomato paste market prices, could boost production. “The Americans have had a low profile in the past two or three years and now it is certainly their turn to increase production and see some profit,” a well-trusted source told IEG Vu, referring to the fact that since 2017 California has strategically kept production and planted area stable. In order to rebuild inventories and recover some profit on a promising 2020 market, processors might aim to lift volumes to 14 mln tons; close to the market’s pre-crisis level of 2016.

The recent decision of Olam to exit the tomato processing sector in California can only fuel US processors’ growth ambitions further. The Singapore-based group first closed its Williams’ facility, focused on tomato canning and retail products, and then the more industrially-oriented processing plant in Lemoore. The group was among the world’s top 10 processors with an annual processing capacity exceeding 1.57 mln tonnes. An increase in production in California might ease price negotiations with growers which, in the past two years have gone through a series of impasses with final agreements reached after the start of the season.

Rains and low temperatures have also affected tomato production in Italy,

which harvested 4.8 mln tonnes this season. Transplanting was delayed up to two weeks in the north of the country, jeopardising the crop development and forcing processing plants to shut for a few days during the season due to raw material shortages. Despite a 3% rebound of the harvested volumes compared with a disastrous 2018, the final output is still below the historical average of 5.0 mln tonnes and low industrial yields might result in less product on the market. The raw material shortage has caused a noticeable increase in fresh tomato prices, reorienting production toward value-added products other than tomato paste on which the country has a competitive advantage.

The uncertainty linked to Californian and Italian productions has redirected demand toward Spain, where record average yields of 97 tonnes per hectare in Extremadura have helped production to climb up by 14% to 3.2 mln tonnes after the disappointing crop of 2018 (2.8 mln tonnes). Processors in the country have recorded an increasing interest toward their product compared with previous seasons. Spanish tomato paste prices rose by over 3.6% in April as rumours of adverse weather conditions in California and Italy spread across the market, while China's production was forecast at 4.5 mln tonnes.

The WPTC has projected Chinese production at 4.6 mln tonnes, based on Cofco's estimates of a total production of tomato paste of 700,000 tonnes, but the organisation admitted that: "Other sources have estimated higher volumes of fresh tomatoes processed following a good season in all regions".

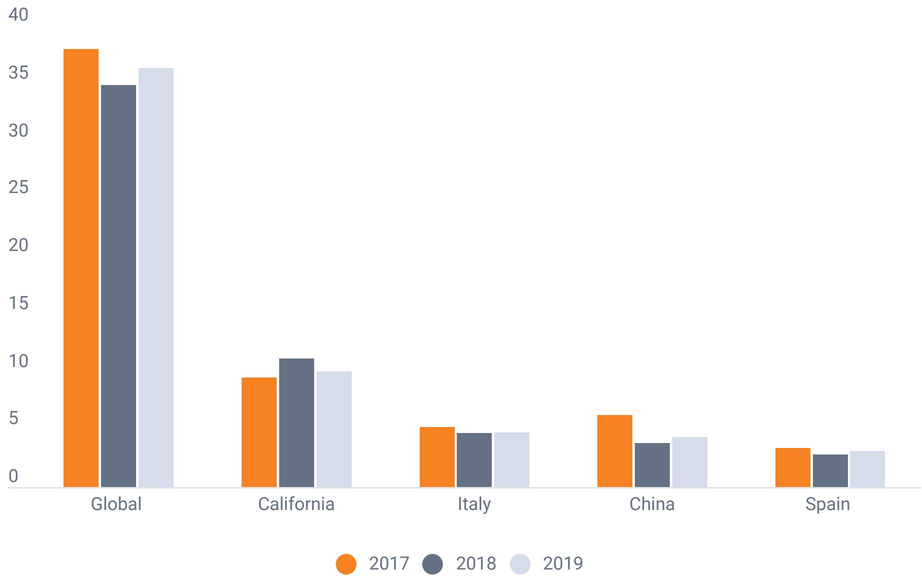
The WPTC's doubts were confirmed by Chinese sources contacted by IEG Vu, as they have all reported higher volumes in the range of 5.0-5.2 mln tonnes calculated on the tonnage of tomato paste processed by the 12 largest companies in the country. The larger output would be a direct consequence of higher yields per mu and of an improvement of the climatic conditions after an uncertain start of the season.

The Chinese government's strict environmental rules, coupled with the financial troubles of the two largest processors in the country, Cofco and Chalkis, have fuelled uncertainty on the number of processors currently operating in China. Some sources believe that – as Chalkis rented out some of its facilities – there was not much difference compared with last year and even if there had been a decline in the number of processors, it consisted mostly of small factories which struggle to comply with the government's new guidelines about environmental policies. Sources suggested that a contraction of the Chinese processing majors could be easily offset by an increased processing capacity of the remainder.

The number of processors in the country is not expected to increase next season as Chalkis seems adamant in its decision to leave the tomato business, selling and renting all its 17 processing factories. The group has recently announced its intention to venture into the pharmaceutical sector which – for its competitors – means the halting of its tomato operations is definitive.

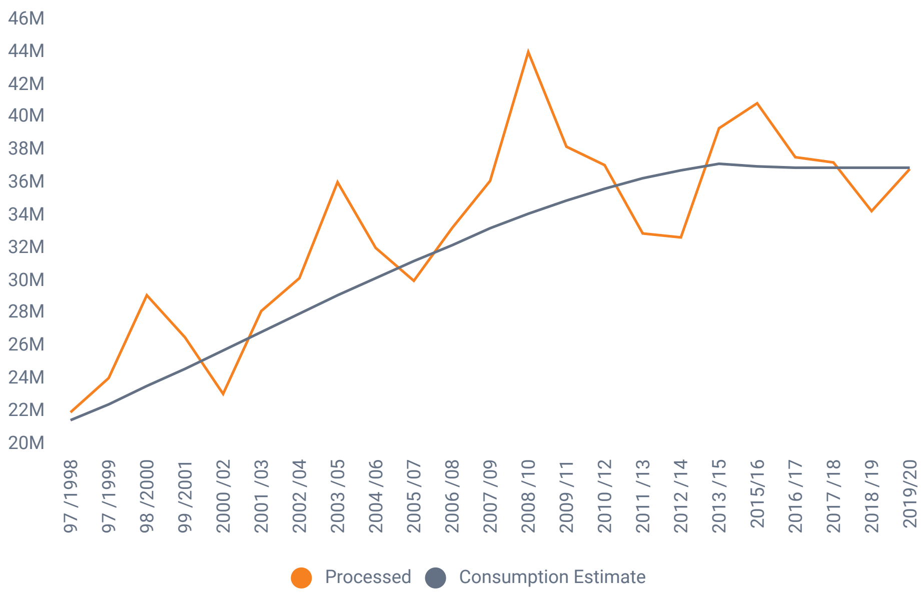
The suspected higher production is partially confirmed by the trend in prices. Chinese tomato paste prices have increased at a smaller rate compared with all other main origins during the season, but in November prices adjusted to global market trends

Production of tomato for processing, tonnes



Source: WPTC

Global tomato production vs estimated consumption



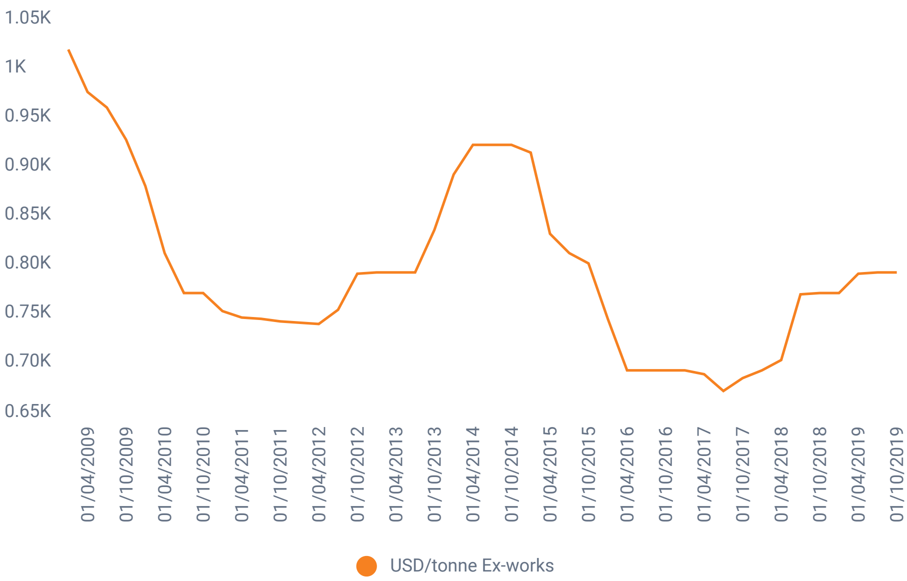
Source: WPTC/IEG Vu

with triple concentrate stable at USD800-820/tonne fob, about 6% more than the previous year. Average prices have surged between October and November, going from USD785/tonne fob to USD810/tonne fob as smaller harvests were confirmed for all main processing countries.

Price movements were more marked for Spanish tomato paste products. Processors reported increasing demand for their product following the small crop in 2018. Triple concentrate was offered at EUR850-890/tonne (USD935-979) in November, while double was at EUR720-740/tonne, 8.7% and 10% more, respectively, than in the same period in 2018. Average prices of Italian tomato paste went from a record low of EUR710/tonne ex-works in 2018 to EUR800/tonne (+12%) and are now oscillating between EUR780-820/tonne, due to reduced availability of this product.

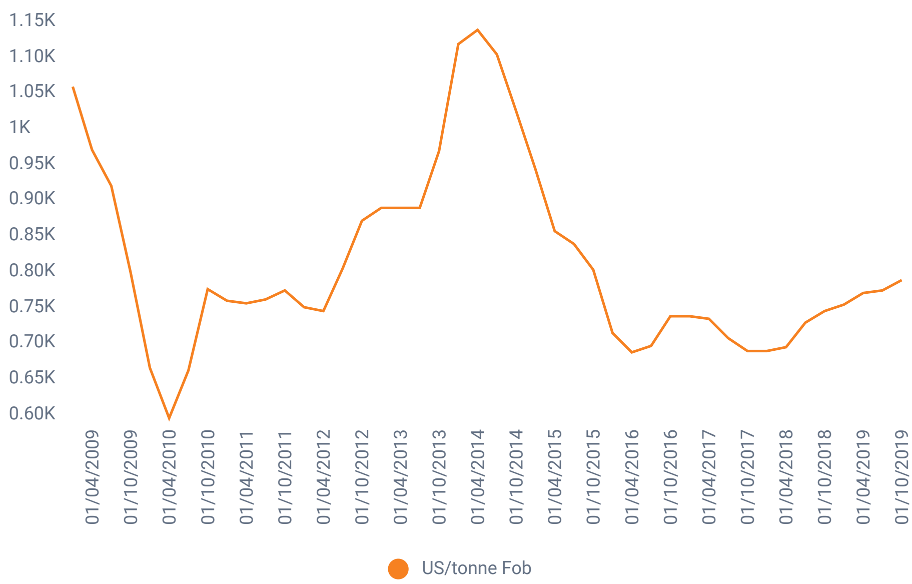
Ex-works prices for US double concentrate were hovering around USD780-830/tonne in November, about 3% more than one year ago. Prices for this origin grew slower than Spain and Italy as the country is still struggling to sell product on foreign markets, given the strength of the dollar.

Tomato paste prices US, 28/30 in bins



Source: IEG Vu

Tomato paste prices China, 36/38



Source: IEG Vu

"California's prices went up during the winter and they cannot increase them any further. Given the strength of the dollar, they have to keep prices level if they want to sell outside their borders," a source explained.

Domestic sales of tomato paste in the US were flat in the marketing year ending October 2019, while exports have declined slightly (-2.54%). Higher volumes sold in Asia and the Middle East could only partially offset significant losses on US traditional markets. In the first eight months of 2019, exports of tomato paste to Mexico, Canada and Italy declined by 14.5%, 13.4% and 17.6%, respectively.

The US has won substantial market share in Japan (+20%), the UAE (+226%), Kuwait (+88%) and the Philippines (+12%) and it could take advantage of the 25,000 tonnes duty-free-quota of tomato paste introduced by the Turkish government in January, covering almost one-third of it (7,185 tonnes).

The suspected higher production is partially confirmed by the trend in prices

Following a 32% drop in the production of fresh tomato in 2018, in January Turkey's ministry of commerce announced a 25,000-tonnes zero duty import quota for tomato paste for industrial use, instead of the usual 135%. Between January and September 2019, the country imported 33,700 tonnes of tomato paste against 774 tonnes the year before. China was the main supplier covering almost 38% of the total intake, followed by Chile (30.7%) and the US (21.3%).

Turkey's smaller crop has also created exports opportunity in new market for its competitors with China gaining some ground on the Iraq market (+322%), while Poland and Hungary have increased their exports to Germany.

The country has harvested 2.2 mln tonnes this season, 69% more than one year ago, which should lead to a recovery in the exported volumes in its target markets in the Middle East. Higher exports are also expected from Iran which has more than doubled its production from 750,000 tonnes to 1.65 tonnes. Other than the US and Italy, other smaller processing countries recorded a decline in volumes due to adverse weather conditions, such as Ukraine which harvested 15% less tomato than initially planned, while Hungary went down by 28% over the volume projected at the beginning of the year.

Outlook:
Tomato paste prices are expected to stay at current levels in the first part of 2020. Price trends in China suggest that the country has processed more volumes than the 4.6 mln tonnes declared to the WPTC and in January the industry will have to put all its cards on the table in order to reduce stocks ahead of the new season.

Price trends in China suggest that the country has processed more volumes than the 4.6 mln tonnes declared to the WPTC

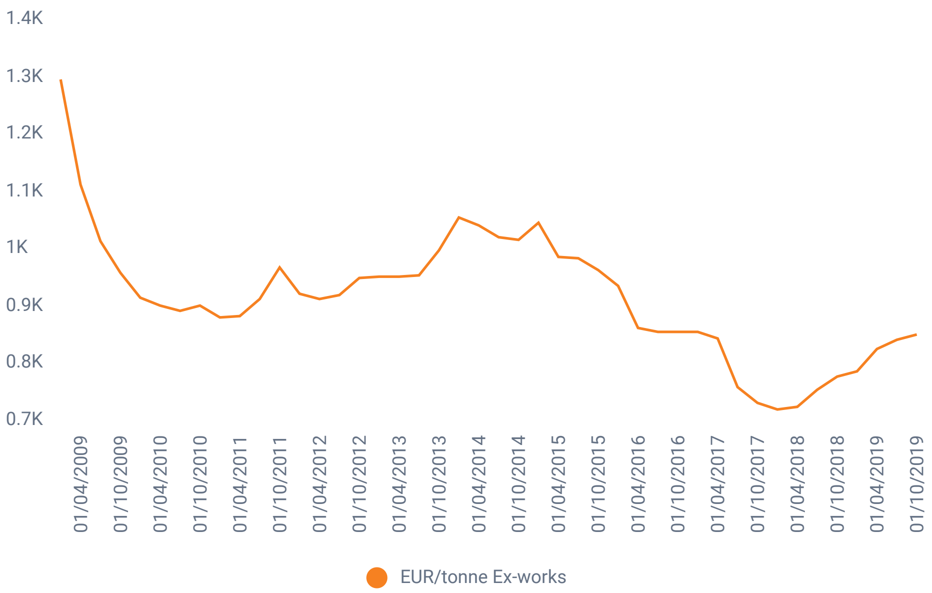
The US has no interest in gambling on prices, domestic demand is sluggish, and the country has lost 2.4% of exports between January and September over a strong dollar. Spain's processors have benefited from the market uncertainty, but prices for double concentrate are on the low side now and they expect to be covered until the start of the new season. In addition to country-related considerations, a global supply over 37 mln tonnes is likely to meet projected demand, which has recorded annual growth below 1% in the past few years.

Prices stability should not hamper a production increase in the US, where the cultivated area has remained unchanged since 2018. California needs to rebuild stocks and increase industry profits. If there are no offers for the acquisition of Olam's dismissed processing plants, processors might decide to run their facilities at full capacity and increase contracted volumes of fresh tomato to cover the gaps. This decision should result in a higher price paid to growers as they are increasingly reluctant to cultivate a low-profit crop as tomato. An increase in raw material prices together with an extension of the cultivated area might occur also in Spain where growers' organisations have recently complained about the prices paid compared with those received by Italian growers.

The weight of the Italian production on the tomato paste market is increasingly marginal. The industry is reorienting toward higher-value products as the country pays higher prices for the raw material compared with Spain. An increase in the production is certainly expected from smaller players such as Ukraine, whose target is to exceed 800,000 tonnes in 2020, but also to emerging processing countries such as Egypt and Hungary which are gradually gaining market shares over costlier competitors.

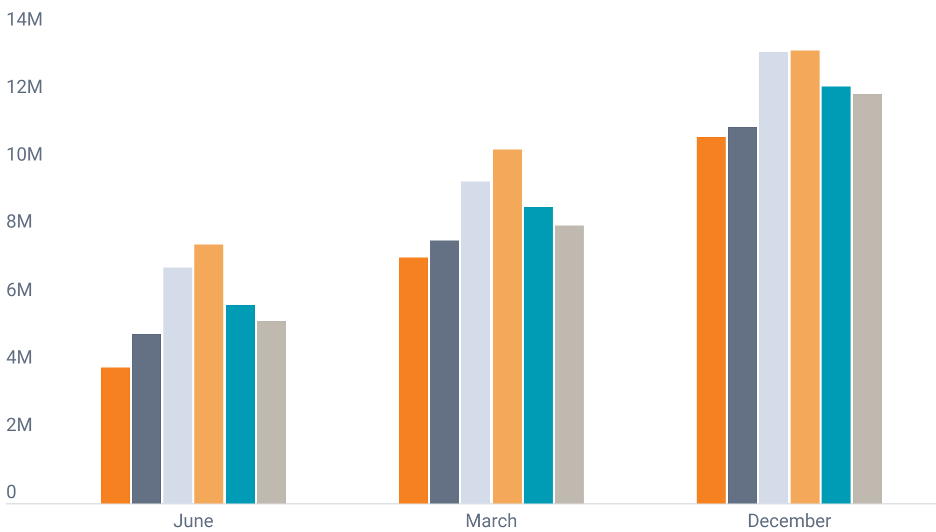
Production for 2020 in the southern hemisphere is expected to be lower this season as the drought has cut planted area in Chile by 30% which could curb production by at least 10%. The country has seen exports of tomato paste increase by almost 70% in the first eight months of 2019. Other than benefiting from Turkish quota, Chile delivered more product to Italy, where tomato paste production in 2018 was smaller, and Mexico where imports from the US were depressed by the dollar exchange rate.

Tomato paste prices Spain, 36/38



Source: IEG Vu

US tomato stocks, short tons



Source: CLFP

The canned tomato market loses momentum

Exports of canned tomato have flattened in the first eight months of 2019 over uncertainty about the crop in Italy, the world's largest supplier.

By Cristina Nanni

Global trade of canned tomatoes has flattened for the first time in the past five years going from 1.172 million tonnes in the first eight months of 2018 to 1.170 mln tonnes in 2019. Canned tomato exports from Italy declined slightly (-0.43%) hitting 917,000 tonnes following a small crop in 2018 and a difficult start to the season in 2019.

In 2018 Italy harvested 4.65 mln tonnes of tomato, about 11% less than the previous three years' average and only 85% of the volume contracted was delivered. The south harvested 2.2 mln tonnes due to adverse weather conditions which shortened the season and lowered industrial yields. According to the World Processing Tomato Council (WPTC), growers planted too many long varieties as they have a higher farm yield (up to +20%) but a lower brix and factory yield than the round variety, when used for concentrating or dicing than the canning they are intended for (and paid a higher price for). In the north, industrial yields were good for purée and paste, but not for dices. As a result of last year's smaller crop, Italy entered the 2019 season with high inventories of canned products. Adverse weather conditions have once again delayed transplanting across the peninsula in 2019, resulting in a total harvest of 4.8 mln tonnes.

In the north, the final volume was 2.37 mln tonnes over 36,000 hectares, 18% below the contracted volume and close to 2018's disastrous volume. Heavy rain in May, coupled with several hailstorms and extreme heat in July and August, have delayed crop growth and caused a hiccup in raw material deliveries to factories.

After several rounds of negotiation,, raw material prices were agreed at EUR86 (USD96.26) per tonne, about 8% more than in the previous season. The price level was influenced by decision of processor Italtom, which has taken over the bankrupt Ferrara Food, to strike a deal with its own growers rather than wait for the whole industry negotiations to propose paying them EUR86/tonne. This was because last year Italtom struggled to find raw material locally to be delivered at the ex-Ferrara food processing plant and had to purchase tomato from other provinces, incurring higher production costs.

In the south of Italy, strong delays in fruit ripening were reported in August due to April and May rains which caused a delay of 12-13 days to the crop. Harvesting started on July 30 instead of the usual July 16. Some fields also suffered from a drop in temperatures in April, which hindered the plants' development. Volumes rebounded in September, helping the area to hit 2.4 mln tonnes with yields between 88-100 tonnes/ha. The high amount of green and poor colour affected factory yields which were between 5-6% lower than in 2018.

Raw material prices in the south started from EUR95/tonne for the round and EUR105/tonne for the long varieties, 9% and 8.2% costlier, respectively, than the year before. The agreement was struck in mid-June. UK-based food processor Princes had its prices contracted separately in February and agreed to pay growers

EUR98/tonne and up to EUR102/tonne within the framework of a three-year contract, with no differentiation between round and long varieties, offering a price high enough to balance any extra expense linked to production of the long variety.

When the delay in the season became clear, a few growers who had initially contracted the raw material with Princes sold to competitors for higher prices.

"This was not done directly by growers, but by middlemen who act as growers' representatives in the south of Italy," a contact told IEG Vu. The shortage has caused prices to rise sharply to up to EUR400/tonne for canned diced tomatoes, with no volumes available on the spot market where processors stopped offering in order to ensure their contracts were fulfilled.

