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CURTIS

the ingredients people

RM Curtis & Co Ltd Market Report

Dried Fruit, Edible Nuts & Seeds

April - May 2018

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Market Highlights

Brazils - Prices have not yet returned to the more familiar & historical levels we saw for many years, & this looks likely to occur sometime over the second half of 2018, by which time the "pipelines" should be replenished to meet demand.

Raisins - On a recent trip to California, we were advised that new crop is developing well and unless there is a repeat of another crazy hot summer / late rains, they would hope to see a crop back to 300,000 short tons (270,000mts) which would be an increase of 90,000mts on this poor year.

Cranberries - There is a fundamental shortage of fruit this year with very strong and on-going demand for dried cranberries despite a reduction in demand for concentrate and juice.

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 almost 170 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.

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

www.rmcurtis.co.uk

RM Curtis & Co Ltd. 95 Camberwell Station Rd London, SE5 9JJ

Tel: +44 (0)20 7274 0717

Fax: +44 (0)20 7737 1827

EDIBLE NUTS

Almonds

The pricing in Californian almonds from bloom to harvest is typically driven by the sentiment following 3 key new crop estimates over this period.

The first of which is the Terra Nova Trading ("TNT") estimate which is carried out by a team of very experienced traders by a week-long survey of orchards and regions they have visited for many years.

This year, their estimate was 2.51b lbs which surprised many as it was a big increase over this year, and after the March frosts, many thought this was overly optimistic.

The view was that if there had been no frost, then the crop could have been even bigger amazingly, to reflect the vast growing/planted acreage these days of 1.3m acres.

Their view was that the trees that were unaffected by the frost show signs of producing a bumper crop and the trees that are younger and were worst hit by the frost, would only have produced a smaller yield anyway.

The second but this time official estimate is the May 10th so-called "subjective" estimate. This is more

Comment

Throughout this period, we will continue to see the monthly shipment reports which will likely exceed last year in successive months.

All of which leads to the view that almonds are unlikely to weaken in the short to medium term other than by some fairly significant adjustment of the currency.

Although if the July estimate wrong foots again and is back up to TNT estimate levels, then there would be a natural price correction.

What is becoming clear however, is that the impact of the unstoppable march to bigger production on bigger acreage will continue, and the prospects for a 3b lb crop which was unthinkable only 5 years ago and longer, is fast becoming an inevitable reality over the next 5-7 years.

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EDIBLE NUTS

Cashews

It would be fair to say that Cashews – along with Peanuts and Pistachios to a lesser extent – have their own established place in global snacking.

While prices and currencies have shifted, cashews have kept their place at the table and retain an inevitable but key place in any snacking range.

This has been evident over the past few years where tight supply and historically high pricing has had little impact on traded volumes (although it has to be said that it is the innovation and application of the other nuts and mixes that has redefined this total category).

Vietnam now dominates the supply of kernels to the worldwide market, with increasing supplemental volumes coming in to Vietnam for processing from Africa and Indonesian raw cashew seed crops.

Comment

This year, we see a good crop from all the key producing origins and likely the best supply for two - three years.

Logically, that should mean that prices come under some pressure but, as many buyers are still uncovered for the second half of 2018 and beyond, the price drop that we would hope to see might not fully materialise.

On which basis, we could expect to see origin pricing on-going trading within a relatively narrow range with the fortunes of the USD against the £ and € potentially offering the best opportunities to forward cover.

It is also worth mentioning that India has truly lost its place in its international rivalry with Vietnam.

India's higher labour rate and smaller capacity has resulted in a major contraction in its ability to offer any meaningful competition to Vietnam, with its main export markets now being isolated toe the middle and Far East markets (but little into UK and Europe).

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Walnuts

On a recent trip to California, we were advised that the March frosts had minimal impact on the developing new crop, if anything, and weather permitting, we could be looking at a new crop some 100,000 short tons (90,000mts) larger than current crop.

This past season has been difficult for California in that their scorching hot summer last year both reduced the crop and against expectations, also reduced the proportion of darker kernels produced.

This set up California to be priced over this past season at a premium to its competitor origins of India and Eastern Europe, with China also making a reappearance on the export stage at a discount to U.S. kernels.

Comment

Providing the Californian summer does not frazzle the developing new crop again, a crop of +90,000mts is what the market needs to push California back into a competing price bracket with its typically cheaper rival origins.

However, it should be stressed that what also differentiates California from China, India and Eastern Europe (primarily Moldiva/Ukraine/ Bulgaria) is a superior flavour and foreign body control.

Their shelling and cleaning processes are so efficient and increasingly so, that the levels of shell and septa are way lower than can be found from the other origins and even after UK recleaning.

It therefore puts California (alongside Chile) as a different product effectively.

