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Agribusiness intelligence

Global Outlook 2018

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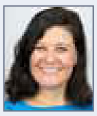
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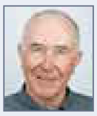
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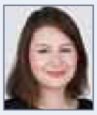
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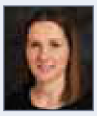
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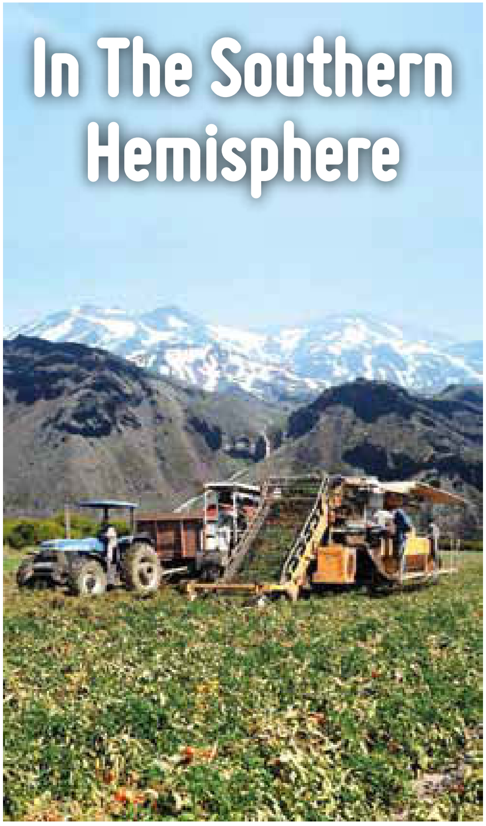

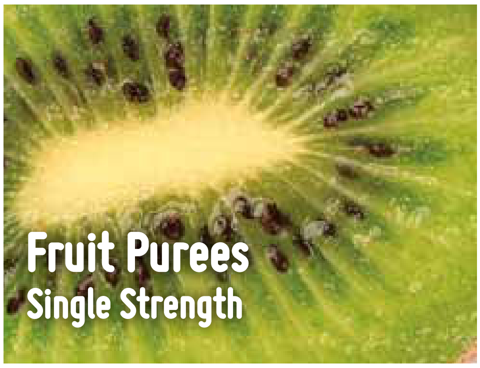

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Predicting the unpredictable

Welcome to this new and expanded issue of our annual Global Outlook.

Every year in December, we cast our eyes back on the preceding 12 months and try to make some informed and accurate predictions for the next 12 months.

The only true certainty about agro-industrial products and commodities is that nothing is ever certain. Politics and the weather (or climate) are the two biggest factors. Politics usually has an immediate effect, while the climate's effects are slower to take effect but probably, in the long run, more long-lasting.

Taking the weather first, climate change is changing everything. The oceans are warming up, which is altering the behaviour pattern of fish, so the tuna market has seen some wild fluctuations. On land, there have been droughts and heatwaves in many countries and these are seriously disrupting planting, harvesting and production patterns.

The problem is often not simple heat, dryness or floods, but a toxic chain of all three. Plants get baked by a heatwave, and then washed away from downpours. Nor is it always heatwaves – the very late frost that struck northern Europe this year hammered the red fruit crops as well as the apple trees in Poland, Germany, Austria and Italy, and seriously damaged the vineyards in France.

Politics usually manifests itself in the form of tariffs, quotas and other import restrictions. At present, the Russian embargo on all manner of fresh fruit and vegetable imports from Europe (and elsewhere) is making life tough for farmers, and governments have had to step in to buy surplus produce and convert it to processed form, usually for institutional feeding programmes. Spain has been particularly active in this.

Probably the biggest political issue at the moment is that of the UK's departure from the European Union. Brexit means that the continent's second-largest (or third-largest, depending on whose figures you accept) economy will be uncoupled from the EU in all forms of trade, and the UK will have to establish its own trade agreements with the rest of the world – and the EU itself, of course. The fact that there are very few experienced trade negotiators in the UK, as this matter has always been handed by an EU team on behalf of the bloc, is not making this process easy. Still undecided is what the EU and the UK will do about all other bureaucracy that hitherto has come under the EU umbrella – standards, hygiene norms and technical co-operation are just three.

Back to predictions. In our last Outlook, we made just three forecasts, all relating to fruit juices. This year, we are casting our net wider, and making informed analytical forecasts on a wider variety of commodities. This time next year we, and you, will know whether we were right.

A happy and prosperous New Year to all our subscribers and readers.

Neil Murray
Principal Analyst: Beverages
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Vanilla volatility very vexing for buyers

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International vanilla buyers have had to cope with extreme volatility in recent years, but there are heightened hopes for an easing in prices in 2018. Of course, it remains to be seen whether these hopes will be realised.

By Julian Gale

It seems like ancient history now but there was a period not so long ago when global vanilla prices crashed and remained stuck in the doldrums for some years in line with weak demand as buyers had switched to synthetic alternatives to vanilla. The initial switching was driven by the desire to find lower cost alternatives.

This has all shifted dramatically in the last few years with a resurgence in demand for pure vanilla and prices soaring substantially to levels which might now dampen some of the buying enthusiasm in 2018.

In an August 2017 report, the Food Institute recalled that the clean label movement hit the mainstream around 2014 and by 2015 major processors and foodservice chains were removing artificial ingredients from their products, increasing demand for vanilla.

The Food Institute explained that the global speculative buffer stock was exhausted in 2016, which caused the price for a kilo of cured black vanilla beans to jump from USD30 prior to 2013 to USD250-500 last year. This is in line with the trade information gleaned by IEG Vu over the last year and further back.

The same Food Institute report noted that according to Fona International, this year's demand for naturally sourced bourbon vanilla is expected to reach 3,200 tonnes, but less than 2,000 tonnes will be produced in Madagascar, which is responsible for 80-85% of world output.

Upward pressure on prices was maintained into 2017 by reports of major damage to Madagascar's 2016/17 crop from cyclone Enawo, which struck the Sava region on March 7.

Upward pressure on prices was maintained into 2017 by reports of major damage to Madagascar's 2016/17 crop from cyclone Enawo, which struck the Sava region on March 7

Prices were still on the ascendancy this September due to substantially reduced supply and continuing buoyant demand. The price explosion led to wholesale thefts of vanilla from plantations and as a result, some farmers were picking pods prematurely.

However, in mid-October, UK trader Fuerst Day Lawson observed early signs of a downward trend in prices. The firm attributed this to indications that the impact of the cyclone not being as disastrous as first thought. "It is further believed that, whilst there are plenty of green, immature beans, the percentage that these represent is no more than 25-28% of the total Madagascan crop," it added.

French trader Touton also finds that the effects of the Enawo cyclone on the vanilla production are not that huge and, most important, must be partly compensated by the new plantations starting to give beans.

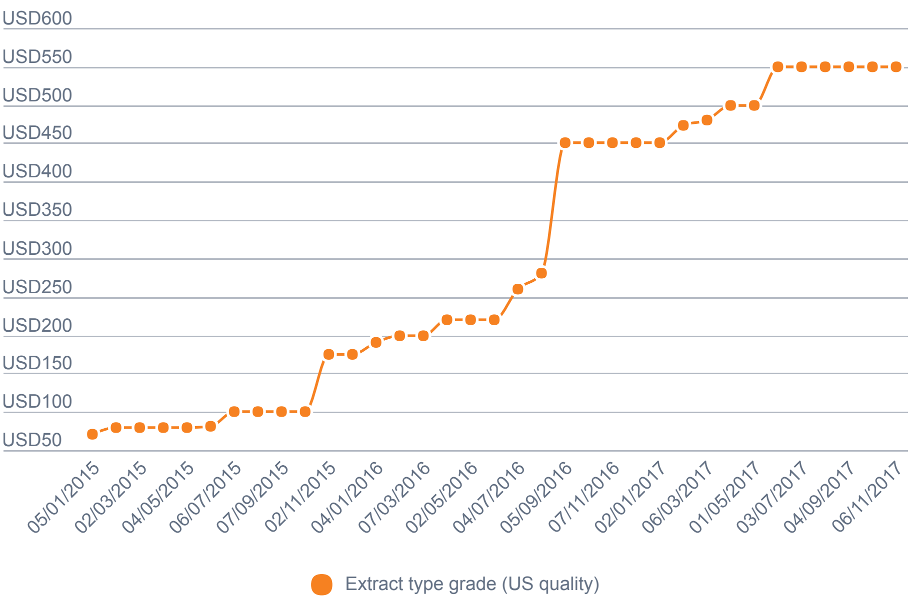
Touton stressed in its own report, also issued in mid-October, that this is quite an important parameter to notice. Emmanuel Nee, head of the ingredients department at Touton, suggested: "New plantations will keep on giving beans in the coming years, which will definitely push the supply side up again."

The cautionary counterpoint to any dip in vanilla prices is that sellers are likely to be reluctant to persist in lowering their prices, particularly those offering Madagascar vanilla.

Madagascar remains by far the biggest producer but the upturn in prices is certainly not unique to this main origin.

In late October, Francois Bernard of Tripper told IEG Vu that the 2017 Indonesian crop is estimated at less than 80 tonnes and most of this was already sold over the summer.

Madagascar vanilla prices fob Vohemar (USD/kg)



Source: GTT/IEG Vu

"We are left with very little inventory in the hands of spice traders that have very little knowledge of the reality of the vanilla market. They are pushing the price to INR7 million or USD525/kg for mixed grade. This price is not realistic when big brother Madagascar is happy to export 20% cheaper," Bernard explained.

Papua New Guinea historically produces a bumper crop in May and a smaller crop in November and this should ease the tension in the coming months, Bernard suggested.

Prices of Papua New Guinea vanilla are lower than those from Indonesia and in recent months Tripper has seen very little Indonesian vanilla that has not been blended with Papua New Guinea beans.

> "New plantations will keep on giving beans in the coming years, which will definitely push the supply side up again"

"At farmer level we have seen a lot of new plantations but they will only start producing serious volumes in 2019," Bernard added.

Fuerst Day Lawson suggested that Madagascar's 2017/18 crop could amount to 1,500 tonnes. Higher grade extraction was expected to be under way by early November and the premium black vanilla crop two months later.

The company cautioned that alternative crops from other origins will not emerge until 2018 so Madagascar's predominant position in the international vanilla market would continue for some time yet.

On November 2, Douglas Daugherty, president of the Vanilla Corporation of America, told IEG Vu: "It is very difficult to predict what will happen in the vanilla market in 2018. Madagascar vanilla bean pricing is already too high and should be easing, but just the opposite is now occurring."

Daugherty explained that the new 2017 Madagascar vanilla bean crop is expected to produce between 1,200-1,500 tonnes of cured vanilla beans, which would compare with only 1,200-1,300 tonnes of cured beans in 2016.

"The vanilla farmers and collectors have made so much money in the last couple of years that they do not need to sell. In fact, many vanilla farmers and collectors are holding back material from the market in an effort to increase selling prices even further," he observed.

The vanilla vine flowering in Madagascar is mixed and expected to peak in November.

"Some vanilla plantations are having a much greater flowering this year compared to last year, while others are not. Overall, we expect the vanilla vine flowering to be greater this year which will lead to a larger vanilla bean crop in Madagascar next year," Daugherty explained.

He noted that because of the high selling prices for vanilla beans in the last few years, almost all of the vanilla producing countries are increasing their vanilla vine plantings and production.

In addition to Madagascar, Indonesia and Papua New Guinea will also have larger vanilla bean crops next year and probably even larger crops in 2019.

"Many vanilla farmers and collectors are holding back material from the market in an effort to increase selling prices even further"

"So, we will have larger global vanilla bean production in the face of falling vanilla bean demand due to extremely high prices. We estimate that at least 30% of the global demand for vanilla beans has been lost in the last two years and we will lose additional global demand in 2018," Daugherty forecast.

In the absence of any official data on production and consumption, it is impossible for IEG Vu to confirm whether the estimated 30% loss in demand for the last two years is accurate or not.

It is tricky determining which way the market will turn, but the general feeling is that offtake will be curbed at least to some extent by the ongoing strength of prices as we head into 2018.

Daugherty suggested that at some point in 2018, vanilla bean selling prices for every country of origin will start to decrease. "But, when this will happen in 2018 and how far prices will decrease is anyone's guess," he concluded.

Based on the current information available this seems a feasible assessment of how the market is likely to unfold in 2018. As for the potential scale of any downturn in prices, it is with some reluctance that I would hazard a guess that it will not be that massive – maybe only USD100-150 per tonne lower at most – but, as we say in publishing, don't quote me on that!

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Going from strength to strength

World almond production is set to rise in the 2017/18 season and consumption is also forecast to continue expanding.

By Julian Gale

"As shipments continue to recover from a late harvest, the industry year to date numbers will continue to grow"

The US is a key part of this dual success, being the world's largest almond producer and a major force in boosting demand for this nut category.

This is evident from the regular position reports from the Almond Board of California (ABC), which detail the monthly shipment volumes. Much as expected, the 2016/17 season ended with another boost in overall shipments. Moreover, the 2017/18 season has started promisingly.

At the time of writing, the ABC's third position report for the current season had recently been released, showing total US shipments (August-October 2017) close to those for the same period of the previous season at 605.63 million lbs against 607.12 mln lbs earlier.

The total sales (domestic and export) for October 2017 alone were the best ever at 246.9 mln lbs, a 4.6% increase on the same month a year ago.

The year to date total to the end of October was a mere 0.24% behind that of a year ago and all indications were for the pace to pick up as the season progresses. This is likely to be evident by the time this supplement is published, as additional US almond shipment figures will be known.

Indeed, on November 10, US company Blue Diamond Almonds noted: "As shipments continue to recover from a late harvest, the industry year to date numbers will continue to grow."

The USDA has forecast **global** almond output to be 6% higher in 2017/18 at a record 1.3 million shelled tonnes on peak volumes in the US, Australia and the EU.

Similarly, world consumption is expected to continue expanding to a record 1.2 mln tonnes.

At the World Nut and Dried Fruit Congress this May, almond prices compared favourably against every other tree nut. This continues to be the case: although maintaining a fairly firm trend, almonds remain competitively priced and below their peaks of a few years ago. Trade sources often cite this attractive pricing element as an encouraging sign for the future consumption prospects.

Global exports are expected to rise 4% to a record 766,000 tonnes on strong shipments to the EU, China, and India.

World ending stocks are forecast nearly unchanged at 233,000 tonnes as inventories in the US remain elevated, the USDA revealed in its October 2017 report Tree Nuts: World Markets and Trade.

The USDA projects the **USA's** 2017/18 almond production to be 5% up to a record 1.0 mln tonnes on continued expansion of area, although yields are expected to decline slightly.

The report recalled that the US bloom was extended due to cold temperatures.

"Significant rains before and during bloom made application of dormant and bloom sprays more difficult. While excessive rain complicated orchard work, it was a welcome relief from years of drought," it noted. "As nuts continued to develop, a heatwave in June caused growers to irrigate day and night. However, reports indicate that the heatwave did not cause much damage to the trees, with stress alleviated by irrigation."

In late October, Blue Diamond Almonds observed that growers in California's Central Valley had suffered higher levels of rejects caused by Navel Orange Worm (NOW). It observed that damage levels sustained in the early harvesting varieties, such as Nonpareil, had carried through all susceptible varieties, including the late maturing Fritz and Monterey. This had created significant financial losses for growers with the greatest damage levels and inspired them to focus on orchard sanitation or so-called mummy shaking to eliminate the NOW's over-wintering site.

In November, Blue Diamond Almonds warned that with high serious damage, increased doubles and a relative lack of smaller counts per ounce, the industry might encounter challenges with markets and customers that have stricter size and quality requirements.

The firm suggested that although the crop is still expected to come in close to 2.250 bln lbs, extraneous quality factors might put pressure on the actual saleable supply. "With high quality product potentially scarce, we see prices firming in select areas where high product quality is required," it predicted.

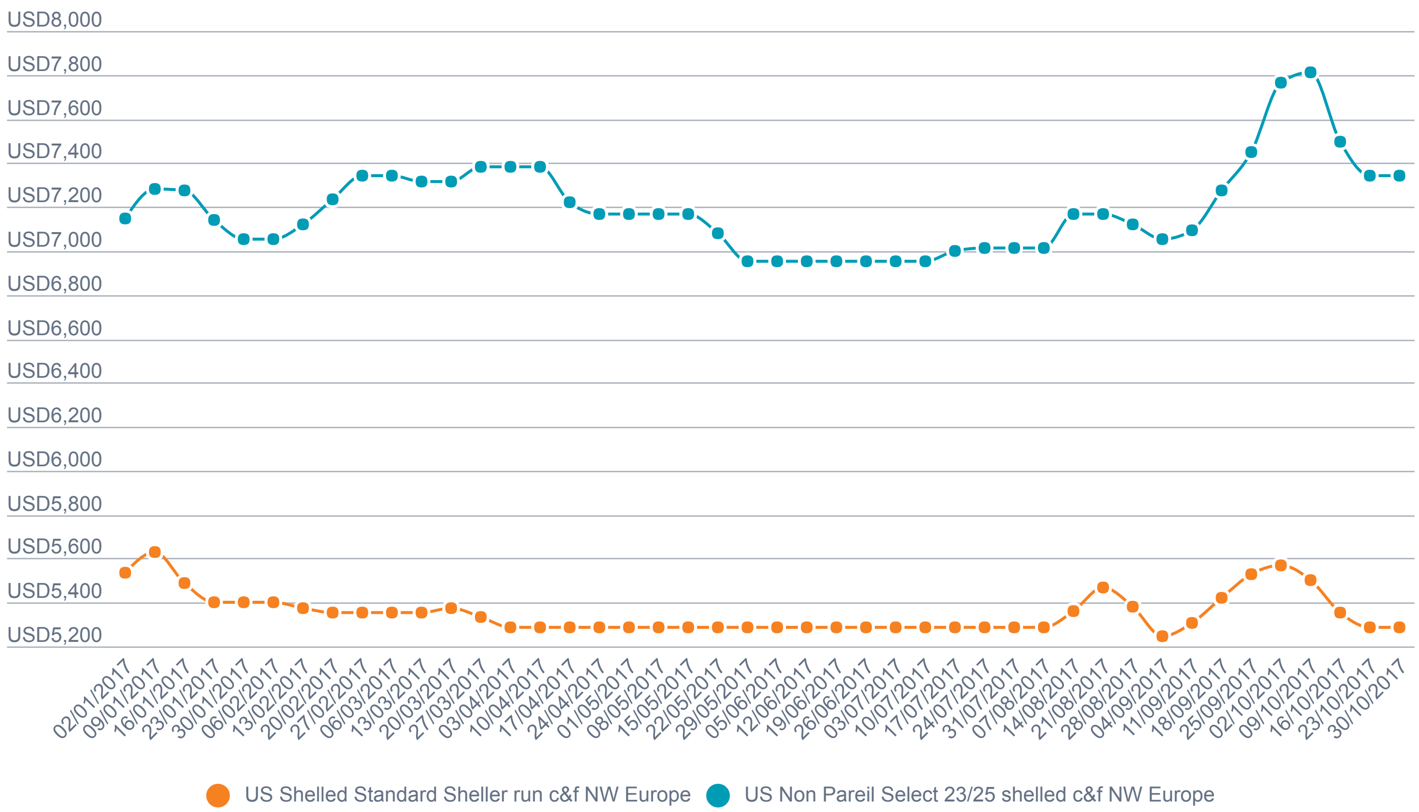
Similarly, Terra Nova Trading noted large price differentials according to quality. "It is yet to be determined if these large differentials will hold all year, but it does appear we will have larger differentials than normal due to quality," it added.

Exports look set to rise

The USDA noted that exports account for two-thirds of US output and it forecast these to rise 4% in the 2017/18 season to a record 675,000 tonnes on expanded shipments to the EU and India.

This seems a fair assessment. There is no reason to doubt that US almond exports will show further growth this season.

US almond prices (USD/tonne)



WORLD ALMOND PRODUCTION 2012-18 (KERNEL TONNES, SHELLED)						
Country	**2012/13**	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18 (October 2017 estimate)**
US	857,290	911,720	848,220	861,830	970,690	1,020,580
EU	83,000	58,800	79,700	95,000	91,000	103,000
Australia	73,400	65,100	82,500	82,300	82,300	90,000
China	5,000	7,000	9,500	30,000	40,000	43,000
Turkey	17,000	18,000	13,000	14,000	14,000	15,000
Others	9,500	5,000	9,600	8,800	8,600	8,500
World Total	**1,045,190**	**1,065,620**	**1,042,520**	**1,091,930**	**1,206,590**	**1,280,080**
Source USDA						

The USDA added that even with the anticipated increase in US exports, the country's ending stocks are expected to remain elevated at 183,000 tonnes.

It projected **Australia's** 2017/18 production to rise nearly 10% to a record 90,000 tonnes on higher area and yield.

Most of Australia's production occurs in the Riverina region of New South Wales, the Swan Hill and Sunraysia regions of Victoria, and the Riverland and Adelaide regions of South Australia.

The country's almond exports this season are expected to gain 9% to 60,000 tonnes on stronger demand from top markets the EU and India.

The USDA forecast the **EU's** 2017/18 production up 13% to 103,000 tonnes on greater area expansion in Spain, while Italy's area remains unchanged.

EU import demand is expected to gain 3% to 300,000 tonnes on demand from the food ingredient, snack food, and confectionery industries.

India's imports of almonds are forecast to gain 8% to reach 95,000 tonnes, driven by an expanding middle class and a growing workforce.

"While demand peaks during the September to January festive season, food processors are using more almonds in a broader variety of product categories such as snack foods, health foods, beverages, and confectionery products," the report explained.

China's imports are seen rising 7% to 100,000 tonnes, driven by higher demand from food manufacturers as well as the snack food sector. Industry surveys indicate consumers between the ages of 19 and 35 account for much of the recent growth in demand in the expanding snack food sector.

New products, forms and increased snack consumption as almonds displace other nuts, will drive continued consumption growth

The pattern for 2018

As noted in the Half Year Outlook earlier this year, it is expected that new products, forms and increased snack consumption as almonds displace other nuts, will drive continued consumption growth. At current pricing this is not expected to slacken.

As things stand, there is no reason to expect almond prices to escalate out of control. The more likely scenario – assuming no major problems with the bloom in California next spring and/or subsequent supply glitches in this biggest producer – is for prices to move within a similar band to that of 2017. However, as indicated earlier, there could be higher than normal pricing differentials based on quality factors.

In general terms then, the prospects for both world production and consumption of almonds into 2018 are very positive. Moreover, the market looks set for continued advances on both counts, with other origins also gearing up for expansion – although it is clear that the US will hold its position as the top producer.

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Looking for some light at the end of the tunnel

The desiccated coconut market has faced continued supply difficulties this year and there are no signs of relief from this in the near future.

By Julian Gale

This year started badly for desiccated coconut after growing areas in the Philippines were hit by typhoon Nock-Ten over the Christmas period. This further disrupted an already tight supply of raw nuts and hence that of desiccated coconut.

Nock-Ten was described as the strongest typhoon to hit over the holiday period in 50 years. It was noted that there would be a negative impact on the coconut crop cycles in the Philippines for the next couple of months because not only were trees damaged but the coconut blossom was blown from the trees, which would have an impact for later in 2017 as well.

The global sector was still reeling from a particularly difficult 2016. In its December 2016 report on the desiccated coconut market, Dutch trader Catz International observed that El Niño was the most significant fundamental of that year. The weather phenomenon had caused severe drought in most coconut producing countries and the negative impact on raw material supply was still being felt.

With the end of 2017 nearing it is not surprising to find that world availability of desiccated coconut remains limited. By September, Sri Lankan prices had soared to their highest point in history and supplies from this origin were very bad.

On October 19, a trader at Catz International told IEG Vu: “For nearby, availability is very tight. Most producers are well sold for this year. The situation in Sri Lanka remains difficult and this now looks to be lasting for the whole of 2017. At present, there is no sign of relief.”

Warren Dick of UK trader TM Duche confirmed that he anticipates continued tightness into 2018. “There are problems in Indonesia with shipments, and they are running late. The Philippines are a little bit late – probably seven to 10 days, but not with every shipment,” he said.

Dick explained that prices for Sri Lankan medium grade desiccated coconut were holding firm at USD3,480 per tonne c&f north-west Europe in the week to October 20, but off their earlier peak of USD3,570/tonne.

“There is not much business going on. Only the occasional container to the Middle East,” he observed. Many of the warehouses holding stocks are located in Colombo so the process of getting consignments onto a container for shipping to Dubai can be very quick.

Similarly, the Catz trader remarked of the Sri Lankan material: “There is hardly any business being done because no one wants to pay these prices.”

Nevertheless, he observed that across the desiccated coconut market overall – so taking into account other origins as well – there has been a lot of demand coming through for the winter in recent weeks, and this has resulted in further tightness. “Coconut oil is also now trending higher for the later on periods, which might be an indication of where desiccated coconut will be in the first half of next year,” he added.

The Catz trader explained that he was finding demand seemed to be slightly stronger than in previous years at this time. “It appears that people who would normally buy in Sri Lanka now of course look for alternative sources. Also, for nearby, these high prices in Sri Lanka, for people who do not follow coconut on a daily basis, find themselves caught out by this,” he noted.

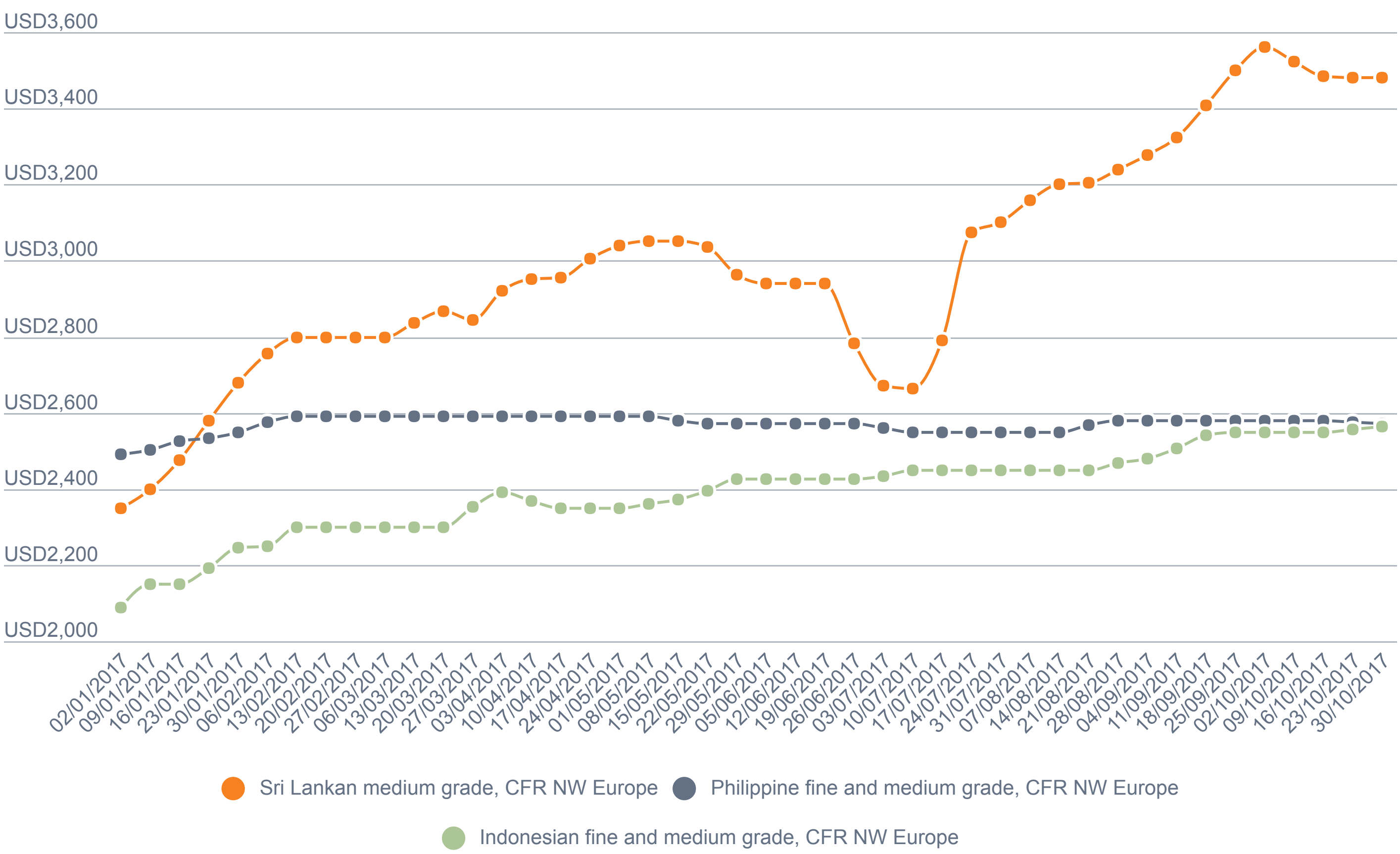
Dick viewed demand as in line with the usual pattern for the time of year, but acknowledged that this now also includes

INDONESIAN DESICCATED COCONUT EXPORTS 2012-16 AND JANUARY-AUGUST 2017 (TONNES)

	2012	2013	2014	2015	2016	January-August 2017
Singapore	14794	13084	13687	12597	15740	16994
Germany	7824	7436	9591	8648	8387	4926
Russia	4149	5559	5093	4513	4918	3530
Brazil	3862	6740	10639	5972	7384	3357
Poland	1450	1957	1912	2431	3987	2413
Egypt	1313	3488	1953	2329	1534	2279
Netherlands	2742	4723	6498	3441	2866	2198
Thailand	564	734	1933	1048	2794	2087
Malaysia	1026	1260	1408	1914	3317	2079
China	1425	1776	2298	2357	2647	1861
UK	1832	2188	2640	3013	2619	1699
Turkey	2724	1867	3500	3680	1677	1569
UAE	634	2871	2630	4187	421	1568
Argentina	1305	1052	1777	1393	1926	963
France	180	392	150	1313	734	790
South Africa	1293	1312	1384	1526	1305	747
Iran	99	100	69	390	91	701
New Zealand	901	751	921	1391	1243	670
Spain	793	2582	2136	2067	972	654
Saudi Arabia	338	637	548	1131	213	627
Others	12267	15426	16037	20382	14192	8604
Total	**61515**	**75935**	**86804**	**85723**	**78967**	**60316**

Source: Global Trade Tracker

Dessicated coconut prices (USD/tonne)



the upturn in interest in organic and regular virgin coconut oil, a trend of the last three or four years.

In recent years Vietnam has generated increased exports of desiccated coconut. However, the Catz trader suggested that this origin will see a decline in its shipments this year.

It looks inevitable that the market is set for continued firmness ahead

Vietnam is not suffering drought-related production issues but its supply of raw nuts is being squeezed by keen Chinese buying. Chinese companies are acquiring the Vietnamese raw coconuts for various applications other than for desiccating, including coconut juices, and this in turn is reducing the availability for desiccated coconut.

"This means that in Vietnam also they have a high raw material price which makes also the prices of desiccated coconut even somewhat higher than in the Philippines and Indonesia, which also makes them outpriced in the international market," the Catz trader observed.

As of October 19, these price indications on Vietnam desiccated coconut were USD2,700-2,800/tonne fob.

There were also reports of high prices on Indian desiccated coconut: USD3,188 c&f for fine and USD3,265 c&f for medium grades.

However, quality issues dictate that the quantities reaching European destinations are negligible.

Making predictions

One of the difficulties in forecasting on desiccated coconut is that nut collections are mostly ongoing so there is no specific month or short spread of months which can be defined as the 'harvest' period. Reference is made to peak production months, but it is in effect a continuous process.

PHILIPPINES DESICCATED COCONUT EXPORTS 2012-16 AND JANUARY-AUGUST 2017 (TONNES)

	2012	2013	2014	2015	2016	January-August 2017
US	27963	26217	66059	24050	34546	22549
Netherlands	9956	8710	7291	4466	7609	8440
Australia	5866	5529	6501	6779	5776	5370
Canada	5181	4144	6442	4626	6450	5136
Germany	4177	6037	3827	2286	4208	3333
UK	5700	6084	6404	1986	3654	3087
France	2349	3197	3181	1486	3142	2676
Russia	4276	4176	4004	1400	1832	2465
Brazil	756	2473	2675	946	1118	2212
Turkey	2973	5245	3991	1978	2189	1959
Belgium	8495	7650	7822	1430	4597	1834
South Korea	2757	1550	2099	1508	2741	1670
China	3483	4987	8596	2790	2609	1504
Spain	902	1182	1026	874	1090	1145
Japan	2146	5223	3000	3403	2033	1032
Sweden	1139	587	1286	810	509	864
Malaysia	568	3269	1238	278	346	839
Taiwan	1232	1407	1810	2051	1085	758
Israel	914	1289	742	171	883	554
Thailand	405	556	477	281	889	418
Others	10253	16617	11495	3832	5044	4066
Total	**101491**	**116129**	**149966**	**67431**	**92350**	**71911**

Source: Global Trade Tracker

This year has seen substantial upturns in prices. For example, IEG Vu's own prices data shows that Sri Lankan desiccated coconut medium grade has risen from USD2,325/tonne c&f northwest Europe on January 3 to USD3,535/tonne c&f on October 2, before easing back slightly to USD3,480/tonne c&f as of October 23 (and as mentioned earlier in this article).

As things stand, it looks inevitable that the market is set for continued firmness ahead. Is there scope for another surge of more than USD1,000/tonne? This possibility cannot be ruled out. It is also worth bearing in mind that desiccated coconut remains cheaper than a number of the other nut categories, including many of the offers circulating in cashews and almonds.

Of course, any typhoons would lend further fuel to prices and heighten any volatility. For example, if there is another typhoon (or indeed, a number of them) in any of the main coconut producing origins before the end of this year then there will be renewed upward pressure on prices.

The threat of these typhoons is tending to linger later in the year than in the past so even when the market has reached the end of November it is not free of this weather risk.

It is hoped that the world desiccated coconut market will finally see an improved supply by May or June 2018 but at this stage there is no actual information to form the basis of this so for the time being it remains just that: a hope.

Green for Go (or Stop)

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China's apple juice industry is surging, while Poland's falters.

By Neil Murray

History repeats itself. China's apple juice processing industry suffered a deadly blow when the country's apple farmers started storing their fruit in brand new coldstores, which allowed them to choose precisely when they could sell the fruit.

The same dynamic has completely changed the Polish industry. The country is dotted with bright new coldstores, mostly paid for with EU money, and these considerably extend the storage time of the fruit – up to at least a year and sometimes closer to two.

Unfortunately, this modernity has not been accompanied by equally forward thinking by the country's apple farmers, who are at one and the same time a very fragmented and militant group. Only a few years ago, they were blockading apple juice factories in protest against low fruit prices. The basic problem is that farmers have, for the last two seasons, kept their fruit locked up in storage, releasing it to processors in irregular and relatively small volumes. This keeps the price high, which is good in the short term for the farmers, but makes it impossible for processors to price their juice across a season, because they do not know how much fruit they will be allocated nor how expensive it will be.

Poland's new apple orchards are moving into full bearing, and the country has the capability to produce apple harvests of over 4.0 million tonnes. Only a few years ago, 3.0 mln tonnes was considered a large harvest. The question is how to sell an apple harvest that is one-third larger than what the country handled a decade ago.

This was obvious just before the new apple season started. Europe's fresh apple inventory, as at July 1, stood at 471,220 tonnes, the highest level for at least a decade and quite possibly the highest ever, according to the latest data from the World Apple & Pear Association (WAPA). Polish stocks were 57,000 tonnes: close to last year's record level of 59,000 tonnes,

Poland's new apple orchards are moving into full bearing, and the country has the capability to produce apple harvests of over 4.0 million tonnes

and the figure meant that Poland had managed to dispose of 87,000 tonnes of fruit in the month of January.

Of course, the frost that struck Europe in April proved a godsend to Poland. Apple production was severely slashed in Poland, Germany, Austria and Italy, and the farmers' gamble of keeping their fruit in storage paid off.

The result is that apples are now available practically everywhere

So here we are, at the end of the year, and Polish apple juice production is grinding to a halt for lack of raw material. Yet Poland's estimated harvest of around 2.7-2.8 mln tonnes would have counted as quite a large harvest in the past. Once again, the fruit has been locked away. The farmers are probably figuring that they have nothing to lose. Who knows? There might be another late frost in 2018 and if there isn't, well, they will confront the problem of excessive stocks when/if it arises. One should not forget that, in the absence of another weather problem, Poland will probably produce around 4.0 mln tonnes of apples in 2018.

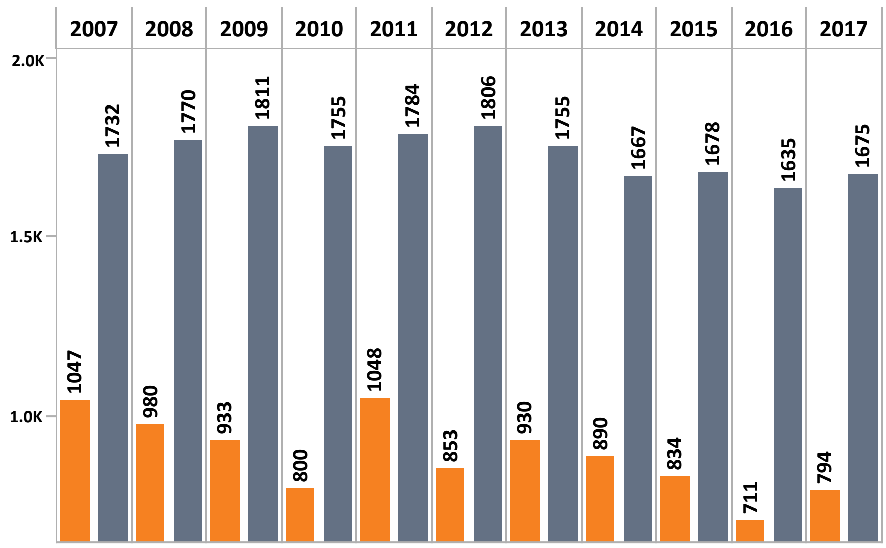
IEG Vu has said it before and will say it again: somehow, the apple farmers and the processing industries have to get together and thrash out some form of agreement that permits a regular and large flow of lower grade fruit for juicing at an agreed price within a certain value brand. This will ensure coherent cashflow for the farmers and equally coherent juice production. It sounds simple, but it obviously isn't. But if next season's harvest is a good one, then the farmers may be faced with a serious glut of fruit that will have to be sold off cheaply. In the long-term, Europe is likely to have more apples than it can easily sell, either on domestic or export markets.

The other problem, as it is for the orange juice industry, is the matter of acidity. There is a shortage of high ratio (low acid) orange juice for blending and just as severe a shortage of high acid apple juice, also for blending. The European taste is for slightly more acid apple juice than is preferred by, for example, US consumers and in Germany, law forbids the selling of drinking apple juice of less than 3.5% acidity. The industry desperately needs AJC of 4% acidity or higher to blend with lower acid juice to come up with good volumes of palatable juice. However, over the last 10-15 years acidity levels have been dropping in Poland, probably due to climate change. Moreover, especially in Germany and Austria, a lot of high acid fruit comes from the streuobstbau – the 'back yard' apples. The elderly trees that bear these apples are gradually being taken out.

In Poland, the old orchards have been grubbed out and replaced with new high-yielding trees, and the old higher-acid apple varieties replaced with dessert varieties such as Gala, Fuji, Jonagold and Idared. This is an issue which cannot be easily corrected, and in the long-term, the solution may lie with China which is finally producing higher acid juice – up to 2.8%, anyway, which is adequate for most European markets, if not Germany.

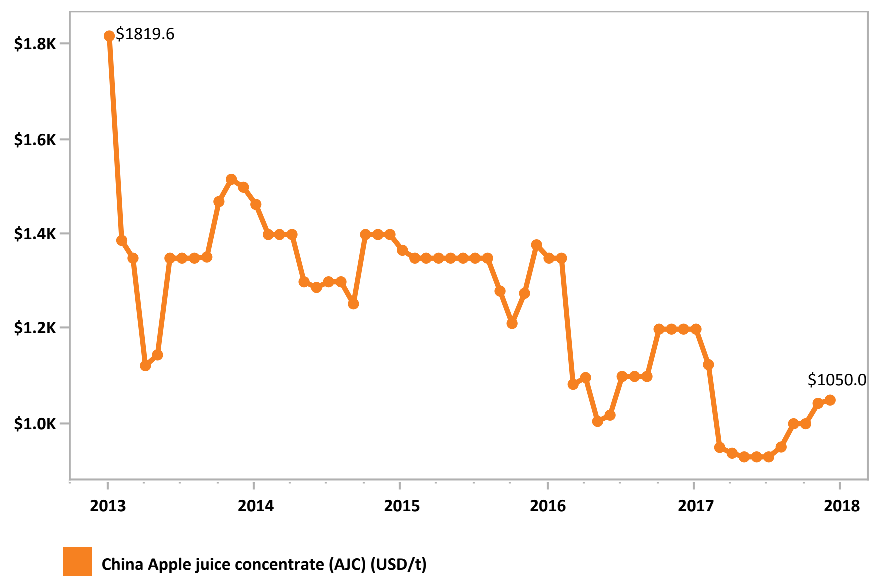
Europe's total 2017 apple production should be around 9.3-9.4 mln tonnes, according to WAPA. This figure is based on the estimates from the top 21 EU member states. Golden Delicious production will decrease by 18% to 1.98 million tonnes, Gala by 3% to 1.27 mln tonnes, Idared by 30% to 679,000 tonnes and Red Delicious by 9% to 576.000 tonnes. Other new varieties will decrease by 15%, from 157,000 tonnes to 133,000 tonnes.

