RM Curtis & Co Ltd Market Report

Dried Fruit, Edible Nuts & Seeds

May-June 2017

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Market Highlights

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Walnuts - Shipments are 20% up on last year overall and while this record crop was expected to more than cope with any increased demand, it now looks to be pushed to its very limit before the end of the season.

Raisins - Californian prices are stable with demand matched by supply and despite cheaper Turkish vine fruit prices offering stiff competition, there is little to no pressure evident on Californian packer/processors to lower their own export prices.

About RM Curtis & Co Ltd.

Curtis are one of the leading UK suppliers of dried ingredients including Edible Nuts, Dried Fruit, Pulses, Seeds and Rice.

For 160 years customers in the Retail, Food Service, Catering and Wholesale, Bakery, Confectionery, Snack and Manufacturing sectors have benefited from our commitment to quality, service and value.

Please visit our website for more information on our products and brands

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EDIBLE NUTS

Almonds

The first official new crop estimate for the Californian new crop was released on 10th May and at 2.2b lbs (998,000mts).

This so-called "subjective" estimate is comprised of the opinions of growers and processors and who you would think would prefer to play a more cautious approach at this stage.

With an average bloom but with around one million acres of orchards, there is every chance now that the crop will be big and therefore likely that 2.2b lbs will prove to be on the low side.

The previous unofficial estimate was 2.27b lbs and the crop this year 2.14b lbs so 2.2b lbs seems like a number released to cause minimal upset in either direction:

Above 2.27b lbs and the prices would surely fall.

Below 2.14 and many would doubt its integrity.

Comment

That said, the subjective estimate has historically come in below and above the final figures, so it really is just a number in a set of reports that give a steer to sentiment, as much as anything.

The market itself is presently quiet and subject to the currency fluctuations as much as anything else.

The weaker USD is helping although the stronger Euro v Sterling is counteracting this.

The monthly shipments seem to be having minimal impact – above or below last year and simply due to the big crop from which these volumes are shipping.

Short term at least, we don't expect to see much change in prices from origin in either direction.

EDIBLE NUTS

Cashews

Each year there is an international meeting of dried fruit and nut suppliers and buyers called the "INC" (International Nut Congress) and which is staged at various cities in different countries each year.

This year it was at Chennai in India (19th-21st May) and during this event, some trades are confirmed between sellers with stocks to shift and buyers waiting for the opportunity to meet and greet new and existing suppliers and for some cover also to be taken.

In the lead up to this year's INC – and since, cashew prices have finally stabilised after a run that started end 2016 and while this may only be a short term respite, it could also mean that the market will stabilise while sellers and buyers review this options.

Comment

With no new cashew crops until Brazils at the end of 2017, there is no supplemental supply due in any time soon, so supply will remain tight for much of the rest of this year.

While buyers have covered their short term needs, it is argued that Q3 and 4 of 2017 is largely uncovered and this fact is not lost to origin stock holders.

Origin processors who have followed the seed (cashew inshell) market to cover their projected needs, will have stocks covered at high prices so they will not be in any hurry to drop their kernel prices.

For these reasons, it is hard to see that (other than through subsequent currency adjustments) prices will drop in any significant way in the short term, but it has to be suggested that high prices generally drive away developers and if demand drops to any significant extent in the coming months, then it could flush out stock holders who may be able to lock in a profit ahead of any subsequent price weakness.

Walnuts

Shipments from California (month on month/this year/ last year) have slowed down of late but this is as much about the lack of supply as any reflection of the continued strong demand.

Shipments are 20% up on last year overall and while this record crop was expected to more than cope with any increased demand, it now looks to be pushed to its very limit before the end of the season.

Domestic (across USA) sales are up 8% but export sales are up 25% with China and the Middle East just miles up on their normal volumes.

From China, they had a decent crop themselves this year and while most of that stays within China these days, it makes it the more amazing that their imports from California YTD are + 250% up on the previous year.