> "On diced and passata, there is not a single kilo available, and you can ask whatever price you want," a source told IEG Vu

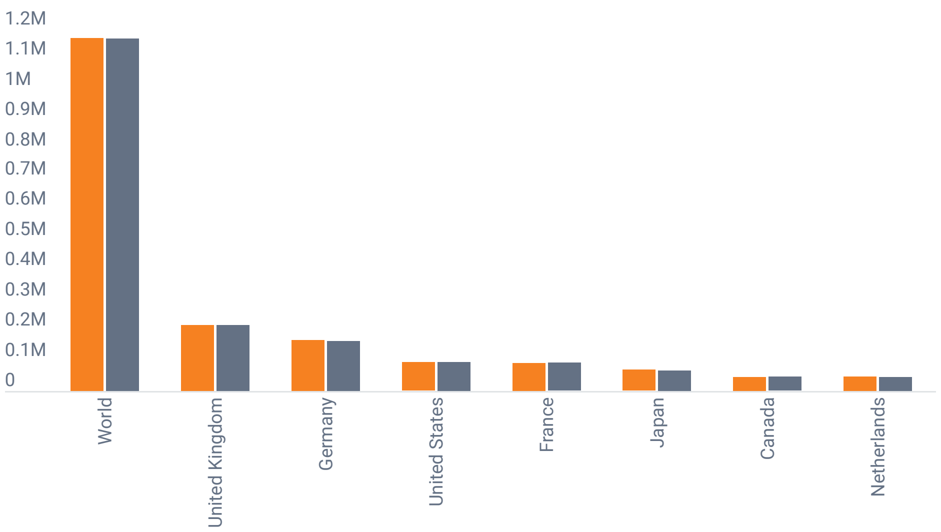
The shortage in Italy had a domino effect on all other markets during the summer. Portuguese prices rose to EUR340-380/tonne and Spanish to EUR320-330/tonne. Prices for the latter have now (end of November) ramped up to EUR390-400/tonne. "On diced and passata, there is not a single kilo available, and you can ask whatever price you want," a source told IEG Vu.

Higher prices coupled with low product availability have depressed exports in August for most origins: Italy (-0.43%), Spain (-0.95%), US (-4.12%) and Greece (-4.33%), with the exception of Portugal which has seen its exports increase by 22% due to larger volumes delivered to Spain, Italy and Germany.

Further price increases are expected for the beginning of the year as processors have started to send products abroad well before the traditional post-harvest 40-day waiting period, ending in November. Processors reported high pressure on the market due to consistent demand from some large importers, in particular from the UK. British buyers were feeling the pressure of the uncertainty linked to Brexit combined with higher prices and the perspective of a potential drop in sterling in the event of a no-deal.

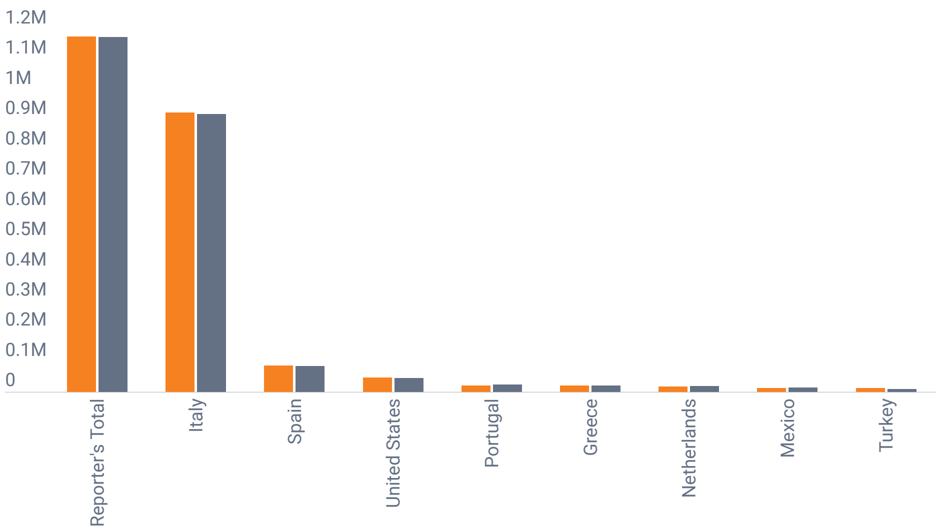
Demand for canned tomato has grown reliably in the past few years and recent research has proved a rediscovered interest in this product. Conagra has recently launched a new range of peeled tomato products, based on rising demand for low-processed products in the US. Imports of canned tomato in North America have increased slightly both in the US (+0.97%) and Canada (2%). Higher demand for tomato products other than ketchup and paste has also been recorded in the UK, where canned tomato remains the most purchased product due to the popularity of Italian and Mexican cuisine, followed by passata.

Canned tomato imports (Jan–Aug), tonnes



Source: GTT/IEG Vu

Canned tomato exports (Jan–Aug), tonnes



Source: GTT/IEG Vu

Outlook: Canned tomato prices are poised to increase since the first months of 2019 as the short supply from Italy has put some pressure on the market with prices for all prod-ucts other-than tomato paste expected to increase between 7-12%. Canned cherry tomato is expected to be among the costlier as this type is usually harvested at the beginning of the season, and the crop had not recovered from its late start.

Pineapple industry aware of its surroundings

There is a diminished European market for canned pineapple while fresh consumption of the product rockets in the Middle East and northern areas of Asia recently.

By Estela Cuesta

Thailand has lost market share in all top markets, with significant drops to the EU28 and Russia; the shrinkage of the European market for Philippines' canned pineapple exports is also noticeable during the period analysed, as well as losses in minor markets such as Japan.

The increasing market share Indonesia is achieving in China and Mexico for canned pineapple recently must be stressed, together with that for Kenyan canned pineapple exports to EU28.

Overall canned pineapple exports from top four exporters Thailand, Philippines, Indonesia and Kenya totalled 645,000 tonnes worth USD550 million for the January to September period this year, down 13% in volume and 12.6% in value y-o-y, according to customs data.

Thailand

Thai export volumes went down 15.8% and value (USD) followed suit by 17.2% y-o-y, representing 48% and 47% of the market share respectively – among the top four.

Thai canned pineapple exports to top market, the US, decreased 2.1% in volume and 5.3% in value (103,800 tonnes worth USD96.6 mln as of September, 2019).

Exports to second market, the EU28, plummeted to 69,000 tonnes worth USD52.1 mln, down 31.4% and 33.6% respectively y-o-y.

Exports to the Middle East and North Africa (MENA) experienced decreases in volume and value by 14.4% and 15.2% respectively (39,550 tonnes worth USD30.9 mln) for the period y-o-y.

Thai canned pineapple exports to Russia also went down by 23.5% in volume and 18.5% in value y-o-y, to 19,800 tonnes worth USD14.5 mln.

Exports to Japan are also falling, totalling 10,300 tonnes worth USD10.0 mln for the period, down 16.8% and 20.7% respectively y-o-y.

Philippines

The Philippines' exports went down 23.8% and value (USD) followed suit by 22.3% y-o-y. The country's market share – among the top four – is 22% of the total volume and 23.7% of the value.

Top market, the US, represents around 50% of total Philippine canned pineapple exports. Volumes for the period amounted to 82,700 tonnes worth USD67.1 mln (down 10.8% and 4.9% respectively, y-o-y).

Exports to the EU28 plummeted by 30.5% to 40,800 tonnes worth USD33.7 mln (down 31.6% y-o-y).

Korea is a significant market for the Philippines, although exports this year decreased to 7,800 tonnes from 10,430 tonnes in the previous period. Value was USD6.1 mln, down 26% y-o-y.

The Japanese market dropped by 35.4% in volume (6,800 tonnes) and 30.2% in value (USD5.5 mln) for the period y-o-y.

Indonesia

Indonesia's export volumes went up 2.4% and value (USD) 23.7% y-o-y, with the country's share within the top four suppliers of 22.1% of the volume and 21.5% of the value.

Exports to top market EU28 went down 13.6% to 49,500 tonnes and 20.2% to USD41.2 mln respectively. Indonesia's exports to current top market EU28 spiked in 2017, when volumes doubled y-o-y.

The US, as second top market for Indonesian canned pineapple exports, remain at similar levels y-o-y. Exports increased by 0.4% to 40,000 tonnes worth USD31.5 mln (down 2.2% y-o-y).

China is currently performing as third top market for Indonesian canned pineapple exports, which are rising y-o-y. Volumes as of September reached 9,544 tonnes worth USD7.5 mln, up 148% and 117% respectively compared with the same period of the previous year.

A new important market for Indonesia is Mexico, with exports to the country doubling y-o-y to 7,800 tonnes worth USD5.2 mln (up 132% and 118% y-o-y).

Kenya

Kenya's export volumes of canned pineapple for the period recovered from last year's, up 40% in volume and 55.9% in value (USD) y-o-y. Its market share currently represents 5% of the total volume and 8.1% of the total value – among the top four.

Kenya's market for canned pineapple is almost exclusively EU28 countries, of which Germany, Netherlands, Spain, the UK or France represent more than 50% of the total market share. The average price fob to these markets was USD1394/tonne for the period analysed.

Fresh market

Chinese demand for pineapple recently rocketed, with the Philippines and Taiwan leading the market for the fresh products, whereas Thailand leads for canned.

Korea is a significant market for the Philippines, although exports this year decreased to 7,800 tonnes from 10,430 tonnes in the previous period

Fresh pineapple exports from the Philippines to first market China this year are up 122% to more than 170,000 tonnes, with prices up 25.8% y-o-y, surpassing that for second top market Japan.

Chinese imports of canned pineapple totalled 26,200 tonnes as of September this year (16,000 tonnes in 2018).

Pineapple industry sources commented at Anuga this year there is an increasing demand for pineapple in China, with growing interest from the foodservice and bakery sectors. In this line, preserved pineapple is mainly imported in airtight containers.

Actual demand for fresh pineapple in China is likely to impact those volumes destined to the canning industry: customs data shows this trend in the Philippines, where overall canned pineapple is significantly reduced this year as opposed to that for fresh pineapple – the Philippines' growing markets for fresh pineapple are China (up 122%), Japan, the UAE, Saudi Arabia or Iran.

The fruit canning industry in Vietnam, which is making efforts to develop its export market, could also be impacted by China's increasing demand for pineapple. Industry sources at Anuga commented there was very little volume available for canning "as China is taking it all" – IEG Vu cannot confirm the extent of this issue as there is no customs data available for Vietnamese trade.

IEG Vu's pineapple insight

With a more or less stable market share in the US, the Philippines' canning industry is shrinking with big losses in Europe. Based on growing Del Monte Pacific's S&W branded business sales of fresh pineapple in Asia and the Middle East – the group also supplies sliced pineapple to McDonald's and Burger King in China – fresh pineapple demand from these markets is likely to cut volumes destined to the canning industry.

While Thailand's raw material situation is foreseen to continue in 2020, Indonesia's pineapple output is expected to increase next year to around 700,000 tonnes. Despite that rise, local industry sources believe it will be a "tough year" for canned pineapple and pineapple juice concentrate due to the short supply from Thailand.

Thai pineapple canneries are facing a paramount year impacted by raw material shortages due to a crop 40% below that of the previous year – which IEG Vu has been covering in detail this year. There are few chances left for growth so far. Average prices fob to top market, the US, decreased further from last year's record lows by 3.3% (USD931 per tonne), and those to Europe decreased by 3.3% to USD755/tonne. China seems to like Thailand the most as its preferred canned pineapple supplier, although Indonesia is a strong competitor these days.

While US canned pineapple imports remained steady this year, overall EU28 imports during the October 2018-2019 period went down 46,000 tonnes (to 243,572 tonnes).

Raw material shortages in Thailand, coupled with other more profitable markets for pineapple in Asia and the Middle East, could be some reasons to explain volumes plummeting in Europe. However, would this drop also point to a lower interest in 'the old continent' for the traditional canned smooth cayenne?

Global canned tuna trade in a makeover

Thailand and Ecuador remain two top suppliers of prepared tuna (HS 160414) to the world, with a stronger China that recently took the place of Spain as third.

By Estela Cuesta

There is a new global map developing for processed and raw material tuna transactions market flows, with China diversifying its product offering to meet Europe's tuna industry raw material demand while increasing its raw material supply capacity through new partnerships.

China without the US

The Chinese tuna industry started to develop as US imports of frozen tuna loins and canned tuna became more abundant from 2012 to 2018, with average annual volumes of 22,000 tonnes. Presumably impacted by the tariffs hike announced by US president Donald Trump, US imports of Chinese prepared tuna products slumped this year to around 3,000 tonnes as of October 2019 – mostly canned tuna.

In the meantime, Chinese losses in the US market are partially being offset by the country's breakthrough for canned tuna in the EU and Thailand: Spain's imports of fillets, known as loins of skipjack, from China doubled in 2018 y-o-y to 20,000 tonnes, and this year are up to 24,400 tonnes as of October 2019; Thai imports of Chinese product so far this year (October) totalled 12,500

In parallel with Peru's dependency on canned tuna imports to supply its domestic market, there is a local canning industry currently developing "despite bureaucratic challenges that need to be addressed," a local industry source recently told IEG Vu. Peruvian canned tuna exports in 2018 doubled compared with those of the previous year to 10,000 tonnes, with Italy, the UK, Spain and Germany as top markets.

tonnes, double last year's volume.

Also, China entered the Peruvian canned tuna market this year, becoming the third top supplier after Thailand (60% of the market) and Ecuador (22% of the market). So far this year, Peru has imported 2,300 tonnes of Chinese canned tuna, which represents 11.2% of total imports.

All signs point to a growing tuna industry in the country, as several fishing and onshore processing agreements with Pacific islands are underway this year.

China fishing fleet in the Pacific

A joint venture between the Chinese state-owned fishing giant China National Fisheries Corporation (CNFC) and Vanuatu's government launched the Sino-Van fish processing plant, to process tuna raw material caught in Vanuatu's EEZ waters into frozen loins for overseas markets, according to the Vanuatu Fisheries Department announcement.

CNFC Fisheries also recently announced plans to expand through the acquisition of tuna fishing company Zhejiang Feng Hui Yuanyang, which currently operates six tuna fishing vessels based in the Central and Western Pacific, plus one squid fishing boat operating in the south-east Pacific and south-west Atlantic.

Chinese fishing company and tuna

processor Zhejiang Ocean Family recently signed a fishing joint venture with Kiribati's government, although the details of the agreement were not disclosed. In the island state arecurrently operating the state-owned company Kiribati Fish, set up in 2010 with Golden Ocean Fish of Fiji and Shanghai Fisheries General Corporation Group subsidiaries Deep Sea Fishing and Central Pacific Producers.

In addition, IEG Vu recently learned that discussions are ongoing between Fiji's fishery authorities and China to secure albacore tuna raw material supply to local canneries from the Chinese fleet that operates in the region. Fiji´s local canning industry is dependent on skipjack and albacore tuna raw material supplies from foreign vessels fishing in the area, mainly China. One of these canneries is Pacific Fishing Company PAFCO, owner of the Sun Bell brand and Bumble Bee supplier, which last year inaugurated a new coldstore of 4,000 tonnes capacity.

EU canned tuna trade

During this year, the EU has strengthened its position as a major canned tuna processor within the EU28 by securing cooperation with key tuna players such as the EU-Cape Verde agreement renewal, the EU Vietnam Free Trade Agreement, the EU – Senegal protocol or the trio of Taiwan, Vietnam and Thailand's 'Yellow Card' status withdrawal – giving a green light to the EU's imports of fishery products from these origins.

Meantime, traditional tuna supplier to the EU, Ecuador, was recently warned by the former with one of those Yellow Card status, noting shortcomings in the country's fishery sector. The local fishing industry, significantly concerned about the warning, is joining efforts to renew the country's obsolete fishery legal frame to meet EU's requirements, while trying to increase its presence in the US market.

Top canned tuna markets 2019

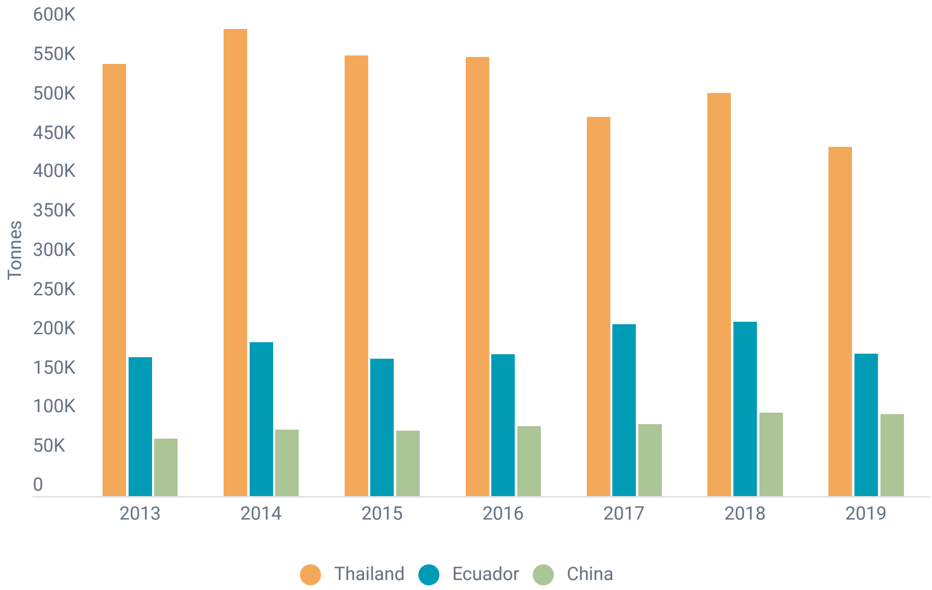
The EU28 has imported 417,500 tonnes of canned tuna as of October this year worth USD2.0 billion, down 9% in volume and 17.4% in value y-o-y. Among top suppliers Ecuador, Mauritius, Seychelles, Philippines, Papua New Guinea and China: only volumes from the last were the only ones increasing, as previously noted.

Spanish canned tuna exports to exclusive market the EU28 totalled 72,464 tonnes; the same volume as that of the previous period. It is worthwhile highlighting that Spanish demand for semi-processed raw material from China went significantly up during the period, and is likely to remain in the uptrend for 2020.

The US imported 153,000 tonnes of canned tuna worth USD822 million for the period, down 8.7% in volume and 7% in value y-o-y, with Thailand, Ecuador and Vietnam as top origins. IEG Vu recently learned US supermarket sales of canned tuna remained steady for the last 12 months, which suggests a stable demand on this side.

Top world canned tuna suppliers: exports

Chinese canned tuna exports are increasing y-o-y, reaching its peak in 2019.



Overall canned tuna exports to Middle East and North Africa region (MENA) for the period totalled 201,200 tonnes worth USD781 million, up 19% in volume and 11.5% in value y-o-y. Within MENA countries, Saudi Arabia, Egypt and Libya are the three current top markets, representing 58% of the total share. Thailand is the top exporter, sharing 75.3% of the market, followed by China (10.7%) and Indonesia (9.5%).

Japan's canned tuna imports, as of October this year, equal those of the same period in the previous year, at 54,300 tonnes (USD307 mln, down 3% y-o-y). Volumes from Thailand currently share 54.7% of the total, with those from the Philippines slightly up this year representing 20.5%, followed by Indonesia (18.9%) and Vietnam (2.8%).

The increase in Chinese canned tuna exports to Thailand (21,200 tonnes) is also significant and likely to continue in 2020.

Price fluctuations

"There is never just one factor influencing skipjack tuna raw material price fluctuations," someone related to the tuna canning business highlighted in October, when raw material prices were close to this year's record lows (USD900-850 per tonne).

According to figures provided by the World Tuna Purse Seine Organisation (WTPSO), average skipjack tuna raw material prices in 2017 increased 30% to USD1,861/tonne, with those for the final product rising by 22.3% to USD45.0/carton.

Since August this year, the raw material price situation has worsened for fishermen and the industry

In 2018, however, average raw material prices plummeted by 17%, but those for canned tuna even increased, reaching USD48.20/carton.

This year so far, as raw material prices are down 15% compared with last year and average canned tuna prices are down 19%.

Comparing the current price situation with that of 2016 – and not taking into consideration the differences on fishing effort for each year – skipjack raw material prices are 9.3% down, but those for canned tuna are still up by 5.7%.

Forecast

Tuna fishing companies are recently expressing concern for a skipjack raw material oversupply pushing catch profitability down, as raw material prices reached a three-year low in October.

Since August this year, the raw material price situation has worsened for fishermen and the industry, as rates recently reached were USD900/tonne in Bangkok and below USD1,200/tonne in Manta, leading to an "unsustainable" raw material price situation, according to several IEG Vu sources.

The World Tuna Purse Seine Organisation (WTPSO) met on November 13 in Manila, the Philippines, to address causes and find solutions to ongoing skipjack raw material tuna prices dropping globally. Sources attending the meeting told IEG Vu there is an intention to reduce fishing efforts in the Pacific – in addition to the already established fishing vedas to control fish stocks.

Global skipjack raw material prices are likely to bottom out at current estimated levels (USD900/tonne fob Bangkok and USD1,150/tonne fob Manta, approx.), which are expected to increase in early 2020.

Photo: zaferkizilkaya / Shutterstock.com

New forces in global frozen berry trade

The volatility of the frozen berry market has reshaped its dynamic and geography with an increasing number of newcomers gaining strong positions within the frozen sector.

By Cristina Nanni

The new year should see the strengthening of the Egyptian frozen industry within the strawberry sector, which might help ease prices across the market. The recovery of the raspberry sector waned over sluggish trade, while consumer demand will play a key role in supporting blueberry prices.

Strawberry

In 2019, Egypt's frozen industry reached its zenith in its race to conquer market share. The extraordinary growth is testified by the increasing presence of Egyptian processors in some of the most popular food fairs such as Anuga, which in 2019 saw the participation of over 96 companies within the agri-food sector.