Chile/Argentina apple production ('000 tonnes)



Source: WAPA

Chinese apple juice concentrate price trend (USD/t)

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In other non-EU northern hemisphere countries, significant decreases were noted: Russia (-37%), Mexico (-30%), Switzerland (-21%), Belarus (-19%), Ukraine (-10%), and Canada (-5%), while the US is expecting a stable crop around 4.80 mln tonnes.

As IEG Vu said at the time, this brings the supply/demand equation more into balance. As we also said, prophetically: "Unless the apple farmers can come to some sort of realistic supply agreement with the juice processors, it is possible that AJC exports to the EU from China, even given the 30% duty on Chinese product, could resume."

China now has the world's third-largest coldstore capacity at 76 mln cubic metres

China

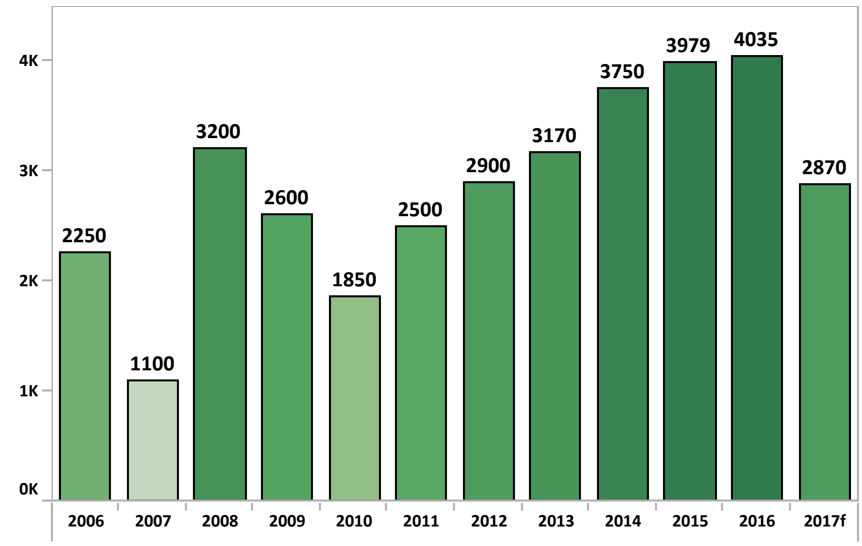
There appears to be a new dynamic affecting the Chinese apple harvest and apple juice industry. The last major change was when, as in Poland (discussed above), the apple farmers set up their coldstore network. China now has the world's third-largest coldstore capacity at 76 mln cubic metres, and this is growing at 10-12% annually. It may increase by a factor of 20 in the next decade. (*Source: Global Cold Chain Alliance*).

This has coincided with a huge consumer boom in demand for fresh apples, which was adequately fed by a steady increase in Chinese apple harvests. The 2017 harvest is believed to be around 44 mln tonnes.

This year, something different has happened. Fresh apple prices have tumbled. Chinese consumers are still devouring fresh apples, but they are opting for the best fruit, for three reasons. First, they can afford it. Secondly, the coldstore network can now hold apples all season. Thirdly, the country's motorway network has expanded very rapidly and road freight has grown with it. In 1997, China had 3,400 kilometres of motorway. In 2017, that had grown to about 125,000 km and it is still growing. The result is that apples are now available practically everywhere.

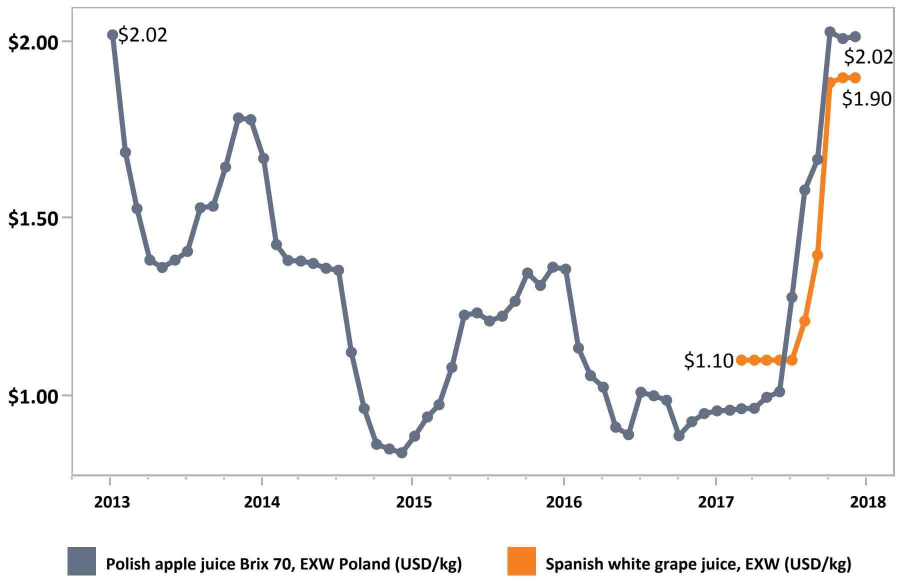
Sources in China have told IEG Vu of

Polish apple production ('000 tonnes)



Source: WAPA

Polish apple juice vs Spanish white grape price trend (USD/kg)



"mountains" of lower grade fruit piling up outside processors. The average price is, at the time of writing, around CNY660 per tonne (USD100/tonne), but is as low as CNY630/tonne in some regions, and IEG Vu thinks it may fall further. We also think that China will take the opportunity to process more AJC that it originally intended, in order to cope with renewed demand from Europe this season, and to rebuild inventories. These were quite high in the last few years, but have since reduced.

This over-supply needs to be considered closely. Is it a one-off event this year, or does it signal a move upmarket for the fresh apple industry, which will therefore release more fruit for processing? Given that there are still more new plantings in China coming into bearing, IEG Vu believes the latter and therefore the global industry should consider the prospect of Chinese AJC processors having access to cheap raw material for at least the next few years.

China's AJC price was maintained around USD1,000/tonne fob through the past season. We expect China to increase it to at least USD1,150/tonne this season, simply because they can and Poland still cannot compete on price, even with the 30% duty added to Chinese product. Polish processors themselves are importing Chinese AJC, and blending it with some of their own production.

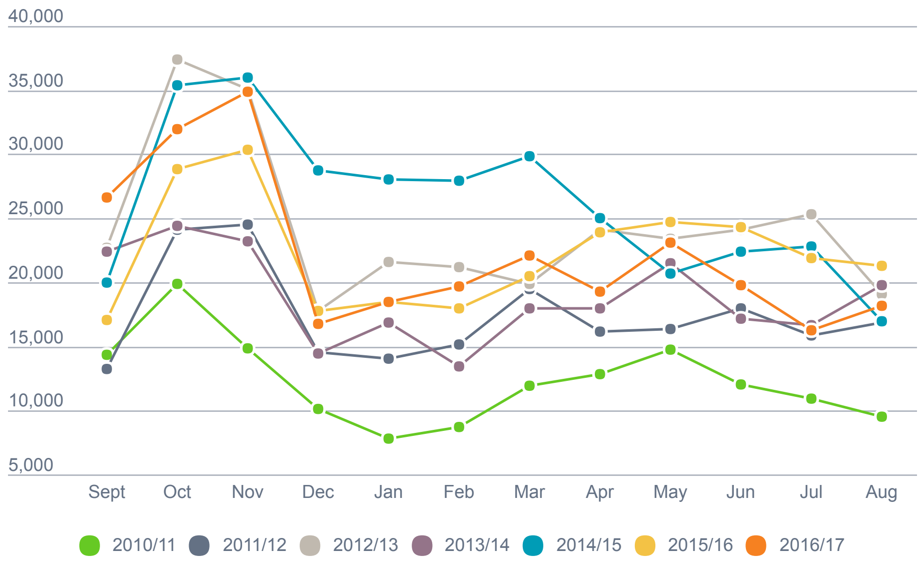
There is no doubt that Polish exports will decline dramatically this season, and Chinese increase

Finally, then, we need to assess what Polish and Chinese AJC exports will be in the 2017/18 season. The figures for the last season were 267,000 and 548,000 tonnes, respectively, for the September-August season.

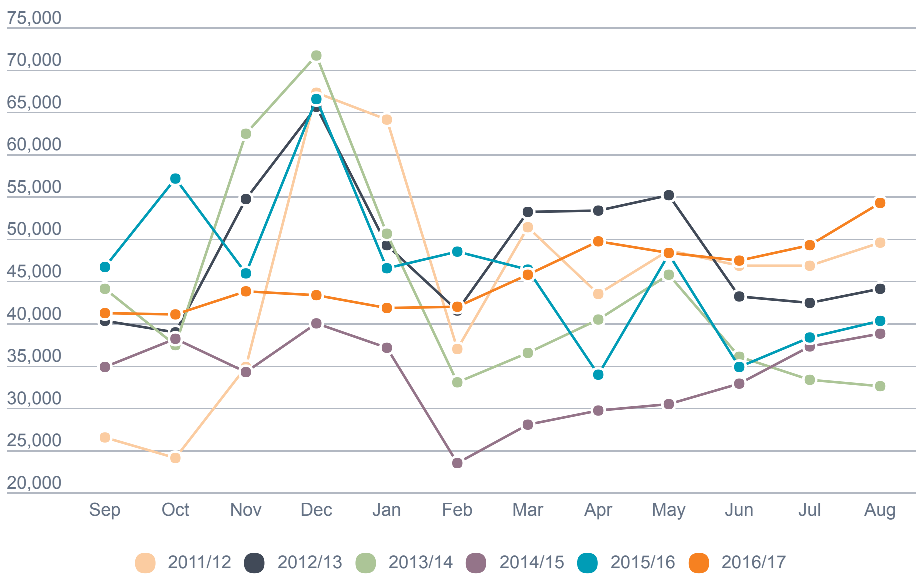
China counts its season from the start of August to the end of July, one month earlier than Poland, and we have changed our records accordingly for this season: China's figure on this basis was 534,000 tonnes.

At the China Juice conference in September, it was estimated that China would make between 650,000-700,000 tonnes of AJC this season. IEG Vu thought that figure was too low and reckoned 650,000-700,000 tonnes was more realistic: Given what is happening in China now, we think China is likely to make as much as 750,000 tonnes. There is no doubt that Polish exports will decline dramatically this season, and Chinese increase, and therefore IEG Vu puts an estimate of 123,000 tonnes and 660,000 tonnes respectively.

Polish seasonal AJC exports (tonnes)



Chinese seasonal AJC exports (tonnes)



Source: GTT

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The slow death of Florida

It is depressing to say it, but the decline of Florida's orange juice industry looks irreversible.

By Neil Murray

There has not been a year like this for more than a decade. The global orange juice industry has been grappling with falling demand in the two major markets (the US and Europe), disease, depradations caused by climate change, and just when it looked like production was going to increase – albeit minimally – in the US, hurricane Irma charged through Florida (after destroying the citrus groves in Cuba en route).

FCOJ prices, which were around USD3,000 per tonne cfr duty unpaid Rotterdam at the start of the year, had been planing gently downwards to around USD2,100/tonne. Brazil had had a reasonable orange harvest and was cautiously expecting another good one, but the effective removal of Florida from the market prompted the Brazilians, at Anuga, to hike their prices by around USD350-400/tonne. So FCOJ is still cheaper than it was at the start of the year, but in real terms, not cheap at all.

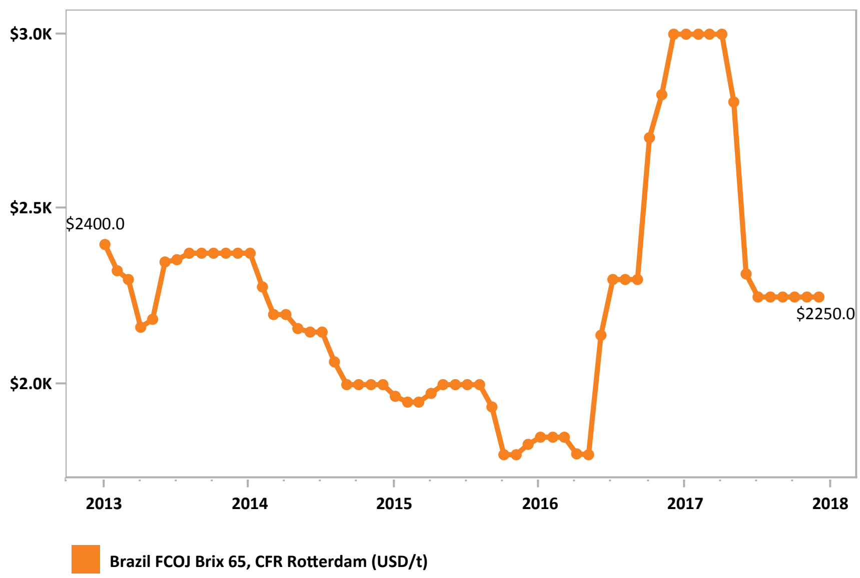
Let us be brutal about this: Florida is, in global terms, now an irrelevance. Its production is a quarter of what it was a dozen years ago. Florida's ace is that it produces high ratio orange juice, which Brazil has found it increasingly hard to make since it moved its citrus groves to escape disease. In blending terms, a smallish volume of sweet Florida juice goes a long way.

Florida also has a certain cachet – the name of the state is a brand in itself, which cannot be said of São Paulo or Minas Gerais.

Assuming that the Brazilian production recovery is not dashed by drought or disease, then the important issue is the sourcing of high ratio juice to replace the shortfall from Florida. This is also of key importance to bottlers and lenders in Europe as well as the US.

The obvious candidate is Mexico. A few years

Brazilian FCOJ price trend (USD/t)



ago, the USDA was predicting the decline of Mexico as an orange juice producing country (and *Foodnews*, as was then, vehemently disagreed!). Now Mexico is ideally placed, and a USDA report this year gave a production figure of about 170,000 tonnes of FCOJ this season, up from 165,000 tonnes in the previous season.

This increase comes despite a forecast decline in Mexico's orange harvest of 25,000 tonnes from the previous season's 4.4 mln tonnes. The USDA credits the much higher price of FCOJ for the increase in processing supply. Indeed, the USDA had to revise its estimated FCOJ production up from its original 2015/16 figure of 126,600 tonnes.

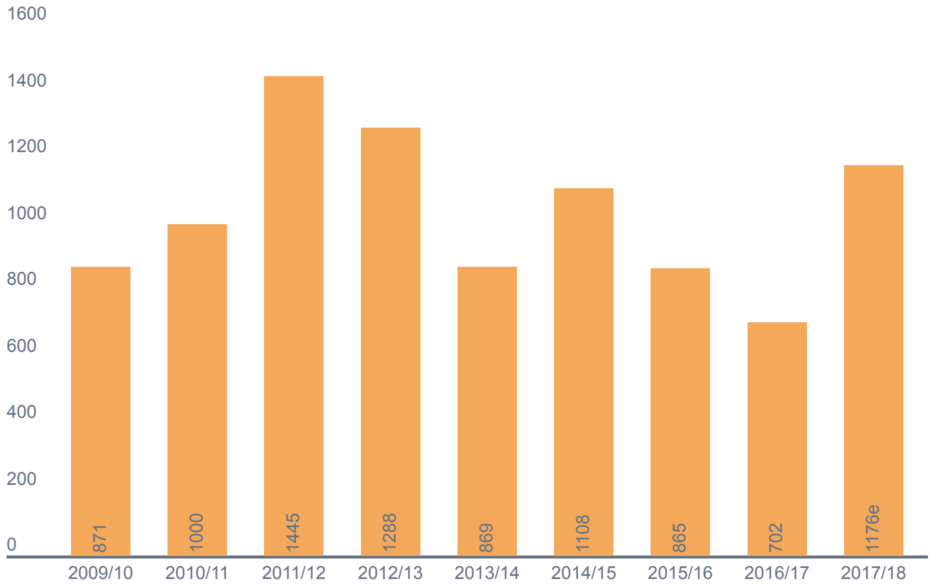
The high fruit price is also curbing domestic consumption of oranges, adds the USDA, saying: "Mexico is a price-sensitive market."

National yields for 2016/17 are forecast to be slightly lower, at approximately 14.3 tonnes per hectare, compared with 2015/16's average yields of 14.5 tonnes/ha. Regional orange yields differ widely, depending on the production area. The variation in yields is caused by many factors, including weather, frequency of fertiliser and pesticide applications, tree density, and soil quality.

The cloud on the horizon is disease. Mexico is facing significant issues with HLB. Mexico's first detection was in 2009 and since then the National Service of Agricultural Food Safety and Quality (SENASICA) has implemented an extensive monitoring programme for the disease.

HLB (greening) has been detected in 23

Brazilian FCOJ production ('000 tonnes)



Source: CitrusBR

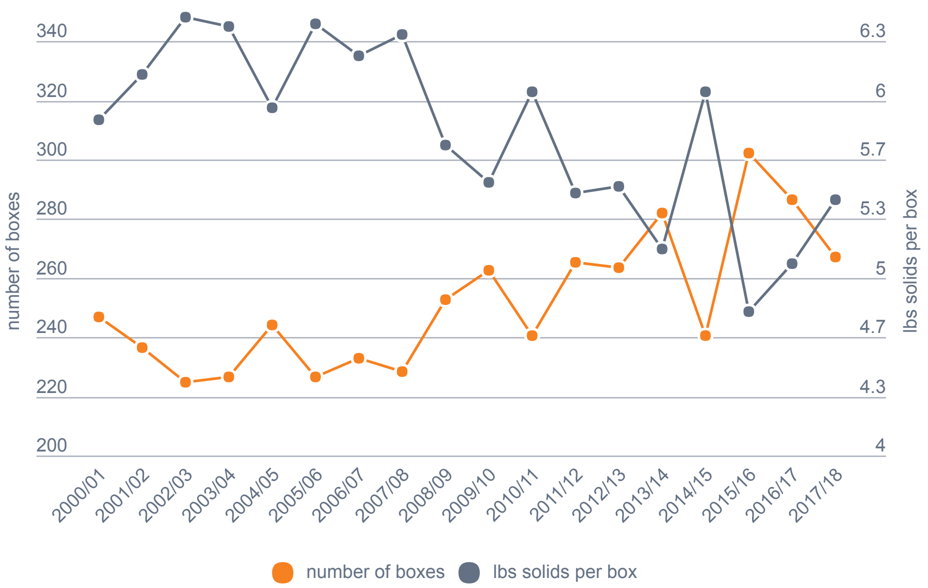
states and 336 municipalities. Production states, including Veracruz, Tamaulipas, San Luis Potosi, and Nuevo Leon, have had HLB detections. According to SENASICA, to date the detections for these states have only been in psyllids and not in plant material.

In Europe, there is Spain. The country's 2016/17 orange production was forecast at 3.6 million tonnes, an increase of over 17% from the previous season due to optimal spring weather conditions which resulted in improved flowering and fruit setting.

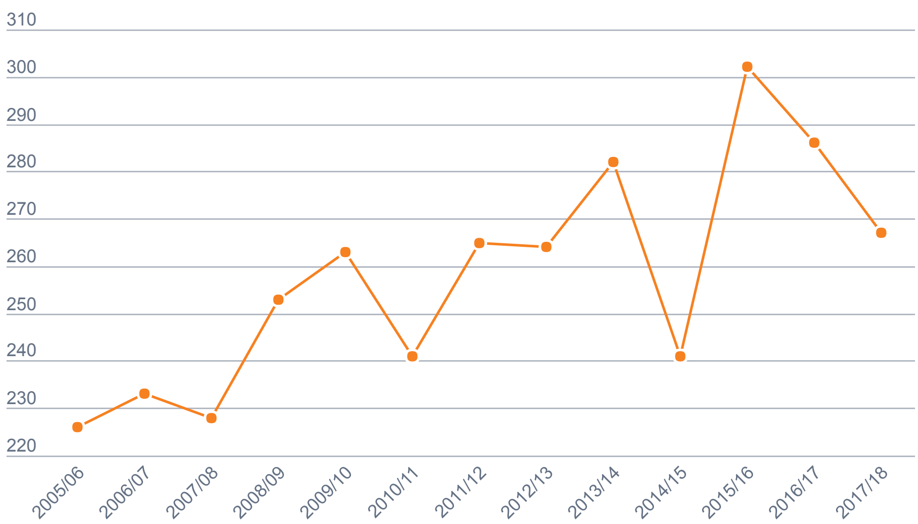
Next season's citrus production is forecast to be much (18%) lower, but the chief category affected is grapefruit: orange production is forecast to be just 4% down (and lemons will be 13% up).

Spain has the raw material and processing capacity to make at least 70,000 tonnes of FCOJ equivalent orange juice annually, but Spain's key product is NFC orange juice, which it supplies to other European countries. Brazil always prices its NFC juice tactically, to compete with Spain: Brazil effectively subsidises its NFC production by weighting its FCOJ price. However, Spain could produce high ratio FCOJ if the price was right, and of course there would be no duty penalty in Europe.

Brazilian orange harvest (million boxes) and yields (lbs solids per box)



Brazilian FCOJ carry-over stocks ('000 tonnes)



Source: CitrusBR

Other eyes are on Spain. Citrosuco has announced its intention to make NFC juice there, in a plant rented (with an option to purchase) from a Turkish company, and Prodalim, the Israeli trader-turned-processor, opened a distribution centre near the port of Valencia a couple of years ago.

Morocco is another potential source of high ratio juice. This is another producing country whose orange juice output was forecast by the USDA to be endangered, but with the high price of juice, it is enjoying a small renaissance. Morocco made about 5,500 tonnes of FCOJ this year – almost insignificant – and of its five orange juice processors, three only produce NFC juice, but Morocco grows well over 2.0 million tonnes of oranges annually (of which something over 60,000 tonnes go to industry), and it could quite easily increase production as long as the growers can provide the raw material at a reasonable cost to the processors (at present, the fresh market dominates because it pays much higher prices for fresh oranges).

Companies like SunProd in Europe, which sources FCOJ from a wide variety of Mediterranean origins, are likely to find more willing customers in the next few years. Buying FCOJ will be more expensive, as large bottlers and blenders will have to pay for smaller volumes from a number of minor suppliers, instead of just placing orders with Brazil.

Another factor that can affect prices is inventory size. Orange juice stocks in Brazil are now at a low, and those of Florida are down to around half a year's supply. Brazil can use its inventory to control prices, to a degree. It needs carry-over stocks to blend with new season juice, and it can afford to shunt volume into storage, which will also bolster prices.

IEG Vu thinks there will be enough orange juice to go around in 2018. The present sharp increase in the price of apple juice has lessened the need to be competitive (historically, with apple and orange juices, an increase in price of one results in a switch by consumers to the other): Brazil may cut its prices in the second half of the year, if it has judged its inventories to be suitably robust for the 2018/19 season.

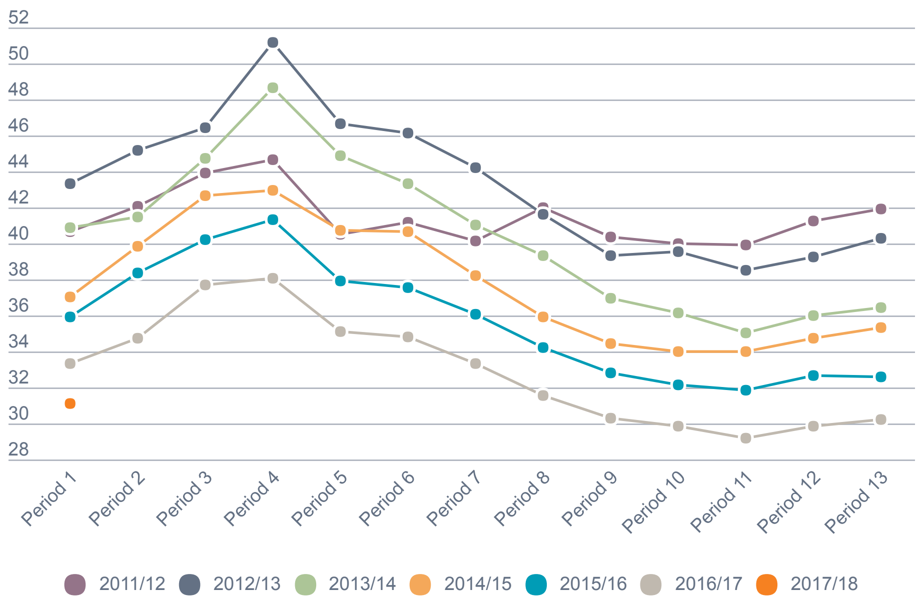
We reckon the Brazilians have hiked their prices, simply because they can and

because AJC has also gone up in price. They can't lose, really. Or if they decide to operate on lower inventory levels, they save money that way, especially in Brazil, where storage costs are high.

If one looks at the Brazilian export figures, there has been about an 18% drop in FCOJ exports in the last couple of years and a 13% increase in NFC exports. In tonnage terms, annualised, that means about 820,000 tonnes of FCOJ, down from about a million tonnes, and about 1.45 million tonnes of NFC, up from 1.28 million tonnes. Divide that increase in NFC exports (170,000 tonnes) by 5.5 to get a rough FCOJ equivalent, and you only get about 31,000 tonnes of FCOJ equivalent. So FCOJ exports are still weak.

FCOJ is expensive to store and may require blending and will certainly require reconstituting before bottling. It is much cheaper to ship than NFC, of course. But NFC has a higher potential profit margin. The Brazilians have kept their NFC prices artificially low into Europe to compete against Spain (mainly) and one or two others. But with Florida out of the picture (for all intents and purposes), they will be shipping more NFC to the US. Brazil may change its NFC pricing strategy soon – basically, hike the price. The US retail figures have shown that the decline in NFC consumption is not price related, so they may as well get what they can.

US retail orange juice sales (million gallons)



Source: FDOC

The really big issue now is the shortage of high ratio juice, both NFC and FCOJ. It is like the shortage of high acid apple juice in Europe – this is the factor that's going to push up prices. There is no real global shortage of FCOJ *per se*, but there is a shortage of *drinkable* FCOJ.

Consumption in the developed major markets will continue to fall. The sugar/obesity issue will absolutely not go away, and almost all juices will suffer from it. Orange juice, like other juices, will find itself being employed as an ingredient rather than a drink in itself. For this reason, IEG Vu thinks that US retail sales will fall (again) in the season just started.

Historically, our forecasts for the last three years have been exceptionally accurate. For the season just ended, we predicted, in our last Global Outlook, a figure of 425 million gallons. The eventual figure was just four million gallons above this. We do not think that anything has really changed in the market fundamentals and so, for the 2017/18 season, we forecast US retail sales will be 400 mln gallons.

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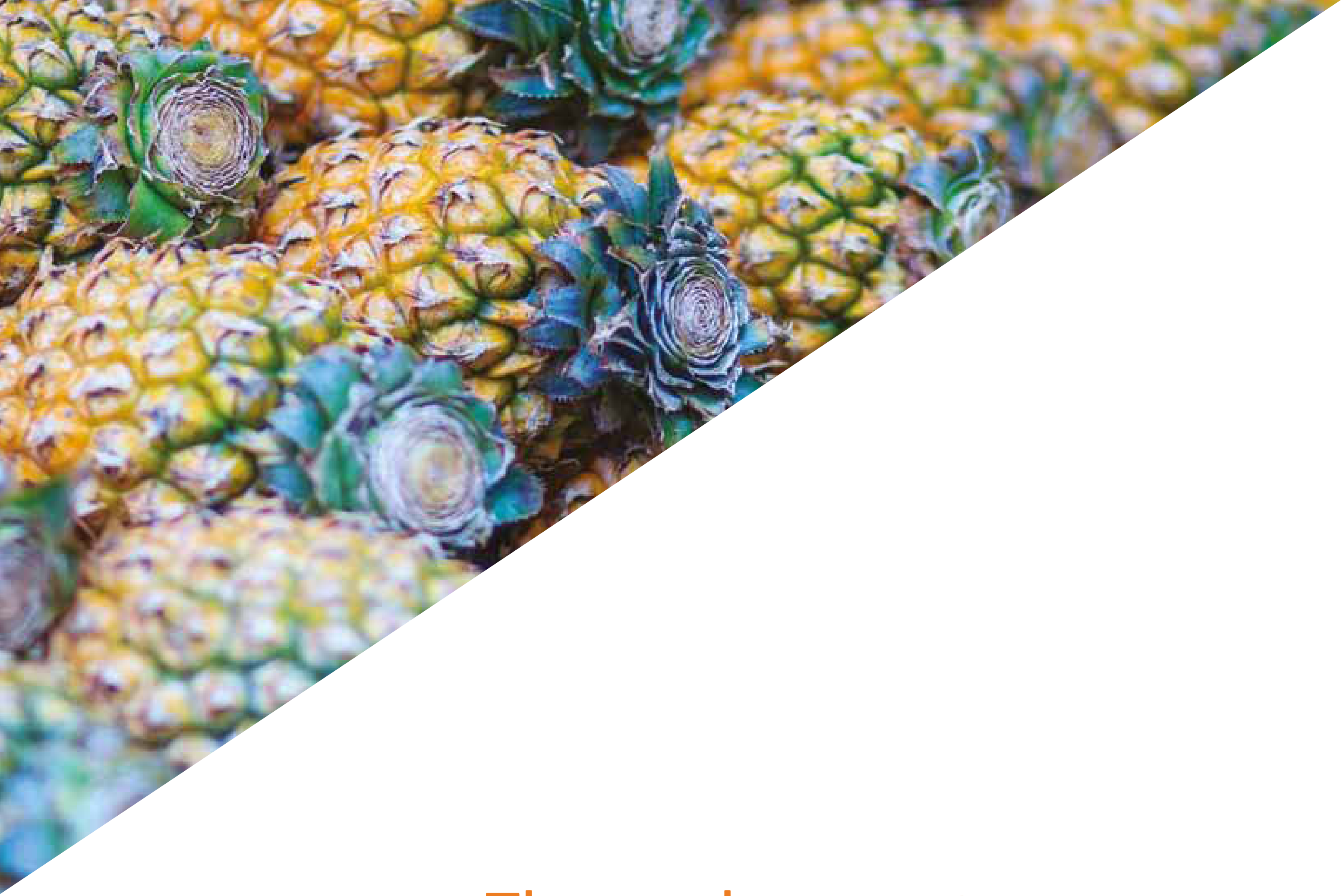

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The amber nectar

Pineapple juice used to be the most expensive of the three 'big' juices, but recently it suffered a price slump of horrifying proportions. Can the market and production recover?

By Neil Murray

There seems to be no end to Thailand's boom-and-bust cycle. To be fair to the Thai industry, there is nothing it can do about the weather

Watching the Thai pineapple juice industry implode in the last couple of years has been agonising. Relief that the worst seems to be over, and stability is returning, can only be tempered with the knowledge that in a few years, we may watch the same thing happening again.

There seems to be no end to Thailand's boom-and-bust cycle. To be fair to the Thai industry, there is nothing it can do about the weather, and the prolonged heat of the last couple of years has been mainly to blame for the shorter harvests. However, the decision to pressurise the AIJN to increase the permissible maximum level of nitrates from 25 parts per billion to 50ppb (the same level as in the US) has proved, as IEG/Foodnews predicted, to be an absolute disaster.

European traders and buyers flatly refused to purchase any higher-nitrate product and so, at a time of raw material shortages, Thailand was in the extraordinary position of having a colossal stock of pineapple juice concentrate (PJC) which nobody wanted and very little 'quality' product, so the prices of the former sank through the floor and prices of the latter soared.

Customers who were prepared to take higher-nitrate juice did so, and that caused problems for other producers (such as South Africa) because they could not match the very low prices asked by the Thais for 50ppb PJC, and they were not operating in the premium market, which is still dominated by Costa Rica and its juice made from MD2 fruit. Nkwaleni, in South Africa, was even forced to stop producing PJC this year because it could not compete.

Supermarkets simply took pineapple out of their blends, and even took pineapple juice itself off their shelves, and with the collapse of demand came a collapse in prices of quality PJC. There were rumours that buyers were reneging on contracts, having committed themselves to buy product that halved in price between October 2016 and May 2017. In May, there was even a crisis meeting held in Thailand, to find a way out of the disaster. Fruit prices had halved within two months to just THB5.00 per kilo, equivalent to USD145 per tonne and farmers were preparing to jettison pineapple altogether. That price is generally considered the break point – anything below it, and farmers will switch to other crops.

Things seem to be improving now. iEG Vu believes that those who were holding stocks of PJC in both Thailand and Europe have decided to bite the bullet and write off their losses. Some juice may have been re-blended to bring it back down to the original 25ppb limit, but anyway, such product is getting old now and will have to be sold soon.

Now Thailand has a new problem. Concern is growing over the possible effects of the new migrant labour laws in Thailand, which could push up agro-industrial costs, or regulate the labour supply properly, according to who you speak to.

The country receives around 2.7 million migrant workers every year, principally from Laos, Myanmar and Cambodia. They work in industries such as agriculture, fruit processing, fisheries and construction. Many were working illegally, moving from job to job as seasonality or the labour market dictated, and the Thai government decided that this labour force should be regulated and licensed. In addition, Cambodian migrant workers will be able to earn pension benefits.

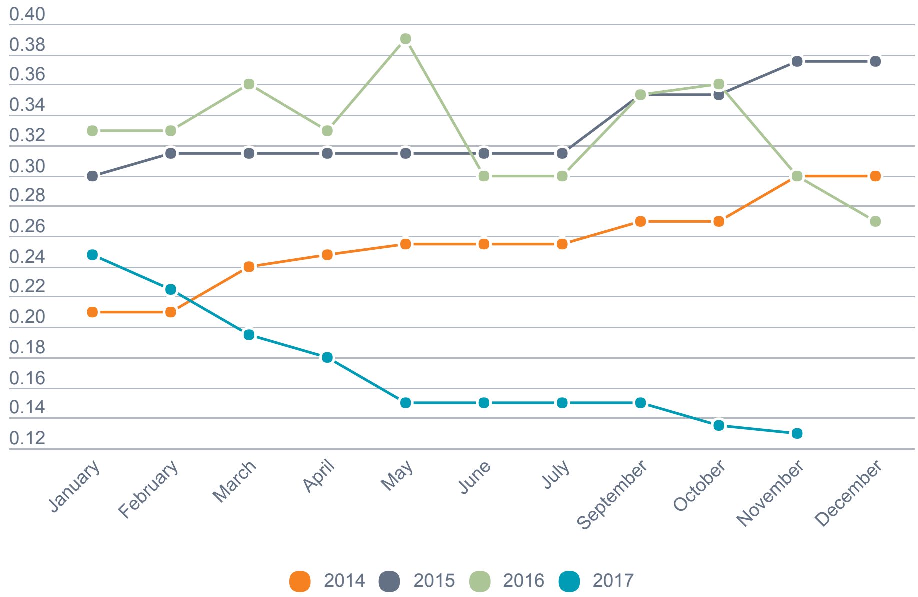
Part of the licensing procedure involves workers returning to their native countries to register and obtain the necessary permits before returning to Thailand. Those who already hold valid permits will have to do this when those expire, in a year or two. Workers without valid permits, and companies that employ them, face heavy fines: up to USD2,700 and USD23,000 for every illegal worker, respectively. Other penalties include the impounding of fishing vessels whose owners break the law.

In July, the government was forced to delay implementation of the law for six months as tens of thousands of workers fled the country. It now comes into force on January 1 2018.

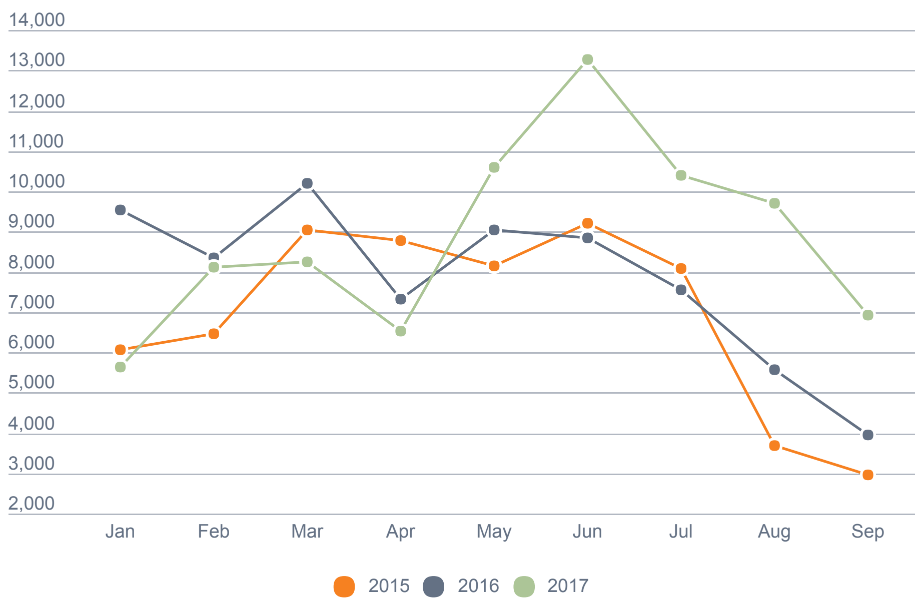
The problem now seems to be that the process of registering and obtaining the necessary permits is taking longer than anticipated, as special offices need to be set up in the migrants' home countries and the registration process is rather convoluted. In addition, border crossings between Cambodia and Thailand have been closed, ostensibly to prevent citizens returning to Thailand where they could be fined.

It has been suggested to IEG Vu, by more than one source, that the labour shortage will endure for some time and will reduce the quantity of fruit that the pineapple juice and canning industries, which relies on imported labour both to collect the fruit and to work in the juice plants and canneries, acquire, perhaps to as little as 1.8 mln tonnes. The problem here is that the fruit price is still very weak, and cannot realistically be expected to improve much (if at all) by the time the next crop comes in, so the surplus fruit may simply remain in the hands of the farmers, driving fruit prices down further and forcing farmers (if they have not already decided) to abandon pineapple farming for more lucrative crops.

Thai processing pineapple price 2014-2017 (USD/kg)

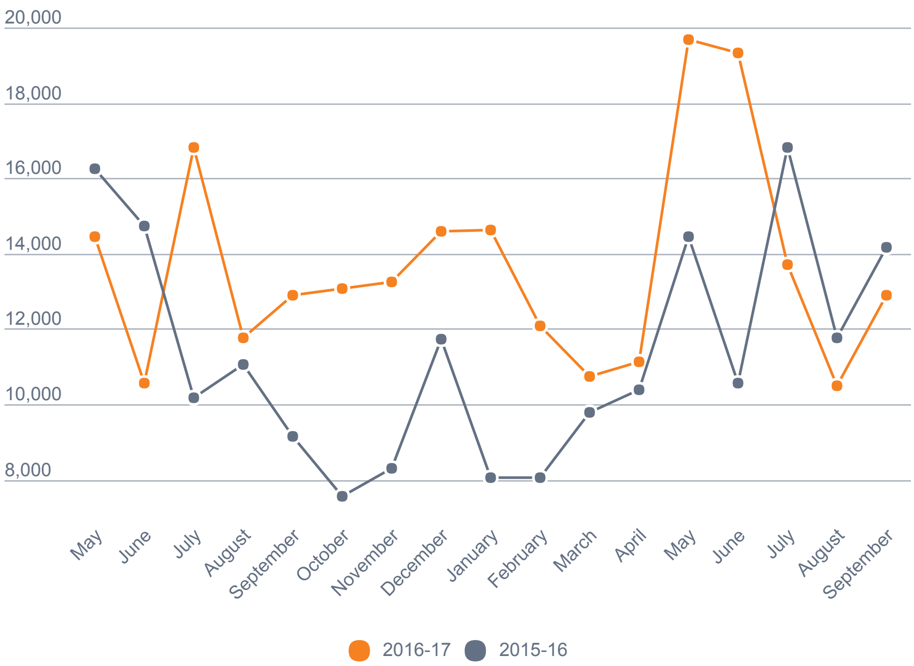


Thai monthly PJC exports, Jan-Sep (tonnes)



Source: GTT

Costa Rican NFC pineapple juice exports (tonnes)



THE AGENT'S VIEW

Jean-Pierre Levy, boss of the eponymous juice agency, has decades of experience in the pineapple juice market (and others). Predictions made by him and his son Daniel to IEG Vu have proved remarkably accurate.