The one downside however is that such is the high level of shelling that there is increasingly fewer Pieces being naturally produced and this could easily take us towards a time that Pieces need to be cut (diced) from Halves and which would invert the usual differential between the 2 grades.

Brazils

This has been something of an extraordinary start so far to this year for brazils as we transition from what was a disastrous season last year to a "normal" one this year.

Predictably, we saw some limited shipments leave origin earlier than usual earlier this year, as exporters tried to take advantage of the high 2017 prices before the anticipated price decline for 2018. However, those volumes were quite sporadic – not least as importers were reluctant to bring stock in un-sold in case they were unable to find a home for this later in a falling market.

However, since then prices have stabilised as cheaper brazils have stimulated some new buying interest both from new buyers as well as from those who may have entirely withdrawn from this market during the course of a horrendous 2017.

Comment

Prices have not yet returned to the more familiar and historical levels we saw for many years, and this looks likely to occur sometime over the second half of 2018, by which time the "pipelines" should be replenished to meet demand.

We are not there yet, and hence there is a range of pricing now offered which reflects a premium nearby with a forward sliding discount.

In many ways, this market might have unintentionally self-harmed in the longer run.

By driving some users away to other more stable products, it has harmed its market share.

For some of those buyers, if the move to other products hasn't hurt their products or brands, then there is a fair chance they will not risk moving back to brazils at all.

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Hazels

The near collapse of the Turkish Lira this year to date (approximately 14% depreciation against the USD since Jan 2nd) has had a direct impact on export pricing where the sales are made in USDs.

As with other Turkish products in this report, any "local" market strength has been largely offset by this unexpected currency adjustment and neutralised the impact of the firmer price trends.

With hazelnuts, while there was some weakness arising from the TMO selling off some of their current crop purchases (latest data suggested they have sold 24,000mts in shell of their 137,000mt total investment), the local market is actually trading up based on the following calculations:

- 2017 crop + carry in: 760,000mts (in shell) + 65,000mts = 825,000mts (total supply from 2017-18 season)
- Total exports up to w/commencing 7th May = 438,000mts
- Domestic consumption: 95,000mts
- Production losses: 21,000mts
- TMO remaining stock = 113,000mts

Meaning there is 158,000mts presently free stock in the market.

Comment

While the Turkish new crop bloom was largely uneventful with only small and localised reported frosts in the higher growing regions likely only to create minimal losses, the view remains that 2018 will be smaller than current crop.

While 760,000mts was by no means a record, the largest proportion of this Turkish production comes from older trees whose yields tend to be cyclical with experienced growers estimating that the "on/off" cycle will produce a smaller production from the next harvest.

Obviously this view is still early and with 3-4 months until the next harvest, we could still be pleasantly surprised. But for now at least, this is driving some forward demand along with the impact of the weaker Lira meaning that USD pricing itself is presently stable.

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Pecans

There is a similar problem evolving on U.S. pecans whereby the proliferation of Halves from superior shelling process is at the expense of naturally occurring Pieces.

However, U.S. and Mexican pecan producers have another problem to face. That is, South Africa is positioning itself to be an increasing threat to the established order over the next 7-8 years.

South African pecans have made an occasional appearance in the UK and European market but, generally China has cleared out the majority of South African pecan production as the massive Chinese domestic market increasingly looks to service its demand with imported "foreign" commodities.

However, China can be a fickle destination, and as tastes and prices change, so can their demand.

However, South Africa has started a programme of intense increased planted acreage and while a pecan tree only starts to produce a serious yield after 6 years and more so post 10 years, South Africa is looking to triple its production by 2025.

This is not an immediate but clearly more of a long term threat.

However, it will service to give some serious and meaningful competition to the two major established origins.

Comment

Perhaps with this threat in the back of the minds of some of the U.S. and Mexican producers, but more likely in the hope of larger new crops and much cheaper walnut pricing, the market looks primed to correct its pricing levels into 2019.

Pecan producers have long realised that at present pricing, pecans are looking out of line with many of their competitor tree nuts.

With the exception of pistachios and macadamias, Pecans are now the highest tree nut and this is taking a toll on its position in the market with a decline in interest from developers looking for a competitive product base.

With still six months before we start to see the success, or otherwise, of the U.S. and Mexican new crops, there is still some way to go, and with the remaining uncommitted current crop in strong hands and still with some additional demand still to be covered, there is little short term pressure on origin stock holders to off load.

But larger new crops in both origins (which is expected) and strong competition at cheaper levels from other tree nut origins, it is not hard to see that a major price adjustment could, and should be expected for 2019 supply.

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DRIED FRUIT

Coconut

On the back of softer edible oil pricing and subsequent knock on to weaker coconut oil levels, desiccated coconut pricing is also softening for shipments over the second half of 2018 - although the weaker Sterling is obscuring this.