Comment

With such strong increases in demand for Californian walnuts and with perceived issues (justifiable) of quality and reliability from India and

Eastern Europe, California is now considered by many as the origin of choice.

Not only is the flavour, appearance and cleanliness as good as we can expect from any origin, but consistency of quality and reliability of performance are also key.

With Chile producing a good new crop but opening at a premium to California, this brought additional pressure on any remaining uncommitted inventory at the worst time (limited availability).

Many of the larger packers are fully sold out already and have been for a while.

Hopes are therefore focused on new crop being a match for this year (680,000 short tons inshell) and anything less than that would present an obvious problem into 2018.

CURTIS est 1850 the ingredients people

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Brazils

Reports vary as to the extent of the crop shortfall this year, but they range anywhere from 55-70% down on last year and where we need supply to be.

Over the past 3 months, and as this situation has been unravelling, pricing at origin has increased by around 250% and been driven by the worst aspects of a market in melt down: ie, delays, defaults and speculation.

Unless shipments have been physically fulfilled and documents presented, it is unclear if they will come at all.

After a rapid increase, prices have stabilised of late and as the market effectively takes a breather for assessment.

Will the retailers end up being forced to take brazils off shelf?

What do packers and manufacturers do with products and mixes containing brazils?

Will the crop sell out long before new crop is available and will force majeure be called?

Comment

Additionally, what is the cost to the communities in origin whose livelihoods are dependent on this income?

Factories are already closing 5-6 months earlier than usual due to lack of supply and this has a devastating impact on the socio-economics of the local population.

We would strongly advise customers to prepare for limited availability at best over the next 12 months and even when new crop is on the horizon, such will be the demand from industry than it might take longer for “normal” supply to refill the pipelines sufficiently in order for prices to be restored to their normal levels.

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Hazels

News during April that the TMO had started to buy up old and current crop stocks – and promising to continue to do so up to and into new season, resulted in an immediate price increase as buyers started to cover, and origin saw this as the opportunity to increase its selling pricing.

Meanwhile, the Lira v USD has continued to trade within a range of 3.52-3.65 over the past month with export pricing dipping as the Lira weakens and vice versa with any recovery.

News on the developing crop is cautiously optimistic with suggestions that a crop of around 700,000mts should be expected, although other reports suggest this is too low.

Weather conditions across the Black Sea growing region have been positive so far with only localised frosts reported during March/early April at higher altitudes only.

Comment

The news on the TMO's intervention was no surprise in itself. But what has surprised many is the volume and pricing they have offered for stocks. The pricing offered is lower than growers can make in their local market and the volume so far is reported as less than 1000mts which really is "nothing" in the grand scheme.

International buyers have reverted to playing a cautious hand since the reality of the TMO's volumes has been circulated, but with hazelnut pricing looking increasingly competitive within the overall "tree nut" basket,

and until we are closer to August to better assess the size of the new crop, we could see pricing stabilise with the currency conversion playing the biggest factor.

Pecans

There are still several tiers of sellers presenting their pricing to the market from origin, but it is starting to feel like buyers are now covering off their remaining uncovered demand for the rest of 2017 deliveries as any possible downside in price seems increasingly unlikely in the short-medium term.

This is because buyers are largely uncovered for second half 2017 and with origin well aware of this, they feel under no pressure to reduce their forward pricing.

Any "deals" that might be available are for products offered over June and July shipments but it is hard to find any offers from quality packers for shipments beyond that now.

Comment

Their rationale is that while new crop in Mexico and USA could be bigger than this year, until we are closer to Nov-Dec, we will not know this for sure and any adverse weather from October onwards, and a better crop easily becomes a worse one.

Also – and as shown in Walnuts (above) China has been actively but quietly covering strong volumes of Mexican and USA inshell pecans in the past month – 6 weeks, and their demand at times seems insatiable.

For this reason, the larger packers are happy to dig in at the higher end of the traded range and the smaller packers are being picked off steadily at the lower levels.