Exports of Egyptian frozen strawberries have grown at a rate of 56-77% per year, from barely 36,000 tonnes in 2016 to global sales of over 160,000 tonnes

Exports of Egyptian frozen strawberries have grown at a rate of 56-77% per year, from barely 36,000 tonnes in 2016 to global sales of over 160,000 tonnes between January and August 2019

between January and August 2019, 76% above 2018's 91,000 tonnes. It is now the world's largest exporter of frozen strawberry, followed by Mexico and its 77,000 tonnes, just 1.72% more than in 2018. Poland is third and its exports are stagnating at 69,152 tonnes.

Egypt has penetrated traditional Polish markets such as Germany (+6%) and the Netherlands (+19.73%) and even Poland itself, with a doubling of volumes exported to the country.

Poland had a difficult season in 2019. According to the national statistical institute (GUS), the country harvested a total of 175,000 tonnes, about 11% less than in 2018, as drought and unseasonal high temperatures in June shortened the crop.

Prices started from EUR1.60-1.75 (USD1.78-1.95) per kilo ex-works in spring, boosted by projection of an uncertain crop, but declined in July and dropped further in autumn until they fell to the current level of EUR1.47/kg for uncalibrated, whose supply was the largest. Higher prices held for 15-25 mm sizes.

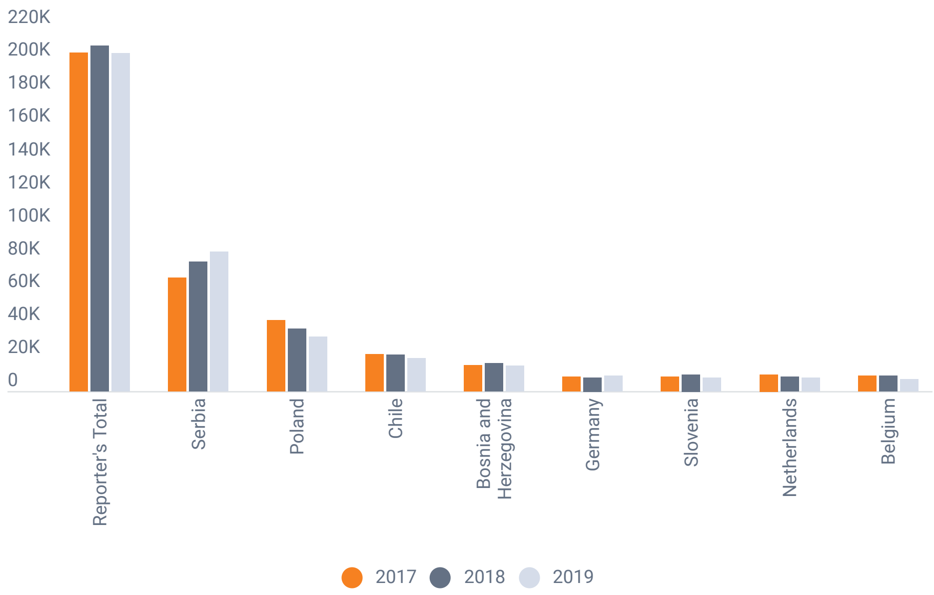
From the beginning of August, Polish processors started to see the market "going quiet" as most customers seemed to have covered their volumes during the season and – in most cases – pre-empted possible higher prices by buying extra volumes from cheaper origins such as Morocco and Egypt.

Prices for both North African countries went up slightly in 2019. Moroccan strawberry prices felt the pressure of a shortage on the US market as adverse weather conditions had reduced both imports flow from Mexico and domestic production, already hampered by a contraction of the cultivated area in California.

Egyptian prices increased between five and 10 cents over the EUR1.0-1.20/kg c&f paid by buyers in 2018. The season had a slow start in the country as the early crop was hit by drastic falls in temperature to 8-10°C at night, so the berries developed at a slower pace despite a general good blossom.

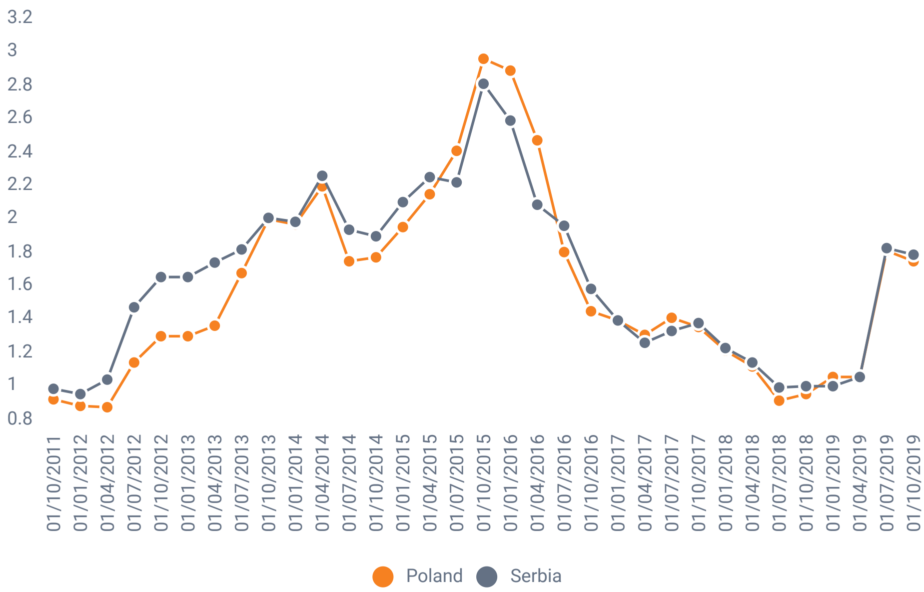
"Fruit was coming in, but was less mature, there were lots of green berries and volumes harvested were low,", a source explained. Nevertheless, with Poland over EUR1.70-1.90/kg ex-works and Chinese prices hovering in the range of USD1.90/kg cfr, Moroccan and Egyptian products were still the most convenient both for Europeans and American buyers.

Frozen raspberry exports (Jan-Sep), tonnes



Source: GTT/IEG Vu

Frozen raspberry crumbles prices,(EUR/kg) ex-works



Source: IEG Vu

The strawberry famine has helped Chilean exported volumes to shoot up by 43.6% to almost 30,000 tonnes as the US has more than doubled its intake for this origin from 6,600 tonnes to over 15,000 tonnes. Chilean processors have seen strawberry raw material prices for the 2019/20 crop increase by 20% over higher production costs linked to a severe drought affecting the country and higher demand from processors.

Chilean processors have seen strawberry raw material prices for the 2019/20 crop increase by 20% over higher production costs

Outlook: the Egyptian frozen strawberry sector is expected to continue growing strongly, which could cause a further increase in prices, while Moroccan production is expected to remain more stable as the country is focusing on other berries such as raspberry and blueberry. The increased attention toward the Egyptian market is likely to put a strain on Polish prices for IQF.

Starting prices for 2020 in Poland will be largely affected by juice industry stocks. Demand for Senga Sengana, the most cultivated variety in Poland, is large within the jam, purée and juicing industry and more generally all products which need a sharp red colour, while all other processors are looking at new potential sources. IEG Vu believe that strawberry prices in Poland will decline in 2020, even if they will never be able to be low enough to compete with Egypt.

Raspberry

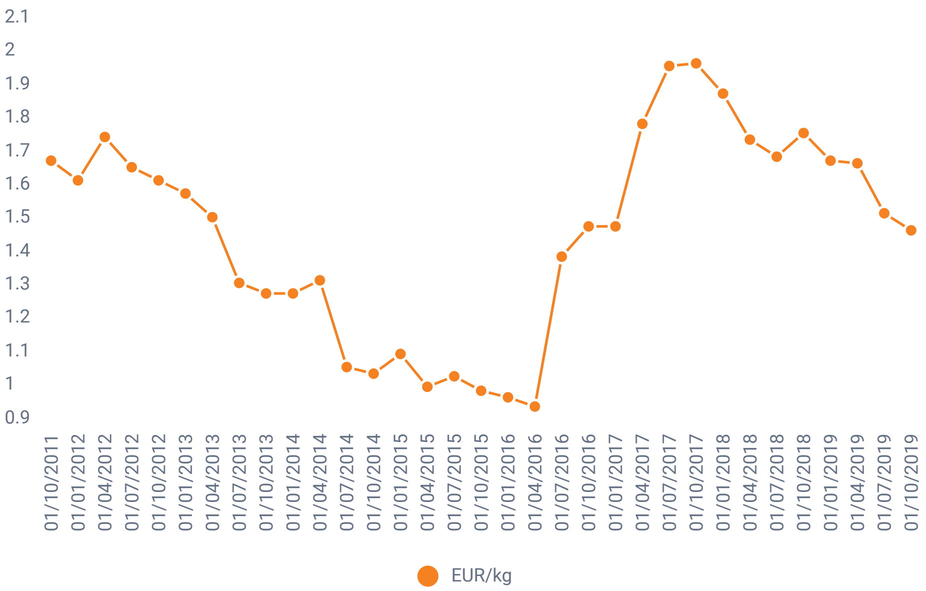
Global exports of frozen raspberry have slowed down in 2019 over lower volume traded from Poland. In the first nine months of 2019, exports from Serbia rose by 7.8% to exceed 84,000 tonnes due to a sharp increase in the shipments to European destination markets. Germany purchased 5% more frozen raspberry in the period, hitting 26,000 tonnes, higher volumes were delivered to France (+2.15%) and the Netherlands (+3.27%), while Poland has almost doubled its intake from 3,600 tonnes to 6,878 tonnes.

Prices for Serbian raspberry this season

started from EUR2.30/kg ex-works for whole and EUR1.85/kg for crumbles, which rose to EUR1.90/kg, almost double the previous year's level, when a shortage for this product was reported in Poland. Serbia's crop itself was not exceptionally high, as frost and cold reduced yields across the country. As a result, prices for Serbian whole raspberry remained buoyant; well above EUR2.10/kg ex-works across the season and are currently in the range of EUR2.20/kg.

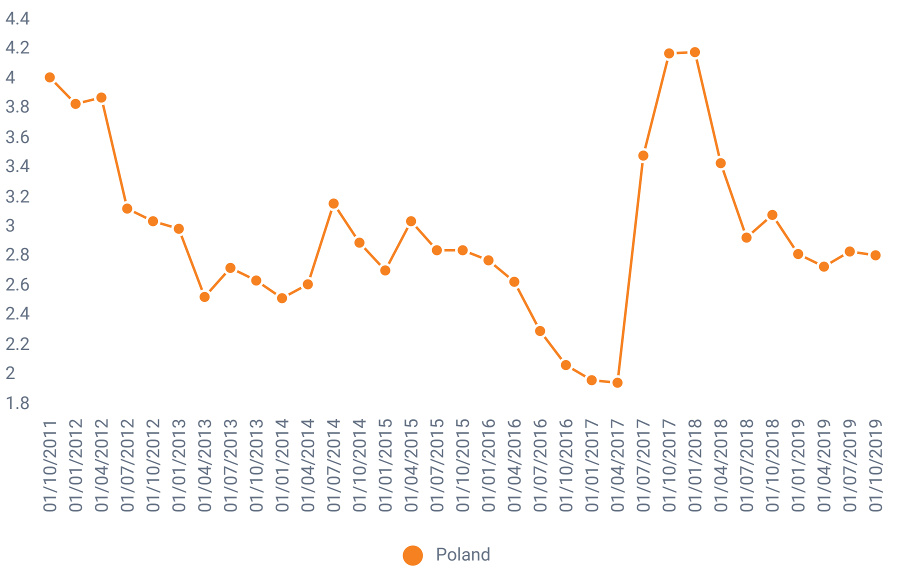
A disappointing summer crop (for crumbles) and a short autumn crop (for whole) in Poland have lifted prices across the market. GUS estimated that the raspberry harvest in Poland has totalled 75,000 tonnes, 35% less than the year before. A high proportion of winterkill coupled with spring frost and summer drought have hindered berry production in Poland. Damage has been especially noted on two-year-old summer raspberry plants, which are very sensitive to temperature. Frozen raspberry crumbles opened the Polish season at EUR1.90/kg ex-works, more than double the price of one year ago when crumbles were sold for EUR0.90/kg ex-works and 31% above 2017's price (EUR1.45/kg).

Polish frozen strawberry prices, uncalibrated



Source: IEG Vu

Frozen wild blueberry prices, (EUR/kg) ex-works



Source: IEG Vu

The situation was little better in autumn, with raw material prices starting from PLN6.8-7.0 (USD1.75-1.756) per kilo farmgate, then gradually declining to PLN5.30-5.50/kg in mid-September. The same product last year was commanding a growers' price of PLN2.50/kg.

Frozen raspberry crumbles opened the Polish season at EUR1.90/kg ex-works, more than double the price of one year ago

At the beginning of the crop, before raw material prices started to ease, processors were asking around EUR2.50/kg fca, while whole frozen raspberry in Serbia was selling for EUR2.30/kg ex-works and the price had never gone above EUR2.35/kg. A smaller crop was also reported in Ukraine where frozen raspberry prices reached EUR2.10/kg delivered this season, bouncing back from the depths of EUR1.40-1.50/kg in 2018 and EUR1.70/kg in 2017.

Slackening demand has affected prices for Polish crumbles, now quoted at EUR1.60/kg ex-works while the Serbians are selling for EUR1.80/kg ex-works. Quotes for Serbian whole IQF are more stable due to the small supply from its competing countries. Prices are expected to decline in the first half of 2020 season and recover ahead of the start of the new season as Serbian growers claim that the 2018 frost might have affected the plants' roots.

Higher prices are expected in Chile, due to the small crop in Europe and lower volumes harvested in the US. Chilean sources expect a price increase for the raw material between 15-20%, compared with last season. The crop looks normal even if

problems such as higher irrigation costs due to the drought cannot be ruled out.

Outlook: While Chilean prices are expected to stay firm this season, the European are expected to ease in the first half of the year on a lower demand. Most buyers seem covered and no one is in a rush to buy frozen raspberries at the moment. Some small Polish processors are in financial difficulties and are “dumping tonnes of frozen raspberry on the market,” as a source summarised, affecting prices across the continent. This situation could explain the decline in prices for crumbles both in Poland and Serbia, while whole raspberry prices are more stable for the time being.

Blueberry

The forecast was for a good wild blueberry crop this season, but adverse weather conditions thwarted processors’ expectations, as happened for most other berries. Production in Scandinavia, where the crop starts at the end of August and ends in September to leave space to the lingonberry crop, posted a record low with estimated 50% volume losses as the country had the driest July in 70 years. Pickers – mostly employed from Thailand – could take no more than 40kg per day.

October prices for Swedish wild frozen blueberry reached EUR4.0-4.50/kg ex-works, pushed up by an increasing demand from the Asian pharmaceutical industry. The Polish origin is cheaper at EUR2.90-3.0/kg ex-works.

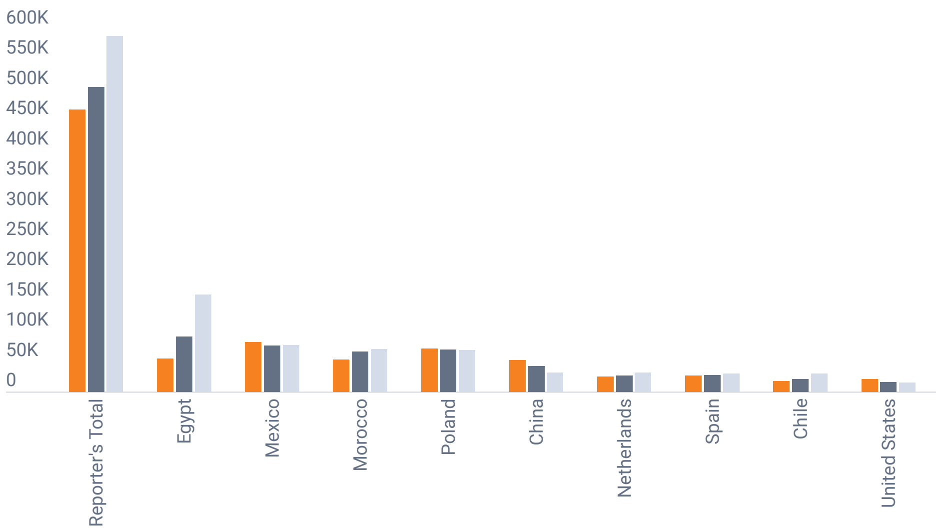
Traders have tried to cover the gap by buying larger volumes from Ukraine or Belarus. The former had a smaller crop compared to the year before, while in Belarus more sound volumes have helped prices to be lower than in Sweden. Produce for those two origins has to be tested for radioactivity and cannot always be used, especially if reprocessed into premium products. Harvesting in the Baltic states was really poor and prices were in the range of EUR3.30/kg. Currently, wild blueberry prices are available on the European market at an average price of EUR3.45/kg ex-works.

Higher prices were also recorded across the Atlantic due to smaller crops in the US and Canada. The wild lowbush harvest start was one of the latest on record, due to the cold wet spring followed by a prolonged drought which hindered fruit development, analysts of the Food Institute explained. North American wild blueberry is a different variety from the European and it is unlikely for processors to switch from one origin to the other, so the larger North American crop is unlikely to relieve pressure on the European buyers. Canadian wild blueberry is available on the European market at around EUR2.50-2.60/kg delivered.

The cultivated blueberry crop has developed smoothly both in Canada and the US. Blueberry was the fruit with the highest stock volume in its category in the US, hitting 278.8 mln lbs, about 3.8% less than in September and 22% above 2018’s level. Chile is expected to have an average crop this season, but prices buckled under the strain of the large processed supply in North America, causing raw material prices to decline by 30%. The country also has to compete with the surge of products from Peru, both for fresh and processed.

Outlook: Prices for the European wild blueberry should start at the current level in 2020, with an expected increase in labour costs to keep them on the high as the production area is pretty limited and supplies from Canada are unlikely to ease prices. Prices of cultivated frozen blueberries might start to ease and – unless there are major issues with the crop – should keep declining over time. Production of cultivated blueberry has spread across the globe and market newcomers might contribute to keeping sharp price increases at bay. However, demand for this product is sustained and likely to absorb supplies fast enough to avoid any sharp drop in prices.

Frozen strawberry exports (Jan-Aug), tonnes



Source: GTT/IEG Vu

World sugar production to hit four-year low

A drop in global sugar production in 2019/20 may be bigger than previously thought.

By Sandra Boga

Total world sugar output is now estimated to fall by 9.2 million tonnes to 177.1 mln in the new crop year, according to sister title FO Licht.

If realized, this would be the lowest output in the past four years and would be 24.6 mln tonnes less than the record 201.7 mln tonnes produced just two years ago.

The fall in world production in 2019/20 will be due to an assumed strong decrease in production in India and Thailand, Licht outlined.

"What's more, sugar production in the EU is now seen slightly lower than last year, while Brazil may produce a little more than a year ago," it said.

While such a strong drop in output is supportive for sugar prices in an isolated analysis, a significant rise in prices will still be prevented by massive stocks from the past crops in India, Licht explained.

Meanwhile, the fall of the Brazilian currency to an all-time low against the US dollar is also keeping a lid on prices as higher prices could reverse the heavy bias of Brazilian millers for ethanol production, which could then trigger a flood of sugar for the world market.

"That said, a significant rise in world sugar futures prices seems rather unlikely in the current season," Licht warned.

Sugar beet

World beet sugar production is seen rising slightly to 41.5 mln tonnes from 40.8 mln a year ago, according to Licht. Sugar output in the EU is now even seen slightly below the year-ago level and the production outlook in the US has also deteriorated significantly due to bad weather. On the other hand, Russia is projected to produce much more sugar than a year ago with the increase there more than offsetting the reductions elsewhere.

Sugar production in the **EU** is now projected to reach 17.5 mln tonnes. Dry weather conditions this summer had affected much of **France** with beets benefiting from rains in late September and early October. Overall Licht's French sugar production forecast remains at 4.9 mln tonnes, unchanged from last season. Meanwhile in **Germany**, rainfall, Licht's sugar production forecast for 2019/20 has been reduced to 4.1 mln tonnes.

In **Poland**, drought has adversely affected beet yields again this season with the average currently seen reaching only 57 tonnes per hectare. As a result, Licht has cut its sugar production outlook by 266,000 tonnes to 2.2 mln, which would be down from 2.4 mln last year.

In the **UK**, the sugar beet harvest initially got off to a good start, but subsequent rainfall hindered operations. All in all, Licht still expects nearly 1.2 mln tonnes of sugar to be produced, fractionally higher than last season.

In the **Netherlands**, parts of the country have been badly hit by drought with area under cultivation falling to 80,700 ha this year from 86,200 ha a year ago due to the drop in prices. Here, Licht's sugar production forecast has been reduced by 60,000 tonnes to 1.15 mln tonnes.

Meanwhile, **Russian** farmers increased the area sown to sugar beet to 1.143 mln ha for the 2019/20 crop, up 1.7% from last year with Licht raising its sugar beet production outlook for the current season to 7.8 mln tonnes.

Farmers in **Ukraine** sowed 220,600 ha to sugar beet in 2019, down 20.2% from a year ago with unfavourable weather causing a drop in beet yield to about 44.5 tonnes/ha this season. As a result, Licht has cut its sugar production outlook to 1.5 mln, down sharply from nearly 2.0 mln tonnes a year ago.

Expectations for **US** beet sugar production in 2019/20 have been scaled back massively to 4.2 mln tonnes due to poor harvest conditions resulting in lower sugar beet production.

"Freezing weather conditions hit large portions of the United States and made a sizeable chunk of the country's beet area unharvesteable," outlined Licht.