Levy (senior) was food purchasing manager for the Inno – Monoprix – Lafayette Group for 12 years, before taking over his father's business who was at that time involved in the Pardess Citrus Product factory (the biggest citrus group in the Mediterranean area). He launched Citrovita and then Bascitrus in France and for two years has been the sole agent of Del Monte. Levy is reckoned to be the biggest seller of pineapple juice in Europe, working with Costa Rica, Indonesia, Philippines, South Africa, Thailand, and most recently Vietnam.

Agents are becoming a slightly rare breed, but they can offer a service that benefits juice producers. "You must realise that when companies like Del Monte and Dole need agents, it is not because I am wise," says Levy. "We have been agents for 41 years and as we still exist, that means we are still worthwhile."

An agent is not an importer, nor a trader or a merchant. "We sell on behalf of companies. If I were an export manager of a PJC producer, what is my aim? To sell, maybe to tell stories to the buyer. We are a market study office and a sales office at the same time. If we are still in the market, it is because people trust us. We sell something like 120,000 tonnes of juices annually, and pineapple represents the biggest value, in dollars.

"An agent who is just a seller has no future. A merchant's only interest is profit. Ours is pride. An agent needs to be a marketing man. You should advise your customers: this is a very big thing. I studied marketing at Harvard, and all my knowledge is based in marketing. If an agent is good, then marketing, packaging etc is not an extra, but it is a goldmine for the supplier."

It is also feared that as (for example) Cambodia develops, the migrant workers will stay and work there.

Time will tell. It seems that the bottlers and blenders in Europe are now returning to pineapple juice. Prices are still weak because of the collapse in demand, but demand will probably return in 2018. It takes time to reformulate blends and contract with supermarket chains, so IEG Vu thinks there will be no major change in the market until the second half of 2018, when we would expect prices to firm slightly and supplies increase.

Meanwhile, Costa Rica has proved that there is definitely a market for premium pineapple juice, with production and exports of its prized MD2 variety NFC juice continuing to increase year after year. In the decade from January 1 2007, Costa Rican NFC exports have risen from 34,395 tonnes to 143,750 tonnes. The only hiccup was a fall in 2010, and the country swiftly recovered in the following year. It must be remembered that Costa Rica has also massively increased its fresh pineapple exports over the same period, and was also increasing its PJC exports. However, it appears to have reined back on PJC production in the last couple of years, possibly because of the general global market decline, and possibly because the country's industry decided to focus on the more profitable NFC juice markets.

Its NFC juice price fell very sharply this year from well over USD2,000/tonne fob in January to around USD1,350/tonne in September (the most recent data available), but as demand for pineapple juice increases next year, it would be reasonable to expect this price to rise as well.

The big question remains: what will Thailand export next year? In 2015 and 2016, its PJC exports were virtually identical at slightly over 85,000 tonnes, compared with around 140,000 tonnes half a dozen years previously. IEG Vu cannot see Thai exports bouncing back to that sort of level for a few years yet, for raw material availability reasons as much as anything else, but would expect the 12-month figure for the October-September period to be somewhere between 110,000-115,000 tonnes. Call it 112,000 tonnes. And the price by then? USD1,600/tonne fob.

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The perfect storm for the berries market

The frost that hit central Europe in the end of April decimated the fruit crop in Poland and affected cultivars in Serbia, Hungary, Ukraine and in the Scandinavian peninsula. Prices of berries and of fruit like sour cherry, long neglected by the market, jumped to sky-high levels, with few exceptions.

By Cristina Nanni

When the frost hit Europe at the end of April, IEG Vu was at the Polaris frozen B2B convention in Barcelona, in Spain, and there were winter temperatures. The participants at the convention were actively checking their mobiles, calling growers and processing plants. The frost was good news for the **raspberry** sector which had suffered a one-year-long downturn of the market.

Serbia arrived on the eve of the start of the new season with high stock levels. Prices were 26% lower than the previous year and in the range of EUR1.85-2.00 (USD2.20-2.38) per kilo, similar dynamic for crumbles quoted at EUR1.65-1.75/kg ex-works against EUR2.00/kg of a year before. Prices did not recover as expected, despite the fact that 2017 Serbian raspberry production declined by 18% in volume (from 110,000 tonnes totalled in 2016) because of the frost and raw material prices were at consistent level in the range of RSD100-150 (USD0.99-1.48) per kilo.

The crop shortage was eased by the carry-over and the strengthening of the position of newcomers. An example is Ukraine, whose exports of frozen raspberry went from the 600 tonnes of H1 2016 to 3,086 tonnes in H1 2017 thanks to its extremely competitive prices. IEG Vu heard at Anuga of prices in the range of EUR1.60/kg delivered for IQF whole raspberry and as low as EUR1.05-1.10/kg ex-works for IQF raspberry crumble.

Nor has a small crop in Poland helped prices. Here, the heavy rain in September hampered the crop, reduced the volume of raw material suitable for freezing as whole and increased the volume of crumble, whose prices were in the range of EUR1.45-1.50/kg ex-works.

Prices are expected to increase from 2016, but they will hardly get back to 2015's levels

A well-trusted source told IEG Vu in November: "There are a few quantities of IQF whole 95% broken, but prices are, however, cheap. If someone has high enough quality fruit they can invest in IQF whole, otherwise processors have decided to make crumble and not lose too much time and money in producing whole IQF."

Prices are expected to increase from 2016, but they will hardly get back to 2015's levels.

The frost has fuelled speculation on the European **strawberry** market, which started the season with empty coldstores.

The shortage caused by last season's lower production in Poland, coupled with the rumours of a possible reduction of output due to the weather, has resulted in a 33% increase in prices. Raw material prices hit PLN6.0 (USD1.60) per kilo delivered to factory, against the PLN4.60/kg of the year before. IQF strawberry prices started from EUR1.90-2.10/kg and reached up to EUR2.25-2.30/kg.

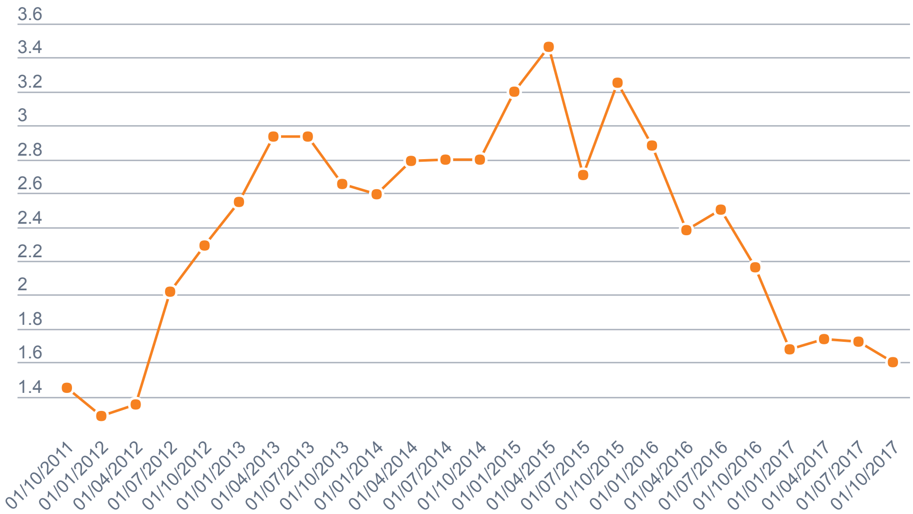
Because of the already high prices reached in 2016, buyers purchased the volume needed, both for freezing and juice concentrate. "With the crop only available for a very short time, IQF processors were forced to make quick decisions and were prepared to pay whatever was necessary to keep their lines working," one said.

Looking at the figures released by the Polish Statistical Institute (GUS) in September, early varieties of strawberry were affected with an overall contraction of 10% of the production year-on-year to about 177,000 tonnes.

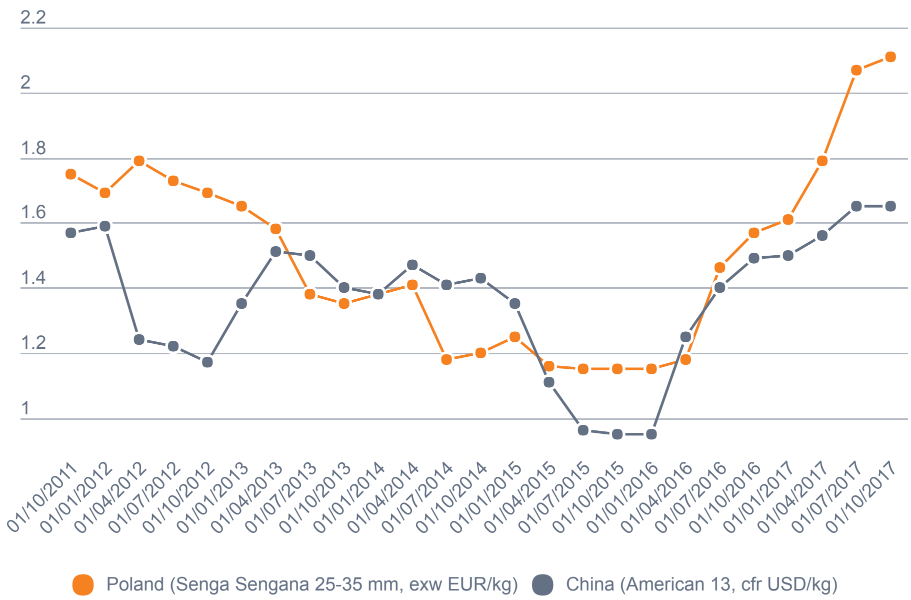
As soon as word about a smaller crop in Poland spread, prices of Chinese IQF strawberry started to increase to USD1,450-1,600/tonne fob for 15/25mm variety American13. Processors explained the price movement as a consequence of an increase in labour costs coupled with a projected higher domestic and global demand. But traders have a different point of view: "Since the beginning of June, market prices have been increasing slowly. Producers are holding tightly onto their stocks. It's still easy to find strawberries stocks from many producers, but most of them are watching and waiting for prices to go further up".

The European price trend is expected to cross the ocean and also hit Chilean and Mexican production with a 10-12% increase of prices for IQF. Chile should be in the range of EUR2.20-2.50/kg fob, Mexico about USD2.2-2.3/kg, but in this case US demand will have the last word on the price level. This suggests that prices are likely to remain high at the beginning of 2018.

Ex-works prices of Serbian IQF whole raspberry, (EUR/kg)



Frozen strawberry prices trend (EUR/kg)



Source IEG Vu

The weather had an uncalculated effect on one forgotten commodity within the fruit sector: sour cherry. In Poland, output was curbed by 60% to 70,000 tonnes against the estimated 194,800 tonnes of the USDA in 2016 and 174,100 tonnes in 2015. In its stone fruit report, the USDA wrote that farmers were not willing to invest in the protection of sour cherry trees due to the low profitability of this fruit, mostly earmarked for processing.

In 2016, prices of Polish **sour cherry** were in the range of EUR0.60/kg and at the beginning of the 2017 season market prices jumped to EUR2.00/kg. The rumours of a possible small crop in Poland had a domino effect on the market. Prices started off with a bang in Hungary, where IQF Pander went from EUR1.0-1.10/kg of the 2016 season to EUR1.70-2.0/kg. "Every cherry tree in Hungary has a Polish IQF processor stood in front of it with cash in his pocket," a trusted source of IEG Vu summarised colourfully.

But Hungary is a minor player in this market, with an average sour cherry production of 65,000 tonnes, not enough to offset the Polish shortage. This is a win-win situation for Serbia, which has the processing capabilities and the volume to fill the gaps left by Poland.

Export volumes of frozen sour cherries from Serbia hit 27,000 tonnes between January and August 2017, about 70% more than in the same period last year. Serbia 2017 harvest has been projected in the range of 90,000-95,000 tonnes, just below the 110,000 tonnes of 2016, but the country

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could count on a consistent stock level. The inflationary strain lifted prices above EUR2.0/kg ex-works and up to EUR2.20-2.30/kg for the local Oblachinksa variety.

Demand will play a major role in deciding prices of sour cherry in 2018 as this commodity risks experiencing the same dynamic as for IQF strawberry: a firm market may keep prices up.

European **wild blueberry** also showed the long-waited price recovery with an initial 25% increase to EUR3.20-3.30/kg ex-works, closer to the average prices recorded by the commodity in the past season. A smaller crop in Ukraine played an important role for price-setting: the raw material price reached EUR2.60/kg delivered to factory, which means that IQF could be up to EUR3.20-3.30/kg for low grade fruit quality. A scenario which oriented European buyers to alternative producing countries like Latvia, Sweden and Finland. All countries whose production is mostly earmarked to the domestic market with few tonnes delivered to Asia.

This situation paved the way to a rebound of North American exporters who kept prices below their European competitors, also for frozen **cultivated blueberry**. Prices are expected to increase in 2018 and showed the first sign of recovery in the time of writing. IQF A in the US was quoted at USD1.20/lb, due to a contraction of about 20% of the harvested volume caused by the drought in both the US (Maine) and Canada (New Brunswick, Quebec, Prince Edward Island and New Scotia). The volume of Overseas highbush also declined from 2016, directing more raw material to the fresh market and reducing the volume for processing, according to some. In November, prices of IQF cultivated reached USD2,500/tonne against an earlier USD1,900/tonne.

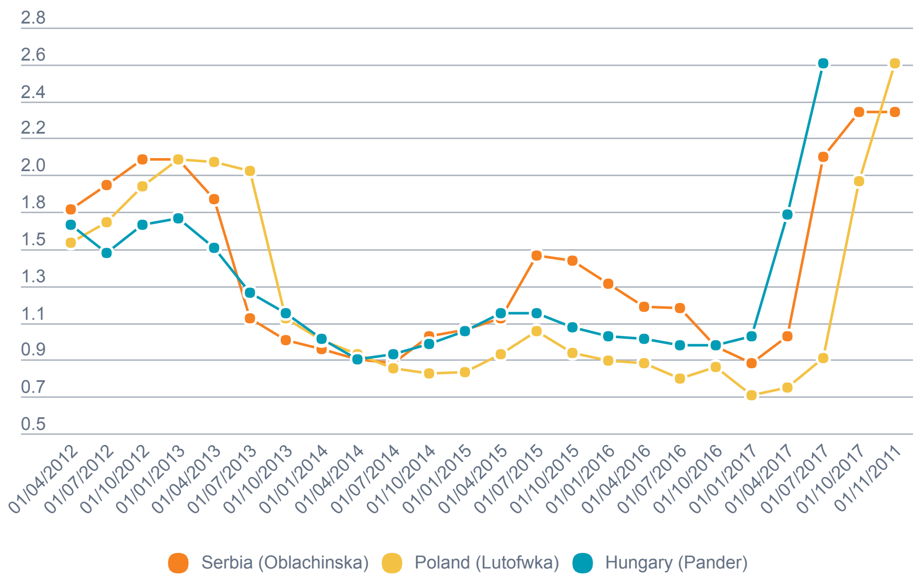
Higher market prices for highbush in the US will also drag up the Chilean market, where processing will soon start. First projections for raw material prices were in the range of USD1.3/kg, up from USD0.9-1.0/kg of 2016. Prices soared under the pressure of a high market coupled with a record low level of inventories in the US where, in August, stocks of frozen blueberry dropped by 19%.

Blackberry seems destined to remain in the shadows, due to sluggish demand. In August, ex-works prices of Serbian IQF were at EUR0.95-1.0/kilo for cultivated Thornfree variety, (confitura max 20% Bordeaux), about 20% below last season prices at the same period of the year. A similar decline was charted by IQF Chacanka varieties at EUR0.85-0.90/kg against the EUR1.10/kg of just one year ago. These prices confirmed the difficulty of bouncing up back over EUR1.0/kg price level, after the price dip during 2016 linked to a large crop coupled with a declining demand.

This situation fuelled the hopes of Chilean processors for a price increase, which started in the US and could be helped by the low quality crop in Serbia. If it is true that Serbia could keep volume stable, the quality of the crop was overall pretty low as the summer's heatwave resulted into smaller and sunburn berries.

Overall the future looks bright for frozen fruit. Expected high starting prices should take Polish sour cherry production back up over 200,000 tonnes. Prices and higher demand should help the recovery of the Polish strawberry crop taking it back to more average volume over 170,000 tonnes. Raspberry production is to remain stable in Chile or decline slightly from the 2016 level, but a contraction in Poland cannot be ruled out given the relatively low prices of IQF and the prospected increase of labour costs. Highbush blueberry will keep growing as bushes planted two-three years ago will start bearing, but it may affect only marginally the frozen sector compared with the fresh.

Ex-works prices of frozen sour cherries (EUR/tonne)



*Most traded variety per country. Source: GTT/IEG Vu

Weather issues signal potential for upturn in frozen veg prices

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The unpredictable weather conditions decimated the European fruit crop and claimed more victims among the vegetables sector, paving the way for a possible price increase for some of the most traded commodities within the frozen industry.

By Cristina Nanni

Two consecutive years of lower harvested volumes may result in an increase of **frozen peas**, today quoted at EUR0.94 (USD1.10) per kilo fob, slightly above last year's level. In 2016, the cold weather and the heavy rain in north-central Europe affected several crops including garden peas whose volumes dropped by 30% in Belgium, the largest global producer and exporter of this product. This helped prices to increase slightly in 2017, when the exceptional dry and hot weather resulted in a 20% loss of the volume harvested.

This situation had a major impact on Belgian exports, which dropped 15% to 82,518 tonnes in the first nine months of 2017. The market share lost was partially fulfilled by an increase in shipments from Spain (+15.18%) and the UK (+38.55%). In this latter case, exports were favoured by the lower exchange value of the sterling.

A slight increase of the prices is expected in 2018 for **frozen broccoli**. At Anuga, Chinese processors were quoting prices in the range of USD0.85-0.90 per tonne fob, which some industry sources considered too high and the start for a downward bargaining.

The European broccoli crop's volumes were low, mostly because of a small winter crop

A slight increase of the prices is expected in 2018 for frozen broccoli

in Spain due to the frost that hit the south of the continent in January. During the spring, some Spanish processors decided to extend the deadline of their contracts so they could include the summer crop production in order to recover the volumes lost. However, the heat hindered the development of the plants and lifted prices to EUR0.76-0.79/kg ex-works depending on the size of the flower (20-40 mm or 40-60 mm) according to some sources, while others kept their quotations just below at EUR0.75-0.78/kg.

Price projections for the year to come in Europe will be decided by the winter crop in Spain which looks promising even if the country starts the season on a tight market. In Poland the harvest was dampened by the rain and smaller crops are expected also outside Europe.

In Mexico, more raw material has been earmarked for the fresh sector for exports to offset the vegetable losses caused by the extreme heat in California. Some reports from the country talked of a 30% increase in the price of the raw material.

Also, Guatemala should have a smaller crop due to the heavy rain of September and October. This scenario will leave the broccoli market in the hands of a few processors including Ecuador, a country that is building a position on the European market. In 2016, Ecuador exported 89,000 tonnes of frozen broccoli; more than half of this volume (69%) went to the US and Japan, but 11.6% was sold in Germany, 3.36% in the UK and 3.2% in Sweden

The price increase is linked also to the popularity of broccoli (including fresh), whose consumption in some countries like Spain has soared by 10% in 2017, driven up by European tourists' demand. This also explains why the frost of January did not affect so widely prices of another winter crop: **cauliflower**.

In this case, price rises were more moderate and they remained in the range of EUR0.68-0.70/kg. Chinese traders also kept their quotes closer to European.

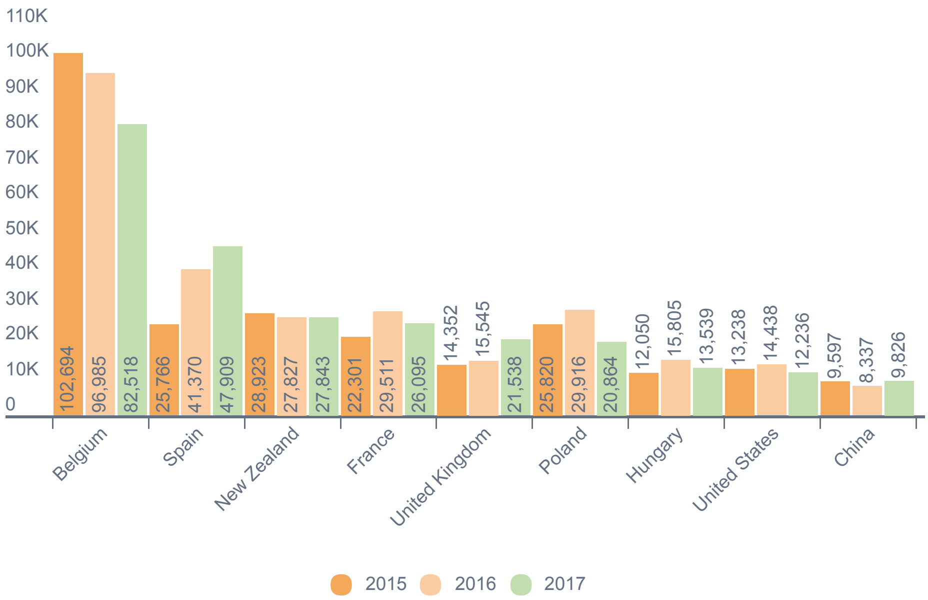
In 2018, European buyers may have less broccoli, but more **artichoke** from Spain. The country's sector organisation, Alcachofa de España, announced in October that output will increase by 5% from 220,000 tonnes in 2016/17 to 231,000 tonnes.

Despite the optimistic forecast, farmers raised some concerns over the lack of rain. This has become a recurrent issue in the last three years and in particular in the area of Campo de Cartagena (Murcia). However, the organisation estimated that these losses should be easily covered by a projected 20% increase in output from other areas like Guadalentín Valley (Murcia), Vega Baja del Segura (Alicante), Valencia, Navarra and Zafarraya (Granada).

The real worry of Spanish producers is the aggressive competition of Egypt, which is slowly emerging as a player within the artichoke sector. Last season's large crop depressed prices and helped exports of this country to the EU soar by 15% to 16,000 tonnes, one-third of which was delivered to Spain, which increased its intake by 40% to 5,000 tonnes.

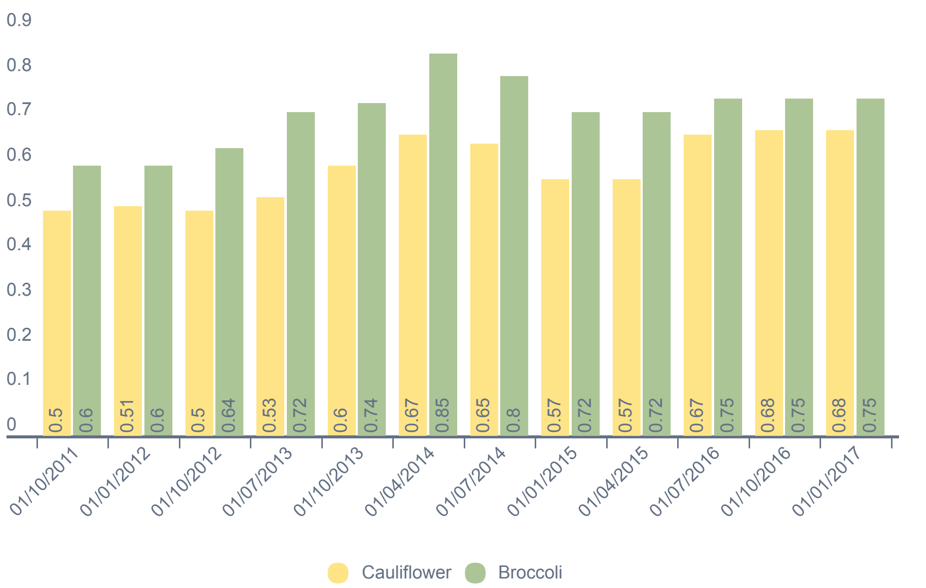
If Egypt should follow Spain's example and replicate last year's volume crop, a decrease of the price for frozen cannot be ruled out.

Frozen peas export volume Jan-Sep, (metric tonnes)



Source GTT

Frozen cauliflower and broccoli prices 40-60mm, (EUR/kg ex-works)



Source IEG Vu

Europe had to face the drastic drop of **potatoes** prices quotation. According to traders and organisation quotes, spot prices in the month of October were in the range of EUR30-50/tonne depending on the origin and variety considered.

This is a direct result of a 17.7% increase in the volume harvested of potato for processing, estimated at 28.9 mln tonnes (brut weight) by North-Western European Potato Growers (NEPG), the organisation that represents the potato sector in Germany, the UK, Belgium, France and the Netherlands.

The sharp increase is linked to larger than expected yields coupled with a 5.9% increase of the total cultivated area, due to the particularly positive price trend of last season. In 2016, potatoes for processing were quoted between EUR150-200/tonne, about 75% more than the current prices. At the same time, the industry believed in a projected increase of the demand following the development of fast food and family diners in Europe and Asia.

Looking at the raw material prices, it seems that the augmented processing capabilities in Europe are not high enough to absorb the offer. At the time of writing, the market is sluggish with few offers and the few tonnes of raw material available in France and Belgium show a downward trend. A U-turn is unlikely to happen and prices will certainly remain below last year's level.

Prices of **frozen sweet corn** are surprisingly stable for now, though some industry representatives pointed out that a price increase cannot be ruled out. Hungary, one of the largest exporters of frozen sweet corn, has seen its crop shrink between 5-10%. The promising start to the season was hampered by the excessive heat of last summer. The country recorded higher demand for frozen sweet corn from Poland, where the cold and rainy summer caused an estimated contraction in yields of between 30-40%. Prices are stable compared with the beginning of the year and in the range of EUR0.60-0.65/kg ex-works for sweet corn kernels, but they are 13% higher than in 2016.

The sweet corn market is also expected to be tight in the US, where the harvest was hindered by climatic conditions, a situation which is likely to result in a contraction of available spot market supplies.

The drought has hit also the **onion** crop in Europe. The harvest was defined as disappointing in the north of France, the Netherlands and Belgium as bigger sizes for peeling are yielding 35% less than expected. As a result, prices are going up. Frozen sliced or diced onion was quoted to IEG Vu at EUR0.32/kg in October, just above the EUR.30/kg of the beginning of the year.

Prices of green **frozen asparagus** are expected to remain stable, given the high level reached by the commodity in the 2017/18 season.

For Chinese origin, IEG Vu heard of prices of USD3,250-3,400/tonne fob, depending on the variety and the quantity purchased, about 25% more than last year's prices of USD2,800/tonne. China is the largest exporter of frozen asparagus, but in 2017 the sector faced a downtrend. According to the information collected by IEG Vu this contraction of the harvested volume was mainly caused by a late start of the season, postponed by about two weeks. However, the 2017 crop was expected to be smaller as some producers chose not to plant because of the low prices they received in 2016.

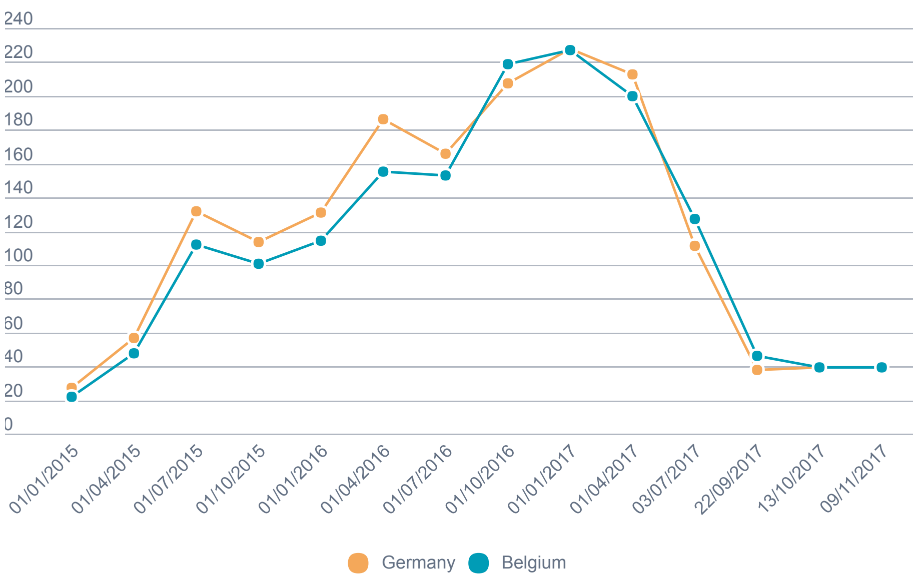
A shorter crop is also expected in Chile as the rain delayed the start of the season by approximately 10 days. Just before the start of the crop, prices were in the range of USD2,850-3,000/tonne cfr US ports for conventional and USD5,000-5,200/tonne cfr US ports for organic.

More than prices, Chilean processors seem interested to the market opportunities for the coming year. Their exports could grow, fuelled by firmer prices and an expected drop of Peru's share in the global market in particular for frozen. Peruvian agribusiness investments have gradually focused on more profitable products like avocados, blueberries and table grapes, conditions which caused a decline in the asparagus planted area from 24,000 hectares to the present 18,000-20,000 ha.

This means that after 10 years Chile may regain the crown of Latin America's largest producer of asparagus from Peru.

Globally, the frozen vegetables market shows a mixed picture. Flat-floor potato prices will definitely result in a contraction of the cultivated area for potatoes toward 550,000 ha. European frozen peas prices are expected to increase in 2018 following two years of low volume in Belgium, also Spanish frozen broccoli prices may go up from the current EUR0.76-0.79/kg, because of potential losses and higher producing costs caused by drought. Given the high prices reached this season, asparagus market prices should not grow any further and should start to show some sign of stability in 2018. Artichoke's prices in Spain may be more expensive than in 2016 as some cultivating areas are affected by drought.

Prices of potatoes 2015-2017 (EUR/kg)



Source: GTT/IEG Vu

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Tomato paste industry deep in the red

Preliminary figures for the end of the current season weighed heavily on a substantial part of the industry as tomato paste prices hit a record low in Spain. Some signs of price stability came from overseas, due to an unforeseen contraction in volume, but a declared 15% increase in Chinese output risks taking the global market back to square one.

By Cristina Nanni

According to the latest figures released by the World Processing Tomato Council (WPTC), the global production for 2017 should be 1.5% less than in 2016 and, in the Amitom countries, production grew by 2% to 16.4 mln tonnes. Italy was on the same level of 2016 at 5.2 mln tonnes, Portugal grew by 3% to 1.55 mln tonnes, so it was left to Spain to contribute to the increase in the area with a final output of 3.3 mln tonnes, about 12% more than in 2016.

In October 2017, IEG Vu heard prices in the range of EUR560-580/tonne (USD663-686/tonne) ex-works for Spanish tomato paste 28/30 brix, a quote which is creating downward pressure on the global market. Some well-trusted sources reported that Spain is replicating what happened last year in Italy, when some processors in financial difficulties were selling below production cost which resulted in bankruptcy filing and/or suspension of processing activities for some.

"There could be fewer working tomato factories on the Spanish market next year" one suggested. Others added that cooperatives had a role in shaping the current market situation: "They produce several commodities besides tomato. This means that even if they lose some cash on the sale of tomatoes they may recover it on other commodities". This was a hypothesis denied by cooperatives' representatives: "Fruit purées do not leave enough margin to compensate for loss in tomato contracts," one said.

Processors who could, sold 70% or more of their production are retaining their stock rather than selling at such a low level. It consists mostly of tomato processors with a strong presence on the market and a solid business network which could sell 28/30 over the threshold of EUR600/tonne.

The current market situation has strained to the limit also competing countries, like Portugal or Greece where 36/38 % tomato paste prices get in line with Spain's level and are around EUR780/tonne. In particular, Greece was caught between a stagnating market and increasing production costs. The country's initial forecast was for 480,000 tonnes, cut to

400,000 tonnes by adverse weather.

The tomato paste industry in Italy and in the US seems to have partially absorbed the market shockwave. The low brix recorded in the north of Italy, the backbone of the tomato paste industry, has resulted in a 20% contraction of the volume processed into paste which helped to keep prices stable. The rest of the production of the country is concentrated on alternative products: passata, peeled, diced, chopped tomatoes, all products with a slightly more stable market due to a lower level of competition.

Greece was caught between a stagnating market and increasing production costs

"Italy has a high domestic demand for tomato paste which has softened the downward pressures of the competitors on the global market. In addition, the Made in Italy brand still has an appeal on the European market and some importers do not want anything except Italian products," a Greek source told IEG Vu.

As a result, Italian prices for 28/30 brix paste settled in the range of EUR700-720/ tonne, while triple concentrate is about EUR880/tonne. However, Italian producers look worried at the Spanish production, a country that in the past has shown to be able to snatch some important market share from Italy. "They did it with oil, with oranges, and we hope the same will not happen with the Italian tomato market," one commented.

As it cannot win on volumes and prices, Italy reacted by strengthening its market position introducing a law to oblige Italian processors to state on all tomato products labels the origin of the raw material. This move aims to stabilise demand and hush farmers' organisations, like Coldiretti, which have launched a campaign against the practice of importing cheap tomato paste in Italy mainly from China, mixing it and sell it on the African market as "packed in Italy".

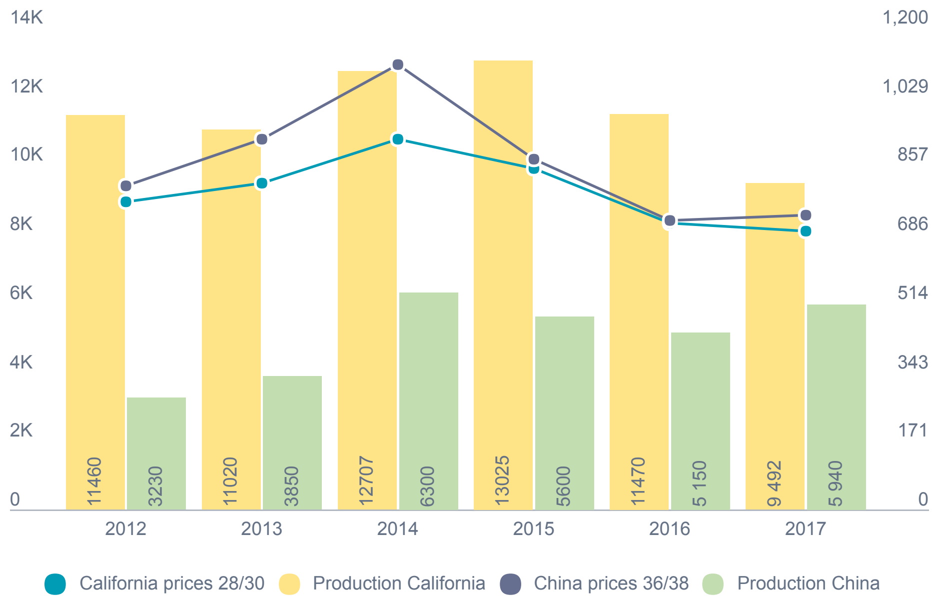
In California, the season started with exceptionally heavy rains which postponed the transplanting, in particular in the Sacramento area where production was halved by weather. The extreme heat of the summer hindered the fruit development, and the final result is in the production figure. The 10.5 mln tonnes forecast in January 2017, already 8% less year-on-year, shrank to 9.5 mln tonnes at the end of the season; about 17% less than in 2016.

Lower volume estimates led California to steer clear of any further price decrease, as tomato paste halted its decline in the range of EUR680/tonne fob. "As usual, the Americans are the only ones who did their homework," one said. "They kept track of the stocks and measured their production accordingly." This is a strategy that cannot be applied in the highly fragmented and parochial European market, where the custom union is not linked to a coordinated strategic view of its market players.

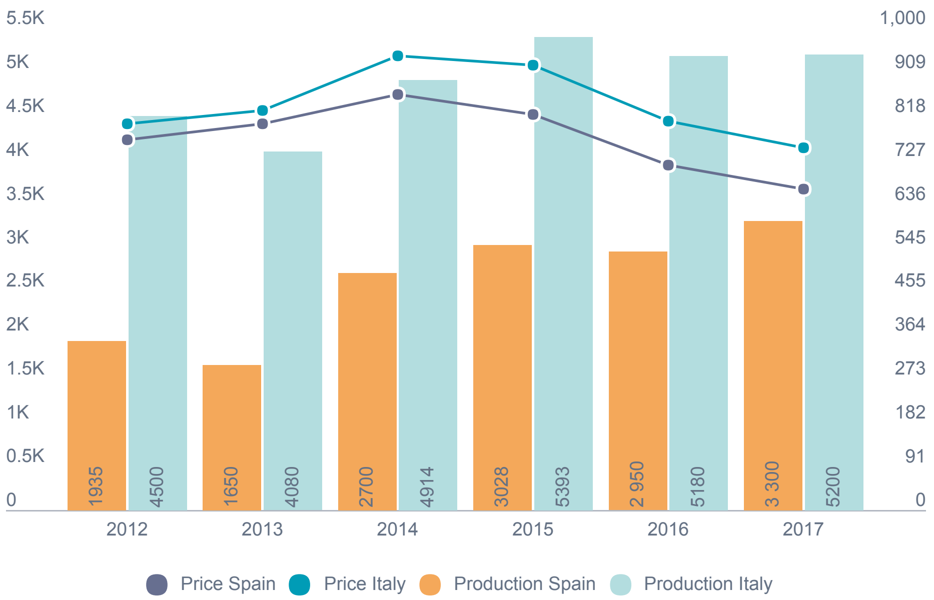
The Chinese riddle

A strong downward pressure on prices is also coming from the Far East. Production of Chinese tomato has been estimated in the range of 5.94 mln tonnes by the WPTC, which would be 15% higher than in 2016. These are figures that, added to the volume recorded in

Tomato paste price (USD/tonne) and production ('000 tonnes) California and China



Tomato paste 28/30 price (EUR/tonne) and production ('000 tonnes)



Source: GTT/IEG Vu

Europe, risk nullifying the contraction of the output in California. At the time of writing (November), prices of Chinese tomato paste are quoted at USD700-750/tonne fob, 6% below last year's prices and 15% less than in 2015 when the market reached one of its most profitable periods due to the perfect equilibrium between global demand and supply.

Some Chinese sources suggested that the current market situation may result in a decrease in tomato production by 2018. In 2017, the government has imposed the closure of processing plants which do not respect emissions limits and, as some said, there are lots of small producers which have been closed or cannot afford the necessary modifications to comply with the law.

In addition, the state may encourage farmers to switch to more profitable crops like cotton. This is because the state-owned companies are obliged to purchase and process all the volume harvested and pay the minimum price fixed by the government.

The real Chinese riddle is the actual volume of raw material harvested to be processed for this season. Despite the official claim of 5.94 mln tonnes, at least three different sources reported to IEG a higher figure, calculated from the tomato paste volume processed. An unexpected higher volume totalled by China may further depress prices and drag them below the current level.

The tomato market has so far charted a cyclical pattern alternating years of growth and prosperity to crisis, but the period of 'euphoria' showed a lower peak in the last few seasons.

According to this pattern, 2018 should be the year when the industry hit the bottom, but this may not be true for the US market, helped by a reduced production and for tomato products other than paste.

In an industry where production costs can be softened only by a higher processed volume, stimulating demand is the best way to keep the sector afloat. The consumption of tomato-based products in the so-called Western countries is flat. The Middle East has recently recorded a contraction of imports for this commodity following the drop of the oil prices and the increase of duties.

The African continent is the only area where consumption (in term of volumes) has shown an upward trend, but market prices are not yet appealing enough for European processors. Some are venturing into installing factories directly in the country, as an Italian network of Pomorete companies is doing in Zambia and South Africa. But it could not give the industry an answer before the start of the new season.