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DRIED FRUIT

Coconut

As we go through 2017, it is clear that the full impact of the drought that hit South East Asia in 2016, has had a longer term impact than many expected.

While the Philippines were reporting poor yields from end 2016, Indonesia has latterly reported same/similar problems and unusually for this market, Indonesia has repositioned itself with offers now trading at a premium to the Philippines.

This clearly coincides with a strong trend that continues to evolve on many new products and international development and demand for coconut flavours, milks, cream, water and oil.

Comment

While demand is strong and supply is down, it is difficult to see pricing easing in the short – medium term.

Ramadan this year is from 26th May to 24th June.

Demand pre-Ramadan for conventional coconut products was typically strong and arguably this will see a decline in the period following.

However, with most of the mills already at full capacity for the next 2-3 months and with the so-called cheaper origin in Indonesia trading at a premium to the Philippines, it is easy to see pricing remaining firm for the next 3-4 months at least with only a weaker USD offering any shorter term respite to those of us buying in Sterling or Euro.

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Raisins

Californian prices are stable with demand matched by supply and despite cheaper Turkish vine fruit prices offering stiff competition, there is little to no pressure evident on Californian packer/processors to lower their own export prices.

Chilean prices have stabilised on their Flame pricing, after strong early sales pushed prices higher at the start of their new season.

For UK buyers, we have also seen the benefit of Sterling gradually improving against the USD since the lows during mid-March, and while some experts continue to predict a Sterling fall against the USD as Brexit negotiations takes us closer to the final frontier, there are others who worryingly see Sterling crashing against the Euro during this same process. Neither would be welcome, for obvious reasons and consequences.

From Turkey, prices are also stable with the Lira seeming stuck in a traded range of 3.55-3.75 since the start of 2017.

Comment

After a strong crop this year overall, although Raisin supply was comparatively low other than with a supplemental supply of carry over stock, it is expected that we will likely see a smaller 2017 crop this August-September with the potential for a price rise to follow over Q4.

For that reason, Turkish pricing is stable with more upside potential than down and especially since few buyers have yet dipped their toes into new season cover (September onwards).

Both origin processors and traders prefer to see how the August weather plays out in order to assess prospects for the next season.

Late rains, and prices will increase rapidly.

No rains, and a shorter crop than last year, then prices should also increase.

No rains and a better crop than some predict, then clearly pricing can then fall.

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Sultanas

Turkey predictably expects a shorter new crop in 2017 based largely on the historical pattern of good crop / smaller crop.

The growing region in Western Turkey largely escaped any meaningful frosts – despite some close misses of low overnight temperatures and short of any late rains in August, new crop could be closer to this year based on the extent to which planted acreage has increased in recent years.

But "to be fair", if the crop this year was 310-320,000mts then history would suggest something between 280-290,000mts.

But it's still too early to be more certain, and a decent carry over may nullify the impact of a smaller new crop.

Comment

That said, prices are attractive so demand can easily increase on-going.

Russia and Turkey have buried their political hatchet, meaning that export of fresh grapes will increase and eat into any perceived surplus domestic sales – especially into the alcohol sector are unlikely to decrease.

As reported elsewhere, the Lira seems to be on a long and slow road to recovery against the USD although the narrow margin of President Erdogan's referendum made little impact when the opposite was expected.

The sultana market itself therefore looks set to remain stable other than through any fluctuations either way on the currency markets, and then depending on how August in Turkey plays out as far as the weather before during and after harvest goes, pricing into the new season will be clearer to read.

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Currants

This continues to be a very difficult season where the shortfall highlighted at the very start of the season has continued to resonate ever since.

As with Brazils (above) – in terms of small crops at best being especially vulnerable to any major volume reduction, Greek currant supply has struggled and will continue to struggle to fulfil demand and existing orders for the rest of this season – and it is very clear that even the bigger packers have struggled to get stock from their farmer / grower suppliers as replacement pricing continued to firm.

Comment

New crop harvest really cannot come quick enough for many Greek exporters, although this is still five months away.