Short supply is not an issue this year either in Indonesia so subsequently, Philippine processors are seeing some stiff competition between themselves and Indonesia, with Indonesia now offering a discount for the first time this year so far and for much of 2017.

Comment

As always, any weakness in origin takes a while to filter through to UK delivered pricing (notwithstanding the additional daily impact of the currency).

This is because the lead time from origin to UK/Europe is 6-8 weeks, but with the origin factories largely operating at full capacity for up to two-three months ahead, this means that it can be up to four-five months before any cheaper replacement pricing at origin would arrive at its destination.

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Raisins

On a recent trip to California, we were advised that new crop is developing well and unless there is a repeat of another crazy hot summer / late rains, they would hope to see a crop back to 300,000 short tons (270,000mts) which would be an increase of 90,000mts on this poor year.

What was particularly interesting was the reports over the extent to which the acreage given over to raisin vineyards is shrinking.

While the yield of the crop grown and dried on trellises ("D.O.V."/Dried on Vine) is double that grown conventionally and then dried on the ground ("D.O.G."), the amazing fact is that the growers are now turning away from vineyards to planting almond orchards at a rate of 20,000 acres a year being converted. This goes to explain how Californian almond planted acreage has increased from 500,000 acres to 1.3m acres over the past 20 years. It is an amazing trend and down to the fact that almond growers make a bigger return on their investments than raisin producers on their more vulnerable / lower value crop.

It should also be noted that the D.O.V. crop, while producing a better volume crop, produces a lighter coloured berry.

With this looking more like a Turkish sultana but (presently) at 2.5 times the price, California needs to be careful that the appearance which gives this origin its provenance, isn't undermined by the pressure to optimise its yield.

Comment

From Turkey, current crop raisins are now largely sold out - so any demand between now and new crop needs to be serviced by any limited spot surplus if and where available.

Due to this tight supply, there have been some sharp price increases for those sporadic offers that become available, although the extent to those increases has once again been obscured by the weakness of the Lira/ USD exchange rate of late.

The situation unravelling in the Middle East presently and the stance taken by the U.S. as well as the military offences being undertaken by Israel on Iran, must bring questions to bear over the position of Iran as a supplier of various products in the short-medium term.

Whether by sanctions or conflict, there is a growing possibility that any issues with or from Iran would clearly be a factor in terms of overall raisin supply options.

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Sultanas

As mentioned above and relevant also to Iranian sultanas supply on-going, the situation playing out in the Middle East may have a direct bearing on Iran as a competitor supplier to Turkey. Less so clearly for those non-EU/UK/US markets and hopefully not for the rest of us if this escalating situation can be brought back under control sooner than later.

However, in terms of the here and now:

Current crop in Turkey is selling through well and with wider issues on much higher priced currants and raisins, demand for sultanas has been extremely strong season to date

While Turkey did not report any issues on frosts earlier, there is a pretty consistent view held that new crop will be smaller than this year by virtue of there being typically and historically an on/off cycle of big crop followed by a smaller one.

Comment

Again, the firmer local market on the back of this view is being offset by the continued weakness of the Turkish Lira against the USD (although there has been a small recovery during the week of writing this report).

While Greek currants, Californian raisins and "Iran" continue to over-shadow the present comparative news, it is unlikely that Turkish prices will weaken and with recent memories still strong of what happens when it rains during harvest, Turkey will remain cautious until the new crop is physically in.

A final word on Iprodione:

The latest news is that there are still on-going discussions taking place between EU member states and the European Commission with a particular focus on the impact of any premature change to the MRL on those longer life products containing vine fruit.

The likely timeframes ahead seem to be that following on-going discussions over June-Sep '18, there should be a final vote at the E.U. Standing Committee in September ; scrutiny over the proposed legislation change over Sep-Jan '19 followed by a publication of the Official Journal in early '19 with the new MRLs becoming applicable June/July '19.

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Currants

Offers from Greece this season have been hard to find throughout and of late those that can be found have been around 20% higher (in Euros) than those that opened at the start of this crop year.

Greece is presently unwilling to take a punt on offering into the next crop on the basis that if the developing crop is hit by extreme summer heat or late rains, then new season prices would be off the scale.

Comment

As previously reported, we are also facing a gradual and deliberate reduction in the size of the Greek crop as growers look to switch out of currants into less labour intensive and costly crops (such as nuts or olives).

Set against the backdrop of established Greek processors who are desperate for a bigger crop in order for them to re-establish a wider export programme. Prior to the past two years' reduced crops, Greece was making strong headway into the Far East (including India and Australia) for the first time in a long time, and the smaller crops scuppered that momentum.