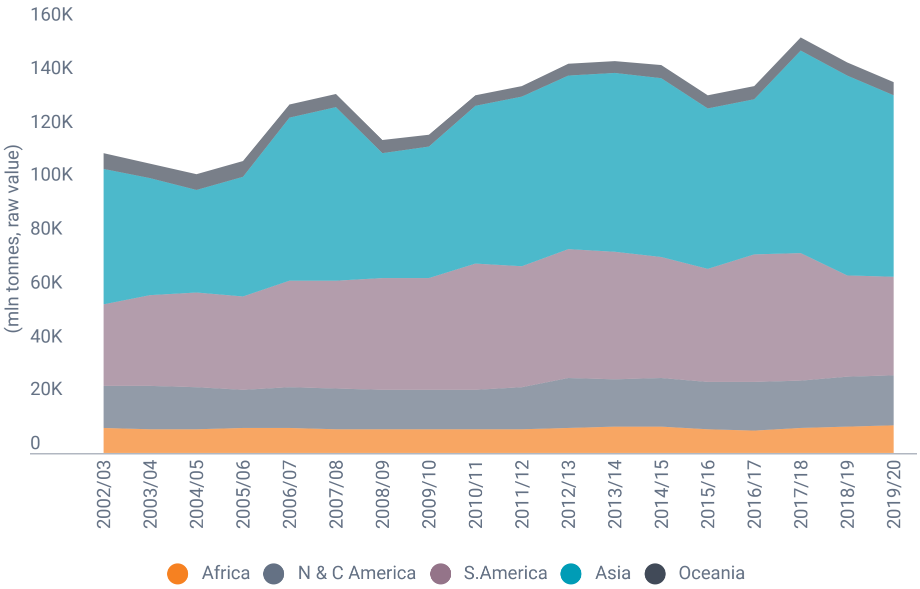
If realised, this would be the lowest beet sugar output since 2009/10. Yet, there seems to be room for a further downside revision depending on the eventual abandonment rate of the harvest area.

Sugar cane

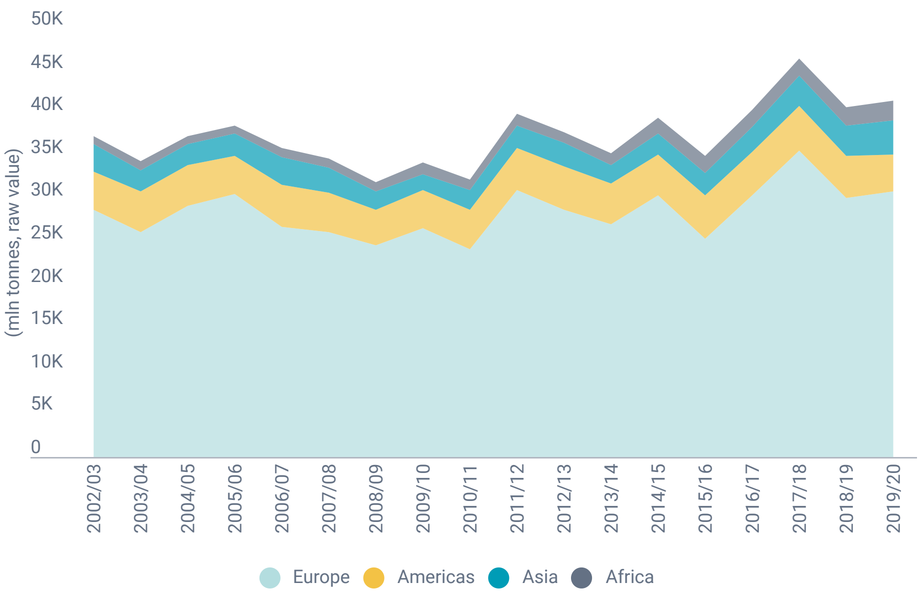
With India and Thailand expected to produce significantly less sugar in the new season, world cane sugar production is now seen falling by 9.9 mln tonnes on the year to

"A significant rise in world sugar futures prices seems rather unlikely in the current season"

World sugar cane production



World sugar beet production



Source: FO Licht

135.6 mln, according to Licht.

"Interestingly, this is nearly 20 mln tonnes less than the record 155.2 mln tonnes produced in 2017/18," it said.

Asian sugar output is now seen 9.8 mln tonnes lower than in 2018/19 at 64.8 mln tonnes, mainly due to the reduction in India and Thailand. While sugar cane production in South America may rise by 0.4 mln tonnes to 38.0 mln from last season's 13-year low.

India is expected to see a sharp drop in production this season due to bad weather in the key sugar producing states of Maharashtra and Karnataka, in the west of the country. All in all, Licht has reduced its sugar production forecast to 28.3 mln tonnes (26.0 mln white value) in 2019/20, which is 7.6 mln less than last season.

For **Thailand**'s sugar production in 2019/20, Licht assumes a sharp drop to 12.5 mln tonnes as poor cane prices at a time of rising prices for cassava - a key competitor for cane cultivation - have driven farmers to switch between crops.

India is expected to see a sharp drop in production this season

Meanwhile, **Pakistan's** sugar production is projected to fall about 0.2 mln tonnes year-over-year to 5.7 mln tonnes in 2019/20. "If realised, this means that production has dropped by 2.0 mln tonnes from the record 7.7 mln tonnes produced in 2016/17," said Licht.

Farmers have switched to other crops in recent years due to tensions over cane prices and payments with the millers, it explained.

In **Brazil**, sugar production in 2019/20 is now estimated to reach 30.9 mln tonnes, half a million tonnes more than a year ago. Rather dry weather conditions allowed sugar mills in Brazil's Centre/South to continue crushing cane at a strong pace throughout October. The total crush is still estimated at about 585 mln tonnes, 12 mln tonnes more than last year.

In **Mexico** sugar production is expected to fall sharply this season due to drought, which will more than offset a small rise of the cane area by about 5,000 ha to 809,000 ha. As a result, the cane crush is seen falling to 51.1 mln tonnes from 57.0 mln last, which at a comparable sugar extraction rate as last year would reduce sugar output to about 5.9 mln tonnes; down sharply from 6.6 mln in 2018/19.

US cane sugar production in 2019/20 is forecast to be slightly lower than last year at 3.7 mln tonnes. Chilly weather has not only affected beet growers, but it also weighing on cane growers in the south, said Licht.

Sugar production in **Guatemala** is projected to rise modestly to 3.2 mln tonnes in 2019/20 as the use of an improved cane variety is seen aiding the extraction rate. Meanwhile, Cuba's sugar output is estimated to remain unchanged at 1.3 mln tonnes in 2019/20.

Australia's 2019 sugarcane crush may reach just above 30 mln tonnes, down from 32.5 mln a year ago, Licht indicated. “It has been a difficult season for growers who were first hampered with wet weather early in the year, and then suffered from little in-crop rain,” it said.

Prices

World sugar futures continued to seesaw within their familiar trading range with the market lacking a clear overall trend.

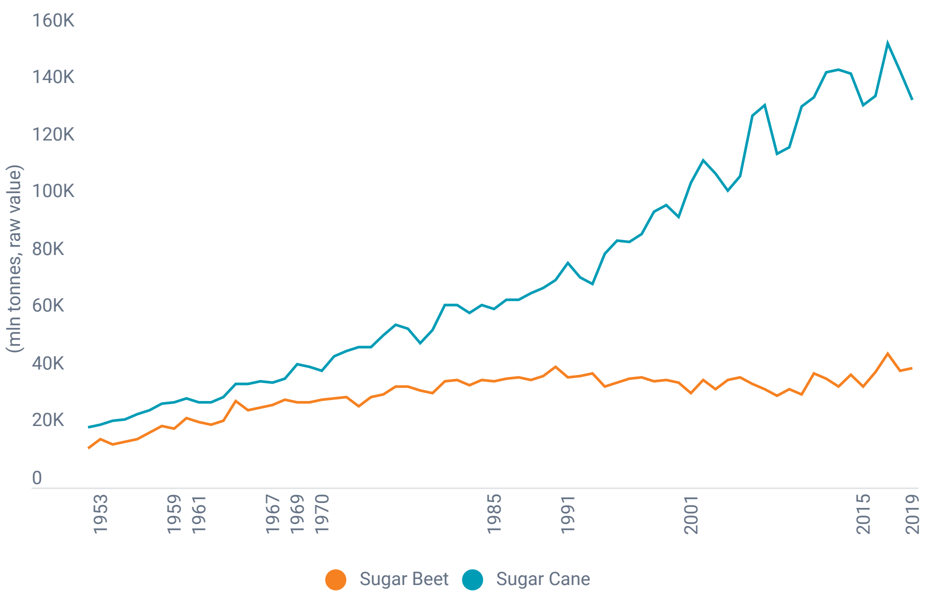
While it is supported to the downside from projections of a sizeable sugar deficit in the new 2019/20 season, quotations are pressured by an ongoing depreciation of the Brazilian real against the US dollar. The BRL posted its lowest ever close of 4.2061 per dollar in November, as heavy selling met no resistance from the Central Bank. This was above the previous all-time closing high of 4.1957, but perhaps more importantly, comfortably above the 4.20 mark. That is roughly where the Central Bank intervened in August this year, selling dollars outright on the spot market for the first time in a decade as the currency approached its record low of around 4.25 per dollar struck in 2015.

The strong depreciation of the real has given Brazilian sugar millers the possibility to price sugar far into the next 2020/21 season, which may lead to a higher sugar mix in 2020/21 compared to the current season.

Brazilian sugar production in 2019/20 is now estimated to reach half a million tonnes more than a year ago

Photo: Alf Ribeiro / Shutterstock.com

World sugar beet and cane production 1952/53–2019/20



Source: FO Licht

Reflections on the sugar year

As per last year, this year recalled the truism that sugar operates in a bear market and is occasionally bullish when inclement weather significantly impacts output in key producing regions.

By Arvind Chudasama

Market fundamentals continue to weigh in on low sugar prices due to supply glut and faltering demand.

In spite of the throes of climate change, agricultural production and productivity levels have been stable or increasing largely due to improved crop management, access to productive cultivars and judicious use of capital inputs (e.g. fertilizers and crop protection chemicals). As yet, there is no indication of a significant switch from growers to alternate crops.

But the fall in demand in the recent past due to successful campaigns by health advocates demonizing sugar and some opportunistic governments slapping on tax (arguably more for fiscal reasons for treasury coffers than the subscribed health reason) is adversely impacting the industry. For decades, consumption growth was 2% annually. But it has fallen well below that now. Except for the emerging and developing economies in Africa and Asia, consumption has been fairly flat in other parts of the world.

The global sugar industry has simply not been effective in countering those who selectively misuse science to propagate half-truths about sugar, and those medical experts who have offered nuanced views have not been heard in mass media. The Annals of Internal Medicine, a journal from the American College of Physicians stable, recently reported that obesity rates in China have tripled over the past 10 years. Yet the per capita sugar consumption in the country is only 12 kg, around one-third of that in the West. As Courtney Gaine, President of the US Sugar Association has noted that the issue of obesity should be framed within the overall caloric intake – isolating one nutrient is simply not helpful. But sugar is a low-hanging fruit that can be easily demonized in 24/7 media where perception is much easier to convey than scientific truth.

Sugar smuggling is a perennial problem in the industry. For more than a few emerging and developing economies, smuggling has a severe impact on their local industries. Alas, those surplus producers whose sugar reach these countries, aided often by corruption, care less for the hurt they cause when they are so desperate to move their stock. With China's crackdown on smuggling, the issue has come to the fore. Recently, Südzucker in Moldova had to mothball one of its sugar factories due to smuggling impacting demand of locally produced sugar which could not compete in the local market. Fearing closure of the only sugar factory in the country from illegal sugar imports, Burkina Faso imposed a ban on all imports. This had the desired impact – locally produced sugar got sold in the local market.

The most distressing news piece during the year was from India. Women cane cutters in the Beed district of Maharashtra were forced to undergo sterilization or a hysterectomy so they do not take a break from cutting when they are menstruating. But what really lay behind this action was to prevent the women from getting "pregnant from repeated [sexual] abuse by landlords and middlemen who enslave them through debt bondage." As Nirja Bhatnagar, regional manager at ActionAid in Mumbai pointed out "There is no human rights violation worse than having to remove your uterus so you can enter an informal economy that does not care for you." It is deplorable that the cane industry supports such violations against the vulnerable. Very much hope that the Indian sugar industry will act to put an end to this unconscionable practice.

The global sugar balance to 2025

The global sugar market is moving into a deficit phase, which should provide a more benign environment for producers.

By Sandra Boga

After a balanced market in 2021/22, the balance is expected to shift to surplus again. World sugar production in 2024/25 may reach about 200 million tonnes, while consumption is expected to rise to 200 mln tonnes too, FO Licht's recent study outlines.

On a regional level, Asia is expected to remain the largest sugar producer in the world with sugar production seen rising to 83.7 mln tonnes in 2024/25. Heavyweights India (36 mln tonnes) and Thailand (14.5 mln tonnes) are anticipated to remain the main producers in the region.

Given the profitability of ethanol production and support of the government, Licht expects that **Indian** mills will raise capacities for ethanol production. This will lead to more cane being diverted to ethanol instead of sugar. By 2025 about 1-2 mln tonnes of sugar can be used to produce the fuel, it added.

"Given the unwillingness of Indian politicians to limit sugar production, we expect that the weather events will continue to be the main driver. As a result, the country's production is likely to remain unstable. The local sugar consumption rises at a lively pace and if farmers do not launch an acreage extension campaign, local production and consumption are expected to match by 2025," warned Licht.

Thailand has continued to take the world of sugar by surprise since 2010/11 when the country's output touched the 10 mln tonne mark for the first time. In the forecast, Licht assumes rather stable production in the coming years as cane prices are in reverse gear as they are now more closely linked to world prices.

"However, a tighter world market, expected after the 2019/20 season, should improve farm economics and stimulate higher production. Also, the government is expected to continue implementing indirect subsidies in the future to promote sugarcane growing," it said.

South American sugar production is estimated to reach 44.1 mln tonnes in 2024/25, with **Brazil** set to remain the driver of the region's output pegged at 36.5 mln tonnes.

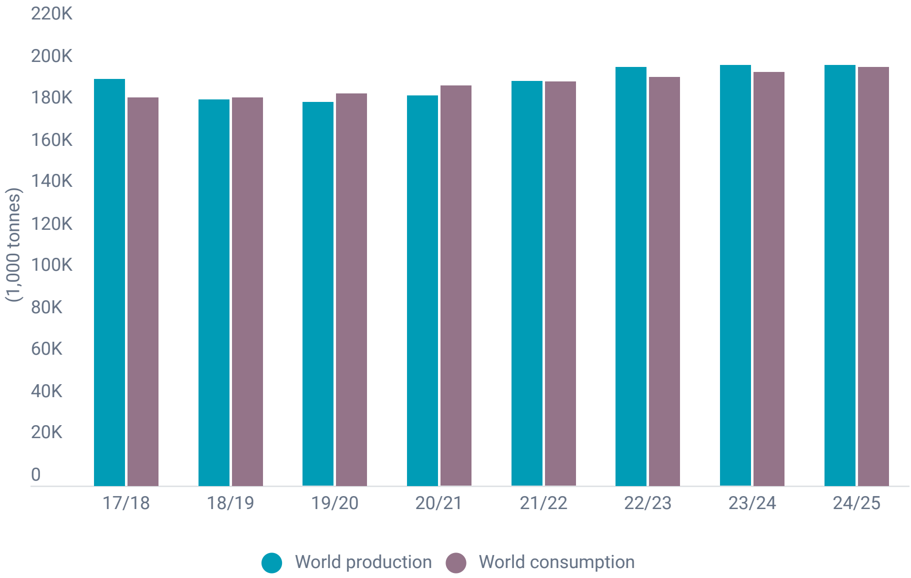
"A tighter world market, expected after the 2019/20 season, should improve farm economics and stimulate higher Thai production"

"Underinvestment is expected to keep Brazilian sugar production at the current levels until the next deficit that will lift sugar prices. Such an upcycle could attract fresh investments into the industry," said Licht.

Meanwhile, the RenovaBio program brings additional uncertainty. The start of the program is scheduled for January 1, 2020, but there are still more questions than answers regarding its implementation.

"We assume that additional support from the government will not cause an immediate response from the industry. The program is expected to make ethanol production more attractive, but market

World sugar forecast to 2025



Source: FO Licht

players should understand first how this changes the working environment. In the first phase of the program, we anticipate producers to operate with existing capacities not investing much into extension," outlined Licht.

Although producers are not expected to expand their production capacities, RenovaBio is expected to raise the so-called sugar/ethanol parity level. Therefore, the record high sugar production above 40 mln tonnes observed in 2016/17 is not likely to be repeated during the forecast horizon.

However, Brazil will retain its role of a world market regulator due to the size of the industry and the ability to switch between sugar and ethanol production rather swiftly, added Licht.

Sugar production in North & Central America is estimated to be hardly changed at 25.3 mln tonnes in 2024/25 as most countries are expected to raise their production rather marginally. The largest producer is the **US** (9.22 mln tonnes) followed by **Mexico** (7.522 mln tonnes) and **Guatemala** (3.8 mln tonnes).

"The US and Mexico have a bilateral sugar trade deal, which brings stability to the market. At the current stage, the US sugar policy looks sustainable and able to cope with market volatility. Therefore, production is expected to rise following the latest trends," it outlined.

Africa is forecast to produce 14.1 mln tonnes in 2024/25, outlined FO Licht.

"Although several new projects have been announced, we assume some delays in their completion. But eventually, additional processing capacities and higher crop acreage will lead to an increase in output," it said.

In the **EU**, Licht forecasts (19 mln tonnes for 2024/25) that it will continue to produce above its needs during the time of high world sugar prices and export excessive supplies. When prices fall, the EU is expected to reduce production closer to the levels of its domestic consumption.

"But we do not expect EU producers raising their production to the record high seen in 2017/18 - the hard lesson learned during the first years of absent production quotas showed how difficult it is to compete on the world market," said Licht.

Consumption

The most important factors which influence sugar demand are population growth and income per head. Although the population growth remains significant, sugar consumption per head has stalled, said Licht.

"The main reason for this is cautiousness stemming from a potential detrimental effect of sugar to human's health," it warned.

Sugar taxes continue to gain momentum too as many governments find the double effect of higher tax revenues amid tackling public health concerns as quite appealing.

More importantly, food and beverage producers are proactively reducing the amount of sugar in their products and replace them with artificial sweeteners to avoid the aforementioned taxes. They are also decreasing portion sizes and diversify their corporate portfolios.

"This may ultimately have a larger effect on sugar consumption than the reduction of soft drinks consumption itself. Sugar taxes are expected to reduce the demand growth rate," it said.

As a result world sugar consumption annual growth rate will equal to about 1.2% versus 1.6% observed for the last five years, concluded Licht.

Ivory Coast and Ghana's LID dominates cocoa sector

Last year's IEG Vu Global Outlook indicated that the unease which followed the drastic fall in global cocoa prices in 2017 and the new attempt by major producers to gain control of pricing, would likely continue in the year just ending.

By Obafemi Oredein, cocoa specialist (Nigeria)

Towards the end of 2018, a Nigerian cocoa analyst urged Ghana and Ivory Coast to gather the political will to carry through the price initiative embedded in the June 2018 Abidjan Declaration. The two major world cocoa producers, under the declaration, agreed to set uniform pricing for cocoa both in the local and international market.

"Ghana and Ivory Coast should muster the political will to carry the cocoa price initiative through within five years and get a higher share of the USD100 billion chocolate industry for cocoa producers worldwide," said Robo Adhuze, Cocoa Association of Nigeria (CAN) analyst.

It is safe to say that, both countries, who produce over 65% of the world's cocoa, have mustered that political will over the past year. They have for the first time put producers near the driver's seat (if not on the seat yet) regarding the determination of cocoa prices in the international market. Indeed, the pricing issue dominated the global cocoa industry in 2019 with Ghana and Ivory Coast achieving unexpected control over the setting of world cocoa prices that had previously been the exclusive privilege of cocoa companies and chocolate manufacturers in Europe and North America.

> Ivory Coast and Ghana have for the first time put producers near the driver's seat regarding the determination of cocoa prices in the international market

2019 began with the uncertainty of where global cocoa prices were heading and shortly after the first quarter, the Ghana Cocoa Board (Cocobod) announced that Ghana's cocoa production was expected to drop nearly 6% in the 2018/19 season to 850,000 tonnes from its earlier forecast of 900,000 tonnes because of the cocoa swollen shoot virus disease (CSSV) and drought. This therefore put more pressure on cocoa prices.

Cocoa overproduction, particularly by Ivory Coast, was largely responsible for the collapse of cocoa prices in 2017. Ghana's follow-up announcement in May 2019, that it expected to increase cocoa production to 1 million tonnes within a five-year period, was seen by some producers as counterproductive and some particularly in Nigeria accused Ghana of "unwittingly going to weaken global cocoa prices through increased production."

Then came June 2019, a significant period for the global cocoa industry. At the beginning of the month, cocoa port arrivals for Ivory Coast had reached the 2 million-tonne mark with the midcrop cocoa harvest underway.

Then followed the historic meeting of Ghana's Cocobod and Ivory Coast's Cocoa and Coffee Council (CCC) with international cocoa traders, as well as global chocolate and confectionery manufacturers. They discussed and ratified the minimum price

of USD2,600 for the main crop and a Living Income Differential (LID) of USD400 per tonne for cocoa farmers set by Ghana and Ivory Coast to commence in the 2020-2021 season. The ratification sealed the cocoa floor price and the LID, despite initial opposition and resistance from the international traders and chocolate manufacturing giants.

"It was clear to the foreign cocoa buyers that it was better to pay a little more for cocoa instead of facing a supply shortage that would put their billion-dollar trade and chocolate investments in jeopardy because a cocoa shortage would be a disaster for them," said Jide Abimbola, an agricultural economist in Nigeria.

At the beginning of October 2019, the opening of the 2019/20 cocoa season, Ghana and Ivory Coast announced new cocoa producer prices. Ghana increased its guaranteed pay to its cocoa farmers by 8.42% to GHS8,240 per tonne from the GHS7,640 fixed in October 2016 to cover the 2016/17 season, while Ivory Coast raised its farmgate price by 10% to CFA825 per kilo for the main crop from CFA750 per kilo for the last season's main crop.

After the cocoa floor price, perhaps the next significant occurrence in the global cocoa industry in 2019, was the big bang in November 2019 that Ghana had secured USD600 million cocoa stimulus package from the African Development Bank (AfDB).