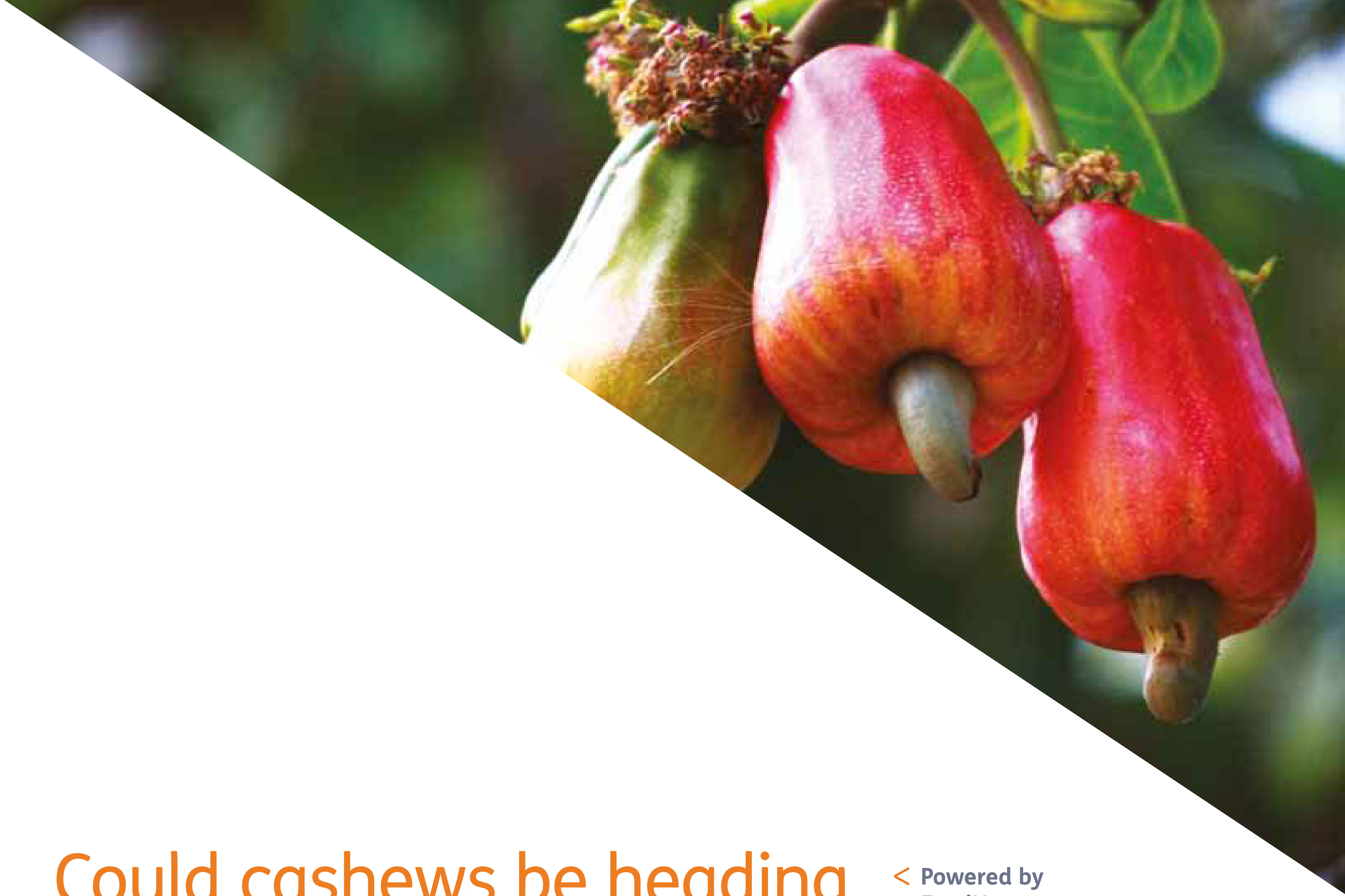
Another option is relaunching the consumption of tomato as a superfood, something that is actually happening in Japan and that processors hope could be replicated on a wider scale.

All these options are medium-long tern plans and not easy to apply as some suggested: "Basic tomato products, like tomato ketchup, are linked to junk food and as far as possible for the growing healthy-food trend". But the tomato industry will soon have to face another season.

The lower production in the US is expected to reduce the stock and keep prices stable for the year to come and a global contraction of the produced volume would be a shorter-term solution to stimulate prices across the entire market.

The Chinese tomato paste price may slip under the USD700/tonne level, due to the high volume processed and some stock left. The situation in Europe is more complex. Here, prices have not shown substantial signs of recovery. Given the current demand trend, the first half of 2018 may not be the time of the recovery for market prices and some tomato operators have suggested this will not happen until the end of the 2018 crop.

The tomato industry goes through economic cycles which historically lasts up to four-five years. Considering that in 2015 the global production reached a peak of 41 mln tonnes, the industry will have to reduce production to dwindle inventories and help prices to bounce back up. Prices may increase only if buyers will absorb more volumes taking advantage of the current lower prices and an announced contraction of the output will help in this direction. However, IEG Vu believe that the 2017 global production should be lower than 38 mln tonnes.



Could cashews be heading into stable territory?

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The last Tanzanian cashew nut auctions in November showed only a modest stabilisation of prices, as values continue to be supported by poor crops in Vietnam and Cambodia and increased roasted cashew imports in Europe, the US and China.

By Jose Gutierrez

Cashew price trends in January-February 2017 shattered the forecasts made in December 2016 by most players. As IEG Vu reported in January 2017, Aldebaran Commodities expected lower prices for raw cashew nuts (RCN) in India and in Vietnam, the most important worldwide processor. On the one hand, the new Indian policy about the cash situation and the buying power of Indian consumers in general has diminished altogether. Aldebaran added: "Cash is getting short in the Indian domestic market, and traders are less active to buy RCN for Indian processors."

The domestic Vietnamese RCN market was quiet because processors were unable to make parity between kernels and RCN price and they stopped working, doing only small business for quality Tanzanian and Vietnamese seeds that packers roasted for Vietnamese and Chinese consumption during the Tet Festival.

The main players were trying to push down average prices, considered very high. "All processors thought the price of USD2,450 per tonne for Tanzanian crop was too high, and did not buy," Aldebaran reported.

The Vietnamese crop was delayed and Aldebaran recommended stopping purchases until March 2017 despite the expected excellent harvests in African countries.

Notable outputs in Africa

East and west African cashew growers enjoyed a golden moment, based on

The main players were trying to push down average prices, considered very high in January-February 2017

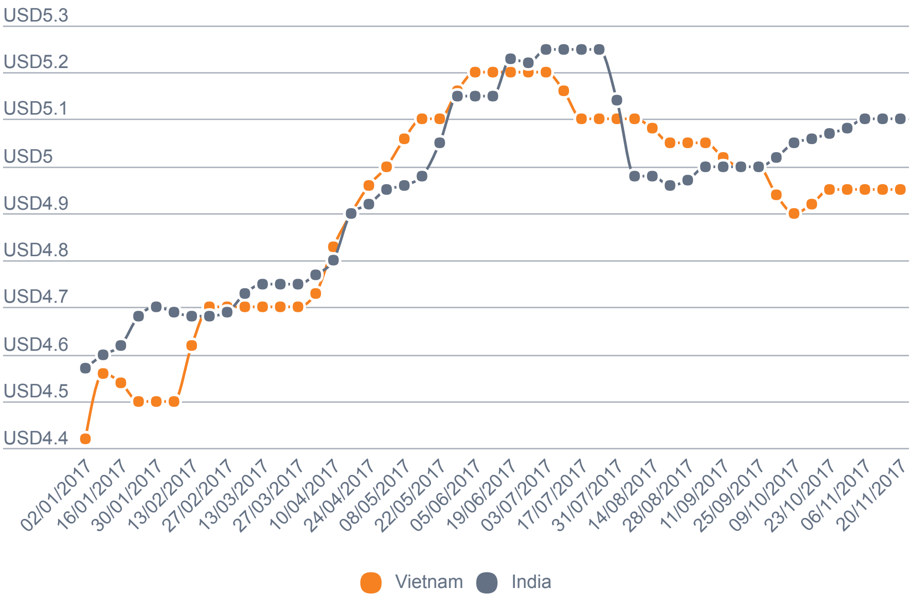
good crops and high prices. Mozambique increased its crop by 9.83% to 26,800 tonnes in 2017. The only exception was Ivory Coast, whose kernel crop declined by 2.8% to 162,800 tonnes, overtaken as first worldwide grower by India, which increased by 13.34% to 176,700 tonnes.

On the other hand, Vietnam declined sharply by 37.53% to 58,200 tonnes. The Cambodian crop decreased by 16% to 16,300 tonnes. Both countries had severe droughts and diseases.

Vietnam is the main worldwide cashew processor and this lack of raw material caused fierce competition with second-placed India for the African origins, which started a price hike with momentary periods of stabilisation.

During January to April 2016, the range was USD3.50-3.80 per lb and then moved up to USD4.00-4.25/lb in May to July 2017. The most recent quarter in 2017 (August-October) "saw fireworks" with prices up to USD4.50-5.00/lb and then down to USD4.75/lb by end November and further down to USD4.50/lb by mid-December. The average price for 2016 was USD4.25/lb fob, very far from the minimum price of USD3.25/lb in 2013, as Samsons Traders from Mumbai, India, stated.

Cashew kernels 450S weekly prices (USD/lb)



Source: GTT/IEG Vu

WORLD CASHEW CROP THREE YEARS TO 2017							
	2015		2016		2017 Estimate		
Country	**Kernel tonnes**	**RCN (in 1,000 tonnes)**	**Kernel tonnes**	**RCN (in 1,000 tonnes)**	**Kernel tonnes**	**RCN (in 1,000 tonnes)**	**Month**
Vietnam	112,800	485	93,000	400	58,100	250	Feb-April
Cambodia	19,000	81	19,400	84	16,300	70	Feb-April
India	172,700	743	155,900	670	176,700	760	Feb-May
Nigeria	38,800	167	39,600	170	44,200	190	Mar-May
Benin	17,800	76	24,000	104	25,600	110	Mar-May
Ivory Coast	162,200	697	167,500	720	162,800	700	Mar-May
Ghana	14,400	62	16,500	71	18,800	81	Mar-May
Burkina Faso	17,800	76	17,700	76	20,000	86	Mar-May
Senegal	8,900	38	10,000	43	10,500	45	April-June
Gambia	3,400	15	5,900	25	6,300	27	April-June
Guinea-Bissau	55,600	239	58,200	250	60,500	260	May-July
Indonesia	12,000	52	27,600	119	30,200	130	Aug-Nov
Brazil	33,000	142	23,300	100	26,700	115	Sept-Jan
Tanzania	26,700	115	54,000	232	55,800	240	Oct-Jan
Kenya	1,800	8	2,200	9	2,200	9	Oct-Nov
Mozambique	19,400	83	24,400	105	26,800	115	Nov-Jan
Others	8,300	35	8,100	35	8,100	35	
Total	**724,600**	**3,114**	**747,300**	**3,213**	**749,600**	**3,322**	
Source: INC							

The cashew 2017 crop totalled 749,600 tonnes on a kernel basis, just ahead of the 743,300 tonnes recorded in 2016

On the other hand, domestic Indian market prices, ex-factory, pre-tax, were W180 USD6.16/lb; W210 USD5.87/lb; W240 USD5.57/lb; W320 USD5.13/lb; W450 USD4.84/lb; LWP USD4.63/lb in January 2017.

In Europe, the spot prices ex warehouse increased to levels of USD4.75/lb for W320s and "W240s were traded at USD5.35/lb ex warehouse. Fob prices increased again as well and today we are seeing prices of USD4.60/lb for W320s and USD5.30/lb for W240s which prices traded already," Samson Traders added.

Global cashew output in 2017 was expected to be only marginally above that of 2016, according to figures issued at the INC World Nut and Dried Fruit Congress, held in Chenai, India, from May 19-21. According to the Cashews Round Table at the event, this year's cashew crops should total 749,000 tonnes on a kernel basis, just ahead of the 747,300 tonnes recorded in 2016.

At the same time, the quality of the product was notoriously low in Africa and the most pessimistic forecast became reality in Vietnam and Cambodia: their combined harvests were 50% less than the previous year's average.

The estimated cashew 2017 crop would total 749,600 tonnes on a kernel basis, just ahead of the 743,300 tonnes recorded in 2016, according to the INC Cashew Round Table.

India was pegged to overtake Ivory Coast this year at 176,700 tonnes, compared with the 162,800 tonnes indicated for Ivory Coast. In 2016, India's crop was estimated at 155,900 tonnes while that of Ivory Coast was put at 167,500 tonnes.

For 2017, Guinea Bissau ranks as the third largest producer by volume at 60,500 tonnes, followed by Vietnam with 58,100 tonnes and Tanzania at 55,800 tonnes. An opening slide posed the question of "what the nut is going on with cashews!", indicating the meteoric rise in prices from an average of USD3.50/lb back in 2012 to USD5.00/lb in 2017. It was noted that the average price of the W320 grade has risen sharply since 2012 and the differential between these grades and W420s has widened.

In June-July, RCN prices started to stabilise but Aldebaran Commodities pointed out: "In addition, the pressure on RCN resulted in lower kernel prices, making it difficult to

make money and therefore creating a standstill situation."

Slight price stabilisation

This trend was maintained over the rest of summer as Vietnamese, Chinese, Indian and European buyers were cautious because they bought RCN 75% higher than the last five-seven year average price.

Many processors decided not to buy and to wait for the next harvest in East Africa. This patience looks to have been rewarded: Tanzania's estimated production will be from 350,000-400,000 tonnes in the 2017/18 season, 32-50% more than the last season, the Tanzanian Cashew Nut Board announced on November 16. The average price in the Tanzanian last auctions ranged from TZS3,800-4,065 per kilo (USD1.66-1.77/kg) in the first week of November, very close to the average TZS3,800/kg paid in the last season.

Our estimate for the rest of this year is a stabilisation of prices until we have accurate results of the next harvests. African producers have bet on increasing cashew production, following a similar trend to the cocoa crop in recent decades. As IEG Vu wrote on October 5, West African countries will reach record levels with an estimated RCN level at 1.65 million tonnes in 2018 and IEG Vu's registered average prices for 450S in November follow this trend: USD5.1/lb for Indian product, USD4.95/lb for that of Vietnam and USD4.85/lb for African cashews.

After analysing INC's report, IEG Vu's 2018 forecast production is 750,000 tonnes, quite close to 2017, because minor Vietnamese and Cambodian crops will be compensated by a slight increase in India and excellent crops in Africa.

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Will new crops shake up pepper market in 2018?

The combination of crop declines in Vietnam and Brazil and restrictive legislation over pesticide use in the EU and India, the main worldwide importers, will stabilise pepper price this year despite the slight output increase in Indonesia and Malaysia.

By Jose Gutierrez

Many origins had a crop decline in 2016, but this did not compensate the existing oversupply

Vietnam finished 2016 with record figures. The Vietnamese Pepper Association (VPA) reported its national industry exports increased in volume by 34% to 179,233 tonnes and in value by 12% to USD1.43 billion. This notable difference between value and volume growth was due to a lower price: the average export price of black pepper was USD7,636/tonne (down USD1,383 from 2015) and for white pepper USD11,191/tonne (a decline of USD1,777 from previous year) in 2016.

The south eastern Asian country was the undisputed worldwide pepper leader, accounting for 56.68% of total exports (316,216 tonnes) and for 39% of total production (426,180 tonnes). In addition, the expected 2017 production would be also historical: 220,000 tonnes, according to a VPA's survey.

Many origins had a crop decline in 2016, but this did not compensate the existing oversupply. Brazil was the South American worldwide leading pepper producer, competing in the US and EU markets with Vietnamese product. However, its exports decreased in volume by 18% to 31,000 tonnes and in value by 29% to USD247 million in 2016. This decline in value was influenced by the downward price trend.

India's crop declined by 30.7% to 48,500 tonnes, having increased its imports by 19% to 14,900 tonnes, in 2016.

Indonesian output decreased by 6% to 75,000 tonnes; that of Malaysia by 6% to 21,000 tonnes; and Sri Lanka's by 32% to 19,150 tonnes in 2016, according to the International Pepper Community (IPC).

Finally, another producer was knocking on the door of the global market: Cambodia. It increased its crop by 20% to 11,819 tonnes in 2016, the Cambodian Ministry of Agriculture claimed.

Rotterdam trader Catz International did a very good analysis in its July 2017 market report : "Lately we have seen one of the most dramatic drop in prices in recent history. Since the autumn of 2016 until today, prices for both black as white pepper dropped by as much as nearly 50%."

Catz International added: "Clearly, the bull-run which started back in 2009 came to a prompt halt and the downward trend started more aggressively than many of us anticipated. This may very well be explained by the fact than apparently larger crops, due to stimulated production, in combination with larger than expected inventories (mainly in the origin countries) could no longer be held any more by farmers, middle men and exporters."

Weak early year

Indian growers suffered the same problem about prices according to Olam Spices & Vegetable Ingredients (Olam SVI).

The Vietnamese price decrease was sharper: it ranged from VND108,000-110,000/kg (USD4.70-4.78/kg), according to Dutch company Van der Does Spice Brokers. Consequently, the Vietnamese growers started to hold material back to push a price increase up. The low perspectives for the Malaysian and Indonesian crops in April encouraged Vietnamese players to keep this attitude. However, a new key point was forcing to keep the downward price trend: the stringent EU, Indian and Japanese rules about pesticide use.

Promising summer

The summer of 2017 confirmed a slight respite from the stabilisation. Despite the crop declines in Malaysia, Indonesia and Sri Lanka, exports from these three origins increased because their growers wanted to release their stocks.

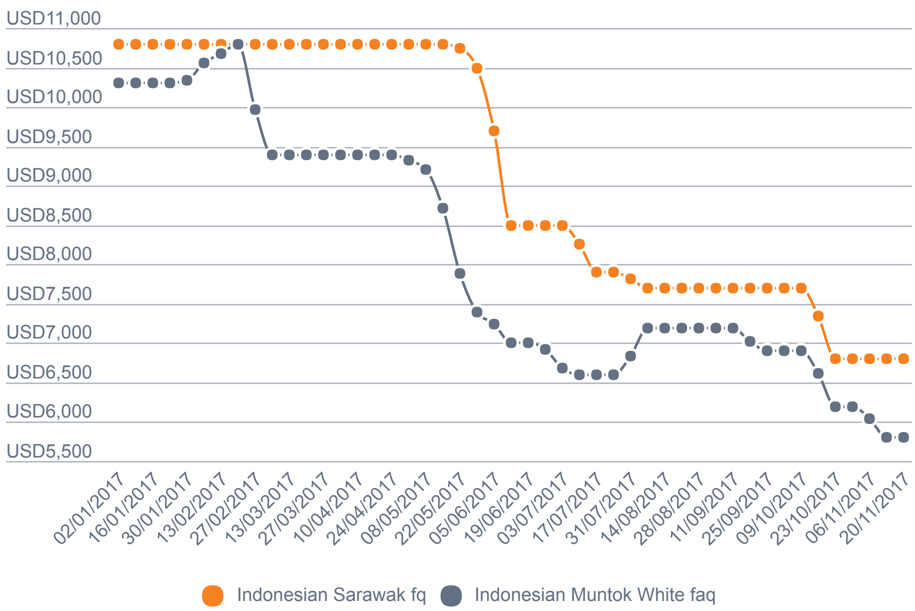
Brazil also registered a spectacular export increase in the first seven months of this year. Between January-July 2017, it shipped a total 23,982 tonnes of pepper to global destinations, compared with 16,535 tonnes in the same period of 2016, customs data reveals. The 2017 Brazilian pepper harvest started in July, with prices ranging from USD3,600-3,700/tonne.

In India, the price decreased by INR20 from INR490/kg at the beginning of July to INR470/kg at the month's close, the IPC noted.

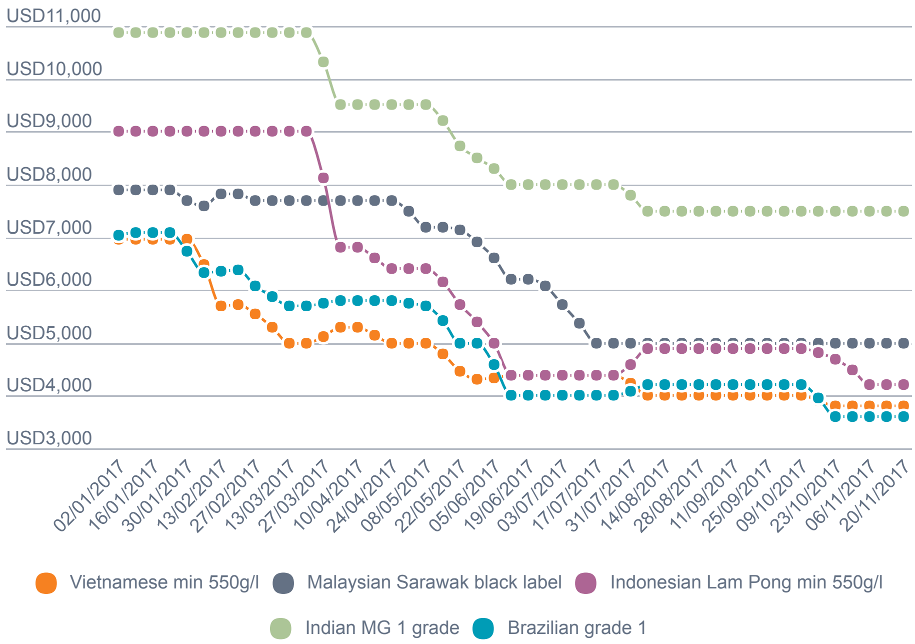
In Malaysia, the price of Sarawak black label cif new Europe ranges from USD5,000-6,000/tonnes according to IEG Vu's price list.

Sri Lanka's pepper price decreased by LKR155(USD1.00) to LKR695/kg at July's close. On average, the price of Sri Lankan pepper during July 2017 decreased by 24%. The IPC explained that this might have been due to the start of the main harvest in the country. Sri Lanka's harvest reached 27,000 tonnes in 2017, compared with 19,000 tonnes in 2016. The main buyer of Sri Lankan pepper was the Indian market.

White pepper prices cif nw Europe (USD/tonnes)



Black pepper prices weekly cif nw Europe (USD/tonnes)



Source: GTT/IEG Vu

Also, the 2017 Cambodian crop confirmed a record figure: 20,054 tonnes, almost double the previous year figure's (11,819 tonnes). There was good news for Vietnamese and Indian growers in August 2017. The Vietnamese average price increased by 10%, according to the IPC. This growth and Food Safety and Standards Authority of India's (FSSAI) restrictions on imports of Vietnamese and Sri Lankan pepper due to pesticide residue levels, pushed the Indian prices up, according to Olam Spices & Vegetable Ingredients in August 2017.

The company indicated ungarbled Indian black pepper of 500-525 g/l at INR480-490/kg ex Cochin. Ungarbled 550-560 g/l was listed at INR490-505/kg ex Cochin; and ungarbled 570-580g/l at INR500-510/kg ex Cochin.

New downward trend

From August on, the price trend made a U-turn. The IPC stated the price was stable again, with Brazil being a relevant player, which blockaded new price increases despite Vietnamese efforts to keep stocks. Brazilian product became extremely competitive. The fob price of Brazilian B Asta grades (ASTA 570 equivalent) ranged from USD4,000-4,200/tonne for September/October, according to Royal Golden General Trading. On the other hand, the VPA reported that the fob price of Vietnamese ASTA pepper was ranging from USD4,600-4,850/tonne.

However, the price decline started again, slowly but surely between from October onwards. Juliano Camara, president of the brokerage house Coreimex, estimated that Brazil would export 59,083 tonnes. Camara added that the average price was USD3,300/tonne, having reached USD3,000/tonne. However, he highlighted that sellers were hesitant and not taking these lower bids.

He added: "Very soon sellers will start booking what they need." He forecasted that the Brazilian average price will be stable until the Vietnamese crop in 2018. The VPA informed that the Vietnamese average price decreased by nearly 4% to USD4,614/tonne in October 2017, compared with the previous month.

The expectation for the rest of this year is a stabilisation of prices until the Vietnamese and Cambodian harvests in March 2018. One view is that the arrival of these crops will drive prices down by as much as 10% before the results are known from the rest of key growers: India, Sri Lanka, Malaysia, Indonesia and Brazil. The outcome of these additional crops is likely to help determine the next direction taken by prices.

Related to these indications and IPC's forecasts for 2018, which anticipates a decline of Brazilian and Vietnamese crops and exports due to lack of profit, IEG Vu forecasts the worldwide exports will decline by 14% to 320,000 tonnes in 2018, taking into account not only a minor crop in Vietnam, Sri Lanka and Brazil but also the mentioned crop increase in India, the main worldwide pepper consumer, and that of 2017 carry-over (80,411 tonnes).

PEPPER PRODUCTION AND EXPORT, MAIN PRODUCERS, 2016-17 (TONNE)

	2016		2017	
Country	**Production**	**Export**	**Production**	**Export (est.)**
Brazil	41,600	31,085	58,000	55,296
India	48,500	16,450	57,000	20,000
Indonesia	77,000	53,100	68,000	39,700
Malaysia	23,000	12,116	23,500	16,000
Sri Lanka	18,476	7,875	25,995	12,120
Vietnam	170,000	179,233	180,000	205,000
China	29,000	1,429	29,000	1,800
Others	21,053	12,925	23,504	14,503
Total	429,079	314,213	464,999	364,419

Source: IPC

COMPOSITE PRICE OF BLACK AND WHITE PEPPER (USD/TONNE)

	Black pepper			White pepper		
Month	**2015**	**2016**	**2017**	**2015**	**2016**	**2017**
January	9,141	9,178	7,033	12,852	13,153	10,357
February	9,026	8,842	6,371	12,621	12,981	9,580
March	8,985	8,300	5,855	13,081	12,393	8,531
April	8,995	8,308	5,667	13,004	12,059	8,307
May	8,972	8,694	4,851	12,852	12,467	7,191
June	9,286	8,719	4,470	13,274	12,626	6,319
July	9,569	8,731	4,487	13,732	12,214	6,259
August	9,394	8,337	4,780	13,839	11,542	6,751
September	9,448	8,000	4,555	13,567	11,103	6,539
October	9,441	7,553	4,266	13,570	10,374	6,254
November	9,448	7,109		13,517	10,187	
December	9,484	7,263		13,299	10,627	

Source: International Pepper Community

Vibrant matching of supply and demand

The 2016-17 season for dried vine fruits was a scenario where the worldwide leading origins had the best of both worlds as they were able to supply all their clients, demanding a good price. US production has declined in October 2017 and, the worldwide market is expected to become very tight, with the result that the price will increase for all the origins.

By Jose Gutierrez

The International Nut and Dried Fruit Council (INC) estimated the worldwide 2016-17 season crop of dried vine fruit (raisins, sultanas and currants) would be 1.34 million tonnes in December 2017, but the true figure declined slightly to 1.28 million tonnes due to excessive rains or droughts in some of the main worldwide exporters: Turkey, the US, Chile and South Africa. Apparently, bad news but, really, it was a good signal of the global industry's maturity: growers have invested in modernising water use and they are ready to match worldwide demands despite the climatic problems.

Suppliers and clients worked very hard to secure consumption in Christmas and New Year's Eve in 2016, both key events in dried fruit western world consumption, and to start January 2017 with good sales.

Turkey, the main worldwide producer, faced the rising value of the US dollar against the Turkish lira, having increased by 15% (TRY3.62 to USD1.00) in comparison with November 2016. However, the average raisin price did not decline. IEG Vu noted that good quality Turkish standard No.9 sultanas continued to be quoted between USD1,300-1,350 per tonne fob Izmir on January 5 2017. On the other hand, average prices of Greek currants were USD1,616-1,669/tonne fob Piraeus.

Iran's 2016-17 crop was also exceptional and it followed a price trend similar to Turkey, its seasonal competitor.

Growers have invested in modernising water use and they are ready to match worldwide demands despite the climatic problems

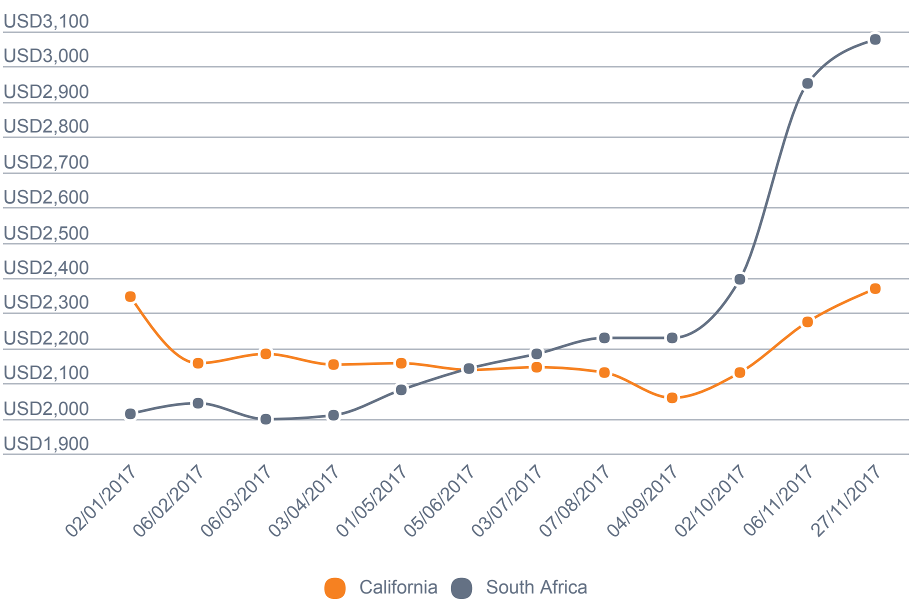
Chilean and South African expected crop figures were also good and their exporters were keeping their stocks before doing concrete price offers because they were scared a sudden weather change might reduce the production prospects and force them to offer higher prices. And this change came: rains delayed the process of drying the grapes and decreased the dried vine fruit production compared with initial estimates.

South Africa produced 50,000 tonnes, with Thompson seedless raisins quoted between USD2,150-2,200/tonne c&f Felixstowe, as IEG Vu informed on January 19 2017. In the case of Chile, the crop was around 60,000 tonnes, according to data provided by the Dutch broker QFN Trading & Agency. QFN added that prices for Chilean Jumbo Flames averaged USD2,100-2,200/tonne c&f EMP for late February/March shipments. Jumbo Golden were offered at price levels between USD4,100-4,300/tonne c&f EMP for late March/early April shipments.

The US average raisin price was USD0.88-0.90 per lb c&f Felixstowe in January 2017, having exported 44,446 tonnes of seedless raisins, an increase of 7%.

Turkey had exceptionally good weather for raisins and its sultana and raisins exports reached 146,000 tonnes, an increase of 40% on last year. Its raisin average price averaged USD1,300-1,450/tonne fob Izmir.

Monthly price, raisins Thomson seedless cif UK (USD/tonne)



Source: GTT/IEG Vu

The South African Thompson seedless raisin averaged between USD1,900-2,000/tonne cif UK. On the other hand, US raisin field price was USD1,100 per (short) ton for raw material.

Market in a stable state

The global raisin market kept stable in May. There were no reports of shortages of raw material in worldwide dried fruit market and dried vine fruit followed this trend, having had a healthy balance between supply and demand, leading to steady prices.

From July on, this trend reversed because the Mediterranean grape harvest was close, bringing forward the second fortnight of August. At the same time, South African producers kept unsold stocks. However, there was a consensus amongst packers and industry experts that the export price of Thompson seedless raisins had to increase for the next crop, if there was likely to be a considerable rise in the field price, which was at USD1,100/ton for raw material. Also, it was suffering great pressure from very competitive Iranian and Turkish producers. However, a new factor emerged: the growing European concerns about the use of fungicides and pesticides.

This turn of events favoured US producers, who bet on reducing acreage and crop and increasing quality and prices since 2015.

A long, hot summer...

The summer of 2017 was exceptionally hot in Mediterranean countries, reaching over 42˚C in Turkey. Consequently, part of the grape crop was damaged in the end of July and the average raisin price ranged from USD1,350-1,400/tonne fob Izmir. There was a second consequence: Iran gained market share from its Mediterranean neighbour, becoming the third worldwide exporter after the US.

From then on there was a price increase. The Turkish average ranged from USD1,500-1,600/tonne. That of California ranged from USD1.00-1.05/lb. South African and Chilean stocks were almost sold out, waiting for their new harvest to start launching offers.

At the same time, the Turkish lira started to strengthen, increasing raisin prices to

USD1,525-1,600/tonne fob Izmir. The US raisins remained quoted between USD0.99-1.00/lb c&f Felixstowe, losing position in the competition which Turkish product faces in EU, where most consumers perceived the US product as superior to the Turkish one. However, Turkey won market share in manufacturers and retailers, who wanted to reduce buying costs, especially in the UK where the devaluation of sterling after the Brexit referendum caused strong pressure on prices.

The Californian raisin average price increased in October because wet weather in the harvest created a major reduction in tonnage for export

The political and monetary instability in Turkey produced a fundamental change: the ministry of agriculture declared that the government (through the Turkish Grain Board – TMO) would buy sultanas at TRY4.00/kg (USD1.16/kg), adding it would buy unlimited quantities.

From October on, the 2017 Christmas campaign was coming and the California raisin price started to increase, pulling up prices from other origins. As IEG Vu wrote on October 19, the 2017 natural seedless raisin crop field price agreed by the US Raisin Bargaining Association, formed by 12 independent processors, was USD0.90/lb, a record price. The US crop suffered extreme weather changes from June-September, declining crop expectation. Due to that, prices of US Thompsons increased to between USD1.25-1.30/lb c&f Felixstowe. Turkish Thompson seedless raisins prices rose to USD1,950-2,050/tonne for Izmir. The Chilean average price for remaining parcels included Flame Jumbo at USD2,250/tonne c&f and Flame Medium at USD2,000/tonne c&f EMP. South Africa was completely sold out.

The Californian raisin average price increased in October because wet weather in the harvest created a major reduction in tonnage for export.

According to the last updated IEG Vu price data, Californian Thomson seedless raisin average price started a strong escalation from USD2,396/tonne in the week beginning on October 2017 to USD3,078/tonne in that one beginning on November 27 2017, 28% in only eight weeks. The South African increase for the same raisin variety was not so sharp in the same period: from USD2,132/tonne to USD2,370/tonne, 11% more.

This sudden Californian raisin crop decline has been a surprise for the industry, with supply for the Christmas campaign in western countries very active. Due to that, it is hard to give a correct estimate before having accurate data of the US grape harvest, but two key points are sure: there will be a price increase in the following months due to the mentioned crop decline and Turkey and Iran will increase their worldwide market share, due to a strong US dollar.

IEG Vu's estimated 2018 worldwide consumption is quite close to INC's estimates for the season, declining a slight 1.8% to 1,287,500 tonnes. However, this upward trend will not blockade the upward prices, driven by the Californian production decrease.

TOP 20 DESTINATIONS FOR US NATURAL SEEDLESS RAISINS (PACKED TONNES) IN SEPTEMBER 2017

	Sept 2017 volume	Year to date volume (Aug 1 2017-Sept 30 2017)
US	14,113	32,081
Japan	2,123	4,389
Canada	937	1,722
UK	551	1,630
China*	467	1,274
Germany	434	1,609
Sweden	424	1,011
Norway	231	586
South Korea	221	593
Philippines	185	524
Taiwan	182	594
Netherlands	163	363
Thailand	148	391
Mexico	147	224
Hong Kong	135	274
Finland	134	362
Denmark	126	316
Malaysia	107	321
Dominican Republic	98	262
Singapore	94	240

* Historically, a large volume of China exports are trans shipped directly to Japan
Source: Raisin Administrative Committee

Walnuts from California

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When you think of California, walnuts should be one of the first things that springs to mind since 99 per cent of the total US production of walnuts comes from California and walnuts are the third leading export commodity from the state.

Exports are valued at just under $1.2 billion (wholesale) with the UK being the 3rd largest EU market, absorbing 1.6 per cent of the crop or 20,537,000 in-shell equivalent pounds (9,315 tonnes) in 2016. This is a record for the UK for California walnuts and has resulted in the UK becoming the 12th largest export market worldwide for California walnuts.

Now after a 20-year absence of any kind of UK marketing campaign, the California Walnut Commission is back with a bang with increasingly positive results. During the first five months of 2017 there were more California Walnuts imported into the UK than throughout the whole of 2016, an impressive year for the California walnut industry.

Peter Meadows, whose agency The Garden is the trade representative for California walnuts in the UK, explained how: "California walnuts are ticking all the right boxes for the UK trade which requires quality, value and consistency. UK consumers are becoming more and more aware of the health benefits of a plant based diet and the new Government eating guide is underpinning this trend".

As UK consumers become increasingly health conscious, they are looking for foods which are healthy as well as tasty. There are many health benefits of walnuts and many consumers know that California walnuts contain plenty of the 'good fats' as they are high in unsaturated fat. One study published by the British Journal of Nutrition shows that walnuts could improve cognitive function as well.

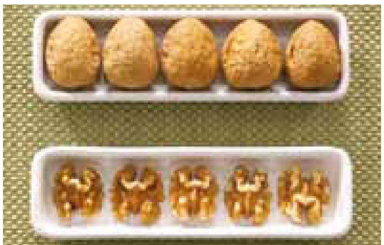
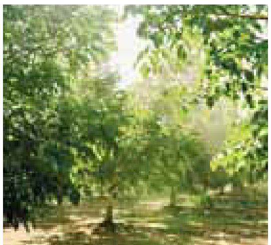
The UK retail trade, driven by the multiples has reacted to this trend, stocking more and more snack-pack options and sizes as well as moving walnuts and all other nuts into the produce aisles encouraging consumers to make impulse purchases.

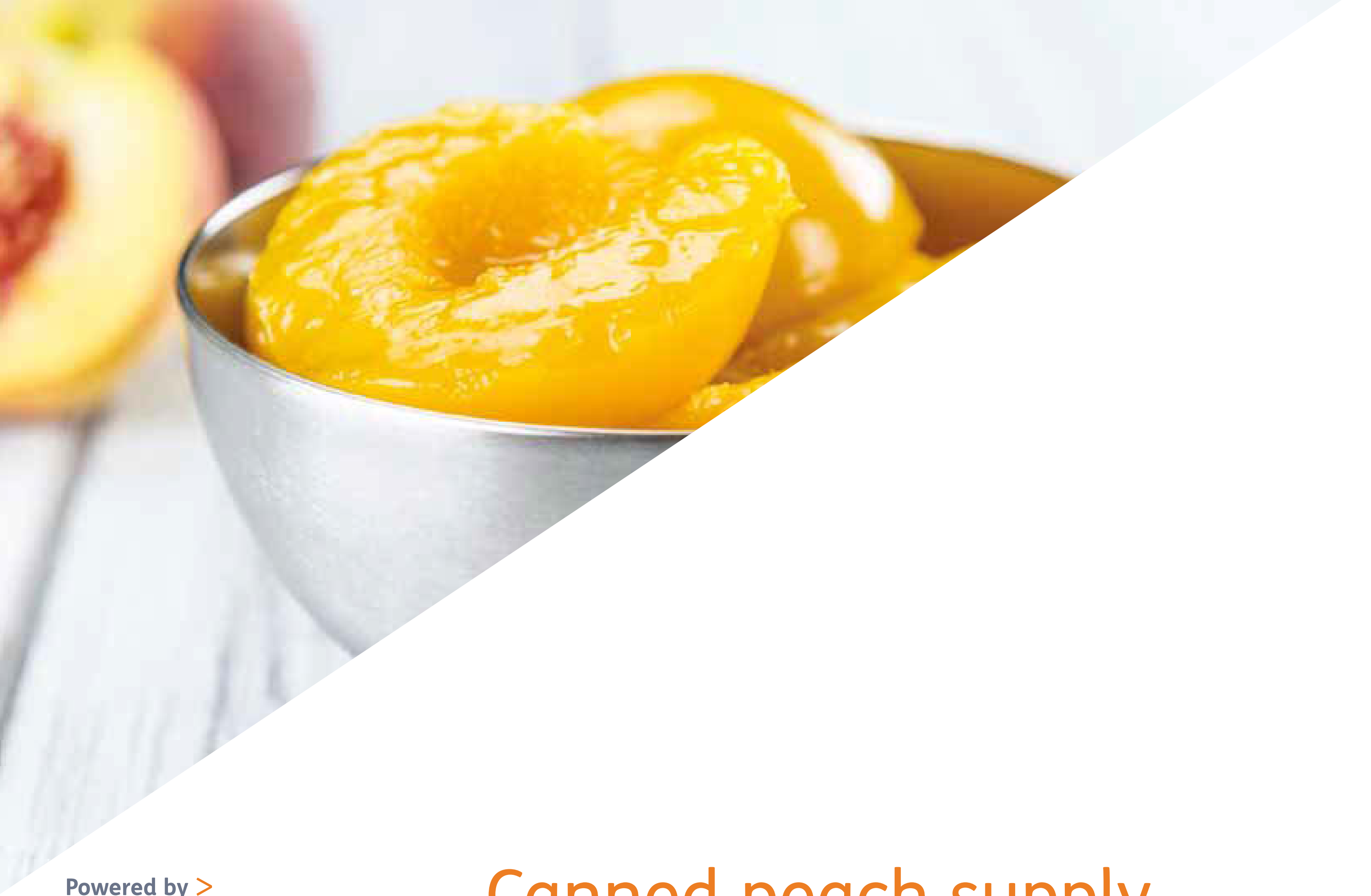
> *"California walnuts are ticking all the right boxes for the UK trade which requires quality, value and consistency".*
>
> **Peter Meadows**
> **California Walnuts**
> **UK Trade Representative**

The popularity of California walnuts in the UK looks set to grow as consumer trends change. The popularity of walnuts generally and snacking behaviour becomes more about eating and snacking on the go and around busy schedules.

As outlined by research from the NPD Group, snacking occasions are predicted to replace routine meal occasions by 12 per cent by 2024. The increasing popularity in the nut category among consumers, retailers and the wider food industry is going to help drive this growth. Expect to see more California walnuts heading to UK shores over the next few years.

HEART HEALTHY | EXCELLENT SOURCE OF ALA OMEGA-3



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FoodNews

Canned peach supply overtake demand

With the start of the new year 2017, all peach industry eyes looked at South Africa and Chile, where the peach harvest had just finished.