For more established markets, these big price swings do nothing to cement the place of currants in our products so it is hard not to think that the longer term future of currants is in further decline.

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Apricots

Malatya in Turkey has so far managed to experience very limited frost activity this year, and more importantly in recent months, although it is not unprecedented to have seen frost even during June, historically.

However, all being well and this avoided, the view is that we could be expecting another big 2018 crop – supplemented by a carry in of around 30,000mts.

Estimates for the new crop itself are around 125-130,000mts which combined with the carry in, sets 2018-19 to be in good shape.

Comment

As reported elsewhere, the weaker Lira of late is converting to lower USD-based replacement prices, although a Lira recovery would have an immediate impact, clearly.

In terms of raw material pricing, we may see some pressure from more speculative exporters pre-new crop harvest if they feel that prices could drop, but historically at least, this could present an opportunity to forward cover if similar speculation is then drawn in to push prices back up and/or earlier short sellers cover their positions.

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Cranberries

After many years of stability in the cranberry market, this has finally been the year where it has been truly kick started in to life (and higher pricing).

There is a fundamental shortage of fruit this year with very strong and on-going demand for dried cranberries despite a reduction in demand for concentrate and juice.

Availability has been made the tighter by an on-going marketing order which presently diverts 15% of total production into concentrate and puree production (despite there being a stock surplus there at present) and an expectation that later this year, this will be re-set to 25% which will please only the margins of growers and cooperatives at origin.

Comment

Replacement prices so far this year have increased by around 50% which is unprecedented and a stronger USD of late has only made things worse.

The past winter conditions in the key growing regions (Wisconsin for the U.S. and Quebec for Canada) were favourable and could be key to a strong 2018 North American production.

Then there is the situation between the U.S. and China – and the rest of the world.

If China sticks by its plans to increase import duties on U.S. cranberries (amongst other products) from 17.6% to 40%, then this will obviously kill a significant part of their own demand.

The same argument applies to Europe; if a similar trade war response sees the import duty increased, we know for certain, that high prices inevitably damage and reduce demand, despite global interest for dried cranberries running at an all-time high.

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Seeds

Pinenuts

Strong domestic demand from within China as well as increasing international demand saw prices firming over the past two months, although this trend has plateaued over the last few weeks.

While there is some growing views on how new crop might play out by the two key varieties, average Siberica and small Koraiensis is the latest opinion. We still have some way to go before we know this for sure.

In the meantime, the unexpected olive branch offered by the U.S. to North Korea looks to be a positive development although it may not offer a solution to the Chinese/U.S. trade stand-off, despite China's undoubted influence over this region's political stability.

Comment

Strong and growing domestic and international interest in and for pinenuts will ultimately offset any realistic chances for any further major price decreases in 2018 and beyond.

While supply, the currency and the cross border politics will likely remain key influences, it is the steady growth in demand for all products across the nuts, dried fruit and seeds markets that will not only call for big supply but, also encourage strong speculation.

For many speculator/traders in China and Hong Kong, pinenuts as a high value and volatile market offers an enticing proposition and this speculation will likely be as big an influence as any other factor on-going.

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Fax: +44 (0)20 7737 1827

Seeds

Pumpkin

It has become increasingly evident over the past few months that the carry in from the previous crop far exceeded anyone's previous estimations.

While new crop was for certain smaller than last year, the market underestimated the scale of the carry in and the amount of unsold stock that would then be supplemented by additional new crop arrivals.

This will almost certainly drive China to actively further reduce their new crop plantings later this year in an attempt to once again squeeze supply and force forward pricing higher.

Comment

It is hard to pin this surplus down to numbers as crop sizes and carry overs are not willingly published by China.

What is clear is that the push in China to cope with escalating internal and international demand created a massive over-supply and the latest crop has only added to the problem.

Clearly though, this is good news for the rest of the world with pricing being supressed by strong supply but it is inconceivable that China will not push hard over 2018 to reduce plantings and force forward prices higher when they still have the world monopoly on this product.

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Seeds

Sunflower

While the new crop harvest is still three-four months away, the weather in Bulgaria has been very positive so far with warm temperatures and regular rain.

If as it seems, this spells for a likely big new season supply, then we can expect there to be some interestingly aggressive speculative new crop prices emerging from origin in the short-medium term, although given the Euro weakness against the USD over the past month (down by 5%), those cheaper forward sunflower seed prices present a strong opportunity to forward cover rather than it heralding only the start of further correction.

Comment

Current crop pricing is a different story.

Spot prices are actually higher on the back of declining reserves of uncommitted inventory and should the summer weather disappoint in any way (too much rain / too high temperatures, etc) and should the Euro start a recovery against the USD, then these present cheaper levels might not be here for long.

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Email: sales@rmcurtis.co.uk

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