"The stimulus will target rehabilitation of plantations, improvement in storage and domestic processing, stimulation of local consumption as well as efforts to increase

"Huge investment will step up Ghana's cocoa production to 1.5 million tonnes by 2027"

outputs on farms and spans a seven-year period," said Kojo Oppong Nkrumah, Ghana's Information Minister.

Nkrumah explained that the "huge investment" is to step up Ghana's cocoa production to 1.5 million tonnes by 2027 adding "cocoa farmers who have been the backbone of the Ghanaian economy already have good news for 2020 in cocoa floor price structure but now get an additional dose through this stimulus package."

Ivory Coast is also expecting USD600 from AFDB in 2020 as the world's biggest cocoa producer and Ghana jointly applied for a USD1.2 billion cocoa loan from the bank.

Looking to 2020

New investments in the sector, especially by Ivory Coast and Ghana, increasing local warehousing, processing and consumption using the AFDB loans and the movement of commodity prices will likely dominate in 2020.

Firstly, there will be concern and some dose of apprehension in the global cocoa industry because of the run-up to the full implementation of the cocoa floor price and the LID from October 2020 for the 2020-2021 season. Will the implementation be smooth? Will the attempt to limit cocoa production by Ghana and Ivory Coast not disrupt supplies to international buyers? Will prices continue to rise and what will the weather look like in 2020? These issues or questions will dominate the global cocoa sector in 2020.

"What is important is that the price initiative has begun, those in-charge are serious minded, and they are focused. I see in the new year (2020) more collaboration between producers and the buyers," said Adhuze, the CAN analyst.

Ghana and Ivory Coast will put more efforts to limiting cocoa output in 2020 considering the success they made in 2019 in getting support and endorsement for the floor price and the LID. However, if they overproduce cocoa, as they did in the past, they would be putting the cocoa floor price in jeopardy.

"Together with Ghana we have voluntarily decided to limit production. If we have too much quantity (cocoa) on the market we work against ourselves," said Lambert Kouassi Konan, president of Ivory Coast's cocoa regulator CCC.

Adhuze added "we will also see a year where we have greater interest in local consumption, where more companies will be producing more cocoa end products. People are more conscious to consume cocoa as a patriotic duty and the need to grow our economy. And the only way to grow the economy is to consume what we produce."

Secondly, Ghana and Ivory Coast head for presidential elections in the third quarter of 2020. Already, President Ouattara has said he would run for a third term if his predecessors, like bitter rival former president Laurent Gbagbo or former president Henri Konan Bedie, decided to compete in the 2020 Ivorian election. There are other worrisome disagreements by political leaders, political parties, activists and civil society groups and threats of violence in Ivory Coast long before the poll in October 2020, the beginning of the crucial 2020-2021 cocoa season.

There have been two civil wars in Ivory Coast in this century – in 2002 and 2010 to 2011 – because of the bitter struggle by its leaders for political power. Therefore, a repeat of violence or civil war in the West African country in 2020 will be disastrous for its economy led by the cocoa sector and the world cocoa economy in general.

Cocoa production set for deficit

Without a doubt 2019 was heavily influenced by the decision taken by Ivory Coast and Ghana to take control of their cocoa prices. In 2020, we will see the full brunt of the new pricing mechanism in the lead up and eventual implementation come October.

By Sandra Boga

One of the early concerns with the initiative was fears of over production as farmers will have a better incentive to grow more cocoa. Following this, Ivory Coast announced a production cap at 2 million tonnes for the 2020/21 season with Ghana also alluding to the same, leading the market to somewhat breathe a sigh of relief.

However, leaving aside market skepticism over whether a cap can actually be enforced, another issue still lies with the 2 million-tonne figure, as this would have an opposite effect and shift the market into a serious deficit in 2020/21.

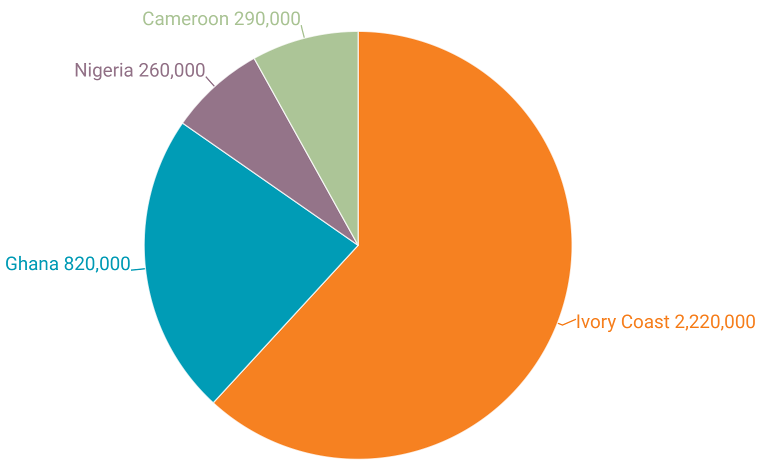
The 2019/20 production figure for Ivory Coast is pegged to remain stable at 2.22 mln tonnes

Recent data by the ICCO already indicates that the 2018/2019 season flipped from a surplus to a 21,000-tonne global cocoa deficit. Sister title IEG Vantage currently points to a deficit of 84,000 tonnes for the current 2019/20 season, up from by 55,000 tonnes from its previous estimate. Overall, global cocoa production for 2019/20 is placed at 4.878 mln tonnes.

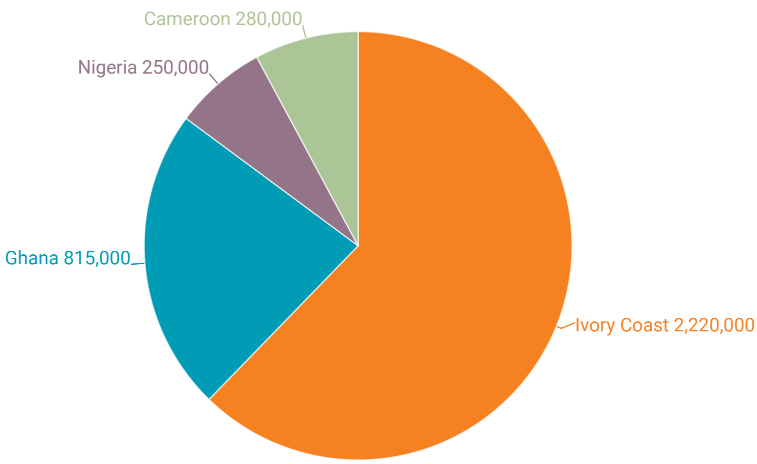
Vantage's 2019/20 production figure for **Ivory Coast** is pegged to remain stable at 2.22 mln tonnes; therefore, a production cap at 2 mln tonnes for 2020/21 and with grindings continuing to rise, the world may end up with a 300-tonne deficit as a result. Last season saw the world's top grower produce 13% more cocoa year-on-year; a record production figure attributed mainly to favourable weather conditions for the main crop and output from thousands of small plantations that have developed and are now in the producing stage. During the beginning months of this new season, heavy rains that had negatively affected crop development

West Africa cocoa output 2019/20 season

2019/20



2018/19



Source: IEG Vantage

recently and caused black pod disease to spread in some growing areas in the country were reported to have eased. However, some beans are still likely to be rejected by exporters due to the high moisture content.

Meanwhile for second producer **Ghana**, its 2019/20 cocoa output is placed at 820,000 tonnes by Vantage. This is more or less in line with 2018/19's 815,000 tonnes, which itself was a considerable drop (9%) and a key component behind driving global supplies into a deficit. The outbreak of Cocoa Swollen Shoot Virus (CSSVD) disease and unfavourable weather conditions during the year had a devasting impact on the country's cocoa production. In order to combat against CSSVD the Cocobod had to replant an estimated 400,000 hectares of cocoa plants which are anticipated to start producing within three to five years. In addition, recent favourable weather conditions partnered with the adoption of good sowing operations are supporting the development of the current main crop for this coming season.

Elsewhere in Africa, **Nigeria's** production in 2019/20 is anticipated to rise to 260,000 tonnes, while **Cameroon's** is estimated to top 290,000 tonnes. Nigeria's cocoa production during last season faced deteriorating weather conditions including persistent heavy rains that also led to the spread of diseases and inadequate sunshine to dry beans. With the 2019/20 season now underway, beneficial weather conditions reflect optimism for better production levels leading to a 4% annual increase. Cameroon's production rise (3.6%) for next season is backed by government programs and improved quality of beans which are increasing local prices.

Brazil was another contributor to 2018/19's deficit, as volumes slipped by 13.7%. The reduction in output depicted the extent of the damage to production due to intense heat and lack of rainfall during the season especially for the major producing region, Bahia State. However, the 2019/20 season is likely to see its cocoa production rise slightly to 180,000 tonnes, a 2.3% year-on-year increase, according to Vantage. Nevertheless, the start of the 2019/20 season is witnessing weak arrivals as witches' broom disease is still affecting cocoa pods.

What is LID?

In March 2018 both Ivory Coast and Ghana signed the Abidjan declaration which was prompted by the fluctuation of cocoa prices.The declaration reaffirmed the commitment to coordinate and have more control over their cocoa sectors in terms of production, prices etc. So, the collaboration started there and LID is part of this.

In June 2019 both Ghana and Ivory Coast announced a new cocoa pricing mechanism for the 2020/21 season in order to combat poverty among cocoa farmers. They suggested a minimum floor price of USD2,600 per tonne which includes USD400 per tonne living income differential (LID) for cocoa farmers.

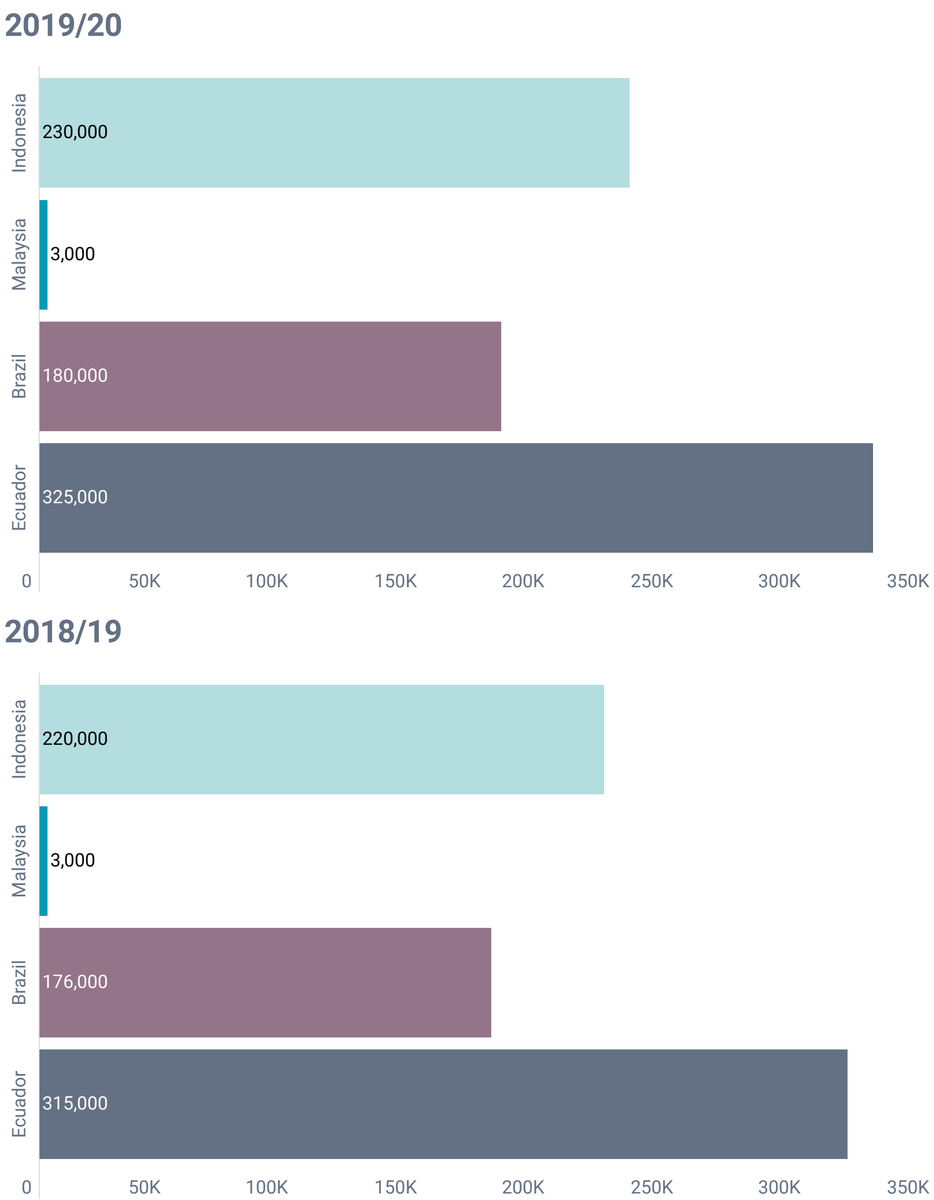
Both countries plan to use the funds raised from the LID to guarantee farmers would be entitled to a minimum of 70% of the agreed floor price. Farmers are expected to receive USD1,820 per tonne of cocoa sold granted the floor price is held at USD2,600 dollars.

If global prices rise above USD2,900, proceeds from the LID will then also be placed in a stabilisation fund that would be used to ensure farmers get the target price when market prices falls below USD2,200.

The initiative is set to be finalized by early January 2020. By December both countries expect their proposals to have gone to parliament and once it goes through the national assembly, it becomes a law.

Photo: Boulenger Xavier / Shutterstock.com

Asia & America's cocoa output 2019/20 season (tonnes)



Source: IEG Vantage

In **Ecuador**, steady growth in production continued in the 2018/19 season as volumes grew by 9% backed by increased plantings and harvests of CCN-51 variety. However, the 2019/20 season will see growth slow as cocoa production is set to only rise by 3.2% to 325,000 tonnes, according to Vantage figures. Ecuador, the third largest global cocoa producer, was also vocally displeased with the new cocoa pricing mechanism being instilled by Ivory Coast and Ghana, deeming it was "unfair and a mistake".

Ecuadorian cocoa production is set to only rise by 3.2% to 325,000 tonnes

In Asia, cocoa production continues to lessen as grinding volumes are on the rise with growing demand. Production in **Indonesia** is placed at 230,000 tonnes in 2019/20, a 4.4% rise on the previous season, which saw volumes dip by 8%. Meanwhile, **Malaysian** output is expected to remain stable at 3,000 tonnes, Vantage indicated. Cocoa production in these countries has been a major issue with cocoa trees that have exceeded their productive life, ageing farmers and diseases. However, to feed local industries with cocoa beans, governments within the region continue to undertake production boosting initiatives with a view to softening the contraction in production may soften in subsequent seasons.

Price volatility and sustainability

Price volatility has risen considerably since June 2019 and will probably continue until there is a clearer indication once the LID has been finalised and how it will all be implemented.

Over the last 6 months, the announcement of the new pricing mechanism has driven spot prices higher in the short-term while the industry has to take this additional cost element into account. Peaks and troughs include cocoa futures sinking to USD2,143/tonne in August and USD2,761/tonne in November. At the time of writing, the price rally appears to be reversing as traders try to reduce futures prices to compensate for higher spot prices. Although there is still 10 months to go till LID is fully implemented, the market is already experiencing great instability due to rising uncertainty, which is likely to continue in 2020.

Chocolate producers will also eventually pass additional costs onto consumers (at least partially). Barry Callebaut announced this in November indicating it will raise prices to compensate for the additional premium with others likely to follow suit. Overall chocolate prices might be affected this festive season and into 2020. Sugar and cocoa butter prices, the two main chocolate ingredients, have advanced substantially this season and these factors are likely going to increase retail prices. Fundamentals are also starting to look bullish for both sugar and cocoa butter in 2020 and chocolate-makers may start preparing to increase prices in advance.

Sustainability will also continue to be a key element in the cocoa sector and having recently even become a bargaining chip. Having sensed that the LID was not being well received initially by the industry, Ivory Coast and Ghana sent out warnings to the market in order for them to take the initiative seriously. In September 2019 both threatened to halt chocolate/cocoa companies' sustainable programmes until they accepted LID. Eventually this so-called ban was lifted, and stakeholders have declared to be behind the programme with companies such as Olam, Mars, Barry Callebaut and other members of the world cocoa foundation (WCF) lending their support.

However, it is important to point out how important these sustainability programmes are, how widespread they have become across the industry and what a crucial part they play in their brand. From Mondelez's *Cocoa Life* to Mar's *Cocoa for Generations*, everyone has seemingly jumped on the bandwagon. And whether it is somewhat commercially driven more than an environmental/socially-conscious act, it does feel like a movement is occurring in order to address the irregularities in the sector.

While the Ivory Coast and Ghana insist that LID is part and parcel of any company's own sustainability plans, others do not believe that these should go hand in hand. Though the plight of African cocoa farmers is fully understood, many believe this might not be the right mechanism to raise local incomes. Some would rather recommend that local governments educate farmers on how to raise the quality of beans instead. Both countries do however, truly believe that this initiative would help to create a sustainable market: i.e. reduce child labour and stop deforestation. And although some studies suggest that higher farmers' income would cut child labour, deforestation on the other could become an even more acute issue as farmers could potentially move into protected areas to raise production.

All in all, 2020 is unlikely to be a quiet one for the cocoa sector. While we won't really know what exactly is going to happen till LID is approved and becomes a law come January, it is clear that there has been a market shift this year, with Africa clearly taking the reins. They know very well that they control the sector in terms of volumes and now prices it seems, leaving the rest of the world with no choice but to follow. The LID has been and will continue to be controversial topic come 2020 and beyond.

World coffee production to see modest fall in 2019/20

World coffee production is projected to drop to 170.3 million 60-kilo bags in 2019/20 from an unprecedented 174.4 mln the year before, sister title FO Licht outlines.

By Sandra Boga

Global arabica coffee output is seen dropping to 99.4 mln bags from last year's 107.3 mln. In contrast, robusta production may rise to a record 70.9 mln bags in the new season from 67.0 mln a year earlier, which had been a record itself, indicated Licht.

However, the 2019/20 global projection, would still be the second-largest crop ever and the biggest production level ever in a Brazilian off-year.

"The market is already zooming in at prospects for a 70+ mln bag crop in Brazil in 2020/21, which would most likely mean that a new output record is on the cards for that season," said Licht.

The situation is not being helped, either, it added, by the fact that Brazil's currency is still trading at historical lows, which makes life easier for Brazilian producers (as it increases returns in local currency from dollar-denominated coffee sales) and reduces the need to curb production.

"Prices are below the cost of production for almost all of the world's producers, which has affected farmers' ability to buy crop inputs and apply good crop care for the 2019/20 crops," explained Licht.

However, the reduction in global output resulting from this will most likely not be sufficient to put the market onto a better footing. Worse may therefore be yet to come pricewise for the world's coffee producers.

Africa

Coffee production in Africa is seen falling to 17.2 mln bags from 17.7 mln in the previous year. Arabica output could be down at 10.3 mln bags from 10.5 mln, while robusta output is seen falling to 7.0 mln bags from 7.1 mln.

Africa's top coffee producer, **Ethiopia**, produced another bumper crop of an estimated 7.4 mln bags in 2018/19 and production in 2019/20 is preliminarily pencilled in to rise fractionally to about 7.5 mln.

"This is due to favourable weather conditions as area under cultivation is stagnant, at best. In fact, coffee growers in the eastern part of the country are even uprooting trees to make way for khat, a stimulant for the local population that offers high returns for farmers," said Licht.

Uganda's coffee production in 2018/19 is estimated to have fallen for the second straight year, mainly due to a significant drop in arabica production amid stable robusta output. Making matters worse, dry weather is expected to cut output further to 3.9 mln bags in 2019/20 from 4.3 mln the year before. That is despite the maturation of new coffee trees planted in recent years, it said.

Ivory Coast produced about 1.9 mln bags of robusta coffee during 2018/19, up sharply from just 1.4 mln the year before. Output in 2019/20 is provisionally penciled in to reach 2.0 mln bags by Licht. Meanwhile, **Kenya's** coffee output rose to an estimated 850,000 60-kg bags in 2018/19, the largest in many years. However, Kenya's coffee production has been declining since the late 1980s, when annual output hit 2.15 mln bags. Making matters worse, drought hit the country and could cut output in 2019/20 to about 750,000 bags, explained Licht.

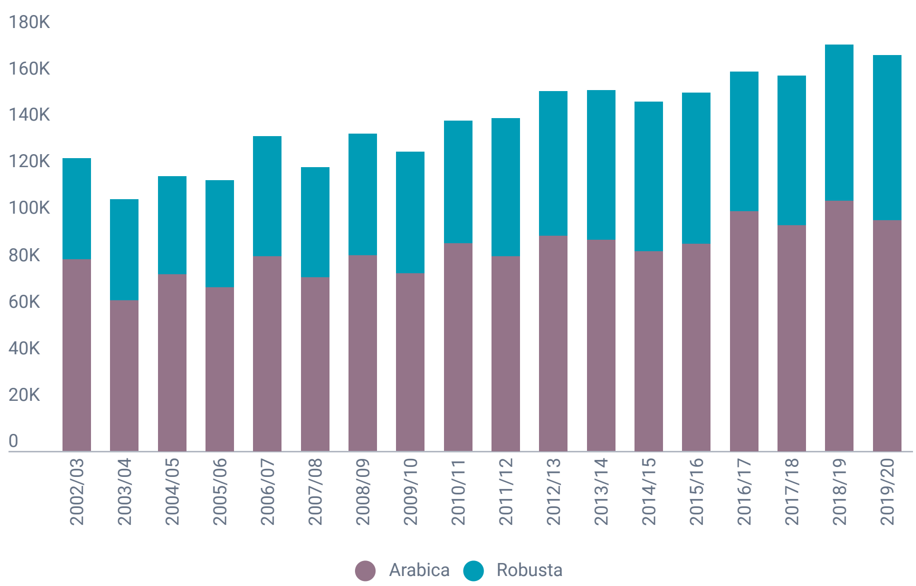
North & Central America

Coffee production in North & Central America is expected to be hardly changed at 21.1 mln bags in 2019/20 compared with 20.9 mln the year before.