By Estela Cuesta

"A percentage of last season's contracts was fulfilled with this season's production"

Total peach production in South Africa reached 170,665 tonnes, of which 132,000 went for processing: "a satisfactory one," said the president of the Canning Fruit Producers Association (CFPA) Wiehahn Victor, "given the long-running drought in South Africa's Western Cape."

Chile started processing peaches on 3 January with an average harvest of 280,000 tonnes. Temperatures up to 30°C prompted the fruit to ripen around 15 days earlier than normal, so canneries had piles of fruit waiting for processing and some of them were diverted to the pulp industry. Still, total canned peach production in Chile for 2016-2017 season reached 5 million basic cartons – 500,000 less than expected but 1 mln above the previous season, selling at USD25-26 per case for good standard easy-open in heavy syrup.

Greece, the master

Seven months later, in mid-July, the peach canning season opened in Greece. By that time there was almost no carry-over from last season, especially for the 1 kilo cans, as 2016 crop was "difficult and resulted less than expectations in terms of fruit quality and productivity," sources said. EKE president Costas Apostolou added: "A percentage of last season's contracts was fulfilled with this season's production".

Peach clingstone production in Greece this year increased by 40%, compared with last year, to 370,000 tonnes, a figure influenced by favourable weather conditions and the new plantings that started in 2012.

"There are always new contracts on the go once a new pack starts", commented one industry source, referring to the EU-Canada new trade agreement (CETA) that took effect on 21 September this year. EKE president Apostolou also mentioned the negotiations between Europe and Mexico to renew the Free Trade Agreement signed in 1997 for the first time: "We have a long lasting and important presence in this market and expect a good agreement will help us to increase our exports to Mexico," he said.

The Greek price reported in July for early varieties of raw material for canning was EUR0.24 per kilo (USD0.28/kg) – last year's price started at EUR0.30/kg. At that time, the average price of raw material for canning in Spain was 7% higher than in Greece, between EUR0.26-0.27/kg (USD0.30-0.31/kg) and peach production for processing reached 125,000 tonnes -80% for canning.

Prices reported in August 2017 for already canned peaches in Greece ranged around USD20.2-20.8 per 24x1 carton ex farm. Price for the same product reported in December 2017 was EUR15 per 24x1 kg carton and, at the time, this report was written, sources contacted believed prices wouldn't change during this season: "Demand for canned products is slightly decreasing, buyers are not willing to pay more and new crop in the southern hemisphere is soon to start with a total higher supply than demand," an industry source said in December 2017.

Chinese stability

One week before Greece, China started canning peaches. Raw material peach prices reported were around USD0.29 per kilo/ ex farms, a local contact in the industry confirmed to IEG Vu at that time.

As happened in Greece, in October a Chinese industry source confirmed some factories in Anhui province were sold out for 1 kg canned yellow peaches in light syrup, but had other types such as: 24x425 g at USD10.50/carton, 24x820 g at USD16.00/carton fob Lianyungang port, China.

Canned peach exports from China to the rest of the world (HS 200870) from January to October this year increased by 4% compared with the same period last year, to 114,800 tonnes. Within this period time this year the US imported from China 42,500 tonnes and Japan 31,000 tonnes, in line with the same period last year.

A 365 days crop cycle

At the time of writing, the southern hemisphere is in its summer season again, ready for the peach crop.

South Africa's peach production 2017/2018 will be limited by the drought. The harvest is expected to start in the last week of December and total crop for processing purposes is expected to be 8% lower than last year's, to 125,000 tonnes from 138,000. Around 85,000 tonnes of peaches will be destined for canning and the rest for puree.

As happened in Greece, a Chinese industry source confirmed in October factories in Anhui province were sold out for 1 kg canned yellow peaches in light syrup

IEG Vu heard in early December that growers were taking off the smaller fruits from the trees "to maximise size and income," explained Wiehahn Victor: "After less than normal rainfall patterns in the last three years, farmers are surviving with 50-60% of their water allocation," he said.

Stocks to devalue

European peach industry sources in September stated: "Canned peach exports from Spain and Greece this year would be higher in volume but lower in value". A Spanish industry source added: "We are clearing stocks because prices are lower."

Canned peach production this year increased by 11% and the Russian ban on European products lowered prices and increased stocks.

Greek prices reported in December 2017 for canned peaches halves 24x1 carton standard quality was EUR14 per carton. By the time this report was written, Greek sources contacted believed prices wouldn't change during 2018: "Demand for canned products is slightly decreasing, buyers are not willing to pay more and new crop in the southern hemisphere is soon to start with a total higher supply than demand."

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FoodNews

Canned tuna at the top edge

This year global canned tuna market was challenged by a sharp rise in raw material prices and new members benefiting from the Generalised System of Preferences (GSP) to the EU28, the largest canned tuna importing market.

By Estela Cuesta

Price increases and decreases of raw material skipjack landings in both markets Bangkok and Manta moved in parallel throughout the year, based on the Fish Aggregating Devices (FAD) closures set for the whole Pacific Ocean as a conservation measure.

The fishing veda

The Western and Central Pacific fishing veda ran from July to October, as did the first closure in the Eastern Pacific, from 29 July to 8 October.

Poor landings in this period increased raw material demand from canneries, making prices peak in October – as the chart shows. Between September and October this year, skipjack raw material prices landed in Manta immediately increased 290 dollars per tonne to USD2,400, as IEG Vu was told on 10 October by Ecuadorian tuna processors at Anuga trade show in Cologne. At that time, the price in Bangkok was USD2,350 per tonne.

Frozen skipjack prices also increased, to USD2,100 per tonne cfr Bangkok, reported the FAO at the time this supplement was written, "which is 35% higher than the same month last year", it added.

In late October, prices for skipjack landings in Manta and Bangkok started to fall, a downtrend still ongoing at the time of writing, and the second Eastern Pacific fishing closure is also under way.

The second purse-seine fishing closure period in the Eastern Pacific Ocean expands from 9 November until 19 January, established by the Inter American Tropical Tuna Commission (IATC) for this year for 70% of the fleet. On October 4, the FAO reported low skipjack raw material stocks in Ecuadorian canneries, which could explain prices landed in Manta's market trading higher than the those in Bangkok.

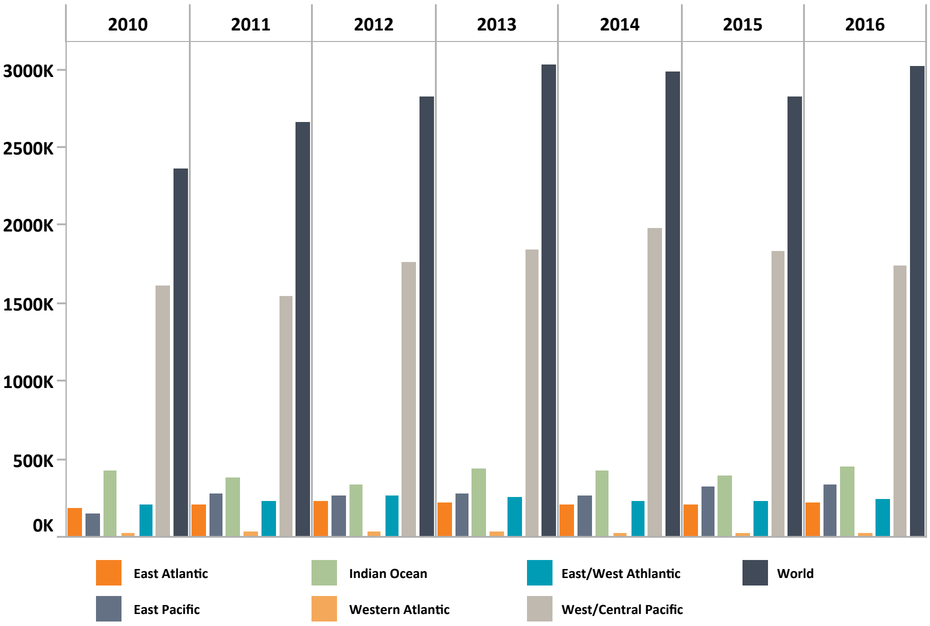
Canned tuna market shrinks

This year so far, canned tuna (HS 160414) exports volume have decreased by 18% compared with the same period last year to 995,000 tonnes and in value by 8% to USD4.4 billion – January to September, according to IEG Vu customs data. All the main canned tuna suppliers except Philippines, that now benefits from duty-free status, have been affected by this reduction.

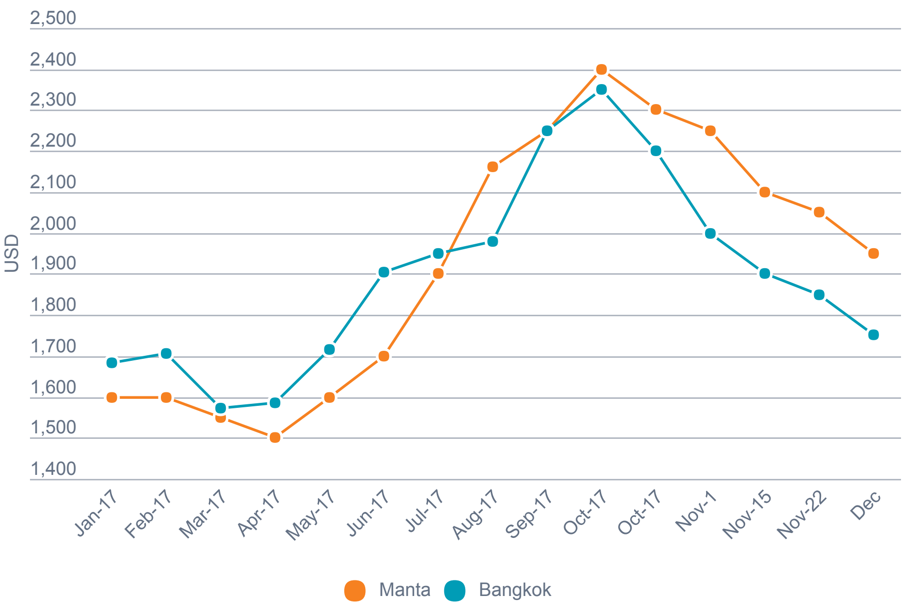
Thailand, that traditionally holds around 50% of the global canned tuna market, saw its canned tuna export volumes decreasing by 28% to 400,000 tonnes and export value by 15.7% to USD1.7 bln. It is worth highlighting Thai exports to the Middle East and North Africa market (MENA) decreased by 41% to 117,000 tonnes and the same for exports to the EU28, which decreased by 36% to 28,500 tonnes – Thai canned tuna exports to the EU28 carry the full 24% tariff.

The next one to follow is Ecuador, with a 16% of share and zero tariff with no quota status in the EU28 market. Its export volumes decreased by 7%; Philippines, sharing 8.7% of the market this year, increased its exports by 11%; Spain and China, with a market share averaging 8.5% each, suffered an export volume decrease of 13.7% and 19% respectively this year so far.

Skipjack tuna catches (tonnes)



Prices skipjack raw material landed in Manta and Bangkok 2017 (USD/tonne)



Source: IEG Vu industry contacts

Thai canned tuna exports to MENA markets decreased by 41% to 117,000 tonnes

Skipjack catches

"Tuna is not overfished", the Status of the World Fisheries for Tuna, published on 1 November this year, affirmed. However, conservation measures such as the FAD closures already mentioned in this article have been established in the main areas where skipjack is found, most recently, this year in the Indian Ocean, where skipjack's annual catch reached 446,723 tonnes in 2016, a 13% increase from 2015.

Global skipjack tuna captures in 2016 totalled 3,017,223 tonnes, around 22% growth compared with figures reported in 2010.

Skipjack's raw material price downtrend is a fact since October for Manta and Bangkok's markets and IEG Vu forecast it will remain until the next FAD fishing closure opens in Western and Central Pacific Ocean next year.

The skipjack raw material price reported on 7 December for skipjack landed in Manta was USD1,950/tonne, USD1,750/tonne in Bangkok; the latest price update before this supplement was being published. The same day, sources contacted in Manta said stocks in canneries were at good levels, although the fishing closure in the Eastern Pacific Ocean affecting 70% of the fleet was happening.

In the short run, it could be reasonable to expect the gap between both markets to widen by February next year, Manta's price being above Bangkok's.

Despite ongoing disease concerns, the outlook for 2018 olive oil production is positive

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Olive oil prices are likely to moderate in 2018, as production in the main suppliers of the oil is expected to recover in the current season, despite ongoing disease problems in Europe.

By Sabine Crook

EU production down sharply in 2016/17

At the start of 2017, olive oil prices were up sharply from the previous year due to adverse weather conditions in leading producers Spain, Italy and Greece, as well as problems caused by disease and pests.

Producer prices of extra virgin olive oil (EVOO) in Spain started the year up 10% compared with January 2016, while Greek prices were 17% higher and Italian prices a massive 70% above the previous year's level. Prices in Tunisia, one of the main non-EU producers of the oil, were 18% higher than in January 2016.

Global production of olive oil in 2016/17 (October – September) was pegged at 2.54 million tonnes by the International Olive Council (IOC), down from 2.71 mln tonnes the previous season. The member countries of the IOC produced a total of 2.35 mln tonnes of olive oil, or 93% of the world total in 2016/17. EU countries accounted for 1.75 mln tonnes, which is a 25% decrease from 2015/16.

For the EU's largest producer, Spain, output dropped by 9% to 1.28 mln tonnes, while Greece and Italy saw much more dramatic falls with production in Greece down 39% to 195,000 tonnes and Italian output down by nearly two thirds (-62%)

The EU's top producer, Spain, is expecting another drop in output due to drought to 182,300 tonnes. Portugal also reported a drop of 36% to 69,400 tonnes.

Outside of the EU, Morocco, Tunisia and Algeria all reported lower production at 110,000 tonnes (-15%), 100,000 tonnes (-29%) and 63,000 tonnes (-23%) respectively. Turkey proved an exception reporting a 24% rise in output to 177,000 tonnes.

Consumption in IOC member countries totalled 1.93 mln tonnes, an 11% year-on-year decrease. In other non-member countries, consumption fell by around 2% to 813,500 tonnes.

However, there are growth markets apparent, mainly in Asia and Latin America. China has seen strong growth in demand for olive oil in recent years, although imports remain relatively small. Spain is currently the biggest supplier to the Asian country, accounting for around 80% of Chinese olive oil imports.

Brazil is another growth market, with olive oil imports in the first eight months of 2017 up by 11% year-on-year, according to official stats from Brazil's Secretariat of Foreign Trade (SECEX).

According to Rita Bassi, the president of OLIVA, Brazil's association of olive oil producers, importers and traders, this increase of olive oil imports is a reflection of the significance that consumers are attaching to olive oil as a beneficial product in their diets. She added that she expects imports in the run-up to Christmas to remain high.

Meanwhile, at an estimated 306,000 tonnes, EU olive oil ending stocks dropped below the five-year average and to their lowest level this decade bar in 2015.

Better outlook for 2017/18 harvest

The initial outlook for next year's harvest is much improved, despite the fact that the Xylella fastidiosa epidemic that has affected parts of Italy and Spain in particular is still no closer to being eradicated.

According to the first estimates of the IOC, world production in 2017/18 should rise by 14% to 2.89 mln tonnes, while consumption also is expected to grow by 5% to 2.89 mln.

A further 10% drop in Spanish production to 1.15 mln tonnes due to drought should be offset by a 75% increase in Italian output to 320,000 tonnes, with Greek production seen up by 54% to 300,000 tonnes and Portugal up 58% to a record 110,000 tonnes on the back of new olive groves planted in 2003/04.

Tunisia was also expected to rebound with a harvest of 220,000 tonnes, which would be a 120% increase from last season. Tunisia was hit by drought in 2016, but plentiful rains this winter have boosted hopes for the country's crop.

Turkey (+2%), Morocco (+9%) and Algeria (+27%) are all forecast to see higher output as well.

As a result, prices of olive oil are likely to fall in 2018.

Pierluigi Tosato, chief executive at Deoleo, the world's largest olive oil supplier and maker of the Carapelli and Bertolli brands, said in a recent interview he expects rising global output this season to cut prices for consumers.

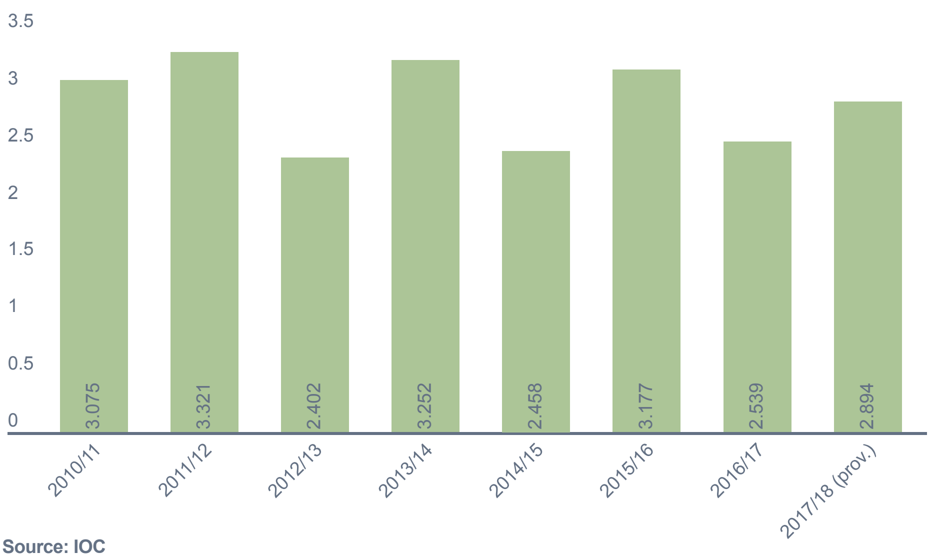
However, EU olive oil ending stocks are forecast to recover somewhat to 365,000 tonnes in 2017/18, which would still be below the five-year average, so this should help to support prices and keep them above the historic average, according to the European Commission's DG Agri.

EVOO PRICES 2017 (EUR/KG)

	End Jan '17	End Oct '17	% change Oct '17/Oct '16
Spain	3.64	3.73	18%
Italy	5.9	5.45	42%
Greece	3.46	3.81	29%

Source: IEG Vu

World olive oil production, (mln tonnes)



Source: IOC

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Canola prices to remain firm despite plentiful global oilseed supplies

European rapeseed prices are set to finish the year lower, while Canadian canola looks likely to end 2017 on a high note. And while Black Sea sunflower oil has ended up more or less on a par with the values seen at the beginning of the year, EU sunseed prices have lost more than 10% in 2017.

By Sabine Crook

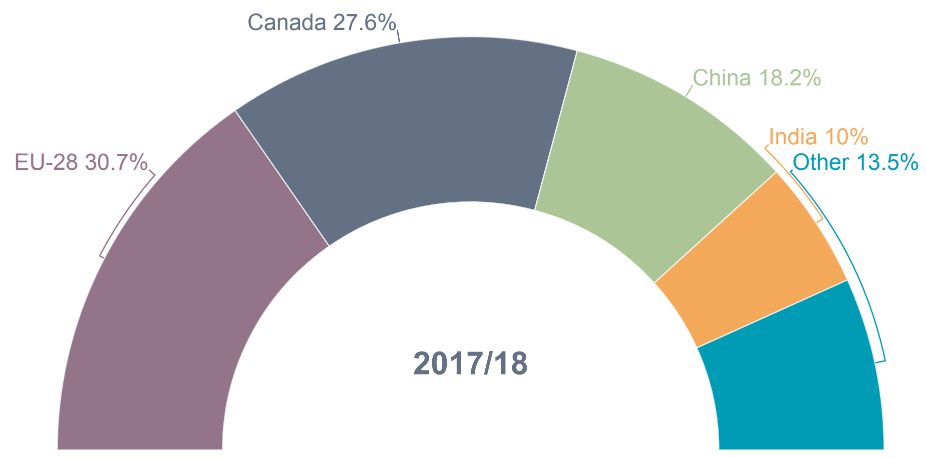
Rapeseed

The rapeseed and canola market started the year under pressure from large global soybean supplies and weakness in the palm oil market. However, strong demand from the EU due to a disappointing harvest in 2016, provided some welcome support.

Australia was the main beneficiary of the EU shortfall, with most of its exportable surplus of around 3 million tonnes from a bumper crop of 4 mln already sold by March 2017, thanks to high prices at harvest.

Ukraine also stepped up its exports of the oilseed, shipping more than 90% of its surplus in the first six months of the 2016/17 season. This was a change from previous years, when more rapeseed

Top rapeseed/canola producers (% share)



Source: USDA

was processed domestically into oil.

In the summer, growing concerns over dryness in Canada and Australia, two of the world's leading canola exporters, and its impact on canola plants lent support to prices, pushing ICE canola futures to a f our-year high in mid-July.

In the EU, Germany slid into second place as France became the bloc's top rapeseed producer in 2017. While the French agriculture ministry reported very high yields which boosted the crop to a near-record of around 5.2-5.3 mln tonnes, German rapeseed plants were negatively affected by heavy rainfall in the early part of the summer, which led to disappointing yields and below-average oil content.

2018

Strategie Grains put the EU rapeseed area for 2018/19 at 6.64 mln, below the estimated 6.74 mln in the 2017/18 harvest.

"The significant [area] increases in France, the UK, the central and south-eastern EU countries only offset the decreases in Germany, Poland and northern EU countries, which have dealt with unfavourable sowing conditions this year," the analyst said.

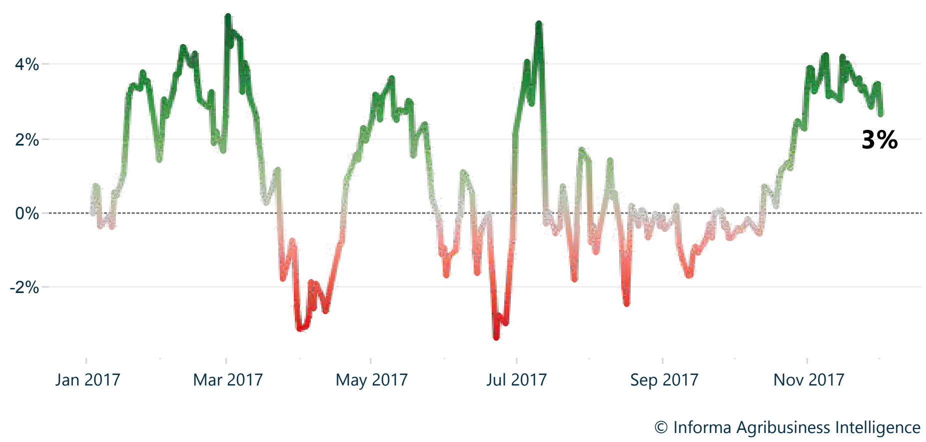
EU biodiesel industry facing increased competition from Argentina

Australia's government crop bureau ABARES said below-average rainfall in most regions in June and highly variable precipitation throughout July and August had cut yields across many crops in the country. Canola output was therefore forecast to fall by 33% year-on-year to 2.8 mln tonnes.

It also cut its forecast for canola exports by 510,000 tonnes to 2.04 mln tonnes, highlighting the prospect of reduced import needs in the EU, thanks to a bigger harvest, and the expectation of increased supplies from Ukraine, "a key competitor for Australia in that [EU] market".

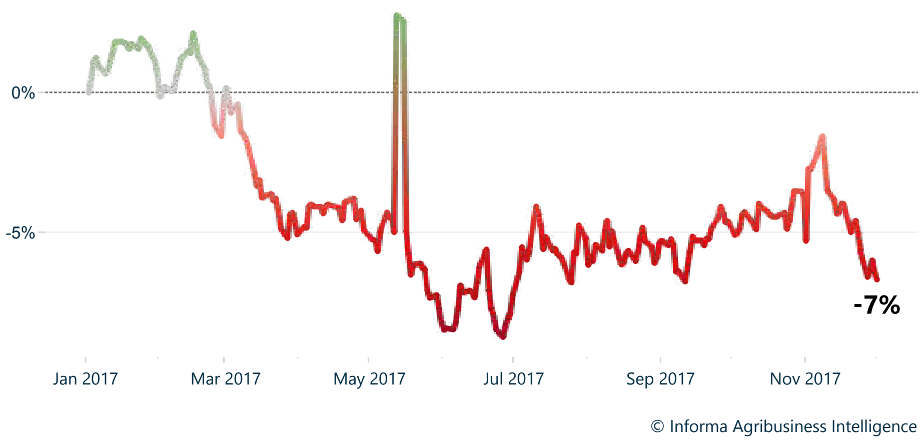
Rapeseed/canola: ICE canola futures (CAD/t)

Change in price from 01/01/2017



Rapeseed/canola: Euronext Paris rapeseed futures (EUR/t)

Change in price from 01/01/2017



On the demand side, the EU-28's appetite for rapeseed imports could drop significantly this season, following the European Commission's decision to cut the anti-dumping duty for Argentina biodiesel imports to 4.5-8.1% from September 19. The move came after the WTO ruled that the European Commission's decision to set initial rates of 22-25.7% in 2013 was unjust.

Rapeseed and canola prices should remain supported by the tight supply situation in 2017/18. The Canadian ag ministry said that tight world supplies of vegetable oils, combined with an expected expansion of US biodiesel production in 2018, will support rapeseed and canola prices worldwide and allow the crop to enjoy "above-normal" premiums over soybeans.

Canadian canola prices tend to see a period of seasonal strength during the first half of the year as supplies start to tighten while demand from crushers and exporters generally remains strong. Cliff Jamieson, analyst at DTN/The Progressive Farmer, sees nearby support at CAD506 per tonne, and said futures should hold above the CAD500 mark into next year "unless we see the investor trade turn bearish and start liquidating".

Jack Scoville, senior market analyst at The Price Futures Group, agreed that canola prices should remain firm for the foreseeable future.

Sunflower

Prices of sunflower seeds and – oil fell by around 4-5% during the first four months of 2017, weighed down by a strong start to the US soybean planting campaign, a higher forecast canola area in Canada and a trade spat between Russia and Turkey.

Russian exports to Turkey, the biggest buyer of its sunflower oil, were suspended in mid-March amid a dispute between the two countries. Russian President Vladimir Putin met his Turkish counterpart Tayyip Erdogan in Moscow in early May, and both sides agreed to scrap the restrictive tariffs that had been imposed.

However, Russian exporters of some agricultural commodities – including wheat, sunflower oil and corn – faced fresh restrictions on exports in October, when Turkey imposed a requirement that agricultural imports from Russia receive approval from Turkish authorities starting from October 9. This was assumed by some industry sources to be in response to Russia's approval of "only" nine Turkish firms it will import agricultural goods from.

2018

News from Argentina suggests that the country could see the biggest sunflower crop in a decade in 2017/18, due to large numbers of wheat and soybean acres lost to flooding, although initial forecasts have been reduced slightly due to some unfavourable planting conditions for sunflowers this autumn.

Turkish production of oil-type sunflowers is also set to reach a record 1.45 mln tonnes for 2017/18, up by 19% on the previous season, thanks to abundant rainfall in the main growing regions of Thrace and Cukurova in early summer.

Argentina and Turkey poised for record sunflower production this season

The USDA's Foreign Agricultural Service (FAS) said that planted area was estimated at 650,000 hectares, with an additional 50,000 ha planted to confection-type sunflowers. Average oil content in 2017/18 was seen to reach 45%, up from 43.5% in 2016/17, with local sunflower oil production forecast to rise by 11% as a result.

Ukraine's exportable surplus of sunflower oil is likely to decrease by 4% to 5.58 million tonnes in the 2017/18 season due to a smaller sunflower harvest (-10%), analyst UkrAgroConsult said. However, the analyst added that sunoil exports in the first two months of the current season (September/October) reached a new record of 850,000 tonnes versus 710,000 tonnes a year ago.

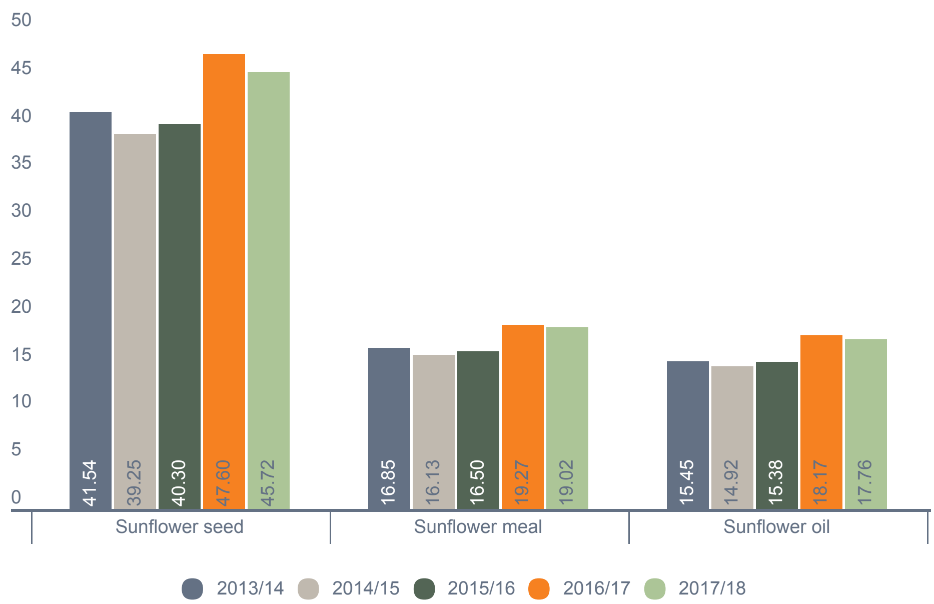
Looking at the demand side, the decision by the Indian government to substantially raise import taxes on edible oils to the highest level in more than a decade is likely to affect all vegetable oils. The move saw the tariff double to 25% for crude sunflower oil, while the duty for refined sunoil rose to 35% from 20%.

However, most analysts still expect Indian veg oil imports to rise to around 15.5 mln tonnes in 2017/18 due to strong consumption growth. Sunflower oil is also likely to continue to benefit from attractive price levels compared with rival soybean oil.

Seasonally, prices for sunoil in the winter and spring months tend to be weaker.

SUNFLOWER PRICE TABLE		
	w/c Feb 20	w/c Nov 27
Sunoil FOB Black Sea ports (USD/t)	745-760	760
Sunflower seed FOB Black Sea (USD/t)	400	370
EU sunflower seed (EUR/t)	385-400	330
Source: The Public Ledger		

Global sunflower production (mln tonnes)



Source: USDA

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The Public Ledger

Global grains market heading for a 2017/18 deficit

Current projections for the global grains balance in 2017/18 point to a deficit of 20-30 million tonnes, the first deficit in five years.

By Gary Howard

Any 2017/18 grains deficit will not be due to a lack of wheat

Demand for grains is not expected to drive the deficit, as it is forecast to rise by 0.8% to 2.1 billion tonnes, but a production drop of 2.5% to 2 bln tonnes is enough to tip the scales. From 2017/18 opening stocks of 523 million tonnes, 8.8% higher than the start of 2016/17, the International Grains Council (IGC) expects 2017/18 carryover stocks of 496 mln tonnes.

Russian wheat to the rescue

Any 2017/18 grains deficit will not be due to a lack of wheat. Wheat is expected to maintain a surplus for the fourth consecutive year, led by continued growth from the black sea region.

In Europe, France's Farm Ministry is expecting a return to form for its wheat harvest after poor weather last season; a 2017/18 harvest of 37.5 mln tonnes would be a 36.1% improvement over 2016/17 and the third largest on record.

Germany is slightly less fortunate; summer rains have helped bring its winter wheat crop forecast down 0.5% on last year at 24.4 mln tonnes. A 1.1% improvement in yields to 7.26 tonnes per hectare was overcome by some farmers switching to sugar beets and protein crops.

The Black Sea region set a new grain record in 2017/18, with wheat front and centre. Russia produced 83 mln tonnes of wheat, up from 72.5 mln in the preceding year.

Russia continues to expand its export reach and will cover a fifth of the global wheat import demand

Even Ukraine's 0.3 mln tonne drop in grain output to 26.5 mln left it above the five-year average.

Russia continues to struggle with logistics issues, a boom in wheat exports in recent years not being matched by investment in infrastructure, from trucks to rail through to ports.

"The farm gate price [farmers] are receiving this year is significantly lower than it should be because of those infrastructure problems," Andrey Sizov Jr., managing director, SovEcon, said at the Global Grains Geneva conference in November.

Despite this limitation, Russia continues to expand its export reach and will cover a fifth of the global wheat import demand with its exports, hitting a new record. Stocks are still expected to rise in Russia, to around 20 mln tonnes.

Russia's wheat strength is being felt in the US, where plantings are falling as the wheat price remains subdued. As Russian farmers continue to adjust the balance of the wheat trade, they maintain the advantage of lower production costs, particularly in land costs.

The US wheat projections for 2017/18 point to a historical low in production of 47.4 mln tonnes against 62.8 mln in the preceding year. The low output is the product of exceptionally weak plantings and a decline in yields, primarily due to continued severe drought conditions affecting the Northern Plains.

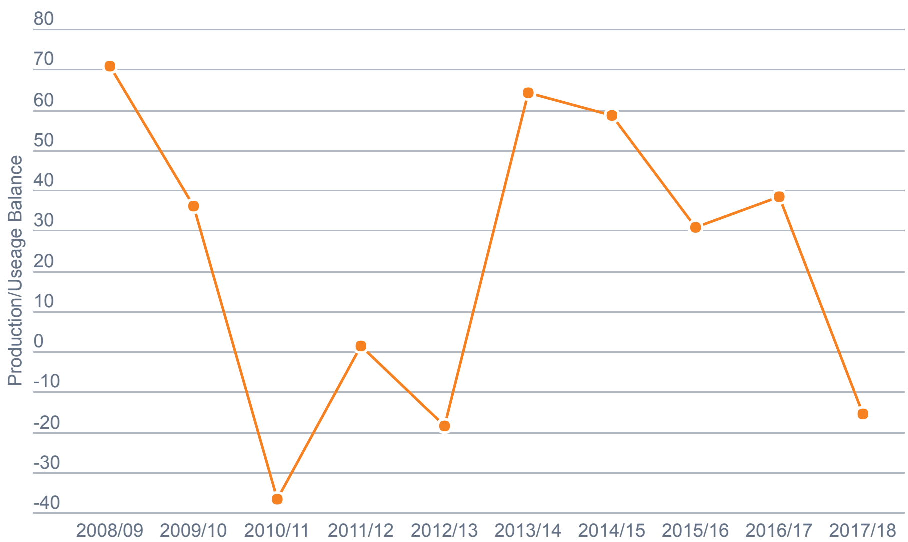
Australia's wheat production is also on course for an underwhelming crop due to dry weather. The Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES) recently cut its forecast for the 2017/18 wheat production to a nine-year low of 21.6 mln tonnes, a sharp reversal of fortunes from record production of 35 mln tonnes in 2016/17.

Chinese 5-year low

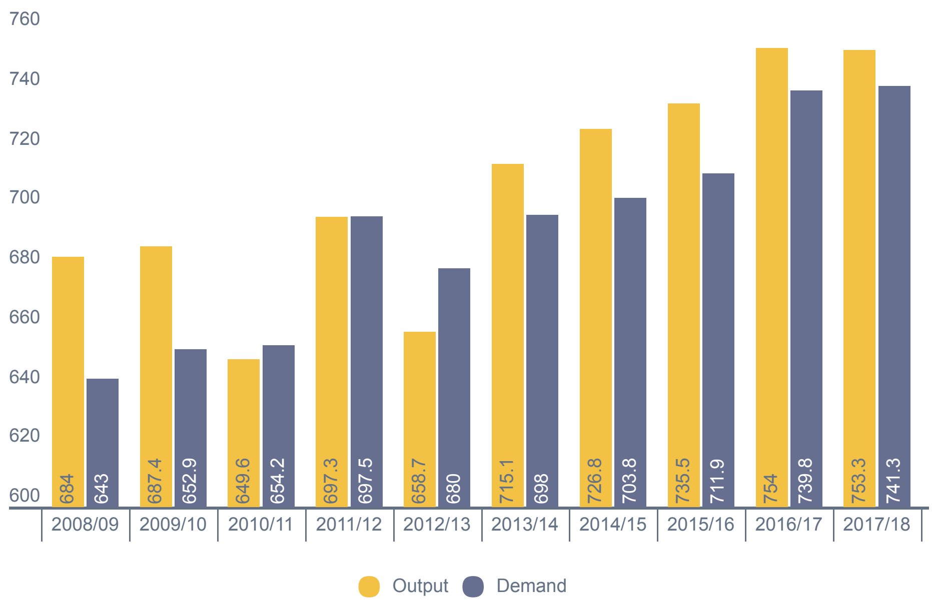
China has engineered a lower corn crop for 2017/18. Planting has fallen due to lower subsidies as the state tries to encourage diversification into crops such as wheat, rice, soybeans, sorghum and others. Historically high yields of 6.1 tonnes per hectare are not expected to be enough to prevent a five-year low in Chinese corn output.

Sister title Informa Economics IEG's balance highlights a widening corn deficit for China, where growing demand growth of 3% coincides with shrinking supplies. The 2017/18 deficit stands at 25 mln tonnes, up from 9 mln tonnes in the prior cycle. Beijing targets to cut its massive inventory

World grains balance (mln tonnes)



Global wheat balance (mln tonnes)



Source: Informa Economics

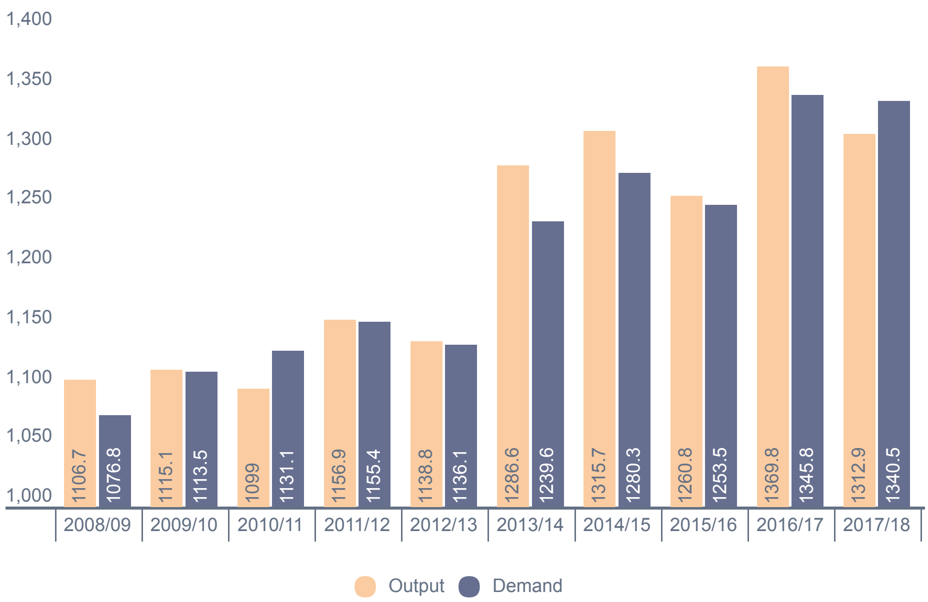
levels by boosting local demand. Therefore, strong imports are not on the cards.

In Argentina, President Mauricio Macri ditched export taxes imposed by the previous government and plantings are expected to be a record. If yield expectations hold out, production will be 41 mln tonnes, down slightly from 2016/17.

The grain corn crop in Germany could rise by 6.8% year-on-year to 4.4 mln tonnes, due to both higher plantings and yields. Analysts expect the disappointing quality of this year's wheat will mean more export business for France, where crops look to have proven resilient to adverse weather.

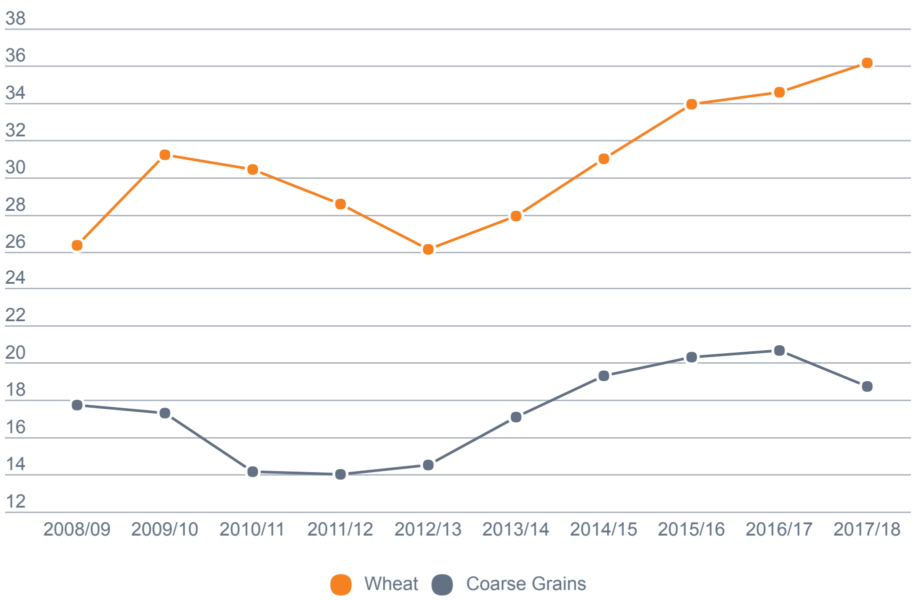
The US corn story is a better one. Production in 2017/18 is expected to be 370.1 mln tonnes, well above average, but down on 2016/17's 384.8 mln tonnes record. Production will help maintain a comfortable balance even as feed and fuel ethanol spur demand. As seen in wheat, Black Sea corn availability pressures US exports, along with stocks in South America.