In the meantime, there is obviously very little spare stock in circulation, and if buyers need any additional cover this side of new crop, they would be best advised to try to cover this requirement much sooner than later.

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Apricots

These days it is thought that the likelihood of frost damage to the developing apricot crop in Turkey will have passed by now (although historically, we have seen frosts as late as second half May in the higher altitudes).

So assuming no late weather disasters, then there could easily be a new crop of around 100,000mts which would be close to same number produced this season.

With a likely carry over estimated to be between 10-20,000mts, then we could be looking at a strong 2017 into 2018 supply.

Comment

For buyers in the UK and Europe, the weaker USD of late has helped convert Turkish prices into decent delivered costs resulting in a growing use, interest and application of apricots.

But if these guesstimated figures are correct, then we could see further pressure on raw material pricing over the last quarter of 2017.

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Seeds

Pinenuts

After several consecutive years of pinenuts trading at historically high prices – as a consequence of increased demand, smaller crops and strong speculative trading behind this, we have seen some better pricing so far this year.

Even despite the weak Sterling post referendum last year, UK pricing on pinenuts is still competitive and clearly paves the way for new development and increased demand.

Which is why pricing has stabilised of late and may be set now to increase.

There are 2 primary varieties of pinenuts: Sibirica and Koriensis.

Sibirica is thought to be an inferior product and usually trades at a discount to Koriensis.

Based on its cheaper pricing, Sibirica pricing is now increasing and this has attracted some speculative buying support which can only fuel things higher.

Chinese/Hong Kong based traders have long used pinenuts as a staple commodity to their speculative strategies given the comparative (to other products) high pricing and potential for quick profits as they turn their positons.

Comment

With a firmer Sibirica market comes a logically firmer Koriensis market and driven by exactly the same fundamentals.

New crop is not available before Nov-Dec shipments so we are some way away from knowing how new crop will compare and how pricing into 2018 will play out.

However, on a historical traded range, pinenuts are still trading at the cheaper end and this inevitably will draw in buyers and speculators who see an upward price correction an inevitability.

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Seeds

Pumpkin

Chinese pumpkin prices are starting to firm but for different reasons (to pinenuts).

The pattern of Chinese behaviour to influence pumpkin seed pricing follows a predictable response to the prevailing pricing:

High pricing during a season follows shorter crops and inevitably guarantees increased planting for the following season by growers eager to capitalise on high margins.

This is then followed by cheaper pricing the next season which is the opposite of the farmers' preference and is responded to by reduced plantings for the following season in order to force prices back up!

This is a very well-trodden path and we are seeing it playing out again right now.

As an added incentive to reduce their plantings, the Chinese government offers further subsidies and incentives to switch crops to cotton seed or soya beans and which to the growers, offer a lower return per kilo but a higher yield per acre.

Comment

With the capability of reducing the supply by up to 50% by switching to other crops, China can continue to manipulate the market in this predictable way. Meaning that weather permitting and allowing for currency fluctuations, we see a pattern of higher pricing the one year and then cheaper the next etc.

Please note we are presently in the cheap year of the cycle.

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Seeds

Sunflower

Prices of Bulgarian sunflower seed have been stable over the past month although this is in part due to the stronger Sterling of late (although this is also slowly reversing by the looks of it).

In a way, the enormity of the sunflower crop and supply should ensure price stability on-going and unless there are specific weather or logistical related reasons for delays or shortages (as we saw at the start of 2017), this should provide on-going adequate supply to meet demand.

Comment

There are other suppliers looking at providing further stocks from the Ukraine, provided they can meet the required quality standards, so medium to longer term, we would expect to see availability a match for even a growth in demand.

However, while the volume is there, the number of processors who can provide the right level of consistent quality are few and this looks likely to lead towards a possible cartel scenario whereby prices can be fixed between competitors rather than it reflecting the fluctuations of a free market.

We don't think this is yet the case, but it not difficult to see how that could materialise as long as Bulgaria remains the primary origin.

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