Honduras is expected to harvest about 7.2 mln bags of coffee in 2019/20, the same as this year. Similarly, coffee production in **Guatemala** is expected to be hardly changed in 2019/20 at about 3.8 mln bags. Production in 2018/19 was also adversely affected by a volcano eruption that showered sand and ash on coffee plants in early June 2018.

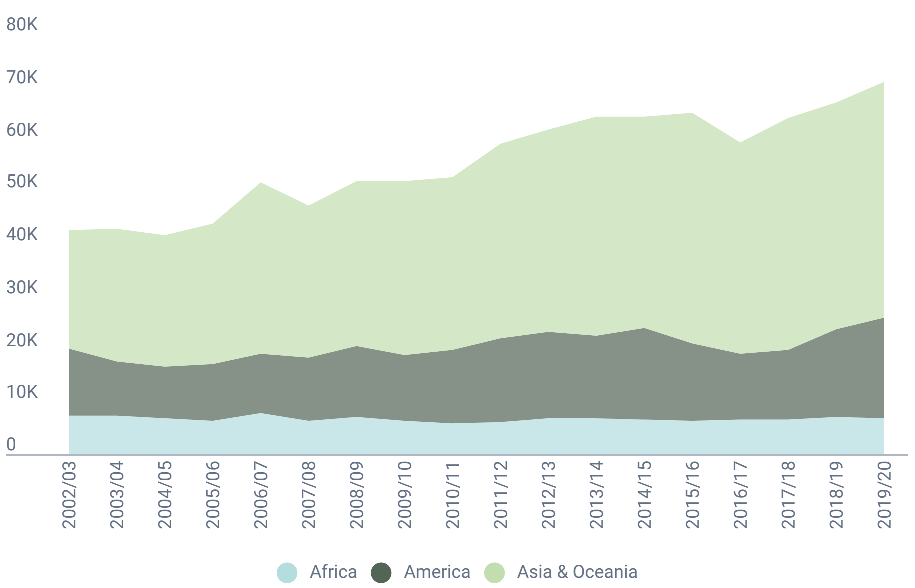
“While this will not be a factor for the 2019/20 harvest, the latter will be curtailed by the long prevalence of poor prices, which have severely affected farmers' cash flow, imposing more pressure on crop and farm management,” said Licht.

World coffee production (mln 60kg bags)



Source: FO Licht

World robusta production (mln 60kg bags)



Source: FO Licht

Worse may be yet to come pricewise for the world’s coffee producers

Mexico's coffee production has recovered strongly from leaf rust since 2015/16 even though there was a small, weather-related drop in 2018/19.

“For 2019/20 we expect a continuation of the recovery with output possibly reaching 4.6 mln bags - the largest since 2012/13,” outlined Licht.

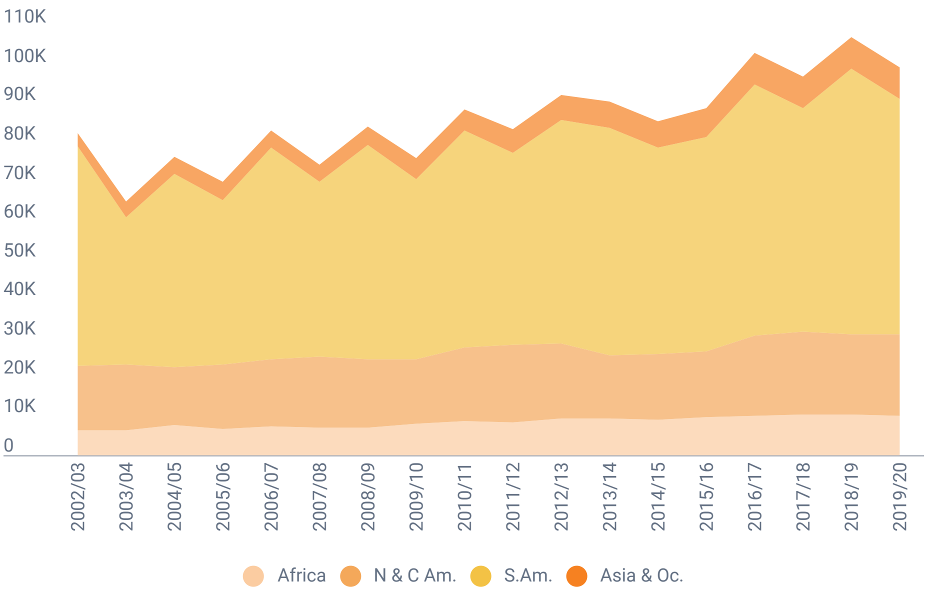
Nicaragua's coffee production reached about 2.5 mln 60-kg bags in 2018/19, or about 140,000 bags less than the year before. Output in 2019/20 is projected to fall more markedly to no more than 2.2 mln bags as the country's coffee sector is not spared from the country's overall political and economic crisis that started in April 2018, said Licht.

Costa Rica's 2018/19 coffee harvest fell to a four-decade low of just 1.2 mln bags amid a combination of poor weather, damage from rust and the low-yielding year of the biennial arabica cycle. Output in the new season is seen only fractionally higher by Licht at 1.3 mln bags as the upturn in the biennial tree cycle may be largely offset by poor crop care as low global farmers force farmers to save costs wherever they can. Meanwhile, **El Salvador's** coffee production is forecast to rise to 725,000 bags in 2019/20 from 710,000 this season., Licht outlined.

South America

Coffee production in South America is seen falling to 79.1 mln bags in 2019/20 from

World arabica production (mln 60kg bags)



Source: FO Licht

84.5 mln last year due to lower output in top producer Brazil.

Brazil's coffee production is seen falling to 59.0 mln 60-kg bags in the 2019/20 harvest that has entered its final stretch. That would be down from a record 64.5 mln a year ago, but still the highest ever for an off-year.

"However, coffee quality in this year's harvest is lower than last year due to an uneven flowering at different times, leading to the harvest of both ripe and unripe coffee cherries at the same time," said Licht.

Attention with regard to Brazil is already switching to the 2020/21 crop and we see it potentially reaching an unprecedented 70 mln bags despite some recent strikes against it, including frost in July, Licht warned.

Colombia's coffee production in 2019/20 is expected to stay flat at the level of 14.1 mln bags also projected for the current 2018/19 crop.

"There was poor production in this season's main crop but output recovered impressively in the mitaca harvest that started in April. While dry weather caused by a modest El Niño helped to trigger a massive flowering once rainfall set in, production is also being aided by the maturation of more trees planted during a large-scale replanting program in recent years," said Licht.

Meanwhile **Peru's** coffee production in 2019/20 is seen rising somewhat to 4.7 mln bags as the new trees planted as part of the replacement program for leaf rust-affected trees are raising yields.

Coffee is still the key cash crop, but durian, passion fruit, mango, and avocado can tremendously increase farmers' income in Vietnam

Asia

Asian coffee production is expected to rise to 52.9 mln bags in 2019/20 from 51.3 mln last year, with output to be significantly higher in Indonesia but hardly changed in top producer Vietnam. Of the total, 45.0 (43.3) mln bags may be robustas and only 7.9 (8.0) mln arabicas, outlined Licht.

Vietnam's coffee production in 2019/20 is expected to be hardly changed at 31.5 mln bags compared with a record 31.4 mln this season.

"Farmers are no longer moving from coffee to pepper as black pepper prices have been falling continuously over the past three years. However, the new trend is that farmers are trying to maximise their income by inter-cropping fruit trees in coffee plantations," said Licht.

Coffee is still the key cash crop, but durian, passion fruit, mango, and avocado can tremendously increase farmers' income, thereby also supporting robusta cultivation, it added.

Indonesia's coffee production in 2018/19 fell to 8.9 mln bags from 10.8 mln a year ago particularly due to damage to robusta output from heavy rainfall and high winds. Production in 2019/20 is currently seen rising back to 10.6 mln bags based on better weather conditions, Licht predicted.

Normalising butter prices boost exports

This year has been characterised by ever-melting prices for butterfat which has come down to more acceptable levels from the record-highs of the previous two years. This gave a competitive advantage to main global exporters – especially the EU – who managed to increase their supplies to foreign countries.

By Jana Sutenko

At the beginning of the year, the world was left with prices that were lower than the record peaks of 2017 and 2018, yet the two main origins – the EU and New Zealand – were seeing converging price trends. While the EU Commission's weekly average price at the beginning of 2019 was at EUR4,454 per tonne, NZX butter started off the year with a lower EUR3,611/tonne. Although these were normalised levels achieved by a milk production recovery in New Zealand last season, they were still far from the market prices seen pre-butter crisis.

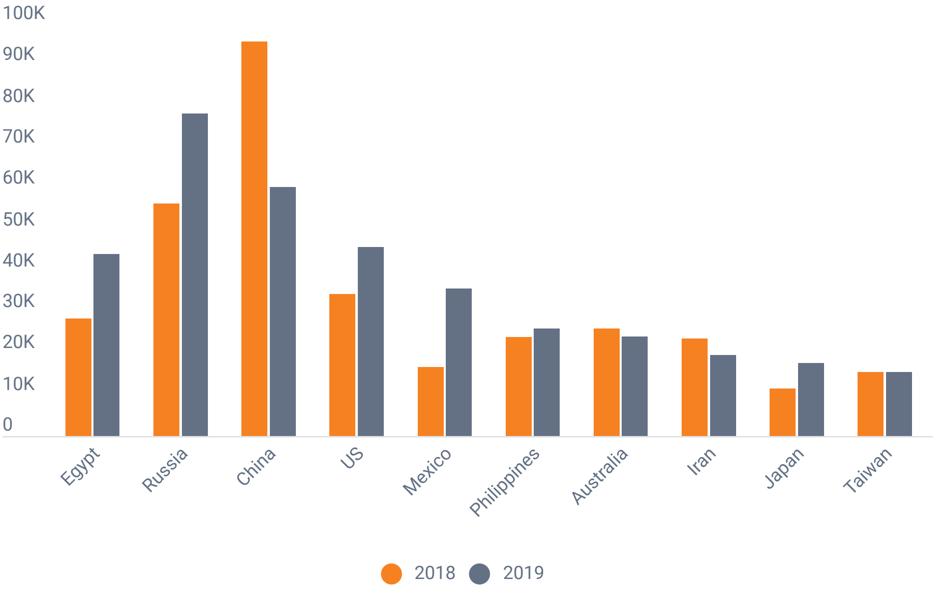
The market tone throughout the globe was set by weather conditions and how they unfolded in Oceania. While Australia is still bearing fruit from a disastrous drought witnessed throughout 2018 and into the current year with farm costs at an all-time high, New Zealand achieved higher production levels in 2019. Prices had started to pick up in January, as New Zealand secured an 8% surge on its milk production levels, bringing it back to averages seen in the same months in 2015-2016.

The market tone throughout the globe was set by weather conditions and how they unfolded in Oceania

Prices peaked at USD5,500/tonne by mid-April, which coincided with New Zealand's easing seasonal production and the consequent end to 2018/19 season. At the same time Europe was coming out of its winter lull, with weather improving and supplies increasing, as a result, the EU price trend started converging with that seen in Oceania. After a brief spike that brought the price up to EUR4,600/tonne, the European Commission average started its descent.

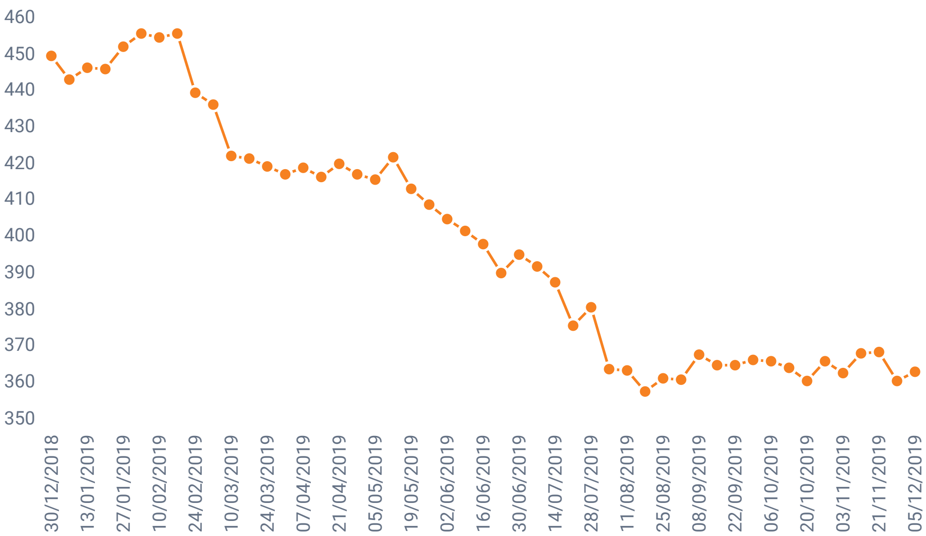
Significant butter price increases in Oceania led to a situation where the EU was the cheapest supplier of butter among the main world exporters.

Demand for butter on the rise: top 10 importers in Jan–Aug (tonnes)



Source: GTT/IEG Vu

Butter-EU Commission weekly avg (EUR/100kg)



Source: EU Commission

Thanks to Europe's new-found competitiveness in butter prices, the bloc secured steady export growth, while New Zealand's volumes fell back together with other main exporters the US and Belarus.

Traders were convinced there was upside potential for European dairy products after the spring flush had passed its peak and production started to drop and while southern hemisphere milk output reached a seasonal low. Especially since production in the EU was not forecast to exceed expectations, after an unusually dry spring in much of the continent.

Prices in both the EU and New Zealand had reached the same levels (in Euro terms) in late June and have since been in line with each other

New Zealand's average prices started falling by late May, when milk collections reached their seasonal low, and as it has become apparent that China, wrapped in an ongoing tit-for-tat tariff war with the US, is not in need of much butter. In turn, New Zealand diverted much of its supplies towards the US.

Prices in both the EU and New Zealand had reached the same levels (in Euro terms) in late June and have since been in line with each other. Nevertheless, global butter exports continued to be dominated by the EU, as Oceania's main dairy hub fell back but increased for WMP and liquid milk.

The European summer brought no extreme weather conditions, with production only slightly up in the summer months. IEG Vu heard at a conference in Poland in September, that the European industry was starting to be concerned about butter stocks which, after two years of record-hitting prices, were building up to a near three-year maximum; which would explain the ever-falling butter trend across the bloc.

Exports

As of August 2019, world butter export volumes in the first eight months of the year stand at 1.34 million tonnes, with 62% share occupied by the EU alone. The EU exported a total of 835,100 tonnes in January-August, up 5% on the 797,000 tonnes achieved in the same period of 2018.

The bloc's deliveries outside the EU increased by 16%, as opposed to 3% within. The rise was led by surging demand from the US, shipments to which grew 35% to 26,300 tonnes, while deliveries to all other destinations saw sustained growth.

Main volume export increases came from the Netherlands (5%), Ireland (17%), Belgium (9%) and the UK (15%). Main producing countries Germany and France reduced deliveries by 4% and 2.5% respectively.

Countries outside the EU exported 510,200 tonnes of butter, down 3%, led by decreases in deliveries from top exporters New Zealand (4), Belarus (10%), the US (35%) and Ukraine (34%).

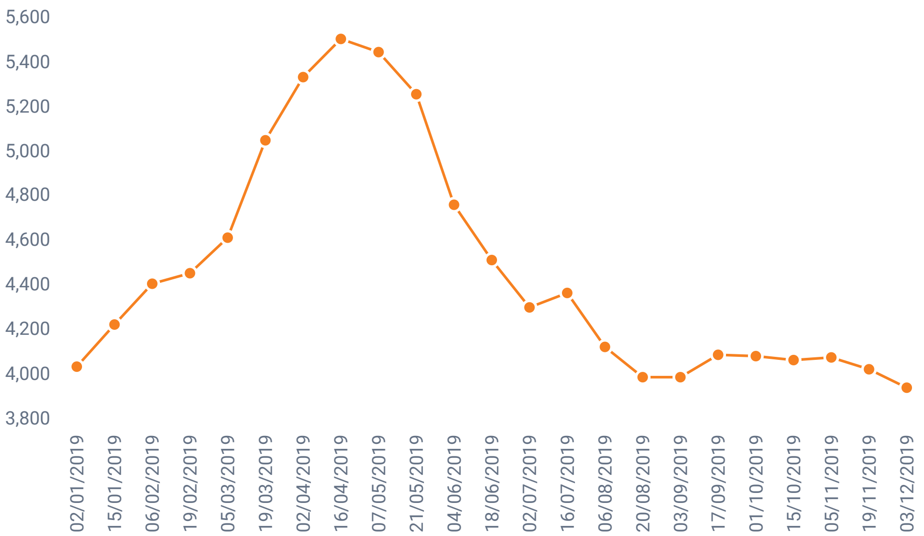
Demand seems to be stagnating in China, which imported 44% less butter in the period. And with Chinese dairies increasingly investing into overseas production, it might continue along this path.

Together with China, Saudi Arabia, Mexico and Egypt saw exports its fall by 10%, 10% and 29% respectively.

Outlook

Currently, with prices now declining at a much slower rate – partially due to increased pre-holiday buying, there is hope of stabilisation for the near-term and more normal prices for butter in Europe. What lies ahead for the bloc is the post-holiday winter lull, with prices forecast to hover on the same level until spring comes along.

Butter-GDT butter weighted avg price, FAS various (USD/t)



Source: GDT

Significant butter price increases in Oceania have led to a situation where the EU was the cheapest supplier of butter among the main world exporters

As for New Zealand, production peaked in October and did not exceed last year's figures. Oceania's production was weighed down by Australia, but still managed to increase thanks to optimal weather during peak season in New Zealand. The season is about to start winding down, which will slightly increase butter futures.

Yet again, the global butter situation and the future direction of prices depends on weather in the world's main butter exporting countries.

Empty intervention stocks keep pushing SMP prices up to multi-year highs

With no EU 'ancient' intervention powder to hold back global price movements, SMP has continued to surge to multi-year record levels, nevertheless giving Europe a competitive advantage over Oceania's exports of the powder.

By Jana Sutenko

After the EU's largest-ever tender sale of over 80,000 tonnes sold in January, traders' hopes were up and calculations indicated that with this pace, the stocks might be gone by mid-February. However, the winter lull came into play, with a mere 584 tonnes of powder sold at the early-February tender. At the same time, the Commission took the opportunity to push up the minimum sale price to the highest level yet for any tender, namely EUR1,622 per tonne – some EUR37/tonne more than at the previous tender, which in turn has also affected wholesale prices. The European average was nearing the EUR1,900/tonne mark, while GDT surged beyond USD2,500/tonne to USD2,534/tonne in the same month.

In the end, the tenders, which have since been diverted from being fortnightly back to a monthly event, only completely cleared EU's intervention in June, with the last 162 tonnes done and dusted. The bulk of the stockpile (223,000 tonnes) was cleared in just five tender sales between October 2018 and January 2019, as rising market prices for SMP gave traders incentive to source the cheaper intervention product. Throughout the period, however, the EU Commission stuck to its strategy of increasing the minimum sale price at each successive tender, which continued to affect world prices with further increases.

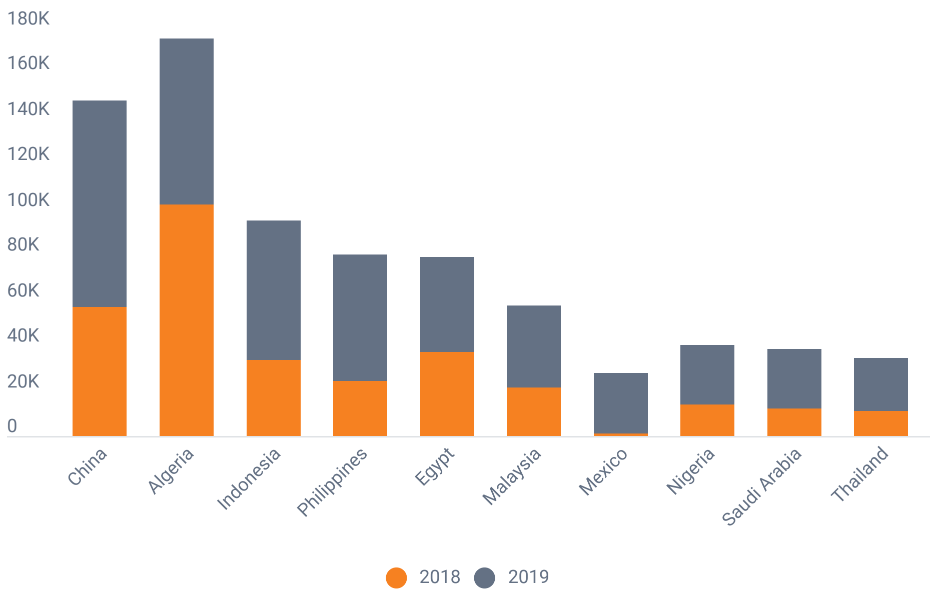
Since then the price has been constantly increasing, coinciding with a period when traders first started ringing alarm bells.

A French contact told IEG Vu in June: "Intervention SMP [nearly all of which has by that point been resold to the market] be all consumed by the end of June, and production of fresh SMP is lower everywhere in the world. So we could see a shortage of SMP during H2 2019."

Surging demand for SMP on world markets and the lack of large stocks have pushed prices further up in the EU, which, at the time of writing, have hit a five-year high of EUR2,489/tonne. Yet, similar to the butter situation, Europe is still more competitive in terms of exports as compared to New Zealand. The current prices in Euro equivalent are showing that both NZX and GDT values are at least EUR250 premium to the EU average. The latest price seen at GDT at the time of writing is USD3,068/tonne (EUR2,773/tonne).

The last time EU and NZ prices hit the same

EU SMP exports in Jan-Aug (tonnes)



Source: GTT/IEG Vu

level was back in January 2018, when both origins were traded at around EUR1,430/tonne. Since then, New Zealand prices have been higher than those in the EU, flying high from a recovering milk season after an unfavourable 2017. Demand for the more expensive NZ powder, however, has remained marginally weaker than that for the product of EU origin, as has been seen for most of this year.