Global coarse grains balance (mln tonnes)



Source: Informa Economics

Global grain stock-to-use ratio (%)



Source: Informa Economics

Taking a look further down the road, the projections for the coming harvests in the two South American corn majors look comfortable. Argentina should continue to be a key corn exporter on the back of a strong output. In Brazil, the supplies expected for the current and the coming cycle should allow record exports and simultaneously keep stock elevated. This means that the projected 2017/18 deficit has no potential to shake up the market.

Brazil's first 2017/18 corn crop has been put under pressure by soybean plantings, data from government agency Conab shows. Corn production could fall from 30.5 mln tonnes in 2016/17's cycle to 24.5-25.9 mln tonnes. The first crop is generally overshadowed by the second, after the soybean harvest.

Conab projects up to 93.1 mln tonnes, compared with 97.8 mln in the last harvest and 66.5 mln in drought-hit 2015/16. The export outlook for the coming harvest is for 30.0 mln tonnes, flat on the year.

Demand suppression

World grains demand is expected to rise by around 1% to 1.92 bln tonnes, based in local marketing years. Feed corn is expected to lead demand growth, with declines for wheat and barley for feed.

The EU, Ukraine and Canada have lower feed grain demand, while China, Russia and the US are leading demand growth. Growth in Asia is slower but positive in Southeast Asia, Japan and South Korea.

A dip in worldwide cereal stocks is not expected to cause any tightness in supply.

Preparation is key to Brexit survival for grains and oilseeds farmers

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UK farmers who sleepwalk into Brexit will count the cost.

By Gary Howard

Forecasts for the UK grains industry are being clouded by the continuing uncertainty around the details of the UK's exit from the European Union, and its future trading relationships with the EU and the world.

The average Farm Business Income (FBI) for cereal farmers could be set to fall between 80% and 100%, according to a report published in October 2017 by the UK Agricultural and Horticultural Development Board (AHDB) and produced by Informa Agribusiness Consulting, part of the same group as IEG Vu, in association with Promar International.

The report considered three possible Brexit scenarios: 'Evolution', 'Unilateral Liberalisation' and 'Fortress UK'. The report also took into account the changes these 3 scenarios would make to public support, labour, the UK trade relationship with the EU and the rest of the world, and the regulatory environment.

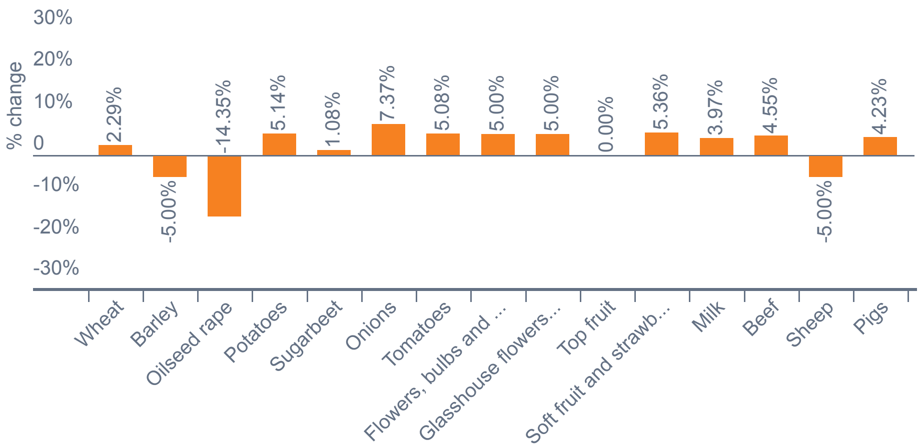
The report investigated the potential effect on cereal farmers of policies such as the unilateral opening of the UK market to low-cost producers, the implementation of trade barriers, and the loss of EU funding.

"The UK's decision to leave the EU has created a great deal of uncertainty for the agricultural sector," said the report with the suggestion that, "steps to improve productivity and performance would enable farmers to mitigate potentially

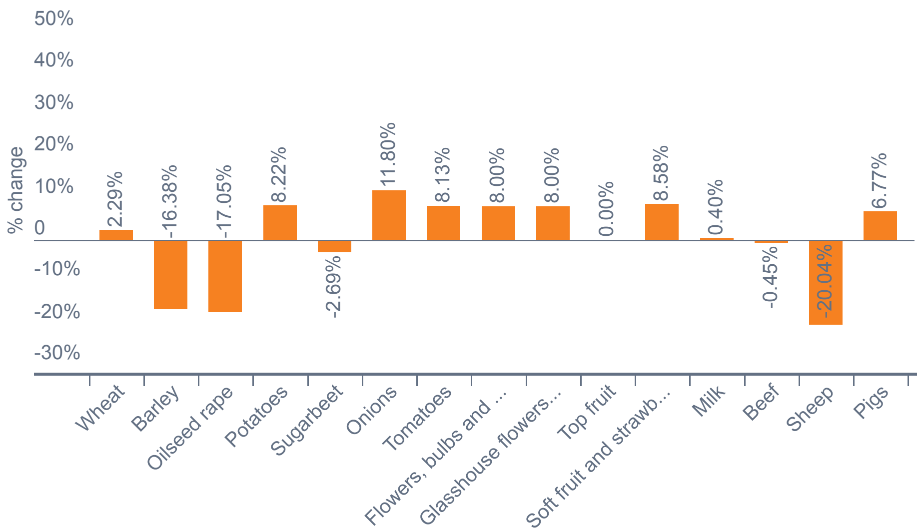
"The UK's decision to leave the EU has created a great deal of uncertainty for the agricultural sector"

Price impact for Farm Products by post-Brexit Scenario

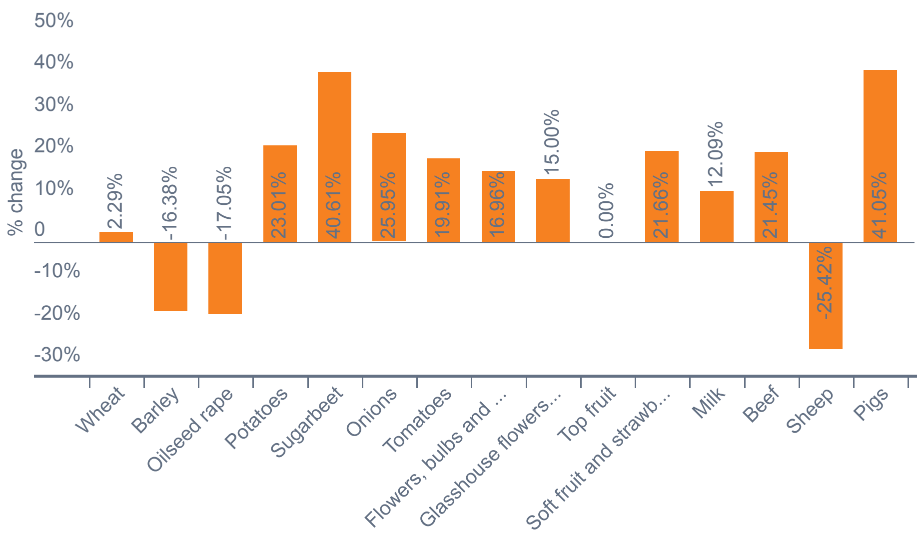
Scenario 1: Evolution



Scenario 2: Unilateral liberalisation



Scenario 3: Fortress UK



SOURCE: AHDB report produced by Informa Agribusiness Consulting in association with Promar International.

See article text for details of different scenarios.

negative impacts of leaving the EU, even before details on agricultural trade or policy emerge."

The average FBI for cereal farms is currently GBP43,796. If UK farmers face open borders to low-cost food producers, the 'Unilateral Liberalisation' scenario, this would lead to an 81% drop in cereal farmers' FBI to GBP8,216, mainly driven by the removal of key EU funding for the sector.

Under the 'Fortress UK' scenario, where the UK implements protectionist trade barriers, cereal farmer's income would drop even further by 103% to a negative figure of -GBP1,341.

"Decreases in the value of production output and increases in regular labour costs also have an impact…there is likely to be increased pressure on the less efficient farmers and there may also be downward pressure on farm size in order to reduce labour costs," added the report.

Even in a business as usual scenario ('Evolution'), where the UK matches most of the current policies, regulation and trade deals it enjoys in the EU, cereal farmers will see a 9% drop in FBI to GBP39,788.

"The 9% decrease…is driven mainly by decreases in the output values for oilseed rapeseed and barley, caused by the loss of export potential, which is not compensated for by the smaller increase in the value of wheat output; the FBIs of farms relying on these two crops will be especially vulnerable," said the report.

However, AHDB senior analyst Sarah Baker, reminded delegates at this year's AHDB's Grain Outlook Conference in October that the report only outlined the potential outcome for an unprepared market.

"Remember that the study is made under the assumption that farmers do nothing, so if this scenario happened tomorrow, this is what would happen," Baker said.

"We know how flexible and resilient farmers are, so this is very much a static analysis that farmers will do nothing in response to Brexit…but we are keen for the industry not to sleep walk into Brexit," she added.

The imposition of tariffs on UK trade would create more complex domestic market place with mixed fortunes on the different crops and quality grades, added AHDB lead analyst Jack Watts, indicating that the competition with other exporting nations, such as Ukraine will be fierce, considering the country continues to have preferential access to EU market following crisis in Crimea.

“We are keen for the industry not to sleep walk into Brexit”

“We have to find the high-water mark before the tsunami of Brexit. We will be facing great competition in the future,” said AHDB director Paul Temple, during the AHDB conference.

The report assumed that the UK remains a net importer of wheat, but in the event of a wheat surplus the grains industry may face difficulty.

“If the UK were to have an exportable surplus of wheat, such as from a year of unusually high yields, it would not be possible to sell this competitively on the export markets,” the report indicated.

The current UK wheat crop being planted is likely to a face marketing period which will partly incur the Brexit era, however, the effect this will have on farmers is dependent on whether the UK is likely to be a net exporter or importer of wheat.

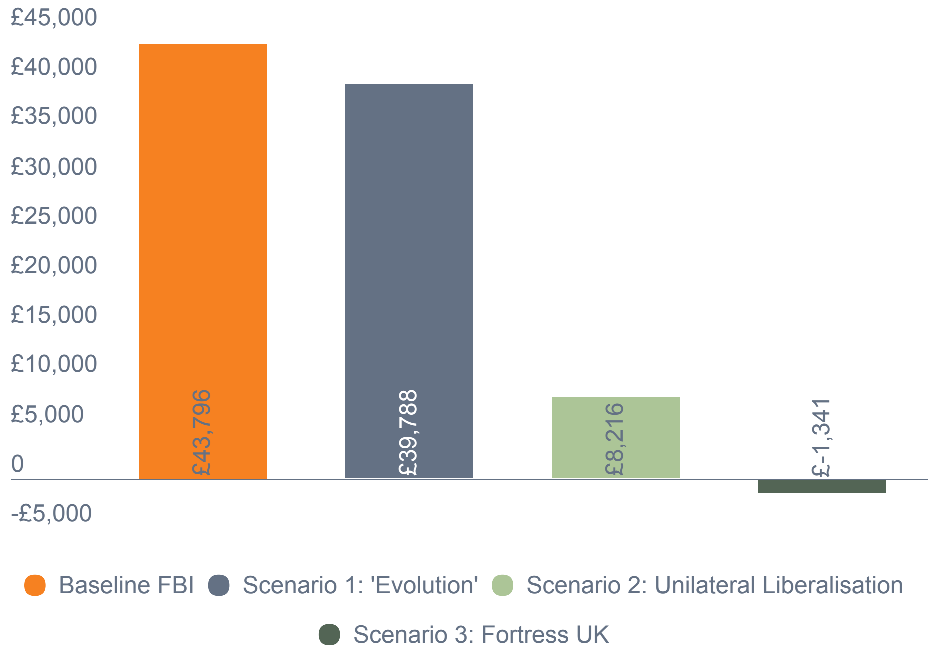
Over the last 4 years, the UK has oscillated between net importer and net exporter, with not much change expected in the near future, AHBD said during its conference.

 “It is difficult to predict if [the UK] will be a net exporter or importer and this pattern is here to stay,”.

However, delegates were still made aware that the UK wheat market will still be heavily influenced by what happens on global stage regardless of domestic politics.

“The exchange rate for example is still a hugely important variable which could wipe out any effects potential tariffs may have,” Baker, concluded.

Initial impact on UK cereal farm business income* by post-Brexit scenario



SOURCE: AHDB report produced by Informa Agribusiness Consulting in association with Promar International.

See article text for details of different scenarios. *FBI is a standard measure of farm profitability used by Defra

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Cocoa Review for 2017 and Outlook for 2018

The global cocoa industry witnessed some market-shaping headlines in 2017 with some of these events set to impact the outlook for 2018.

By Obafemi Oredein

At the start of 2017, Ivory Coast started to witness the start of its "cocoa crisis"

Cocoa production for the two global leaders, Ivory Coast and Ghana, increased considerably during the 2016/17 season with Ivory Coast hitting a record 2.1 million tonnes. Ghana produced over 960,000 tonnes – its highest in six years since the 2010/11 season when output stood at a little over 1 mln tonnes for the first time.

At the start of 2017, Ivory Coast began to witness the start of its "cocoa crisis" owed to the large surplus of beans in the country. This resulted in farmers being unpaid for their cocoa, leaving them in financial constraints. Cocoa stocks piled up in farmers' stores, exporters' warehouses and at the ports in Abidjan with few or no buyers. This was due to a rash of defaults by local exporters who put in bids for cocoa at high prices; then as global cocoa prices saw a 40% drop, exporters had cocoa stocks they were unwilling to sell at a loss.

Ivory Coast cuts farmer price

Key events of 2017, following the sharp fall in the global cocoa prices, included Ivory Coast cutting its producer price for farmers. Cocoa prices had tumbled from over USD3,200 per tonne from mid-2016 to around USD1,900 by mid-2017; a 40% decrease.

Ivory Coast therefore reduced the price it pays farmers by 36% to CFA700 per kilo (USD1,260/tonne) in March 2017. It previously paid its farmers CFA1,100/kg. Meanwhile, Ghana retained its GHS7,600 (USD 1,689) per tonne – the same price it paid in the 2015/16 season despite falling prices of cocoa in the international market.

Two negative effects of the disparity in prices between the two countries are smuggling of cocoa to Ghana from Ivory Coast and a distortion in output figures by both countries. These two factors are set to remain sticking points in 2018.

Accra Agreement

In May 2017, Ghana and Ivory Coast jointly announced they would co-ordinate their production to stem the price volatility in international prices of cocoa that cut their foreign exchange revenues and left their farmers with lower income and financial hardship.

The two countries finally signed the 'Accra Agreement' in June, which was expected to help them tackle industry issues including the fixing of the global prices of cocoa currently decided by trading companies in the West and Asia.

In September, Ghana and Ivory Coast, as a first step in efforts to gain control of the pricing of cocoa in the world market, announced a new initiative to withhold cocoa by creating a buffer stock of cocoa beans and process more cocoa. The countries hoped the two plans will give them more influence in the fixing of global cocoa prices.

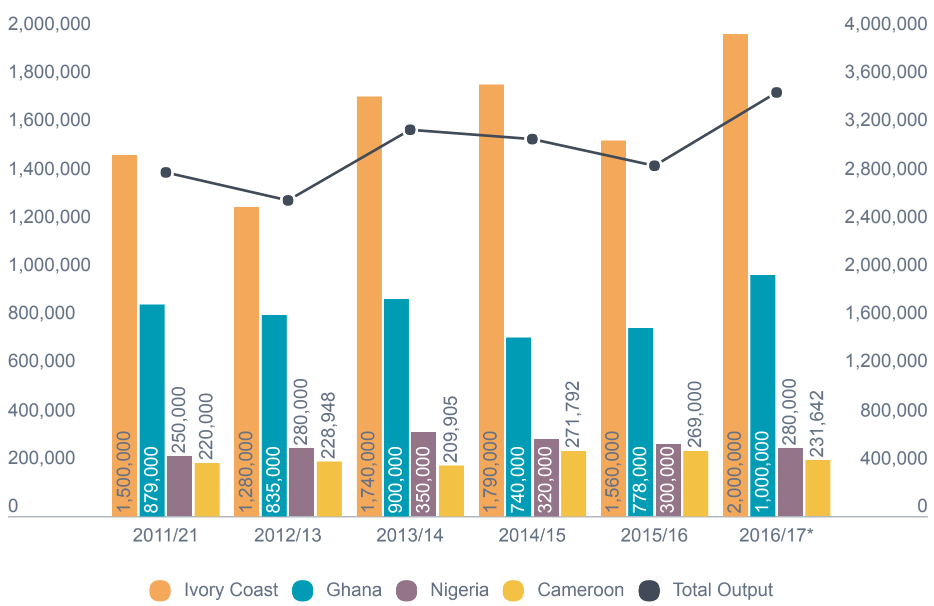
The 40% fall in global cocoa prices by July 2017 led to defaults by local exporters and buying companies in Ivory Coast. The bumper crops in the 2015/16 and 2016/17 seasons in West Africa (especially Ivory Coast and Ghana) resulted in the oversupply of cocoa to the global market. The slump in global prices followed the oversupply.

"The supply surplus we are dealing with at the moment is in the region of 250,000-360,000 tonnes. That's a lot. So, the bad news is the price level we have now is not going to evaporate tomorrow," indicated Jean-Mac Anga, executive director of the International Cocoa Organisation (ICCO) back in May.

Three months later in August, the ICCO revised the global cocoa supply surplus at 371,000 tonnes from the 382,000 tonnes it previously predicted because of higher demand than originally forecasted

Cocoa: ICE cocoa futures (USD/t)
Change in price from 01/12/2015

West African Cocoa output (tonnes)



Source: Cocobod, FPIS & Cocoa Association of Nigeria, National Cocoa & Coffee Board, Cocoa and Coffee Board of Ivory Coast and President Ouattara

***Ivory Coast, Ghana and Nigerian estimates**

Outlook for 2018

The large cocoa volumes produced by Ghana and Ivory Coast during the last two seasons raised the global cocoa supply surplus and this excess of cocoa is likely to remain in 2018. However, it could be less than 100,000 tonnes by the end of the second quarter or the third quarter due to the higher demand for cocoa products in Asia, Europe and North America.

India, China, Indonesia and other markets in Asia are consuming more products made with cocoa powder, therefore raising the demand for cocoa. Also, demand for cocoa butter and liquor – used in chocolate manufacturing – is also growing worldwide.

Though cocoa prices will remain low for quite some time in 2018, they could rise to about USD2,500-2,700 per tonne if the oversupply surplus is reduced or there is a spike in prices due to lower production in West Africa.

The industry focus in 2018 will largely be on Ghana and Ivory Coast, as in previous years, as they account for 65% of total world cocoa production. However, Nigeria and Cameroon, the two other key cocoa growers in West Africa, cannot be ignored in the production and supply equation; together their cocoa output stands at 500,000 tonnes per season.

Cameroon produces a little over 200,000 tonnes of cocoa. This level is not expected to increase substantially in 2018 because of rising violent separatist agitations in its English-speaking southwest and northwest areas that produce more than 60% of the country's annual cocoa output. The government of Cameroon's President Paul Biya has cracked down heavily on the separatists. The agitations could worsen in 2018 and may have a negative impact on Cameroon's cocoa sector.

As for Nigeria, its government has not done much for cocoa development. The country is gearing up for national and presidential elections in the first quarter of 2019. Nominations for elections and campaigns for the polls should begin before the second quarter of 2018. Currently, no government-backed initiative that could raise Nigeria's current cocoa output (of about 280,000 tonnes per season) in the New Year should be expected.

Ghana has adopted an aggressive position on cocoa production and supply. It has introduced new methods and technology such as cocoa hand pollination. Irrigation of cocoa farms is being planned with the help of China, in addition to existing cocoa programmes to raise production to 2 mln tonnes by 2019, according to Joseph Aidoo, chief executive officer of the Ghana Cocoa Board (Cocobod). With good weather and other variables being positive, Ghana could grow 1 mln tonnes of cocoa or even more in the 2017/18 season.

Meanwhile, the cut in the producer price of cocoa in Ivory Coast could result in the country growing less cocoa in 2018 than it did in the 2016/17 season. The guaranteed producer price was introduced after the cocoa reforms of 2011 in Ivory Coast, which authorities hoped would bring certainty and stability to its cocoa sector, help give its farmers more cash, and stimulate the farmers to spend more money on their farms and produce more cocoa. Now the producer price for farmers has been cut in Ivory Coast because of low global cocoa prices, the reverse of the factors mentioned above could be the case in 2018.

Also, some entirely unexpected events in Ivory Coast such as a new round of mutinies by soldiers, worker strikes or some health concerns similar to the Ebola virus of 2015, could result in the country producing about 1.7 mln tonnes of cocoa in 2018 – lower than its record output of 2.1 mln tonnes last season.

"If there are no political unrest or health problems in West Africa. especially in Ivory Coast, a severe shortage of cocoa is highly unlikely in 2018," said Bukola Omotosho, of the Cocoa Association of Nigeria.

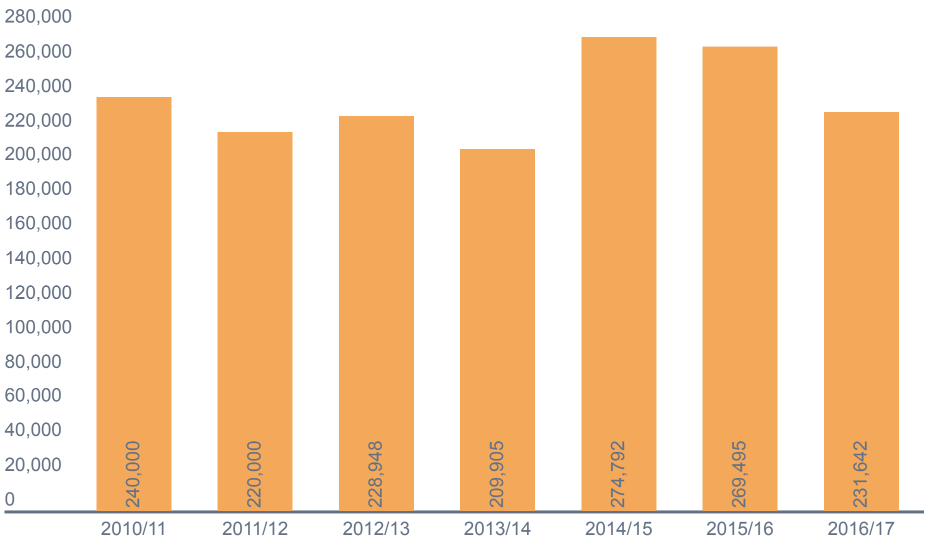
Ghana's production in 2018, combined with those of Ivory Coast, Nigeria and Cameroon, should at least yield 3 mln tonnes to 3.2 mln tonnes in 2018 – the four West African nations will therefore retain their position as the largest producers of cocoa in the world.

In addition, the global cocoa industry could see a radical change in Ghana in 2018 as its President Nana Addo Dankwa Akufo-Addo wishes to produce more cocoa and grind more of it in Ghana.

President Akufo-Addo said Ghana and Ivory Coast, which produce 65% of the world's output of cocoa, make less than USD 6 billion from a cocoa industry that is a USD 100 bln industry.

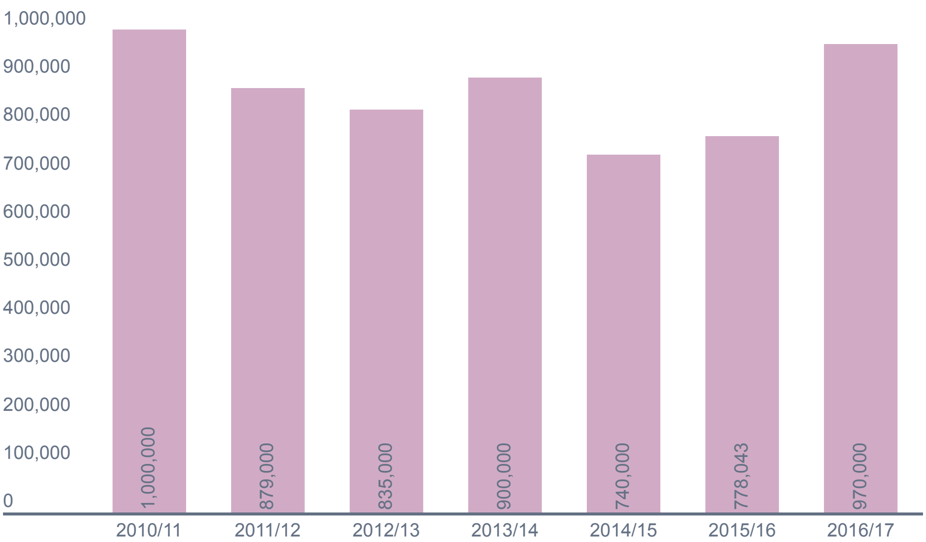
"If we simply ground and sold the cocoa in paste form, instead of selling the cocoa beans, we'd double our earnings. In much the same way as we would double our earnings from gold if we sold it refined, (rather) than in its raw state. We are determined to process these products," GhanaWeb quoted him as saying in November 2017.

Cameroon cocoa production ('000 tonnes)



Source: NCCB

Ghana cocoa production (tonnes)



Source: Cocobod

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Global Outlook: Coffee

By Sandra Boga

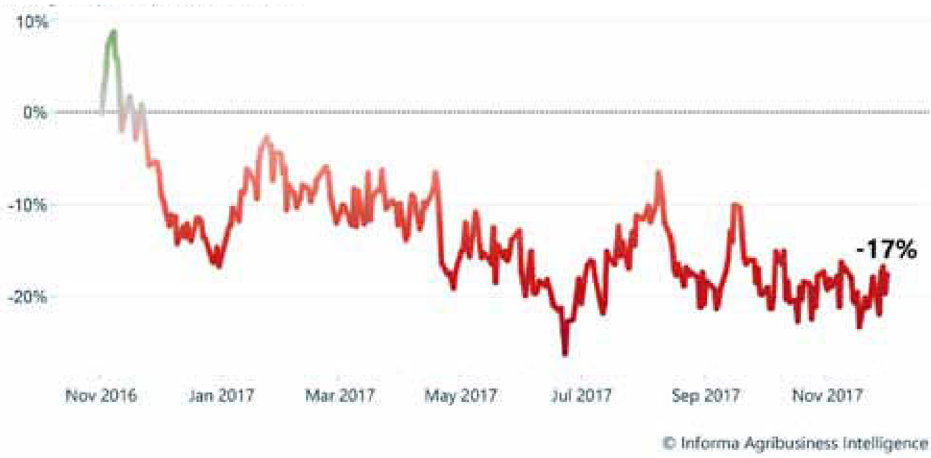
Prices

The December Arabica contract hit a near-two-year high at 176.00¢/lb (113) back in November 2016 and London Robusta futures even hit a 5½-year peak in January this year (at USD2,279 a tonne for the second position) as concern over the crop outlook in key producers aided sentiment at the time.

Indeed, Brazil had some issues with its 2017/18 crop including smaller bean sizes and damage from a borer infestation, but these problems had more to do with bean quality rather than the overall size of the harvest. A strengthening of the Brazilian real was also supportive, while rain delayed the 2016/17 harvest in Vietnam and kept the bullish momentum in the Robusta market alive.

But the key reason for the heights eventually reached at the time was the heavy involvement of funds in the market.

Coffee: ICE coffee 'C' futures closing price (USD/lb)
Change in price from 01/11/2016



Coffee: ICE Europe (ICE) Robusta coffee futures, closing price (USD/t)
Change in price from 01/01/2012

The speculative net long position had risen to the highest level ever since statistics on this became publicly available in 2006.

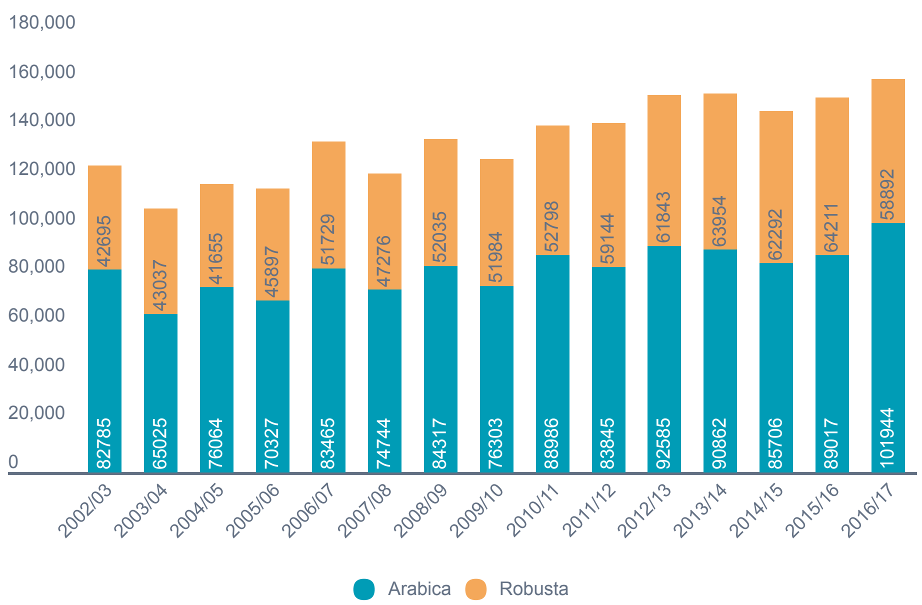
However, bumper output from countries such as Colombia, India and Uganda eventually alleviated concern over available supplies and pushed the market back down. Exports from the exporting nations have been running well above year-ago levels through the entire 2016/17 season, contributing to a build-up in stocks in the importing countries and alleviating any concerns over lack of availability.

The speculators also turned bearish again and are currently holding a net short position, i.e. bets on falling prices, in both the New York Arabica as well as the London Robusta futures markets. That said, Arabica futures are currently trading around 130¢/lb with Robusta quotations hovering around USD2,000 a tonne. This means that the Arabica premium over Robustas is currently trading at around 40¢/lb, right within the 22-75¢ range it has been trading in over the past year.

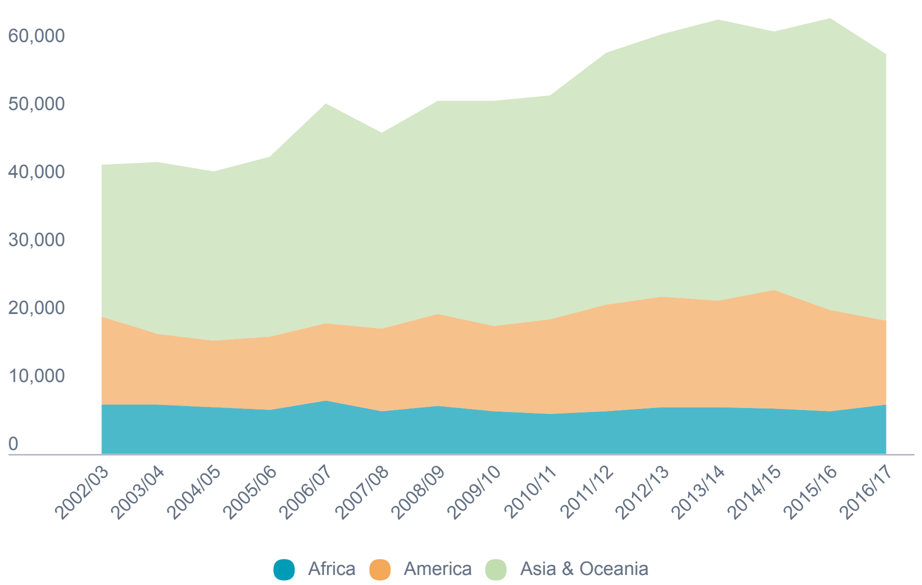
Production

World coffee production has risen to 160.8 million 60-kilo bags in 2016/17, up from 153.2 mln a year ago. That rise in output was sufficient to pull the world market out of its two-year deficit phase which started in 2014/15. The surplus during 2016/17 is estimated at 4.0 mln bags – enough to pull prices back down significantly from its heights at the beginning of the year. In fact, world coffee output rose to the highest-ever in 2016/17. Arabica output is estimated at a record 101.9 mln bags up from 89.0 mln last year, but Robusta production fell significantly to 58.9 mln bags from a record 64.2 mln the year before.

World coffee production (mln 60kg bags)



World Robusta production (mln 60kg bags)



Source: FO Licht

South America

Coffee production in South America rose to 76.5 mln bags in 2016/17 from 69.8 mln the year before due to higher output in top producer Brazil. Total Brazilian coffee production reached 56.0 mln bags for 2016/17, up from 50.6 mln the year before, which had been the lowest since 2010/11.

Meanwhile, Asian coffee production fell to an estimated 45.9 mln bags in 2016/17 from 49.8 mln a year earlier, with output having been reduced in all major producers namely Vietnam, Indonesia and India.

Vietnam's coffee production in 2016/17 fell by 9% to about 25.6 mln bags due to water shortages for irrigation in the Central Highlands coffee belt, which was affected by the worst drought in three decades at the beginning of 2016.

Consumption

Global coffee consumption rose by a modest 1.7% in 2016/17, somewhat below the five-year average of 1.9%. Sister title FO Licht now estimates global coffee consumption at 156.8 mln 60-kg bags during the season under review, up from 154.2 mln a year earlier. Domestic consumption in producing countries is seen up at 46.3 mln bags from 45.8 mln, while consumption in importing countries rose by 1.9% on the year to 110.5 mln bags.

Importers account for about 70% of world coffee consumption and within this group North America, the EU and Asia (Japan, South Korea, Australia) make up about 83% of the total. Coffee consumption in producing countries has been on the rise for many years (at about 1.0 mln bags annually), with a steady expansion in Brazil having been a key contributor to this.

"For many years it seemed as if Brazil would overtake the United States as the single-largest consumer of coffee rather sooner than later," outlined FO Licht. "While these days are gone, Brazilian consumption is believed to have started rising again in 2016/17 with domestic offtake seen up at 20.3 mln bags from 20.1 mln the previous season", it said. Last season consumption actually fell by nearly half a million bags due to repercussions from the country's deep financial and economic crisis.

Exports

Total coffee exports by producing countries in 2016/17 were 122.449 mln 60-kg bags, 4.8% more than the previous year's 116.890 mln and therefore the highest ever, according to International Coffee Organisation (ICO) data. Shipments of Arabicas rose to 77.516 mln bags from 71.873 mln a year earlier, while Robusta exports were only little changed at 44.934 mln bags from 45.017 mln a year ago.

The increase in Arabica exports is somewhat surprising at first sight as the largest shipper of this variety – Brazil – experienced a further significant drop in total exports to 31.579 mln bags from 34.644 mln the year before – a decline of 3.065 mln bags. However, that decline is due to lower exports of Robusta beans whereas Arabica exports even seem to have risen.

Robusta exports fell only fractionally to 44.934 mln bags in 2016/17 from 45.017 mln bags a year earlier. This came despite a significant drop in exports from the world's top Robusta producer and exporter, Vietnam, whose farmers had capitalised on a rise in Robusta prices and offloaded hoarded beans in the previous season. Vietnam's exports in 2016/17 therefore dropped by 1.682 mln bags to 24.755 mln.

Stocks

EU coffee stocks were at 11.767 mln bags at the end of May 2017, down a bit from 12.078 mln bags held at the same time last year but still a very comfortable level of cushion. With EU coffee consumption estimated at about 45.4 mln bags, this means that current stocks are equivalent to about three months of consumption.

US green coffee stocks meanwhile fell by 147,285 60-kg bags to 7.266 mln bags in August 2017, marking the first monthly drop this year after levels reached the highest in 24 years. Green Coffee Association (GCA) data show that stocks were up 17.2%, or more than a million bags, from 6.198 mln bags at the same time last year. Prior to the drop in August, stocks rose for eight straight months, reaching 7.413 mln bags in July, the highest since 1993. That was the first time that stocks rose above 7 mln bags since March 1994.

Outlook

All in all, the numbers above confirm a trend of shifting stocks from origin to key destination countries that could already be seen for a number of years. At the same time this is a reflection of record coffee exports in 2015/16 and 2016/17. The latter is also the reason for the drop in prices the markets have been suffering since the beginning of the year.

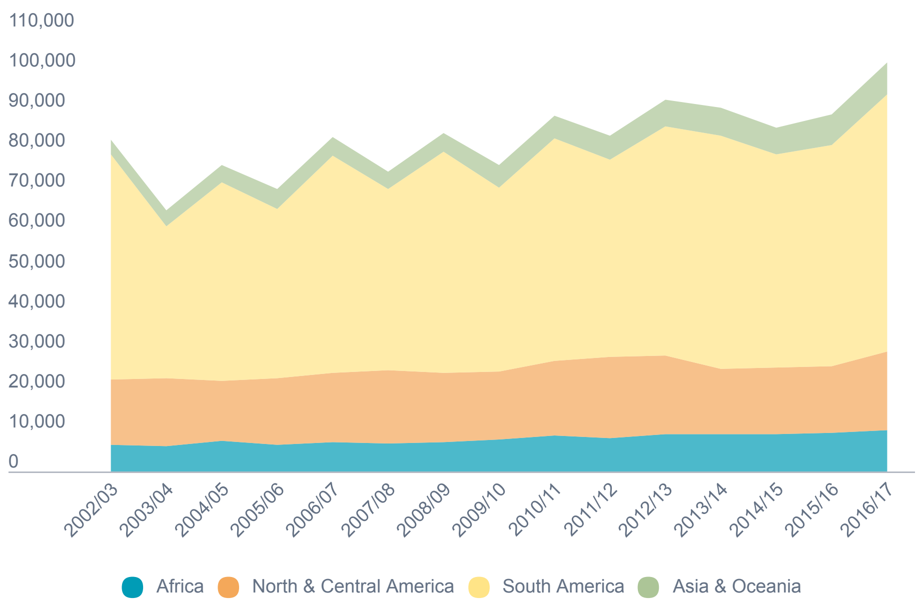
Even though export volumes from Vietnam were lower on a year-over-year basis in each month since March and for Brazil in each month (except one) since March 2016 neither country ran out of coffee due to stocks accumulated in past years. However, the lower level of exports from the world's two largest exporters shows that the stock cushion at origin, at least, is now depleted and future exports will have to be carried out from actual production.

All in all, global coffee exports rose to the highest level ever in 2016/17 as lower exports by the world's from Brazil and Vietnam – were more than offset by increases in several other countries including Indonesia, Honduras, Colombia and Uganda. Given that this did not come along with a significant stock build up in consuming countries it is a reflection of rather robust demand across the globe.

This puts the current flowering period for next year's crop in Brazil into the spotlight as a huge crop will be needed then to keep the pipeline afloat. While Brazil's Robusta output should be excellent in 2018 due to good weather in Robusta areas after back-to-back seasons of drought there are already some strikes against the Arabica production potential. An aborted early flowering in early August due to a lack of crucial back-up showers is one of them, so the weather in coming weeks will be key for determining the size of next year's harvest.

Meanwhile, too much rain seems to have negatively impacted the flowering period of the upcoming Indonesian crop, while there is also some concern that too much rain could hurt Colombia's 2017/18 main crop. Given that Vietnam is not expecting a large bounce in output either due to heavy rains this leaves the market with only little leeway for a production issue given the modest producer stocks on hand. The market may therefore be vulnerable to an upside run if anything goes wrong in 2017/18.

World Arabica production (mln 60kg bags)



Source: FO Licht

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Global sugar outlook

REFLECTIONS ON THE YEAR
By Arvind Chudasama

This year has been pretty ordinary for the global sugar industry as a whole. The old adage that sugar operates in a bear market with the odd bull spike, has defined it. We had the latter for the previous two years as drought impacted crop production in top producing countries in Asia (India and Thailand) and Brazil. The sugar price at the beginning of the year was around USc21/lb. This has dropped to currently around 15c amidst global surplus.

Return of normal weather is driving production in Asia. Pakistan is arguably the rising star, eclipsing India as the likely wild card in tipping balance in global price movement.

Reform of the EU sugar regime has resulted in major sugar companies expanding output, adding to the global surplus and casting a long shadow over the competitiveness of the standalone refineries in the Gulf states while putting pressure of Brazilian exports which dominate the raw sugar market. But let's not forget expansion in production in Russia. Some ten years ago it was a major sugar importer. Its output has increased from 3.4 million tonnes in 2009/10 to over 6.7 mln tonnes in 2017/18 – giving it an exportable surplus of around 300,000 tonnes.

Hurricane Irma during September caused significant damage to the sugar industries in Cuba and Florida, but this has caused little impact on global sugar price.