Exports

SMP exports have been strong this year, with total volumes in January-August hitting their five-year high. Total volumes rose 3.2% to 2.2 million tonnes, with the increase mainly driven by the EU. The bloc's exports, as a result of a successful long run of tenders, surged 23.5% to reach 1.2 mln tonnes. This is the EU's record-high for at least 10 years (in January-August).

Many countries used the EU's cheaper prices as opposed to those in Oceania and significantly increased their imports. China shipped 60% more of EU SMP powder than in the first eight months of 2018, with volumes hitting 901,400 tonnes. Indonesia, Philippines and Malaysia shipped 83%, 126% and 67% more of EU's SMP respectively, while Egypt's volumes grew 27% to almost 40,000 tonnes. Algeria, previously the EU's main destination market for SMP, decreased its intake of EU SMP by a further 28% to 73,300 tonnes.

At the same time, exports from the rest of the world fell back 14.2% and reached 986,300 tonnes, which is lower than the average seen in the last three years; of around 1.0 mln tonnes. The country who led the decrease appeared to be the US, which has for much of this year been wrapped in multiple trade conflicts. The US' deliveries plunged 15% to 429,500 tonnes, while Australia's drought consequences decreased volumes by 11% to 87,400 tonnes. A declining trend was also witnessed in Canada, Ukraine and Argentina which saw volumes plunge by 40%, 12% and 11% respectively.

On the plus side, New Zealand managed to up its exports, although not to the same extent as the EU's stock clearance. Oceania's main dairy hub's deliveries increased 13% to 245,300 tonnes, which is only marginally higher than the 243,000 tonnes achieved in January-August 2017.

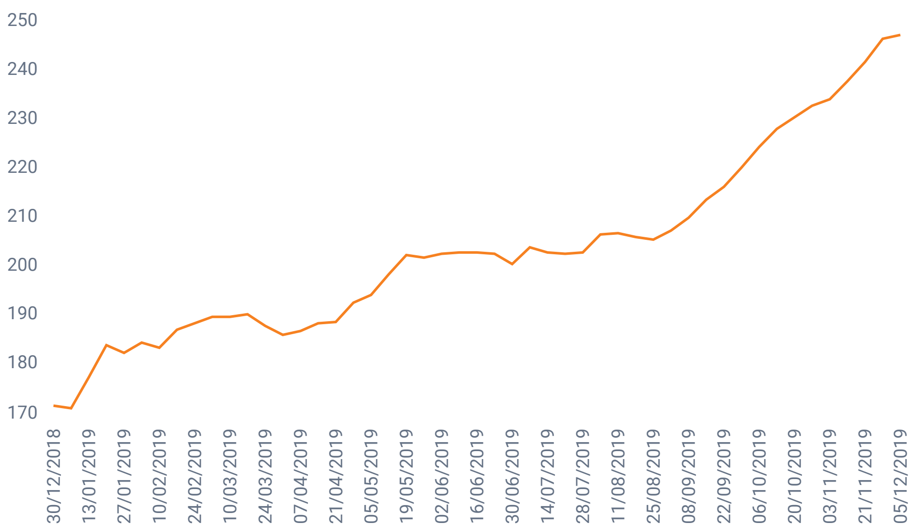
Looking at the trajectory of the countries' exports, it looks like the cheaper intervention and fresh powder from the EU gave the bloc an advantage, as almost the same countries that had increased its intake of EU product have at the same time decreased powder imports from outside the EU. For example, the southeast Asian Big Three – Indonesia, Philippines and Malaysia – shipped 8%, 19% and 28% less powder of extra-EU origin in the period.

Outlook

IEG Vu suggests that the demand for SMP will continue in 2020, with the EU continuing to benefit from its competitive advantage over other countries of origin. As we have seen throughout much of this year, demand keeps coming from southeast Asia; following the conclusion/signing of a number of regional and inter-regional trade agreements, that allow tariff-rate quotas.

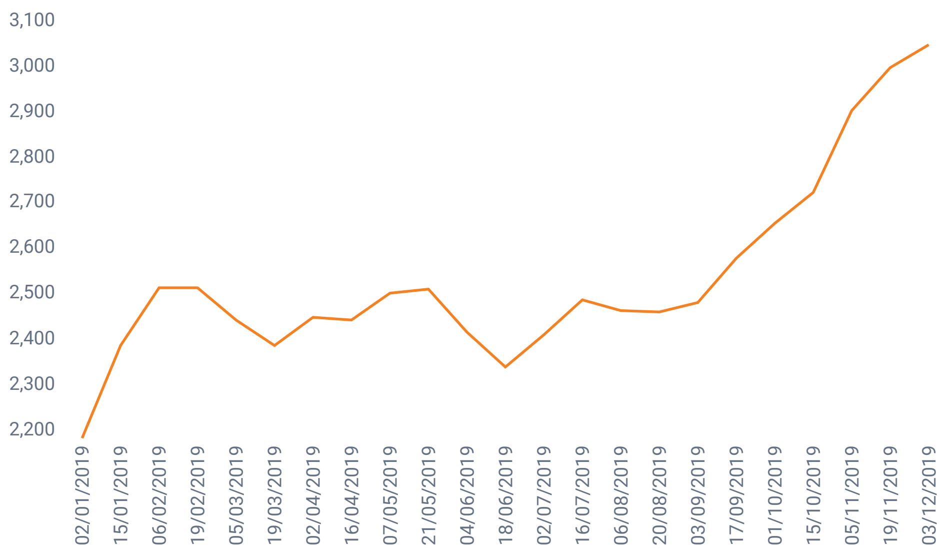
At the same time, SMP prices will continue growing into H1 of 2020, declining marginally through European spring flush and will all again be decided by the weather. And with no stocks accumulated in the EU nor New Zealand, prices should continue along the same tendency of the past year, with some volatility possible should global production be hampered by unfavourable weather conditions.

SMP-EU Commission weekly avg (EUR/100kg)



Source: GTT/IEG Vu

SMP-GDT weighted avg price, FAS various (USD/t)



Source: GTT/IEG Vu

Meat market bull run continues as ASF spreads in Asia

China ramping up imports of pork, poultry and beef to offset its own pig herd losses.

By Max Green

Global markets for animal protein were again rocked by disease-related disruptions in 2019 as outbreaks of African Swine Fever (ASF) led China to try and redraw the map on trade.

Having previously relied on a relatively small number of meat suppliers, Chinese authorities spent the year scouring the world for new sources of pork, poultry and beef.

This created new opportunities for countries and companies with little or no history of supplying meat to Asian markets. At the same time, the amount of animal protein required by China was so huge that prices were pushed up in most parts of the world – not only for pork, but also for beef and poultry.

Having first reached China in August 2018, ASF rapidly spread across the country – causing the loss of tens of millions of pigs. The disease also spread to several other Asian countries, including South Korea, Vietnam and the Philippines.

Within a matter of months, Chinese pork production capacity had fallen dramatically. Estimates suggest China will produce about 15% less pork this year with the USDA forecasting a further 25% reduction in 2020.

Figures from the Chinese agriculture ministry show that China's pig herd – the largest in the world – shrank by more than 41% in the twelve months to October. Even if the disease can be brought under control, similar drops in the breeding herd will make it hard to rapidly rebuild output to previous levels.

In the first half of 2019, Beijing managed to stave off steep price hikes by ramping up imports, releasing frozen pork stocks and encouraging consumers to switch to other types of meat.

By the summer of 2019 these efforts were proving insufficient however and within a matter of weeks prices of pork and pigs were at record levels.

Pig prices jumped from an average of RMB15 per kg in June to over RMB20 in August as supplies dwindled. Prices rose again to reach almost RMB28 in early October, generating record average profits of over RMB1,500/head.

Wholesale pork prices followed a similar pattern, surging to RMB47.10 per kg in

November. This represents a huge 160% increase since the start of the year. At the time of writing, prices had eased back slightly against a backdrop of government reassurances that the worst is now over.

While consumer resistance may limit further increases however, prices will remain at relatively high levels as breeding herd losses mean Chinese pork supplies will fall short of demand for some years to come.

This year's pork price hikes have encouraged Chinese consumers to switch to other forms of animal protein. Poultry output in China has been rapidly ramped up and is expected to grow by 17% year-on-year, limiting the country's overall meat output decline to 8%.

As a result of China's problems, world meat production in 2019 is expected to fall for the first time this century

This switch means only a part of the shortfall in pork production will be met by imports.

Chinese imports of pigmeat and pig offal nevertheless rose by about 25% to surpass two million tonnes in the first nine months of this year.

In value terms, the rise was even steeper with China spending more than USD4 billion on imports in the January-September period – up 42% on last year.

Faced with rising Asian demand, many countries in Europe and the Americas have been taking steps to boost production. These increases are unable to fully compensate for drops in Chinese pork production however. As a result, world meat production in 2019 is expected to fall for the first time this century.

Mixed blessings for the EU

The EU's problems with ASF predate those in Asia but after a difficult few years, the bloc had some success in combating the disease in 2019. Having jumped to Belgium in 2018, the virus was contained to wild boar in a forested region and no cases were detected in domestic Belgian pigs. France also managed to steer clear of the disease despite infected boar being found within just a few hundred metres of its border.

Some countries in central and eastern Europe had less success as the disease spread in Romania, Bulgaria and Hungary. Even more worryingly from the industry point of view, ASF cases were found in western Poland within 40km of the German border. At the time of writing, Germany remains free of the disease – but any future outbreak in the country would have serious consequences for the entire EU pig industry.

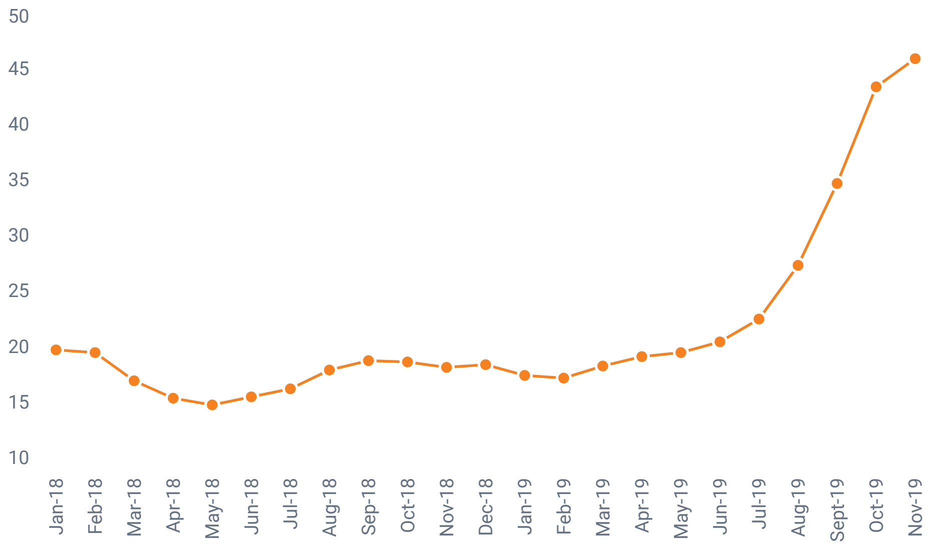
For now the focus lies on better biosecurity but in the longer term, the industry will be hoping for news of a breakthrough in the development of an ASF vaccine.

For European pig producers, China's ASF outbreaks and consequent need to buy more meat could not have come at a better time, as many began 2019 in a perilous financial position. After hitting a lowpoint in January, average prices for fattened pigs rose rapidly to reach record highs.

By late November, average pig prices were almost 40% higher than at the start of the year.

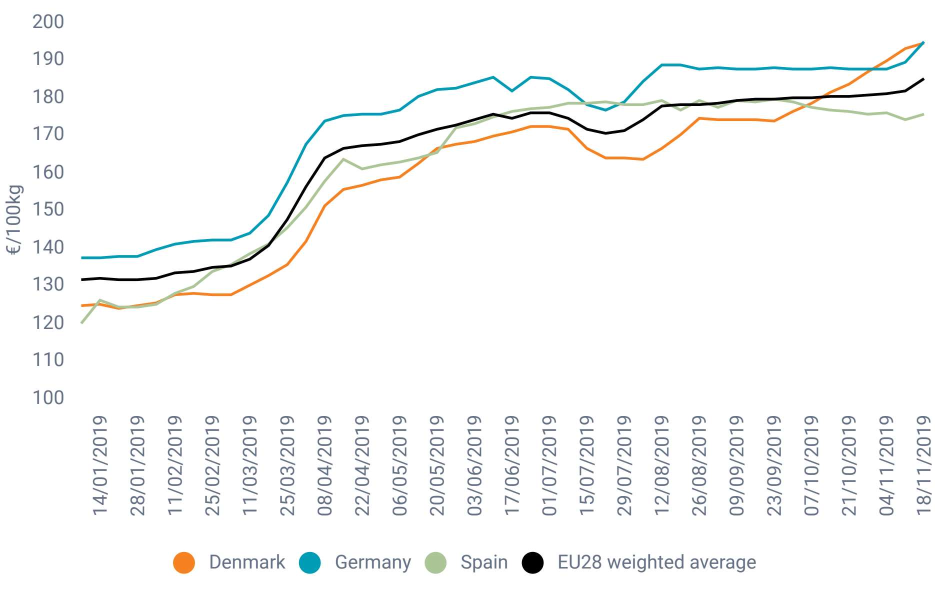
While this was good news for farmers, it made life difficult for processors. In

Chinese pork prices (wholesale CNY/kg)



Source: Chinese Agriculture Ministry

EU average pig carcase prices (Class E)



countries such as Italy and Germany, the high cost of pigmeat raw material pushed up the cost of making sausages, and processors struggled to pass these higher costs onto consumers.

This situation is likely to continue as producers in some EU member states are unwilling to expand because of onerous environmental regulations. With Asia absorbing so much extra meat, this will inevitably lead to a tightening of supplies. This is not true of all countries however, as Spain continues to ramp up production of all types of meat.

Meat trade forecasts

Higher Chinese demand should help see EU pigmeat exports rise by at least 20% this year. A further 14% increase is forecast for 2020. This increase is facilitated by the authorisation of more pigmeat plants by Chinese authorities.

The boom in pork exports does not extend to those EU countries that have been battling their own outbreaks of ASF. Key Asian markets such as China, South Korea and the Philippines still insist on banning pigs and pigmeat from entire countries rather than affected regions. This means they are off-limits to pork from Poland, Belgium and seven other EU member states where ASF is present.

Despite a modest fall in pig numbers, EU pigmeat production should grow slightly in 2019 (+0.4%), thanks to continuing efficiency gains. In 2020, additional production growth is expected (+1.5%); however, its magnitude will depend on how EU member states react to the high prices.

Higher Chinese demand should help see EU pigmeat exports rise by at least 20% this year

Meanwhile, further price increases are expected as demand from Asia continues growing. Processor organisation Clitravi expects prices to remain at high levels for at least two years.

This should lead European consumers to eat slightly less pigmeat as high prices favour other meats, particularly poultry.

EU poultrymeat production is expected to rise by about 2% both this year and next as the sector responds to rising demand. Exports are expected to increase by about 4% this year and a further 3% in 2020. Only a handful of EU countries have access to the Chinese market so growth in poultry exports will rely on sales elsewhere.

Imports will also rise, although volumes will be constrained by ongoing restrictions on some Brazilian suppliers and new quota arrangements for Ukraine, which come into force at the start of 2020.

EU beef producers have not benefited from price hikes seen elsewhere in the meat sector. This is despite the fact that production in the bloc is falling. Irish beef producers have seen their margins squeezed and their position is likely to get even worse once the UK leaves the EU.

On the plus side, some European countries are starting to get a foothold in the Chinese beef market following recent plant authorisations. This should help lift EU beef exports next year, but increased sales overseas may not be sufficient to offset declining demand in the bloc itself.

US expansion

US pork suppliers are also benefiting from higher Chinese demand, although sales are constrained by high tariffs imposed by Beijing earlier this year. At the same time, ample supplies of hogs have been keeping a lid on prices.

Fourth quarter 2019 pork production in the US is forecast to end 6.5% above the same period in 2018, according to Adam Speck, market analyst at IEG Vu's sister title IEG Vantage.

First quarter 2020 pork production in the US is then forecast to increase 4% over Q1 2019.

Although production is again expected to set new records in 2020, pork prices are expected to improve significantly next year – partly due to a rise in export sales.

"US exports in the first and second quarters of 2020 are forecast to be up 21% on 2019, as this new year will have Mexico back as a full trading partner (after holding a strong tariff against US pork for H1 2019), along with China buying more product," says Speck.

"The pork cutout is forecast for an increase of 15-18% for Q1 over 2019, on the bolstered exports despite the increase in production," he notes. However, one reason that the cutout will appear strong is of the depressed market experienced in Q1 2019 from hampered export relationships.

For the US beef sector, production is forecast up nearly 3% in 2020 on higher slaughter and heavier weights. Exports are forecast up 6% percent as the US expands market share in top markets Japan, South Korea, and Taiwan. US beef sales to Japan are set to be boosted by the signing of a free trade agreement. US beef exporters will also benefit from improved access to the EU, which is ring fencing part of its hormone-free beef quota from the start of 2020.

Meanwhile, US poultry exporters will be looking to rebuild sales to China following the recent lifting of an avian-flu related ban.

US suppliers will be competing with Brazil and Thailand, but all three countries should be able to expand sales as Chinese imports of poultry are expected to rise by about 20% in 2020.

> US beef exporters will benefit from better access to the EU, which is changing its quota arrangements from the start of 2020

South America

Markets in South America have also been buoyed by opportunities in China this year. As the continent's biggest producer, Brazil has been the biggest beneficiary – with soaring beef and pork shipments helping lift prices to record levels.

Faced with shortages of slaughter-ready cattle, Brazilian meatpackers were having to pay the equivalent of USD3.60 per kg to buy animals in late November - more than a third higher than the average paid the previous month. This was reflected in steep hikes in the price of Brazilian beef, both domestically and on export markets.

Brazilian beef exports reached 1.5 million tonnes in the first eleven months of 2019 – a rise of 13% on the same period last year. More than 40% of this total went to China and Hong Kong.

The world will continue to buy more Brazilian beef in 2020 but the scale of any increase will be limited by supply constraints.

Brazilian pork markets were equally bullish this year – with prices for live pigs hitting unprecedented levels as exports rose.

Brazil shipped almost 600,000 tonnes of pork in the first eleven months of 2019, a rise of 16% when compared to the same period last year. Exports to mainland China were up 50% on year and well over half of all Brazilian pork shipments now go to either China or Hong Kong.

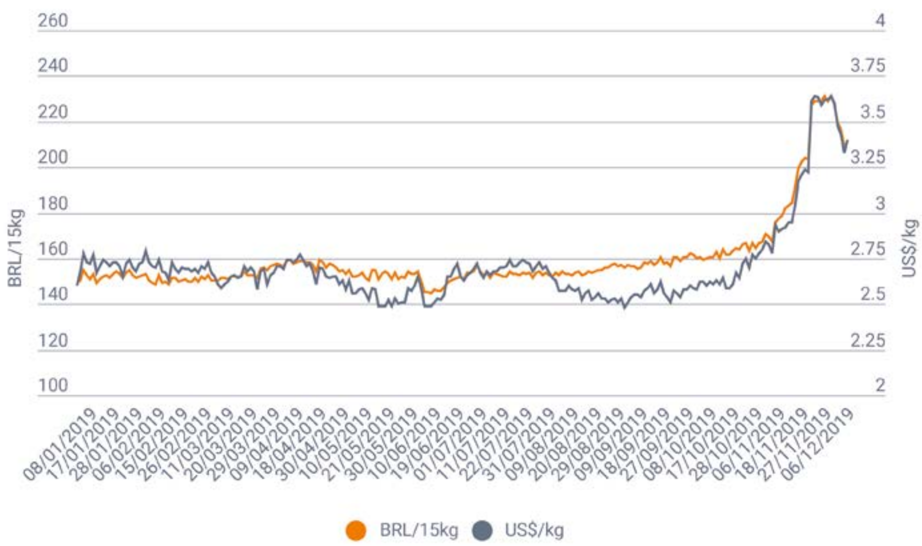
Argentina has also continued to regain lost ground on global meat markets, shipping large volumes of beef and for the first time emerging as a pork supplier to China. Chilean exporters have been doing well too - ramping up pork sales to China by 70% in the first ten months of the year.

Ractopamine bans

Canada's fortunes were more mixed in 2019 as its pork and beef was temporarily shut out of the Chinese market. Problems first arose when China found shipments containing the controversial feed additive, ractopamine. They then worsened when Beijing said other consignments had been sent with forged veterinary certificates.

By November these problems were resolved and China reopened its market to Canadian beef and pork.

Brazil fed cattle indicator price



ESALQ farmgate price indicator, Sao Paulo (BRL/15kg and US$/kg)

Canadian exporters are now making up for lost ground and taking advantage of a price advantage over meat from the US, which is subject to higher Chinese import tariffs.

Canada was not the only country affected by ractopamine issues however. Brazil had faced a similar shut-out in Russia in 2018 and although this was partially lifted in 2019, many Brazilian suppliers are still banned from supplying the Russian market due to concerns over the drug.

At the time of writing, Moscow has also just suspended some suppliers from Paraguay and Argentina for the same reason.

Looking forward, ractopamine looks likely to be used less and less as producers in North and South America bow to commercial imperatives to satisfy the demands of countries where the additive is banned.

Regionalisation key for Russia
Meanwhile, Russia continues to expand as a producer of pork despite ongoing problems with ASF.

The country's meat sector is undergoing a transformation as small backyard producers give way to large commercial operations with higher levels of biosecurity.

Increased output has enabled the country to make some progress as a supplier of both pork and poultry to overseas markets. But further progress really depends on changes to the way Asian markets deal with animal disease outbreaks.

All eyes will be on China and efforts to rebuild its pork industry in the wake of the devastation caused by ASF

Moscow has recently been pressing China to allow imports of pork from parts of Russia that are free of ASF. This would require Beijing to ditch its policy of banning pork from entire nations when they are affected by the disease and instead recognise regionalisation as recommended by the World Organisation for Animal Health (OIE).