Arguably, what is concentrating the minds of the industry executives and analysts is the onslaught on sugar by health campaigners. Combination of persistent negative press and politicians not only in the west, jumping on the bandwagon to tax mainly sugar-sweetened drinks, are having an impact on demand.

Some leading analysts have predicted a significant drop in the rise in demand annually from 2% to around 1%. But not all analysts, notably the OECD, predict a significant squeeze on demand. Indeed, there appears to be "little statistical evidence proving either the slowing down in growth rates or decreases in per capita consumption in recent years at the global level," Sergey Gudoshnikov, Senior Economist, ISO.

While the per capita consumption has been dropping in the West, the emerging and developing economies continue to be major drivers of consumption growth. Besides the mix of rapid urbanisation and rise in middle classes fuelling demand in these economies, particularly via the use of industrial sugar, mobility revolution which has promoted overseas travel has fostered exposure to foods of other countries impacting changing tastes in local fare.

Agricultural production and productivity remain a persistent challenge. A recent report from Brazil noting that Raizen, the largest cane sugar producer globally, is idling two of its mills due to inadequate cane supply exposes a chronic problem in the cane sugar sector. Admittedly with few exceptions, the problem largely resides where outgrowers factor in the equation. It is within the wit of the sugar companies to replicate the collaborative structure in the beet sugar sector in the EU whereby the effective links between the growers, processors and researchers have contributed to the significant growth in beet productivity. The resource-poor outgrowers could do with proactive support from sugar companies who will doubtless be winners from ensuing success.

PRICES AND ETHANOL SWITCH
By Sandra Boga

World sugar prices have fallen sharply over the year with the decrease in early 2017 amplified by the weak Brazilian real. ICE Sugar No. 11 Futures have dipped on average by 20% for the year from levels of around 19¢/lb at the beginning of 2017, to current levels of around 15¢, though at times it has dropped to 14¢.

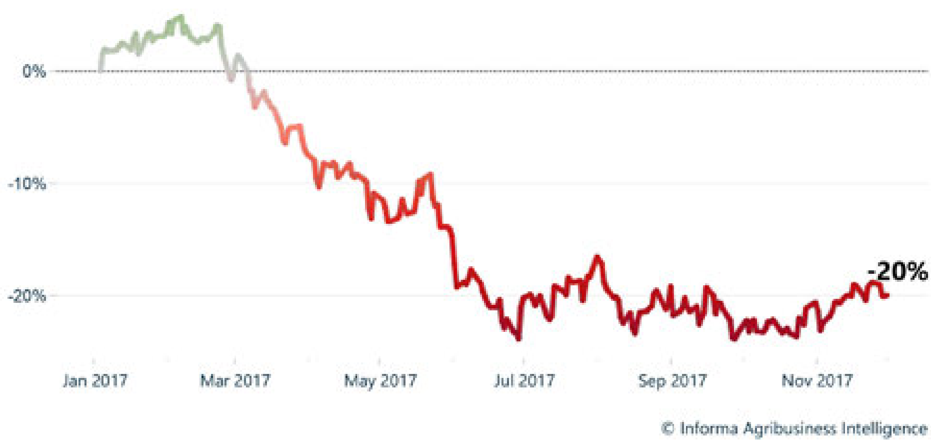
"As sugar is traded in dollars, a weak real renders sugar production more lucrative to Brazilian producers. The additional sugar supply from Brazil in turn puts pressure on world sugar prices," outlined the European Commission.

The low sugar prices induced Brazilian tax adjustments over the year: gasoline taxes were increased end of July, favouring domestic ethanol. In addition, import duties on ethanol were introduced in Brazil end of August, targeting more particularly US corn-based ethanol imports.

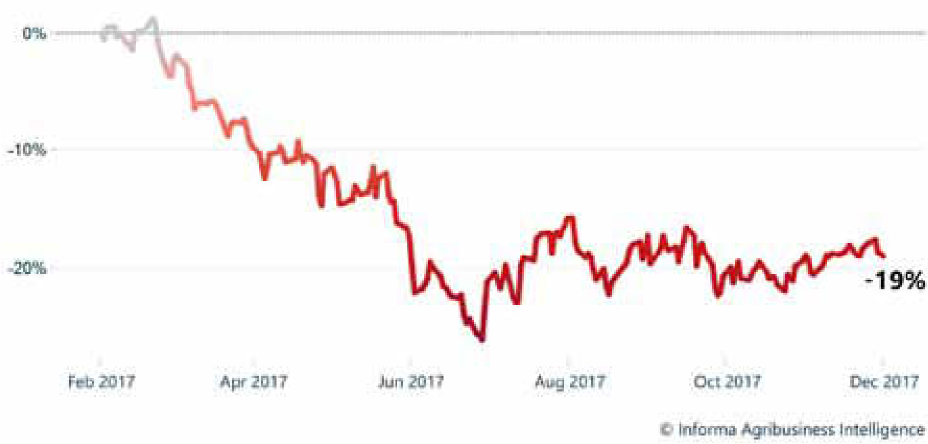
As a result, ethanol prices recovered, while low sugar prices now reach the ethanol parity, which is the level at which sugar production becomes less lucrative than ethanol production. The switch in production from sugar to ethanol could however boost sugar prices. So far, the switch remains modest, and world sugar prices are expected to remain below the ethanol parity for some time, according to the EC.

However, in November, raw sugar futures in New York did rise to a 5½-month high of 15.28¢/lb with whites breaching the USD400 a tonne threshold as the significant switch to ethanol production in Brazil from sugar did provide support. In fact, the sugar allocation reached a peak at 50.47% in the second half of June but has fallen in seven out of the following eight fortnightly crush updates to reach as little as 42.85% for the second half of October.

White suger: ICE Europe (ICE) white sugar futures (USD/t)
Change in price from 01/01/2017



Raw suger: ICE sugar No. 11 futures (USD/lb)
Change in price from 01/02/2017



"That was not only a massive 6.44 percentage points below the sugar allocation in the same period last year but roughly the same level as in the 2014/15 and 2015/16 crushing seasons when the crush was heavily biased towards ethanol," said sister title FO Licht.

Given that this preference is likely to extend into 2018/19 Brazil's mills seem currently headed for a significant drop in sugar production in 2018/19, which – dependent on the extent of the reduction – may reduce the 2017/18 (October/September) surplus, it added.

OUTLOOK 2018
By FO Licht

Our numbers indicate that the recovery in global output that set in last year is likely to accelerate this coming season.

Total output in 2017/18 is currently seen rising by a whopping 14.2 million tonnes on the year to an unprecedented 192.2 mln tonnes (raw value). As a result, world sugar surplus is projected to shrink by 4.4 mln tonnes for next season. Currently, global sugar deficit for the 2016/17 season stands at 4.7 mln tonnes, while production is placed at 179.8 mln tonnes. World exports next season are pegged at 67.8 mln tonnes and world imports at to 67.7 mln tonnes.

An ongoing strong preference for sugar production over ethanol in Brazil during the 2017/18 crushing season as well as recoveries in output in Asia will be key contributors, while the abolition of sugar production quotas in the EU is another important part in the puzzle.

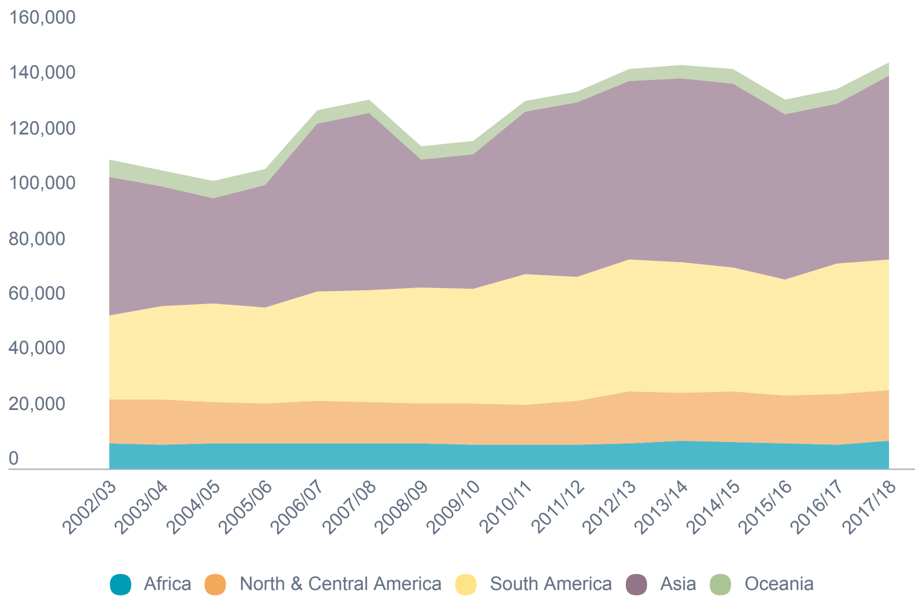
For the EU, we now project sugar beet output to rise to 21.0 mln tonnes in the new season; 3.6 mln tonnes more than last year. Asian cane sugar production is seen rising to 66.5 mln tonnes in 2017/18 from just 57.8 mln a year earlier, which had been the lowest level in seven years. While in Brazil, we are now expecting a sugar allocation of just 46.6% for the full season, slightly above last year's 46.3%.

The attention of many market participants has already switched to the prospect of a significant drop in Brazil's sugar production in 2018/19.

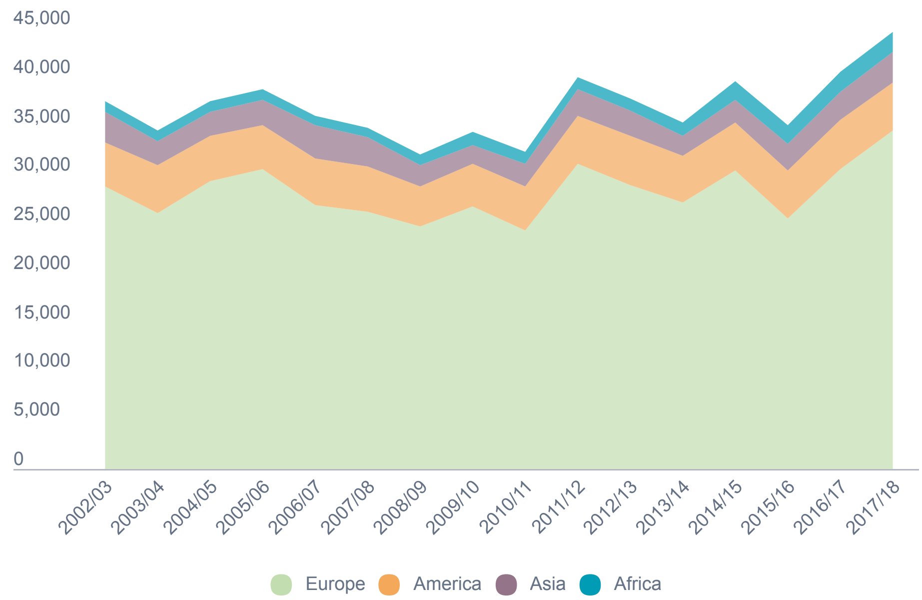
If all realised, world sugar output during 2017/18 would be 23.2 mln tonnes higher than just two years ago when output dropped to a five-year low; reflecting how quickly global sugar output can recover in the wake of high prices amid good weather.

While such a strong rise in output has pressured prices in recent months the attention of many market participants has already switched to the prospect of a significant drop in Brazil's sugar production in 2018/19. This has allowed the market to put in a bottom during the past quarter but a sustained rise in values towards the 20¢/lb level seems rather unlikely. This is due to the fact that sugar production in the EU and top producers in Asia such as India and Thailand may rise even further in 2018/19 due to expanded acreage, which may offset the likely drop in Brazil.

World cane sugar production (mln tonnes, raw value)



World sugar beet production (mln tonnes, raw data)



Source: FO Licht

EU poised for export surge as sugar quotas finally abolished

< Powered by The Public Ledger

The removal of supply controls on the sugar markets, once the 2016/17 quota year came to an end on September 30, marked the culmination of a gradual process of liberalisation in the sector dating back over a decade.

By Chris Horseman and Sandra Boga

One of the net results of the ending of quotas, anticipated by the Commission and by industry alike, is that EU sugar exports will surge, and that the EU will once again become a net exporter of the sweetener as imports diminish.

The London white sugar futures price has taken a dive overall this year by around 20% following two years of global deficit, however since September 30, prices have somewhat plateaued with a minor 3% increase. Meanwhile EU white sugar for end-July, as notified to the EU's new Sugar Market Observatory, were at EU501 per tonne (USD599 at the time), though its latest October price reference stands at EU490, again a minor 2% drop, but annually an 8% decrease.

Consolidated industry seeks new markets

The simple fact is that with quotas now ended, the last element in the cross-subsidisation identified by the WTO panel now disappears – direct export subsidies having long since been consigned to history. That means that the EU is now free to export as much sugar as it can find a market for.

However, the size of this export market is open to debate. European white sugar is prized globally as a high-quality but not especially cheap product, and the Commission has forecast total sugar exports in the 2017/18 marketing year at 2.8 million tonnes, around double the permitted export volume in previous years.

The EU will once again become a net exporter of sugar as imports diminish

Should this market fail to materialise then EU manufacturers may resort to the long-established tactic of holding back sugar to the following marketing year.

the liberation of the EU as a producer and exporter is likely to be bad news for external suppliers to the EU market

One likely effect of the abolition of quotas is a consolidation of European sugar production within the European 'sugar belt' – a swathe of land where conditions are most commercially favourable for sugar beet production, running roughly from northern France through the Benelux countries into Germany and Poland. Initial indications are that the expansion in output predicted for 2017/18 is concentrated in precisely these countries.

The European Commission latest forecast is for the bloc to produce 20.1 mln tonnes of sugar in 2017/18, up nearly 20% from 16.8 mln last season.

"However, considering the advantageous ethanol parity over world sugar prices, it is still uncertain whether some switch between sugar and ethanol production would occur and lower the expected sugar production," said the EC.

Post-colonial politics and Brexit

On the global market, the liberation of the EU as a producer and exporter when quotas end is likely to be bad news for external suppliers to the EU market. Already in the first nine months of the 2016/17 marketing year (October -June), EU sugar imports totalled just 1.739 mln tonnes, down 23% on the previous five-year average for the period (2.251 mln tonnes).

"With the end of sugar quotas and the resulting increased production, imports in 2017/2018 are expected to further decrease to 1.5 mln tonnes," added the EC.

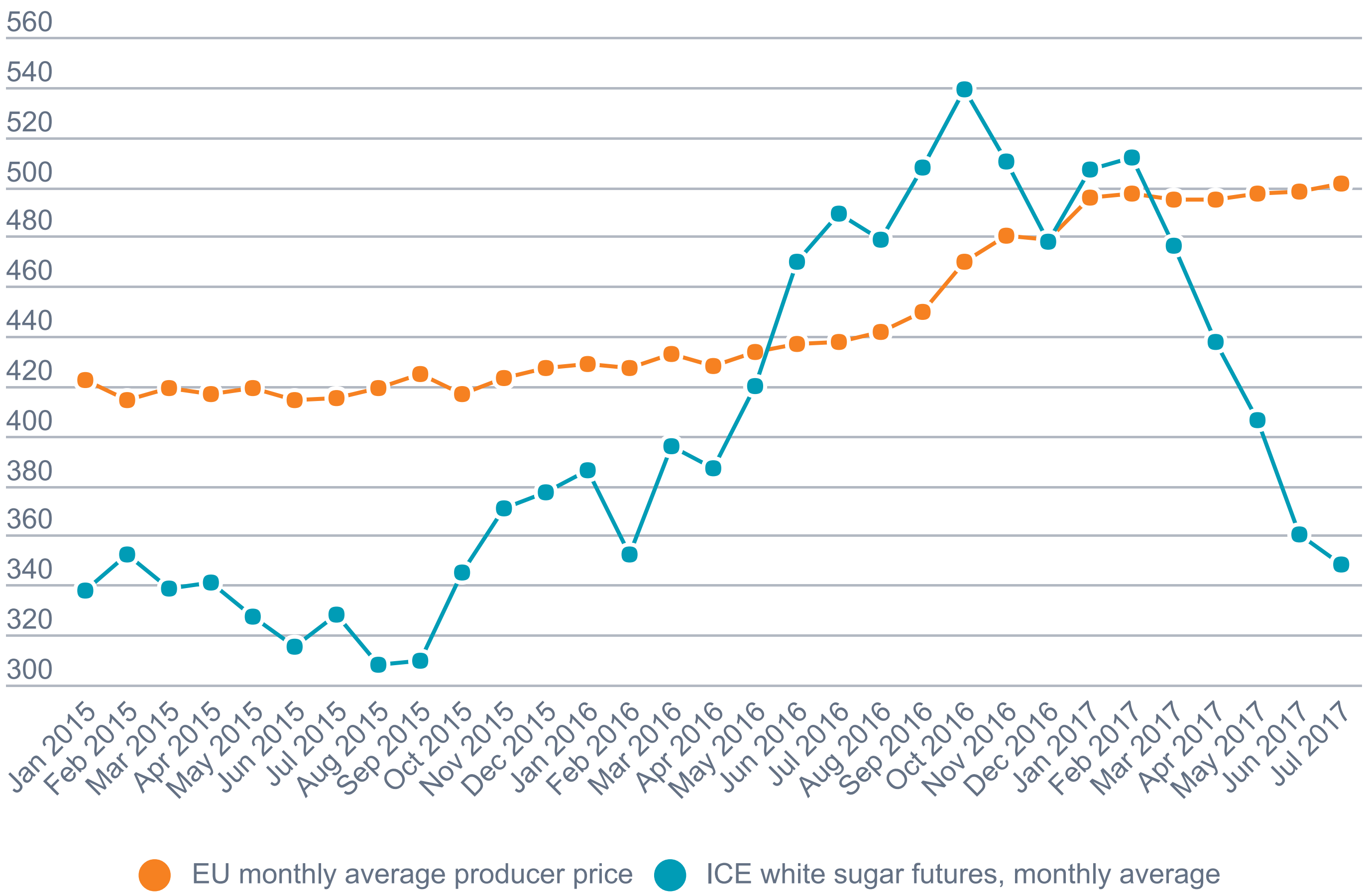
From the EU perspective, this figure is set to fall a lot lower from 2019 onwards, given that well over half of total EU sugar imports currently flow into the UK, from suppliers as diverse as Belize, Mauritius, Guatemala and Jamaica.

Indeed, the complex post-colonial politics surrounding the trade in sugar cane are set to become a major issue in post-Brexit Britain, where leading cane refiner (Tate & Lyle) is pressuring the UK government to sweep away the current high tariffs on sugar imports once Britain quits the EU, much to the chagrin of its domestic beet-processing competitor, British Sugar.

But the UK also needs to bear in mind that competition on its domestic market may well come from a third source – a resurgent EU sugar industry newly enabled to export not only to the UK but to all other third countries as well.

Although it is highly unlikely that Europe will ever compete on price with low-cost giants of the global market like Brazil and Thailand, increasing consolidation of production in the most favourable European producer regions should ultimately make Europe a force to be reckoned with as a sugar trader.

EU monthly producer price vs ICE white sugar futures (€/T)

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Outlook 2018: Global beef sales buoyant but trade tensions loom large

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World beef production is forecast to rise by well over a million tonnes in 2018 but political and economic changes in Europe and the Americas are generating uncertainties over where all this extra meat will end up.

By Max Green

Increased output in many of the world's key beef producing regions is expected to add hundreds of thousands of tonnes to global supplies this year and even bigger gains are expected for 2018.

Production levels in Brazil and the US are expected to rise by almost 5% next year, while Australia looks set for a near 3% increase. Output in Argentina is also rebounding as the industry responds to more pro-trade government policies. Meanwhile, recent forecasts suggest production in the EU will rise slightly next year – potentially allowing the bloc to hold on to recent gains in export markets.

Good year for EU and US

EU exporters enjoyed a bumper year in 2017, with shipments of beef and bovine offal reaching record levels. By the end of August, exports had already reached 315,000 tonnes, a rise of 18.5% on the same period in 2016. These gains were driven by higher sales in Asia – led by Hong Kong and the Philippines – along with Africa and the Middle East.

This more than made up for the continued closure of the Russian market and slow progress in the US, which is still only bringing in small volumes of European beef despite adding France to its list of authorised EU suppliers.

Total EU beef exports should remain at high levels in 2018, although growth will not be as steep as that seen in the past two years.

EU exporters enjoyed a bumper year in 2017, with shipments of beef and bovine offal reaching record levels

The US has itself enjoyed a good year for beef exports, and further modest gains are expected next year, according to Dr. Isaac Olvera, livestock and meat commodity market analyst at Informa Economics IEG.

"I think the expectation moving forward is that we finish out this year somewhere in the order of about 11% above a year ago, and then we move into 2018 with the continuation of larger overall export volumes," he said.

Olvera suggested that 2018 exports will probably be somewhere in the area of 1.5-2.0% larger than in 2017.

Brazil shows resilience

Brazil's meat industry endured a tumultuous few months after news of the 'Carne Fraca' corruption scandal first broke in March. Trade impacts turned out to be less than expected however as the Brazilian government succeeded in convincing most overseas buyers the issue was more about corrupt individuals than threats to food safety.

By June, Brazilian beef exports were back to normal levels despite the country's largest processor JBS becoming embroiled in an even more serious scandal that at one stage looked set to take down the country's President.

While most countries remained open for trade, the US took a tougher line, banning all fresh Brazilian beef after a series of problems were identified by inspectors. Despite optimistic statements from Brazilian officials, there seems little prospect the ban will be lifted any time soon.

Russia, another important buyer, stood by Brazil in the immediate aftermath of the Carne Fraca scandal. But then in late November, Moscow surprised the industry by announcing a ban on all Brazilian beef after claiming to have found traces of the controversial feed additive, ractopamine.

Given the potential for beef shortages in Russia however, its ban seems unlikely to last beyond the winter period, when trade is in any case quiet.

Chinese market key

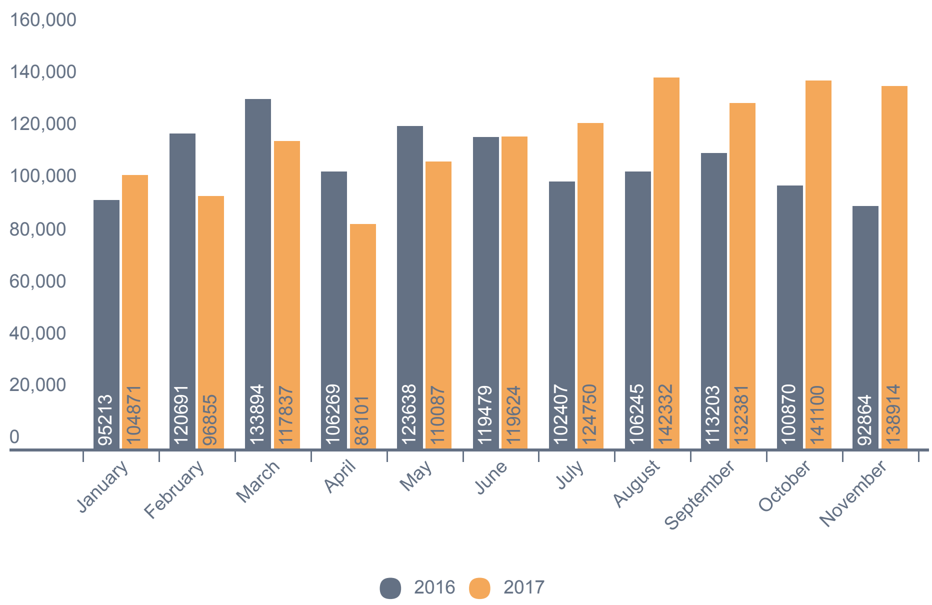
While Brazil's prospects for the coming year will partly depend on the length of Russia's ban, it will also be heavily influenced by demand from China and Hong Kong, which together now absorb more than a third of all Brazilian exports of beef and bovine offal.

US sales to China have so far been limited by the country's strict import requirements

On the face of it, Brazil faces increased competition now that US exporters are also approved to supply the Chinese market. Since securing market access in July however, US sales to China have been limited by the country's strict import requirements.

"Given probably a year to two years, when we start to have some ability to set some cattle aside that have the traceability we need to get into China, I think we'll see China take off, but at the moment, there

Brazilian exports of beef and bovine offal (tonnes)



Source: GTT

really hasn't been a whole lot of (US) beef that (can be) shipped directly into China" Olvera said.

For its part, Australia saw a number of beef plants temporarily suspended by China earlier this year and the country will be hoping to avoid a repeat in 2018.

Australia faces increased competition from US beef in markets such as Japan although free trade provisions still give Australian beef an advantage.

Meanwhile, India continues to sell large volumes of low cost bovine meat to markets such as Vietnam despite suggestions trade would be jeopardised by a ban on selling cattle for slaughter. Recent trade figures suggest this policy is having little impact on exports, which are mainly made up of buffalo meat produced by large scale operations.

Outlook for 2018

The global beef industry faces a number of long term issues such as the potential for consumer demand to be dented by concern over climate change. Australia's meat industry recently said it aims to become carbon neutral by 2030 and producers across the world will be working hard to counter negative perceptions over beef – whether they be linked to the environment or health.

The year ahead looks set to be dominated by more immediate issues however – particularly with regard to free trade agreements.

EU beef producers have already had to come to terms with the bloc's decision to grant a sizeable duty-free quota to Canada under CETA. For various reasons, it will be some time before large volumes of Canadian beef enter the EU market – but European farmers are fighting hard to prevent further concessions being made to South America's Mercosur trade bloc, which includes Brazil, Argentina, Uruguay and Paraguay. All four of these countries are big beef producers and want large quotas granted as part of an EU-Mercosur free trade deal.

Any concessions made to these countries would not only affect European producers but also impact on rival suppliers such as the US and Australia.

Washington is already unhappy over the way the EU manages its quota for high quality beef, much of which is now taken up by countries such as Uruguay. It remains to be seen if the Trump administration will ramp up pressure on the EU by threatening retaliatory tariffs on European goods going to the US market.

The UK's imminent departure from the EU is also looming large over European beef producers, particularly in Ireland. In the event of a 'Hard Brexit', the industry faces the prospect of broken supply chains, new tariff barriers and costly customs checks. These would have potentially disastrous impacts for EU meat producers – particularly if the UK were to subsequently open its market to low cost suppliers from other parts of the world.

Brazil's experiences in 2017 – bouncing back from setbacks and ending the year on a high – have underlined the country's importance to global trade

As the UK and EU continue negotiating Brexit terms, beef suppliers in other parts of the world will continue pushing for EU quotas to be redistributed in a way that leaves them no worse off than they are now.

Similar challenges could lie ahead for beef exporters in the US, Canada and Mexico, who are keeping a keen eye on North American Free Trade Agreement (NAFTA) negotiations.

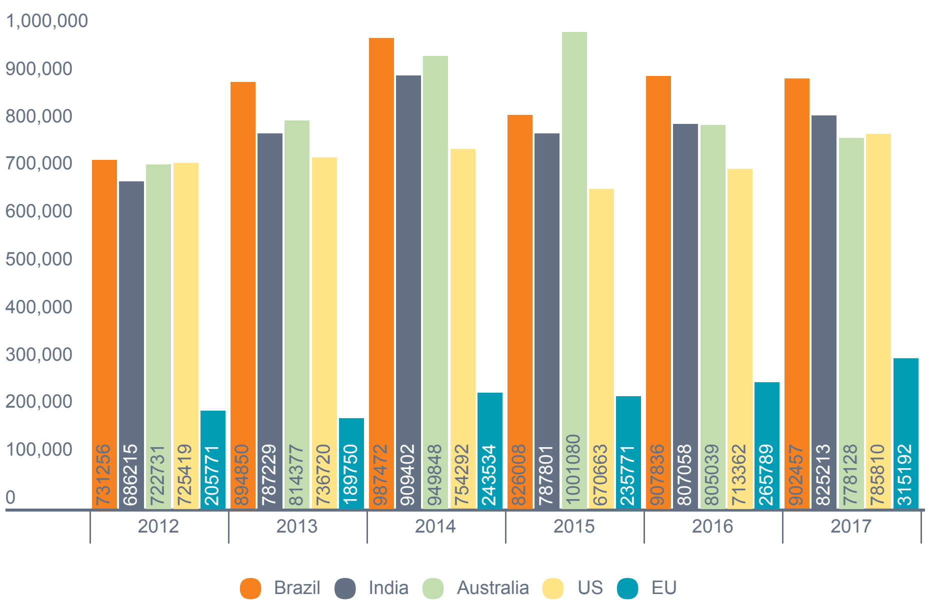
If, as threatened, President Trump does attempt to withdraw from or truncate the US relationship with its NAFTA partners, this would have big consequences for trade in beef.

As in the case of Brexit, cross-border supply chains would potentially be disrupted and exporters would be looking for new outlets on the world market – potentially increasing competition and in some cases driving down prices.

Meanwhile, Brazil's experiences in 2017 – bouncing back from setbacks and ending the year on a high – have underlined the country's importance to global trade. The country remains well placed to provide large volumes of competitively priced beef to buyers around the world and exporters are optimistic for the year ahead.

Based mainly on the expectation that Brazil's participation in East Asian and Middle Eastern markets will grow, IEG-FNP estimates that Brazilian beef exports will total almost 1.6 million tonnes in 2018, corresponding to year-on-year growth of just over 6%.

Top five beef exporters of beef and bovine offal, Jan-Aug (tonnes)



Source: GTT

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Agra Europe

Outlook 2018: Mixed prospects for world's 'big four' pork exporters

After a bumper year in 2016, pork exports from the EU and Brazil hit reverse gear this year – largely due to a slowdown in demand from China and some other Asian markets. For the US and Canada however, pigmeat exports have exceeded expectations over the past twelve months – and there is no sign of this upward momentum losing steam any time soon.

By Max Green

A Hard Brexit would cause EU pork exports to the UK to fall by a half, pushing down prices across the bloc

Soaring Chinese demand for EU pork had almost singlehandedly helped lift prices from the rock-bottom levels seen in early 2016.

By the middle of this year however, it became clear that European exporters could not count on this continuing, as sales to China started to wane. Since then, some other Asian markets have also reined in their purchases from the bloc.

By the end of August, EU exports were running more than 10% behind the record levels seen last year. All this added up to bad news for pig producers who once again saw prices come under pressure. By November, all the price gains made earlier in the year had been wiped out, and average prices for slaughter pigs were once again tracking well below the five-year average.

Similar trends have been apparent in Brazil, where pigmeat exports have fallen back from the elevated levels seen in

2016. By November, Brazilian exports of pigmeat and pig offal were some 6% back on year-ago levels. At the end of the month, Brazilian prices for slaughter pigs were around 5% down on last year.

US and Canada

The story in North America was very different this year– at least with relation to exports. US exporters were able to maintain momentum and by the end of October, shipments for the year were some 7% higher than the record levels posted in 2016.

Like their rivals, US exporters saw a dip in pigmeat sales to China and Hong Kong, reflecting the upward trajectory of China's domestic pork production. But these losses were offset by higher sales to other countries, notably Mexico and South Korea.

As the largest buyer of US hams, Mexico was particularly important – underlining the importance of the North American Free Trade Agreement (NAFTA) to the US pork industry.

Canada also sustained exports at high levels this year, with sales to China holding up relatively well and an uptick in shipments to Japan.

Threats to trade

On the trade policy side, European exporters won what turned out to be a largely symbolic victory in February when the World Trade Organization (WTO) ruled against Russia's blanket ban on EU pig products. On paper, Russia complied at the start of December by agreeing to limit animal health-related import restrictions to regions specifically affected by African Swine Fever (ASF).

In reality however, the decision will have no immediate impact on trade as European pigmeat is also shut out of Russia by a separate politically motivated ban. To make matters worse, Moscow added pig fat and lard to the latter ban shortly before agreeing to ease its restrictions relating to ASF.

Having previously benefited from Russia's ban on western suppliers, Brazil's pig industry was itself the victim of Moscow's tough approach to trade as 2017 drew to a close. Russia banned all Brazilian pigmeat and offal from the start of December, closing the door on its largest overseas supplier.

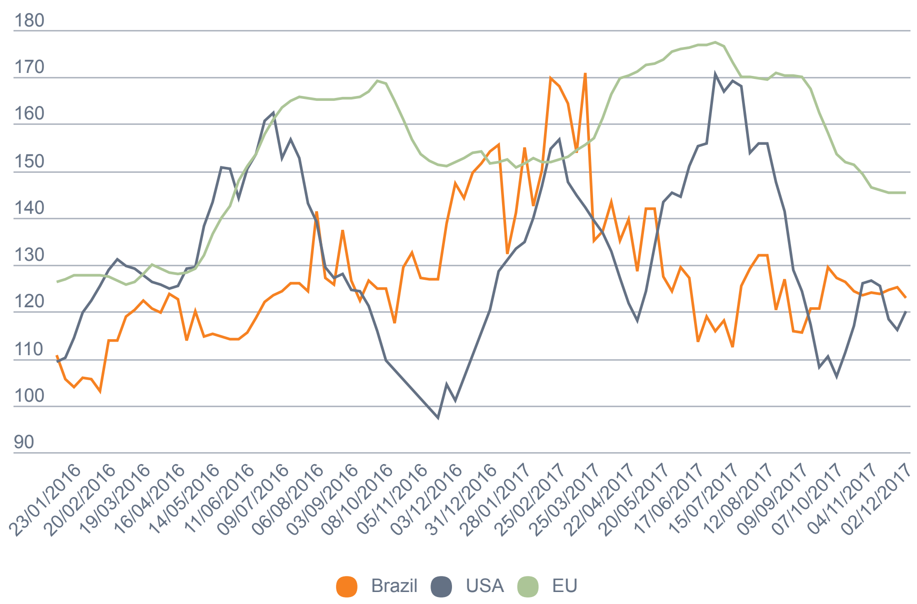
The US and Canada also remain shut out of the Russian market because of the political embargo. But these two countries are in any case currently far more interested in selling to markets elsewhere in the world.

Canadian exporters have been granted a substantial duty-free quota by the EU, under the Comprehensive Economic and Trade Agreement (CETA). Various technical issues still need to be sorted out before meaningful trade can get underway however.

Like all major exporters, Canada is also seeking a bigger slice of the huge Chinese market and progress was made in early December.

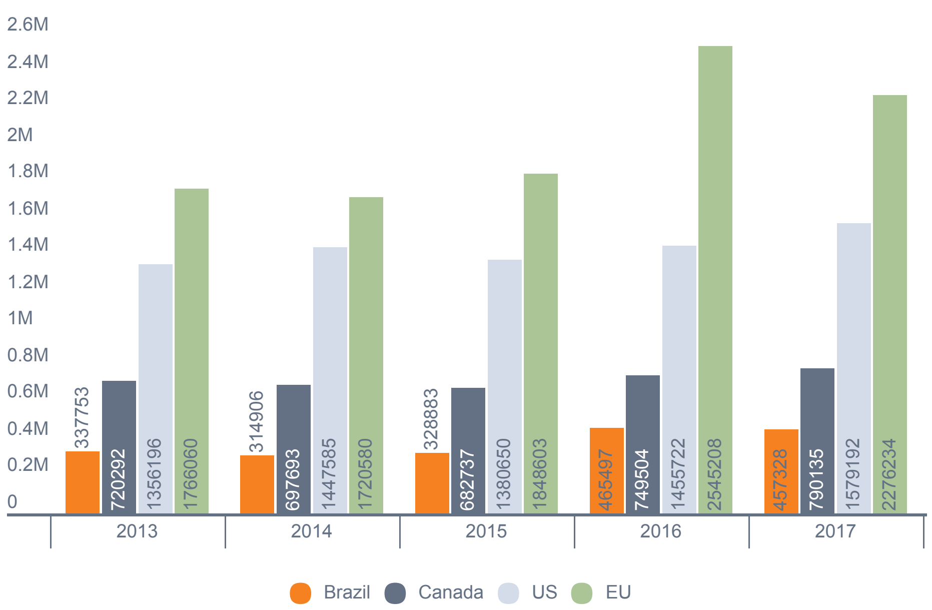
Europe's pig industry will also be keeping a close eye on negotiations on the terms of the UK's exit from the EU. Analysis suggests a 'Hard Brexit' would cause EU pork exports to the UK to fall by a half, pushing down prices across the bloc. Some experts believe UK producers would

World weekly average pig prices (€100kg/carcase)



Source: Bord Bia

Top four exporters of pigmeat and pig offal, Jan-Aug (tonnes)



Source:: GTT

benefit financially though this is disputed by others.

Health issues persist

Pig diseases remain a problem in both Europe and North America, although losses are currently within manageable limits. The percentage of US farms reporting cases of porcine epidemic diarrhea virus (PEDv) has fallen into single figures – far below the levels seen in 2013/14 but still enough to pose serious problems for producers.

African Swine Fever (ASF) continues to spread in the EU but has still not reached the bloc's largest pig producing countries. Cases in the Czech Republic appear to have been successfully contained to a relatively small geographical area. Countries such as Germany remain on high alert however as does China, following the appearance of the disease in more easterly parts of Russia.

Meanwhile, Brazil has spent much of the year trying to contain the fallout of a major corruption scandal, which cast doubt over the effectiveness of its meat inspection systems. Russia's recent ban on Brazilian pigmeat underlines that ractopamine use will also remain an issue for producers across the Americas as they seek to avoid problems in key export markets.

The controversial feed additive remains banned in China, Russia and the EU and there is little or no prospect of this changing in the foreseeable future.

Exporters in the US, Canada and Brazil have therefore had to set up segregated systems to supply ractopamine-free pork.

> The industry, as far as ractopamine-free hogs, is still in its infancy, but that's where the industry is going to need to go to clear this product

IEG senior red meat and poultry analyst Joe Powell estimates that around 40% of the US industry is already ractopamine-free. "The industry, as far as ractopamine-free hogs, is still in its infancy, but that's where the industry is going to need to go to clear this product," he explained. "Not 100%, but a good portion of that will need to go in that direction."

Outlook for 2018

As in the case of beef, global production of pork looks set to rise again in 2018, heightening competition in key export markets such as China. Informa Economics IEG expects US pork production to end 2017 some 3.2% up on the previous year with a further 3.5% increase in 2018.

The strength of exports has helped absorb this year's rise in supplies and this should continue next year. Powell expects US pigmeat exports to gain a further 9.5% next year to reach more than 6 billion lb (2.72 million tonnes).

One concern for the industry in both the US and Canada is the cloud hanging over the North American Free Trade Agreement (NAFTA). Mexico is a key buyer of US pigmeat – particularly hams – while Canada is also an important trading partner.

Any breakdown in NAFTA trade would potentially force US exporters to redirect pork to other markets – adding to competition and driving down prices.

On the plus side, Chinese import demand is likely to rebound somewhat in 2018 as efforts to boost domestic production are constrained by environmental policies.

Brazilian pork production is expected to increase marginally in 2018 but previous expectations for a 3-4% increase in exports may have to be revised downwards if Russia maintains its import ban.

Meanwhile, EU production is expected to rise slightly next year and exports should rebound by around 3% as competitiveness is restored by recent price falls.

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Cheese: how the passion for pizza and innovation put an old favourite on the map

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Cheese is the ultimate value-added dairy product which is so ubiquitous people keep forgetting this fact. It is an important ingredient in most national cuisines, with cheese seeping through daily habits of almost all nations in the world.

By Jana Sutenko

Every year, cheese is becoming more widely available, slowly increasing its presence even in traditionally cheese-free regions.

From the growing popularity of Western-style dining in Southeast Asia, market closures and the weight of European cheeses against other produce, this fat-rich product has taken foreign markets by storm.

This year, global cheese demand continued to be led by growing middle-class, Westernisation of food preferences and countries' legislations which helped deepen the love for cheese in the world.

Changing tastes

Japan, Korea and China saw the biggest increases in cheese imports this year, with 28% global market share. The three Southeast players have further solidified their demand, showing much potential for producing countries. Two of them are the highest cheese consumers as reported by the World Dairy Situation 2016: Korea's per capita consumption was 2.8 kg in 2016, while Japan recorded 2.4 kg per capita.