France has made similar calls and recently signalled that China's policy may soon change. This would potentially have big implications for exporters across the world as it would reduce the impact of ASF outbreaks like the one that affected a limited area in Belgium.

All eyes on Asia
Meanwhile, Asian demand is again likely to be the key driver keeping meat prices at high levels in 2020. China, Philippines and Vietnam will all be buying more animal protein over the next few months even if they manage to contain ASF outbreaks.

This will help drive up global trade flows for all types of meat. Major exporters such as Brazil, EU and US will inevitably have most to gain. But new players will also start to emerge as they secure access to key export markets in Asia.

Inevitably all eyes will be on China and efforts to rebuild its pork industry in the wake of the devastation caused by ASF. Beijing has already announced several measures to help boost production and officials say the breeding herd is slowly starting to recover.

The pace of this turnaround will depend on the country's ability to prevent further large-scale losses to ASF. But China appears to be learning lessons from the EU and Russia and taking meaningful steps to improve biosecurity.

With hog prices on the rise, record profits are likely to encourage many producers to re-enter the market. The scale of previous losses is such that hog numbers are unlikely to return to previous levels for several years. However, as large-scale commercial producers rebuild the industry on more modern lines, average slaughter weights are likely to rise significantly – meaning China could be able to produce more pork from fewer pigs.

With poultry production also rising, China should eventually become less reliant on overseas suppliers and reduce animal protein imports to the kind of levels seen before the arrival of ASF. This turnaround will take some time however – meaning 2020 should be another year of high demand and elevated prices.

Grains and oilseeds outlook – high stocks fuel market competition

Underpinning the markets for grains and oilseeds in 2019/20 is a general state of abundance. Stocks are high, yields are growing, and even where production concerns have hit major exporters there looks to be enough surplus elsewhere to cover demand.

By Gary Howard

That supply situation also informs policy. Soybeans are a pawn in the game between Beijing and Washington simply because they can be – there are plenty of soybeans in South America for China to continue its spat with the US. Tellingly, we see market access opening for US meat producers in China as the latter suffers from high pork prices in the wake of African Swine Fever (ASF). Where there is scarcity, the trade adversaries are playing nice.

"There would be no trade war if there were a shortage of soybeans in the world."

Alex Haubert, Manager, Ocean Freight, Amaggi

GRAIN

World corn production is expected to be lower in 2019/20, with a decrease in consumption leaving ending stocks slightly lower for the year at 296.0 mln tonnes, according to the USDA. Global wheat production has more than recovered from last year's drop, with ending stocks for 2019/20 are seen at 288.3 mln tonnes. Global rice stocks are at record highs, world barley production is expected to reach a 15-year high with export surpluses weighing on prices.

The IGC forecast a 1% increase in total world grain production – despite faltering corn output – a 1% increase in consumption, and trade reaching record highs even in a frosty period for international trade and relations.

This overall tale of abundance is the backdrop for markets expected to trade sideways for some time. International markets are competitive with a range of origins competing on price, and a selection of protein sources for the feed market to choose from.

As 2019/20 plays out, eyes are beginning to look ahead to next season. The potential for a more usual campaign in 2020/21 –without widespread planting delays and reduced area in the US for example –could bring production growth well ahead of demand growth. For corn, sister title IEG Vantage projects US corn ending stocks at 1,953 mln bushels in 2019/20 and 2,644 mln bushels in 2020/21. Nearby corn futures are expected to average USD3.95 in 2019/20 and USD3.50 in 2020/21.

Vantage also expects high corn stocks to have a knock-on effect on Chicago wheat futures in 2020/21, despite an expected tight US wheat supply situation.

The US corn stocks-to-use ratio is expected to reach 17.9%, the highest levels since 2004/05 when corn futures declined by about 20%, year over year. Vantage looked back at seven years with similar increases in US corn stocks and found an average decline in Chicago wheat futures of 10.3% between May and June, and 9.4% from June to November.

"The data points to the potential for influence from lower corn futures to override bullish drivers in the wheat balance sheet," said Vantage.

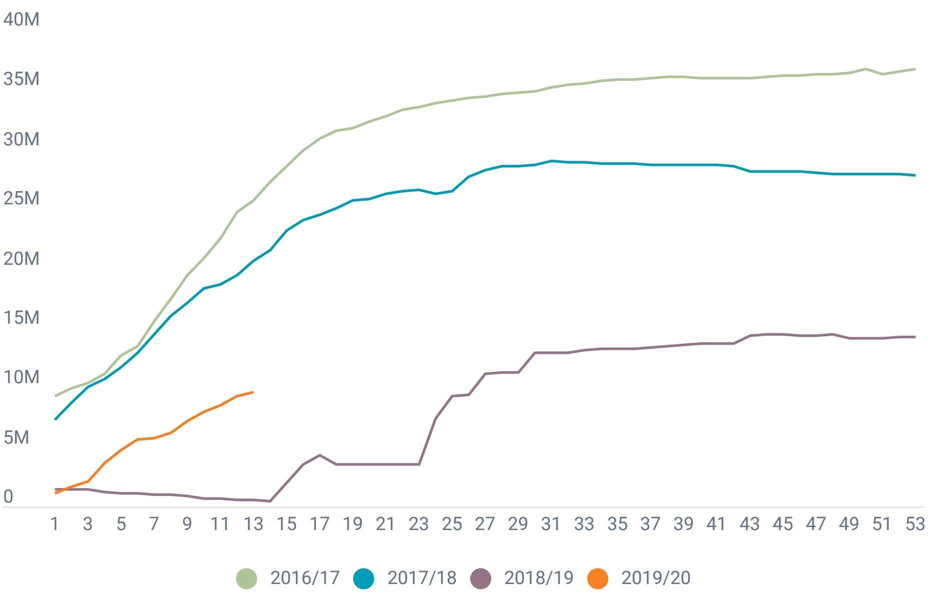
As a result of the influence of corn, in late November, Vantage had nearby Chicago wheat futures forecast to average USD5.07 per bushel in 2019/20 and USD4.82 per bushel in 2020/21. Expected cheap corn prices from May 2020 introduce downside risk to those projections.

Dry Australia

Further complicating the outlook for wheat is Australia's recent string of droughts, and low expectations for a significant improvement next season. Supply risks in Australia and Argentina introduce the prospect of late imports from the US in the current season.

The USDA estimates Australia's wheat production at 17.2 mln tonnes, a shade lower than last season's similarly drought-hit crop. Production in 2016/17 was 31.8 mln tonnes. The USDA expects Australian wheat exports to be lower in 2019/20 at 9.0 mln tonnes, down from 9.8 mln last season. IEG Vantage meanwhile has exports higher. Vantage saw Australia's exports last year at 9.0 mln tonnes and forecast exports of 11.5 mln tonnes this season; this was despite seeing production falling to 16 mln tonnes, the lowest since 2007/8 and down from last year's 17.3 mln tonnes.

US soybean commitments to China (tonnes)



Source: USDA

The key difference in 2019/20 was opening stocks, said Vantage, which were the highest since 2012/13 at 7 mln tonnes. That goes some way to offsetting the decline in production; with exports calculated from supply instead of production the export outlook comes in at 11.5 mln tonnes.

Such is the impact of drought on the industry, Australian company GrainCorp has taken out a 10-year insurance product to insulate its cashflow from the volatility caused by East Coast Australia droughts from 2020. As an indication of GrainCorp's production outlook, the company will receive a payment of AUD15 per tonne (USD10.26) when East Coast Australia winter grain production falls below 15.3 million tonnes and make a payment of AUD15 per tonne when production is above 19.3 mln tonnes.

ECA grain production of GrainCorp's key commodities – wheat, barley, canola, chickpeas and sorghum – was 7.7 mln tonnes in its 2019 financial year, down from 16.7 mln in FY2018.

Russia flipped

Another curious change in this year's wheat market has been in the world's top exporter Russia.

Hesitant sellers and rising domestic prices have curbed Russia's recent wheat exports, with producers comfortable waiting for a better price and buyers taking only what they need to meet obligations. For the season this leaves Russia's export outlook steadier throughout the season compared to last year, with leaner monthly exports seen and expected from September through February and higher monthly exports from March to the end of the marketing year.

The EU has stepped in to fill export demand in those lean months for Russia.

As of mid-November, the bloc's exports were up 56% on last season's drought-hit crop, and 32% ahead of 2017/18. The USDA bumped its export forecast for EU wheat in 2019/20 to 29.0 mln tonnes in its November report from 28.0 mln, citing competitive pricing and a larger crop. That figure compares to 23.3. mln tonnes in 2018/19, 23.4 mln in 2017/18 and 27.4 mln in 2016/17.

The US will look to diversify its export destinations and China will look to diversify import origins

The outlook for US wheat exports is mixed. A faster pace to the season brought total export commitments 11% higher on-year as of November, but the rest of the season bears less promise as Russia has kept its powder relatively dry compared to the explosive start to its export campaign in 2018/19. The USDA also expects Argentina's potentially record wheat crop to bring a surge in exports from there too.

OILSEEDS

War, Pestilence and Twitter

The soybean market remains at the mercy of volatile elements.

It feels like a long time since the soybean market was driven by such reliable factors as supply and demand; forecasting the end of the current market volatility is, at best, very difficult.

The headline in the soybean market is of course the US-China trade war, with US exports of beans to China at the mercy of the repeated freeze-thaw between Beijing and Washington. At an industry conference in November, many attendees seemed hopeful of a resolution to the US-China trade war early in 2020 as there seemed to be signs of progress in trade talks and a reduction in open hostility between the two nations.

Later that same month President Trump signed the Hong Kong Human Rights and Democracy Act into US law, mandating a review of Hong Kong's special status with the US annually. Politically this was seen as US support for pro-democracy protestors in Hong Kong, whom the Chinese authorities view as "violent criminals". China threatened countermeasures should the US continue to interfere in its internal politics.

The impact of the law's signing on trade negotiations remains to be seen; it came at a time when analysts widely believed a phase one deal between the US and China was nearing conclusion. Analysts have repeatedly been caught on the wrong foot in the US-China fiasco however, as progress towards a resolution has been undone without warning in the past. Looming over the trade negotiations is another round of US tariffs on Chinese consumer goods due to come into force on December 15.

Phase one

When the agreement of "phase one" of a deal between the US and China was announced in mid-October, the provisions were said to cover agriculture, intellectual property and financial services. President Trump said that the details of the deal needed to be papered, but it included an agreement from China to purchase USD40-50 bln in US agricultural goods. The two sides also claimed to have loosened agricultural standards including phytosanitary and biotechnology issues, although no details were given.

Since that announcement there have been reports of the Chinese negotiators being unwilling to commit to a firm number for its agricultural purchases from the US. Further divides between the two sides were reported on the removal of US tariffs and the enforcement mechanism for the agreement.

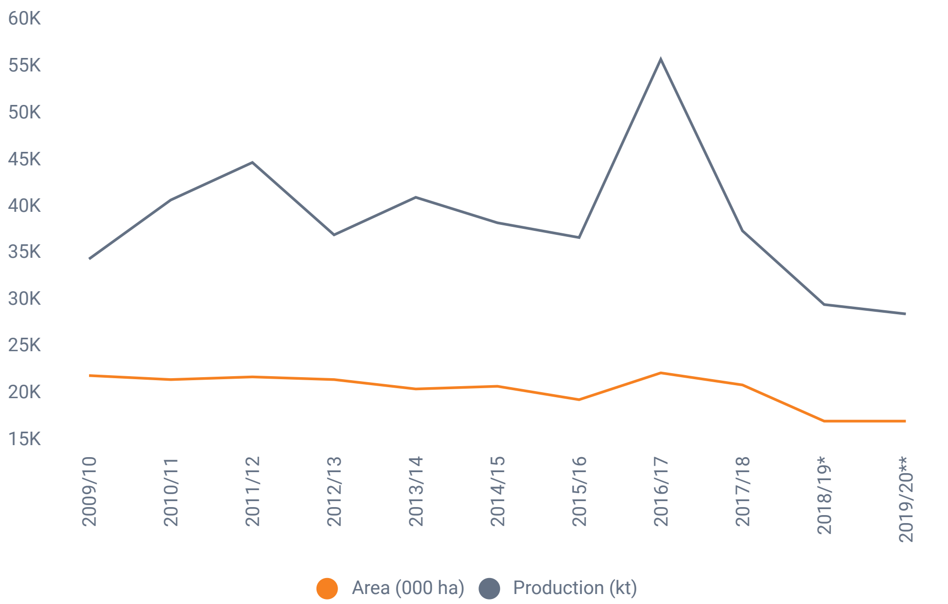
China's apparent reluctance to agree a strong enforcement mechanism for the trade deal raises two important points which the market will be aware of. Firstly, a trade deal is not a treaty, it is essentially an agreement between two presidents. Any deal between the two nations could be undone by a change in administration, or even a change of heart from either side. This leads to the second point – trust.

China and the US have neglected commitments to one another in the past. While not specifically made to the US, China has failed to meet its annual pledges for corn and wheat imports since joining the WTO in 2001, Dan Basse, President, AgResource Chicago told Global Grain Geneva in November. Of the 286 mln tonnes of corn and wheat China should have imported over nearly two decades under its combined 16.8 mln tonne annual pledges, it has imported just 79 mln tonnes.

Observers of the phase one deal are also keenly aware that agricultural purchases is a loose term. While all eyes may be on soybeans in the trade war, China could choose to fulfil any potential future commitment with forestry products or other imports.

It has been said often of the US-China trade war that soybean markets will

Australia winter crop production



Source: ABARES

never be the same again; the US will look to diversify its export destinations and China will look to diversify import origins to ensure food security is less vulnerable to foreign political changes. Whether the two sides learn a lesson or not, the demand equation in China is changing under another force.

The market will never be the same again - ASF

China's hog herd – the largest in the world, accounting for around 50% of hogs globally in 2017 – has been decimated by the outbreak of African Swine Fever (ASF), a deadly disease in pigs which has spread rapidly from Africa throughout Asia and Europe. The USDA forecasts global pork production at 10% lower in 2020 due to ASF, mostly due to a 25% hit to production in China. Ten Asian countries have confirmed outbreaks of ASF, and pork seized at an Australian airport tested positive for the disease, highlighting the risk of spread into any market.

The disease is a further complication in the soybean trade outlook. Soymeal is a large component of pig feed in China and remains so even after pig farmers began reformulating feed to lower its abnormally high soymeal content as the trade war unfolded.

Estimates of the drop in China's pork production capacity for 2019 are around 40-50%.

China's pork imports have risen sharply, and the value of those imports has risen even higher. Fundamentally though, there is not enough production capacity in the world to replace the capacity lost in China recently.

Such is the shortage of pork in China that average prices in September 2019 were 94% higher than a year previous. Pig stocks were down 10% on-month in August and 39% lower than a year previous. Similar drops in the breeding herd suggest recovery could take many years.

IEG Vantage senior commodity market analyst Adam Speck said in a recent Down to Agribusiness Podcast that he expects China will not return to its record herd size of two years ago, and that if it does it might take 10 years.

With such a large impact on prices of a key part of China's diet, the government is keen to bring supply back online and to prevent another outbreak in the future.

The method in which China is choosing to rebuild the herd is more centralised, more commercialised, and more industrialised, said Speck. The capital-intensive process of moving sows and facilities to more remote areas will take time and investment.

"It will take three years in my opinion to reach a meaningful impact, five years until you can maybe normalise price and maybe seven to 10 years before you can work out what the new normal is going to be for China," said Speck.

The long recovery for pork in China may however hide a less bearish outlook for soymeal demand.

Prior to the outbreak of ASF, around half of China's pork production was from small farms of under 500 head, according the USDA, often referred to as "backyard farming". ASF has pushed many small and medium sized producers to exit the market entirely, and recovery efforts are very much focussed on large scale enterprise for greater efficiency and biosecurity.

China's government has unveiled a raft of financial support for pig producers, some targeted specifically at large producers, from covering portions of construction costs and equipment purchases, to subsidising interest rates on loans. The expansion of large-scale pork production is expected to balance a decline in smaller farms as biosecurity measures including eliminating swill feeding take hold and force small farmers to the wall.

The industry that emerges after ASF may well be more soy-hungry. Commercial scale farming of pigs means an increase in compound feed use, and so an increase in soymeal demand. The overall impact of ASF on soybean and soymeal demand is expected to be a minor drop in soymeal demand in 2019 of around 5% before a recovery in 2020. Soymeal is further expected to see increased inclusion in feed mixes as its price remains low.

In the near-term, high pork prices incentivise fatter pigs and overfeeding cushions the fall in soymeal demand by raising feed per head. Much hinges on when the herd can stabilise from ASF and at what number; the clear downside risk remains should ASF outbreaks take a larger toll on pig numbers.

Outlook uncertainty

IEG Vantage estimates world soybean production at 337.8 mln tonnes, down from 356.7 mln tonne last season, a trend in line with USDA predictions. A particularly acute output drop in the US led the decline in the USDA numbers, with US production falling from 120.5 mln tonnes in 2018/19 to 96.6 mln for 2019/20.

In its early outlook for next season, Vantage forecasts a rebound in world production in 2020/21 to 367.4 mln tonnes,

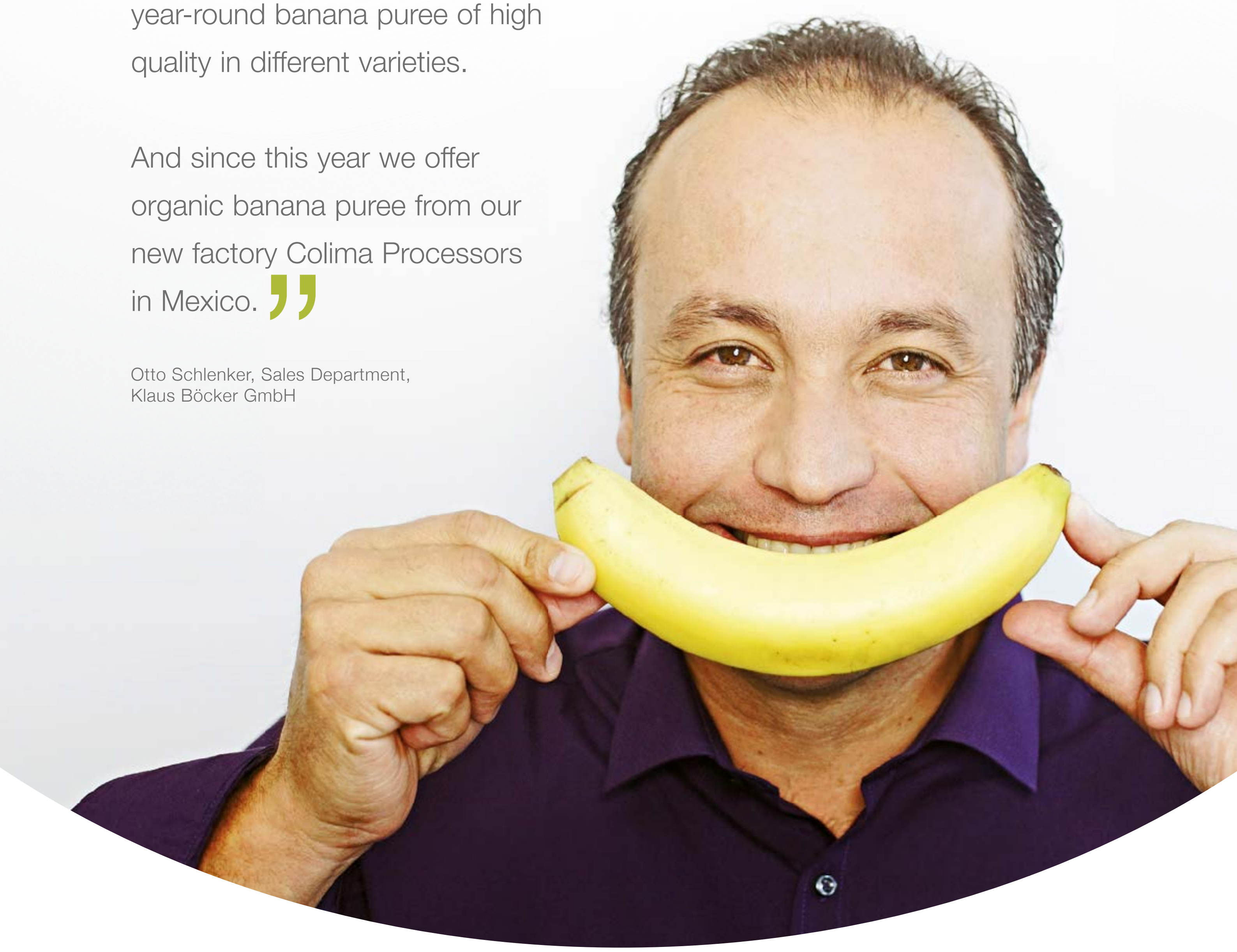
Vantage sees ending stocks falling in 2019/20 to 94.5 mln tonnes from the heights of 117.0 mln tonnes last season, with a recovery in 2020/21 to 98.1 mln.

IEG Vantage's price forecasts for marketing year average soybean futures were projected at USD9.20 per bushel in 2019/20 and USD9.00 per bushel in 2020/21.

WORLD SOYBEAN SUPPLY AND DEMAND

	2016/17	2017/18	2018/19*	2019/20*	2020/21*
Harvested Area	119.9	124.2	125.4	121.9	128.5
Yield	2.9	2.8	2.8	2.8	2.9
Beginning Stocks	79.9	95.6	102.3	117	94.5
Production	350.5	341.6	356.7	337.8	367.4
Total Supply	430.4	437.2	459	454.8	461.9
Crush	287.8	289.1	291.1	302.9	305.2
Total Use	334.8	334.8	342	360.2	363.8
Exports	147.5	153.1	148.5	152.2	157.9
Ending Stocks	95.6	102.3	117	94.5	98.1
Stocks/Use (%)	28.6	30.6	34.2	26.2	27

Source: IEG Vantage *forecast values



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