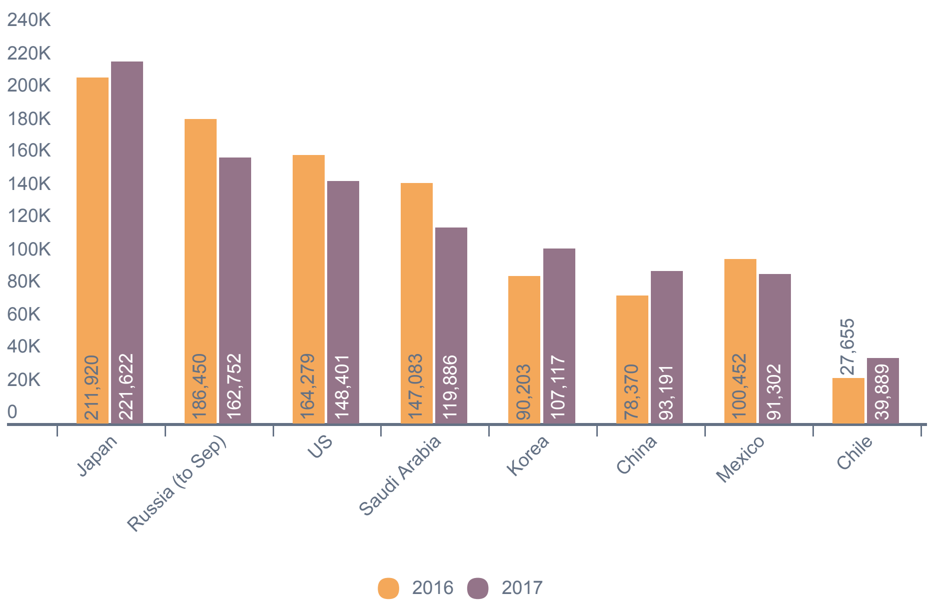
Southeast Asia's fascination with the way Western countries lead their life has been historical. Everything, from electronics to

Cheese consumption is predominantly driven by the high demand for mass-produced, processed cheese certain delicacies can be found in the region's stores. In recent years, this fascination transferred even to food. For example, a clever KFC campaign back in the 1970s put fried chicken in the book of Christmas traditions in Japan. McDonald's has become a staple fast-food restaurant in China, offering, apart from the traditional burgers and wraps, dishes with an oriental twist.

But the most valuable of all is pizza. The traditionally Italian dish went truly international in the last few years, raising cheese's popularity in unconventional markets. Due to the widespread prevalence of Western fast food chains, cheese consumption is predominantly driven by the high demand for mass-produced, processed cheese. As urban centres grow increasingly international, the demand for Western foods is expected to rise in the next few years.

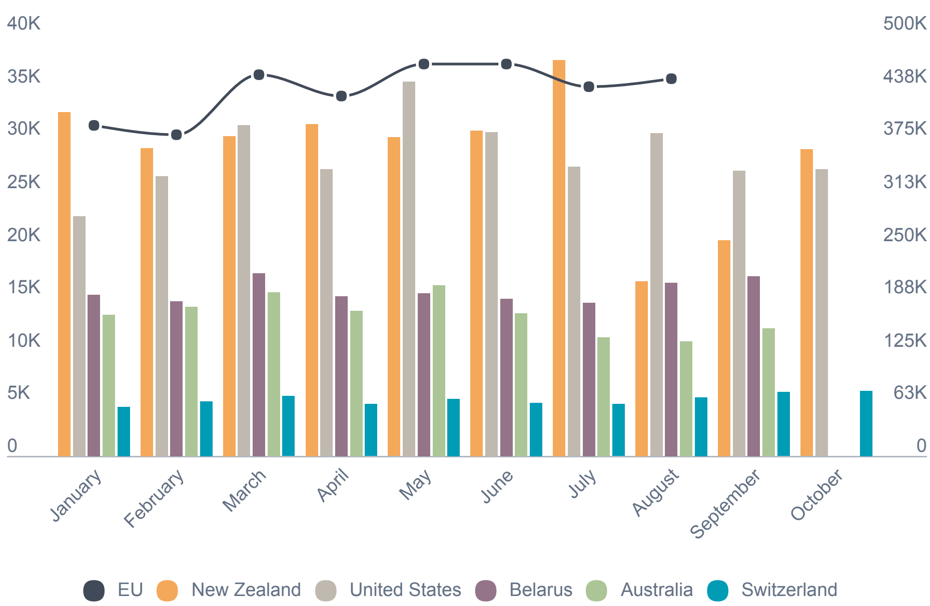
Yum! Brands, owner of such food chains like Taco Bell and Pizza Hut, is said to have contributed vastly to international cheese sales in the Asia Pacific, Latin America and the Caribbean.

Selected country cheese imports 2017 (tonnes)



Source: GTT/IEG Vu

Top cheese exporters, by country (tonnes)



Source: GTT/IEG Vu

Tasty in China

The most recognisable form of cheese in China, for example, is processed – a food product where basic cheese is enriched with flavourings, colourings and nutrients. Marketed as a nutritious snack for children, various processed cheeses are sold nationwide in China. Foreign multinationals, such as New Zealand's Fonterra and American Kraft Heinz, are cashing in on the growing demand.

This year, China's policy had a love-hate relationship with cheese. In September, the country banned European bacteria-rich cheeses, only to resume the imports of mouldy cheeses two months later. More recently, China slashed tariffs on selected processed cheeses, allowing much opportunities for foreign producers to further increase the flow of cheese to the country.

Furthermore, the urban population in China is only expected to grow and along with it the popularity of the Western culture. Through travelling and advertising, natural cheeses will inevitably filter into mainstream and become a widely-accessible product, losing its label of being a foreign delicacy.

South Korea has become one of the fastest-growing cheese markets in Southeast Asia, helped by the increasing popularity of, you've guessed it, Western cuisine. The Korean population, which consumes traditional kimchi with every meal, started swapping it for cheese. They incorporate cheese into local dishes ranging from noodle soup to stir-fried rice and eat it as a starter or a snack.

Cheese consumption has hit new highs, with annual imports in 2016 costing as much as USD32 million. Experts say that the population in South Korea is predominantly lactose-intolerant, however, the popularity of cheese is growing. This is due to the fact that cheese contains less lactose (natural sugar found in dairy), than other dairy products. These tendencies have already shifted, recent studies reveal. Exposure to dairy from a younger age became more prevalent in Korea, suggesting that eating cheese from childhood can be a long-term solution to lactose-intolerance.

Many major dairy producers this year saw potential in cheese demand in Asian markets. For example, dairy giant Fonterra opened a new plant in Southeastern Australia to make cheese for the region. The plant's specialisation allows higher production capacity, with 45,000 tonnes mozzarella and other popular cheeses being produced every year.

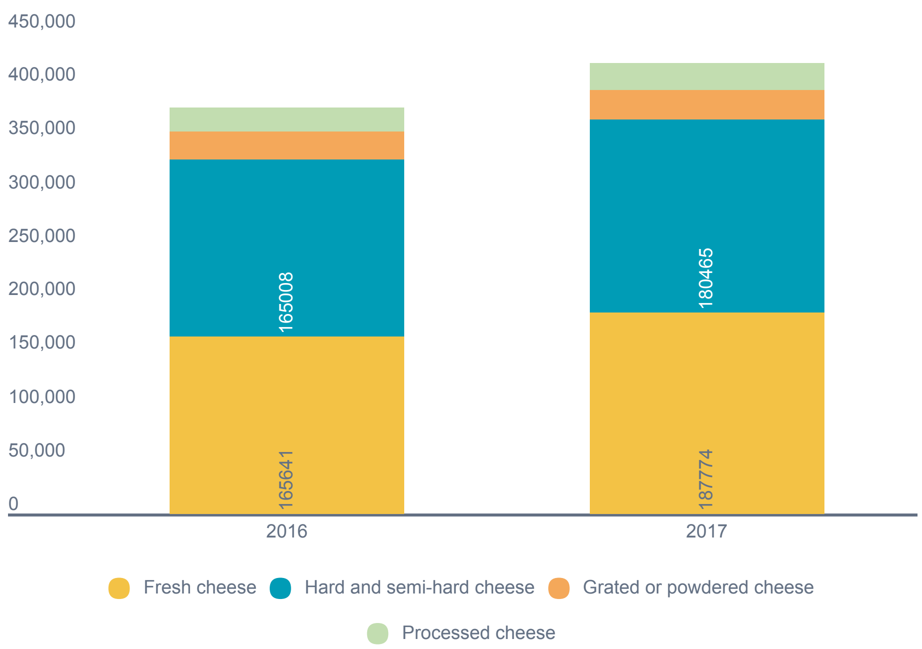
Out of home

The growing trend of eating out instead of cooking dinner has also proved a big money earner. Fonterra's Foodservice business topped USD1.4 bln in revenue this year, specifically boosted by China.

Lukas Paravacini, Fonterra Consumer and Foodservice CEO, said that the "eating out of home" industry in China has grown by 30% in the last five years, and Fonterra took advantage of this trend. Since 2014, the company invested big in new production capacity for its Foodservice business, laying special focus on cheese: Waitoa in for UHT creams, Eltham for slice-on-slice cheese, Cladeboye for extra stretch mozzarella and Te Rapa for cream cheese.

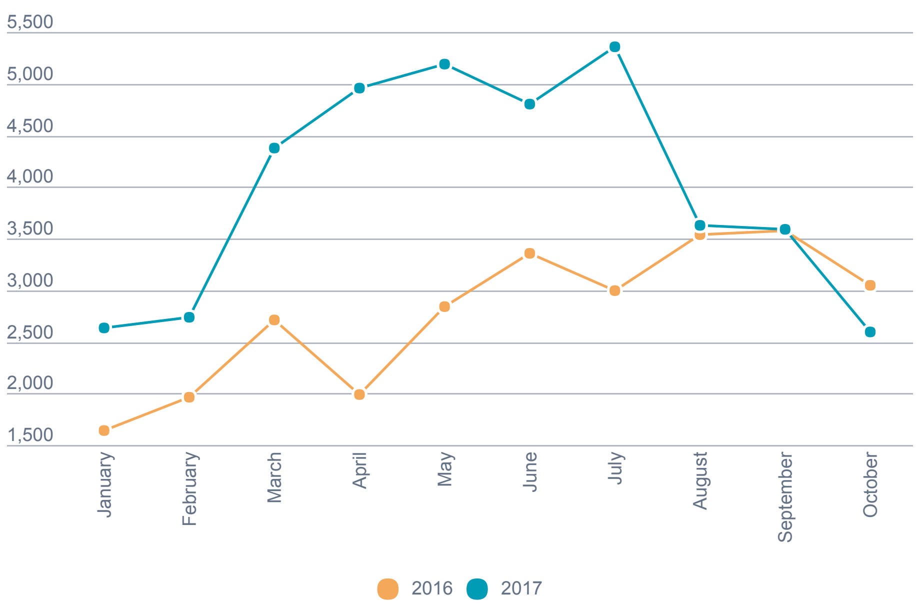
This way, Fonterra's managing director of China said, the company's cheese tops more than half of all pizzas in China. As sales of mozzarella cheese surged 66% last year, which resulted in such inventions like Beijing Duck Pizza and Cantonese mooncakes filled with cream cheese instead of the traditional lotus seed paste.

Japan, China and Korea cheese imports by type (tonnes)



Source: GTT/IEG Vu

Chile cheese imports (tonnes)



Source GTT/IEG Vu

Korea imported over 107,000 tonnes of various cheese in the first ten months of 2017 – 19% growth year on year. Fresh cheese (71,800 tonnes), namely mozzarella (58,000 tonnes), dominating the majority of imports. Hard and semi-hard cheese came in second, with 25,600 tonnes imported in the said period this year.

Japan, a far more established cheese consumer, has seen the biggest increase in imports this year. The bulk of these shipments were tariff-free material cheeses used for processing and mixed with local cheeses at a set ratio, under the Japan-Australia Economic Partnership Agreement (JAEPA). The imports of natural cheeses are forecast to grow in the future, with a Japan-EU trade deal underway, which would eliminate the 29.8% hard cheese tax and would establish a tax-free quota for fresh cheeses.

Latin cheese lovers

Mexican demand has reportedly been growing at a rapid speed, matched only by China. Therefore, in the next few years, Mexico could be the world's biggest dairy consumer, provided the favourable exchange rates and tariff duties. USDA reports that Mexico produces one of the widest varieties of cheeses in the region, which require high quality milk. Producers struggle to find such milk domestically, so they seek it abroad. Liquid milk fills the supply gap which maintains the high production.

Cheese is a staple food for Mexican households, regardless of the income. It provides fat and protein in quesadillas, toppings on tacos, and sandwiches. As a general trend, the USDA reports, millenial Mexicans are more educated than the previous generation with greater purchasing power. These types of consumers are clients of new international restaurant franchises, where cheese is a key ingredient. For example, many popular sushi restaurants use "queso Philadelphia," or cream cheese, in most sushi rolls.

At present, the US occupies the majority of Mexican cheese imports, but has been facing competition from both the EU and New Zealand, mainly due to Mexico's diversification efforts.

Chile's cheese imports grew 44.2% in the first 10 months of this year, to almost 40,000 tonnes. The imports were mainly driven by gouda and gouda-type cheese – the country imported 23,000 tonnes of such cheese in the said period – a 72.7% increase year on year.

Russia's cheesemaking attempts

While global cheese demand is constantly on the increase, it has also been notable in Russia.

Three years of the 'West versus **Russia**' embargo has left a huge supply hole for Russian cheese lovers, but also forced domestic dairies to ramp up production. The majority of beloved mozzarella comes from Belarus. Russia's longing for high-quality tasty European cheese forced the industry to 'improvise' and focus on import substitution.

State incentives have since been encouraging people to set up their own dairy enterprises. Production has increased, but experts suggest that Russia is far from self-sufficiency. However, trade data shows that Russia is gradually becoming less dependent on import.

Moreover, Russians do not like domestic and Belarusian mozarella. The products are of high quality, however the population does not understand this European fresh cheese substitute and would much rather prefer to travel to Europe and buy the real cheese there.

Nevertheless, Russian cheese imports declined by almost -13% in the first nine months of 2017 to just under 163,000 tonnes. Hard and semi-hard cheeses led the overall volumes at almost 11,000 tonnes.

Middle East demand

Cheese is popular, too, in the Middle East but imports to the region have been falling: down by -15% to the MENA region in the first nine months of the year, with the steepest decline in Saudi Arabia (-11%).

But people in the region have pride in their own Arabian cheeses, deeply-embedded in the history and culture of the region. Healthy curd cheeses engage the Middle Eastern consumer and dominate household consumption.

More recently, Ireland's Ornua, maker of Pilgrims Choice cheeses, scaled back its operations in the Middle East, citing falling oil prices and their impact on regional economies.

Future is bright ...

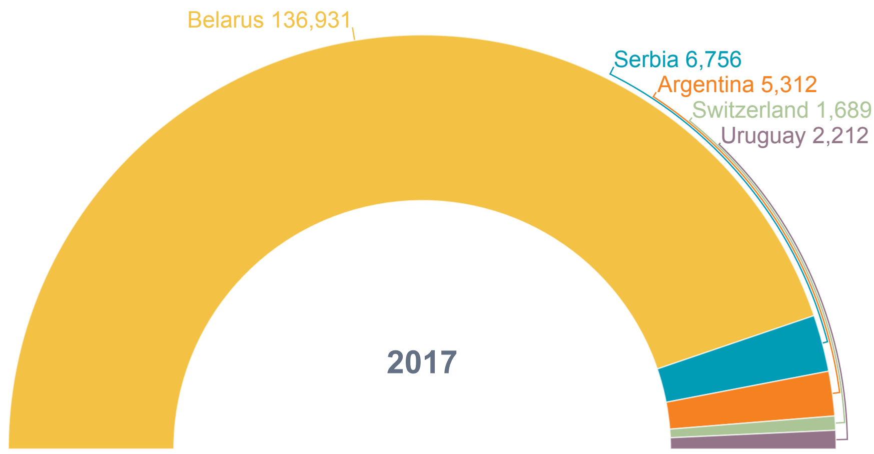
With the emergence of cheese as an everyday food esssential, it is easy to speculate that future of cheese is bright.

This year, the establishment in key markets has been successful, all that is left to prove cheese's success is innovation.

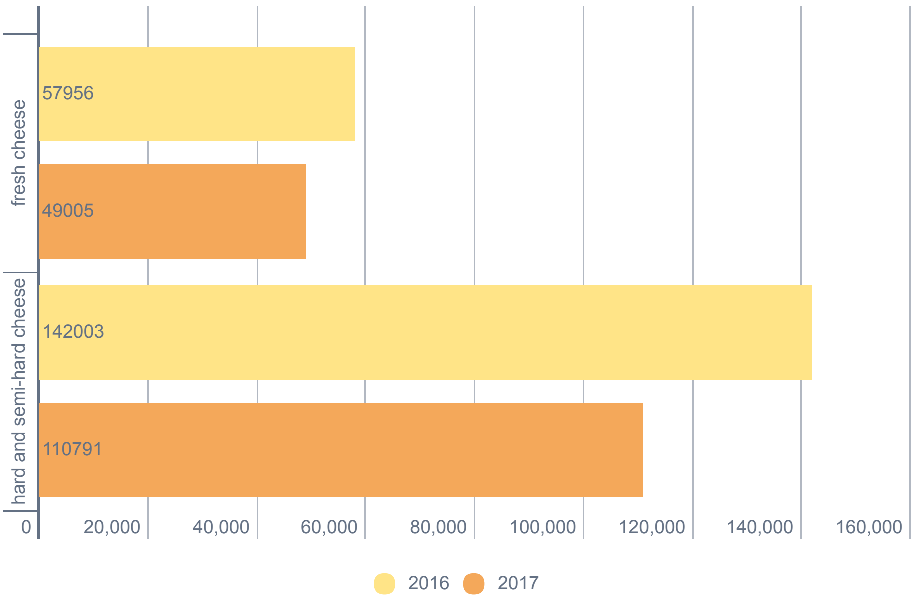
With mozzarella, cheddar and parmesan type cheeses driving the foodservice business, possible exploration in new flavours and increasing snacking choices might be key in further sales advances and growth of the market

The industry also should not forget appealing to younger generations: protein-packed and rich in calcium, cheese is a hit among among children. Getting young adults and Millennials on board should be the next challenge.

Top-5 Russia cheese importers (tonnes)



Russia cheese imports by type (tonnes)



Source: GTT/IEG Vu

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Dairy Markets

Butter: why prices soared so high, and where they're likely to go now

2017 will be remembered as the year when butter turned from a basic into a super commodity, with shortages in Europe and prices off the scale globally. This was the result of a combination of factors.

By Richard Dillon

It followed a year of unrest among milk producers in Europe as falling farmgate prices put many of them under financial strain. EU ministers were getting a lot of pressure put on them by their respective dairy lobbies and in turn called on the Commission to act.

The EU offered financial incentives to cut back on output in order to rebalance the market and support higher returns for milk producers. The result was lower milk volumes in much of the EU, but most importantly in France and Germany, who between them produce just over a third of the bloc's milk.

The upshot was in a bigger decline in milk production earlier this year than processors felt comfortable with. The 'spring flush' should be a time of greater milk output. This year it didn't happen. Buyers typically held off covering their needs, assuming prices would fall as usual.

The prices of some commodities did fall – but not butter.

By July butter had breached the EUR6,000 level – ironically this came just as the European Commission was lauding the "success" of its milk reduction scheme.

And crucially, reports of lower output all across the bloc started to emerge. Processors voiced their fears. The head of a leading Irish co-op, Dairygold chief executive Jim Woulfe, warned that a butter price "bubble" could destabilise markets.

"Butter has gone from about EUR2,400 per tonne in April-May 2016, to over EUR6,000

per tonne – that's a bubble in any cycle," he said.

In simple terms the price had more than doubled in a year. Industry estimates predicted a butter shortfall of 50,000 tonnes compared to what it got through a year ago.

UK Arla chief executive Peder Tuborgh warned of butter shortages in the shops this Christmas. "The first sign we will see of it, is that the price of butter rises very sharply," he said. "At the moment we are trying to get as much butter and cream out of our producers."

Consumers would feel the impact across Europe in the coming months, he said, but it would vary from country to country – as indeed it has since proved.

There was also speculation about some speculative stockpiling of butter as prices continued to rise. In November, the impact of high butter and cream prices was becoming apparent in company results.

The UK's Dairy Crest admitted that higher-priced butter had had an impact on its financial performance. It buys in the butter that goes into its big-selling Country Life brand, leaving it susceptible to a soaring open market price.

Mark Allen, chief executive, said: "We have delivered good profit growth despite a record high cream price, which has had a temporary but significant impact on input costs in our butter and spreads business."

Cream prices, which determine input costs, hit record highs of GBP3.00 (EUR3.39) per litre. At the same time, the wholesale cream price rose by 65% over the 12 months.

Faced with the volatility of high butter prices and rock-bottom SMP, the cheese option looked more comfortable. Cheese production outpaces the output of other dairy commodities by some margin (see our production and trade graphic).

Cheese continues to soak up most of Europe's extra available milk. During the nine months from January and September, while EU butter output contracted, cheese production rose by 1.3% to 6.8 million tonnes.

High cheese prices prompted those who could to choose cheese – and whey – above skimmed milk powder (SMP) and butter, said an EU report in July. Cheese prices were mostly at their highest levels in four years, said the Milk Market Observatory (MMO) assessment.

Cheese stocks were quickly rebuilding but demand remained strong, so prices were expected to stay firm. "It makes the combination cheese plus whey more remunerative than butter plus SMP," the report notes.

Shortage in the butter market "is a reality" the report goes on: it estimates an EU deficit by the end of the year of "some 60,000 tonnes".

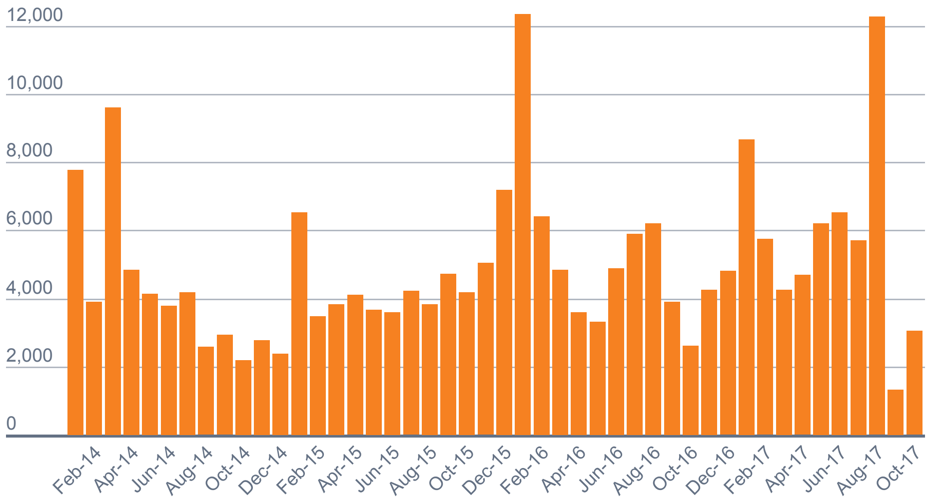
Adding weight to this, it said, was global demand. Cheese exports worldwide between January and May were 6.3% up on the same period last year (see our separate report on the cheese market),

Global demand

The growth in global demand for butter in less traditional markets has been the second key factor in soaring butter values.

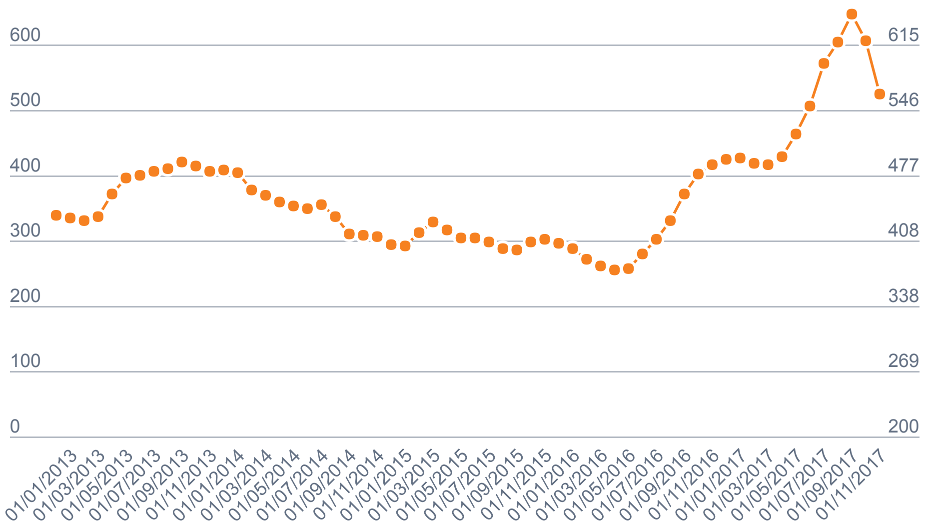
It seems that people everywhere have taken on board new research stressing the healthy aspects of butter consumption. Not only does it taste good, but it is not responsible for the problems laid at its door for so many years, according to an emerging scientific consensus.

China's rising butter import demand



Notes: Butter import volumes in tonnes. **Source:** IEG Vu / GTT / Chinese national statistics

Butter on a roll: the rise in EU average prices (Euro/100kg)



Note: **EU Commission weekly average - Euros per 100 kilograms.** Source: **MMO / IEG Vu**

The same month, Dairy Australia reported on the widening price gap between butter and palm oil substitutes – with butter at its highest level for 12 years.

Butterfat sold at premium of USD5.33 per kilogram to substitutes in March, it said, confirming a worldwide surge in butter. It is this rise, rather than already weak oilseed prices, that was driving the premium.

“These high butter prices, which have outperformed those of other dairy commodity groups over the last six months appear to be due to strong and growing demand for butter,” said the analysis.

The developments point to the trend of growing demand for fat. The report added: “This may have wider structural implications around how processors select product mixes and processing streams, and potentially drive greater weighting of fat content in farmgate milk pricing.”

Butter and cheese are the products most in demand by global dairy customers, said FAO analysts in October, with “limited buying interest” for skimmed and whole milk powders.

Ireland’s Ornua recently launched its iconic Kerrygold butter in South Korea. Ornua has been steadily growing its Asian presence, having already begun marketing its Kerrygold range China, Singapore and Malaysia.

“As milk deficit regions, these countries offer significant potential as a route to market for Irish dairy exports,” says the company.

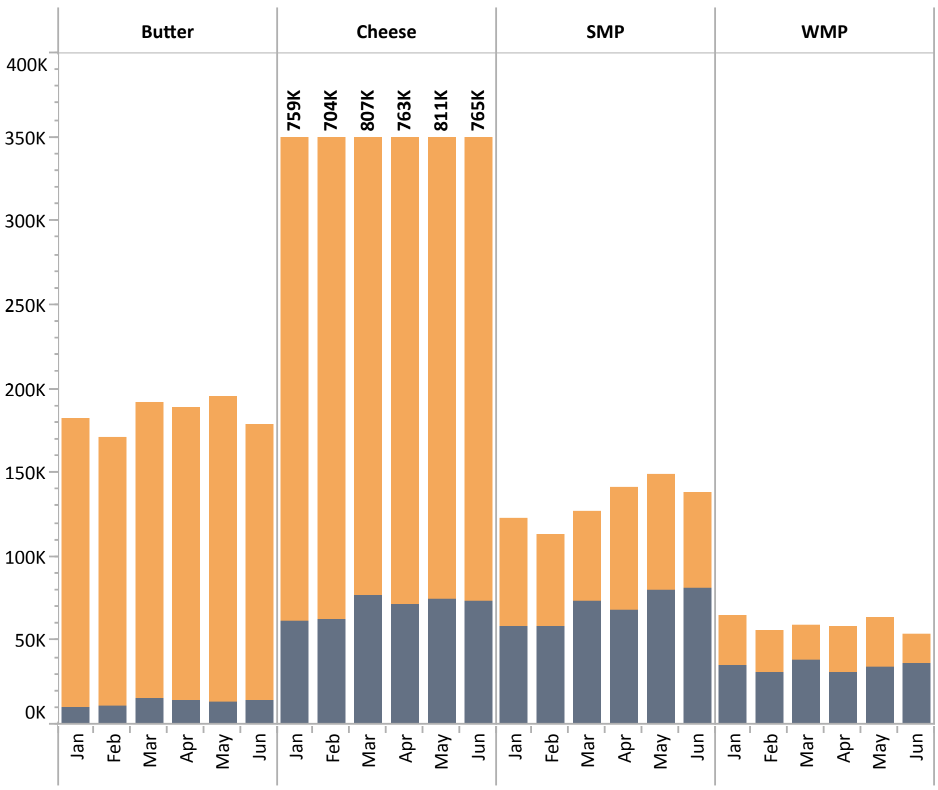
China is also buying far more butter than it has previously, with imports up 7.8%

Last year, South Korea imported just over 5,000 tonnes of butter, around half of this from New Zealand. Latest figures seen by IEG Vu show imports in the first nine months of this year at 4,000 tonnes.

China is also buying far more butter than it has previously, with imports up 7.8% in the first nine months of this year to 55,400 tonnes. This is despite higher prices which saw the Chinese butter import bill soar 49% to USD277.8 mln.

Malaysian importers spent 40% more this year on butter: USD34 mln, despite only a 5% rise in imports to 6,600 tonnes, with high prices maybe a disincentive for some buyers.

EU28 dairy production vs extra-trade exports (2017)



Source: IEG Vu/Eurostat

Looking ahead

The heat has come off butter prices in the past few months, both in the EU and in global markets. However, it is likely that prices will remain at, or close to, their current levels. This is despite a further recent slide at the global dairy auction to USD5,144 (EUR4,377) per tonne.

And while average EU butter prices have fallen from the heights of a few months ago, some prices are still being reported at far higher levels. There has been a wide spread, with prices of between EUR4,600 and EUR5,500 per tonne.

EU milk output is rising – but most of this extra milk will be directed to cheese. Processors prioritise cheese also because they are committed to supply regular customers both in Europe and abroad. And cream – the raw material of butter – is also an attractive product in its own right: cream for cooking, cream for ice cream production, etc.

EU butter production was down -3.5% year-on-year between January and September, latest Milk Market Observatory figures reveal. That’s 1,606,400 tonnes compared to 1,665,200 tonnes the year before – a difference of 58,800 tonnes – close to that 60,000 tonnes earlier predicted by EU experts.

This is twice the volume of 30,000 tonnes that experts agree unsettles the market.

The higher prices may propel some food manufacturers towards re-formulating their products to include cheaper vegetable fats. However, this is not necessarily an attractive option for all. Butter is becoming a plus rather than a negative in company marketing strategies.

The growing popularity of butter in recent years is thanks partly to the efforts of celebrity chefs. And concerns that butter was less healthy than, say, margarine, have been swept away, with sales of the latter falling.

This trend has been gathering momentum since 2014 when the US magazine Time revisited the evidence about butter and health. The result was a cover story ‘Eat Butter’ – sub-titled ‘Scientists labelled fat the enemy. Why they were wrong’.

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Dairy Markets

Skimmed milk powder: why prices are so low. And looking ahead

Is the world turning its back on protein and 'turning on to fats'? Well, so it would seem, with this year butter prices taking off – and skimmed milk powder (SMP) heading ever lower.

By Richard Dillon

The Commission's decisions are providing something of a floor to prices

Rising butter prices were some compensation for producers committed to these twin fractionates. However, the price collapse did not help their bottom lines one bit.

This is because SMP has traditionally delivered large global returns. No one predicted the historic lows that were to come.

The EU stock build-up is part of this picture, plus a new factor: what appears to be the beginning of a weaker demand for dairy commodity proteins.

But first to stocks. Since July 2015 around 370,000 tonnes has been deposited in EU intervention stores. But the value of these stocks – along with the entire market – has declined.

The EU paid EUR1,698 per tonne to producers to take excess stock off their hands. And since putting the first tranche of stocks on the market this year, officials repeatedly turned down lower bids.

Now they have finally accepted they will make a loss on the deal, confirming at the tender process in November that they had agreed to EUR1,390 per tonne. Very little has been sold even at this price, with prospective buyers clearly expecting the price to go even lower.

SMP has shown signs of stabilising. Futures traders clearly anticipate something of a shortage, triggered by the 16,500 tonnes rushed in intervention in the two weeks before the October 1 deadline.

The Commission's decision to play hard-ball on prices – spurning offers as low as EUR800 per tonne from some hopeful buyers – is providing something of a floor to prices.

But what of the world market – the recipient of much of Europe's SMP in the past?

Well, it seems butter and cheese are the 'new SMP'. They are the products most in demand by global dairy customers, said FAO analysts in a recent report. noting "limited buying interest" for skimmed and whole milk powders.

For example, half-year trade figures from the Philippines reveal a -36% decline in import volumes of concentrated milk products. This includes a -30% dive in skimmed milk powder (SMP) imports, from 20,180 tonnes in the first half to 2016 to 14,140 tonnes.

Cheese demand in South Korea saw volumes climb 25% in the first half of this the six months of this year. It already spends far more on cheese than milk powder – USD276 mln in the six months, compared to USD27 mln on SMP.

But the SMP market is huge, looked at in global terms. And so it is far too early to drastically change production plans.

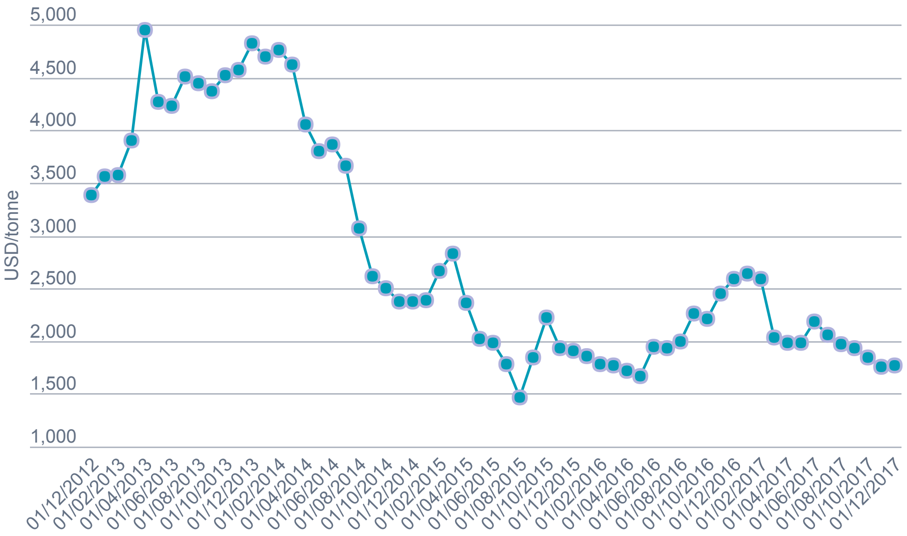
Global demand is switching to fats from protein

Last year, the EU-28 bloc exported over 574,000 tonnes of SMP, worth EUR1.13 billion to 35 countries in the world. Volumes were well down on the record volumes of 2014 and 2015, but much higher than the previous years.

The United States exported just under 593,000 tonnes in 2016, worth USD1.18 bln. Producers have the advantage of the proximity of one of the world's biggest SMP importers, Mexico. Last year the Mexicans bought 272,800 tonnes of US SMP worth USD538.7 mln.

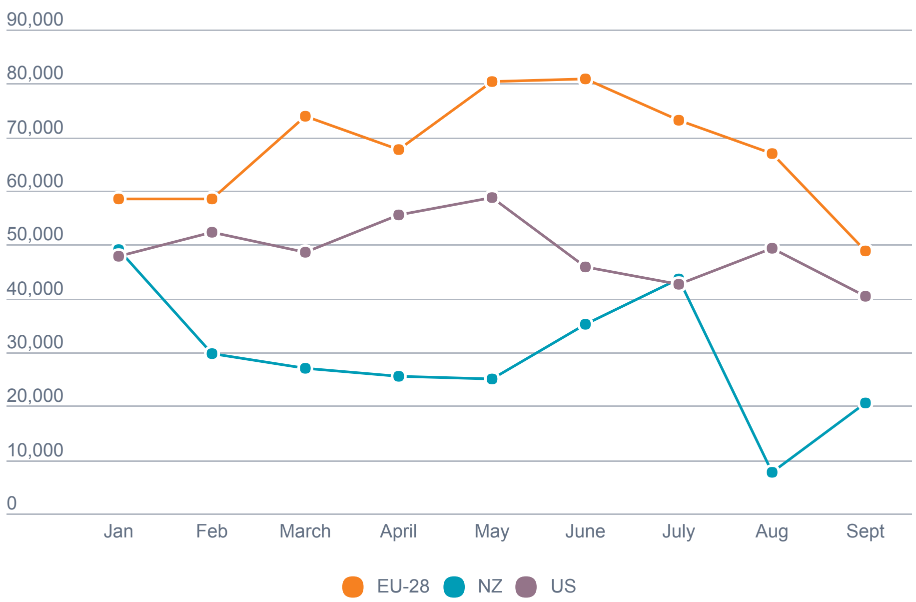
New Zealand last year exported just over 451,000 tonnes of SMP to world markets, worth USD872.8 mln. China, with imports of 109,500 tonnes, worth USD222.8 mln, was its biggest buyer by far.

SMP price tailspin: how the global dairy auction reacted



Notes: prices in US dollars per tonne on the bi-monthly GDT online auction. **Source:** IEG Vu / GDT

Sliding demand: 2017 SMP export trends (tonnes)



Notes: Skimmed milk powder (HS 040210) in tonnes. Source: Eurostat, national statistics, GTT, IEG Vu

SMP conclusion

Global demand is switching to fats from protein – shaking up expectations built up over many years, as our graphs show. But it is a gradual process, so demand for SMP will for now remain relatively high. And demand will rise as, for example, consumers in newly emerging markets embrace ready meals, and other food applications that require SMP in their formulation.

New Zealand's Fonterra has been shifting away from a reliance on whole milk powder (WMP). And Europe may need to do the same with SMP.

But there is strong transatlantic rivalry for SMP markets and European producers will be less than keen to hand over this still substantial market to US suppliers, and vice versa.

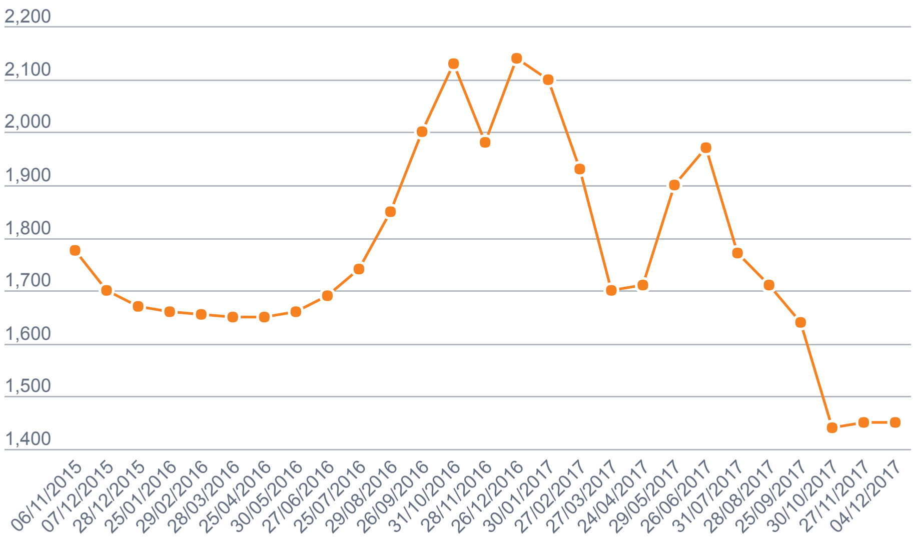
In the meantime, there is a stand-off between the EU and prospective buyers over the cost of the SMP they have in their huge stockpiles.

The Commission must sell much more of its stockpiles next year if only because the powder, though well kept in storehouses, is getting increasingly aged. The stocks currently on offer to buyers is now over two years old.

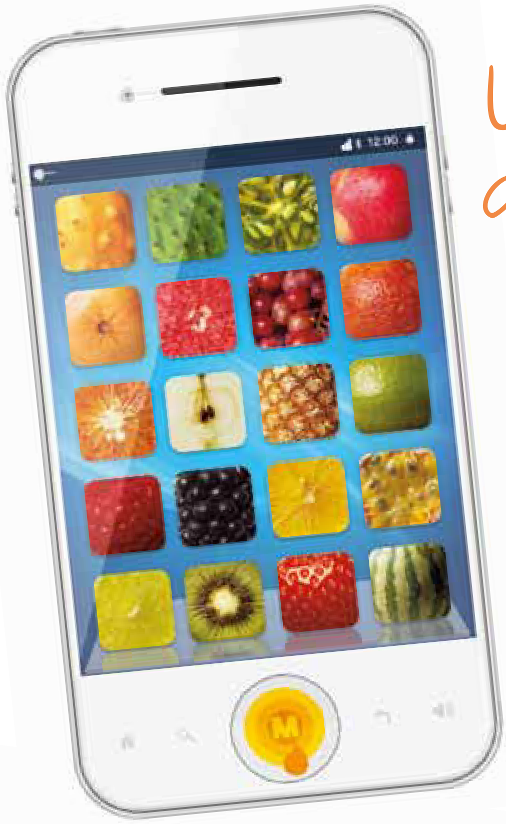
There has long been speculation that at least some of this SMP will be sold into feed markets. In fact, the current minimum price the Commission has agreed for its stocks is in the same ballpark as current SMP-for-feed prices.

Ironically, the Commission, which enthusiastically embraced the free market when it pushed for the end of production quotas, is now in the position of becoming a market price-setter.

SMP highs and lows: how German prices have fallen (Euro/tonnes)



Notes: prices of SMP spray ADPI Extra in euros per tonne. Source: Kempten dairy commodity exchange/IEG Vu



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