

# MARKET REPORT



*Monsoon rains were not significant as experienced in the previous years. Easter Sunday terror attacks have directly affected the tourism industry. The US dollar remains strong against the Sri Lankan Rupee. Global regulatory developments on ingredients have affected the cinnamon leaf oil industry.*

- *During the months of May and June, Sri Lanka receives the highest rainfall across the country, and in 2016 and 2017 major flood situations were experienced. However, this year the monsoon remained mild and the rainfall was not as significant relative to the previous years.*
- *On Easter Sunday, an extremist terrorist group linked to the ISIS international terror organisation carried out several blasts across the country targeting churches and hotels in Colombo, which resulted in hundreds dead and many more injured. This has had dire consequences on the tourism industry, and the economy in general.*
- *Identification of Safrole as a carcinogen globally has gradually resulted in sources of the compound being banned in consumer products. Cinnamon leaf oil contains relatively high levels of Safrole, thus regulation of the ingredient by global chemical and food agencies has seen the demand for cinnamon leaf oil decline.*

## Cinnamon Bark Oil

Over the months from April to May, availability of raw materials usually starts to increase as peelers return from the festivities of April. Peeling is also supported by the abundance of rain during the period.

During the months of May and June, in the global markets cinnamon (as a spice) prices were observed to be decreasing. However, this has no significant impact on the prices of oil grade materials.

If the global prices continue to dip below cost of production, cinnamon peeling and production may be interrupted leading to raw material shortages for distilling.

Given the weak Sri Lankan rupee, lower prices of cinnamon in the global markets and abundant availability of oil grade materials, cinnamon bark oil prices may reduce marginally. However, it is advisable to plan purchases in advance given the risks of raw material availability looming over the market, which may lead to supply limitations of cinnamon bark oil.

## Nutmeg Oil

No significant crop is available till the end of the year. Prices of raw materials have gradually risen and remain stable as experienced every year during the period.

Price of Indonesian nutmeg oil continues to remain low, which is exerting pressure on Sri Lankan nutmeg oil producers.

Sri Lankan producers are under constant pressure to look for ways to compete with Indonesian prices.

## Cinnamon Leaf Oil

While raw material availability has increased due to cinnamon peeling, leaf oil distilling has come to a stand still driven by the prevailing lower than usual prices and demand.

Usually, over the months of December and January cinnamon leaf oil prices reach the lowest, but picks up by April.

This year the cinnamon leaf oil prices have crashed to a very low point and locally trades around 12.50USD/kg.

It is reported that the increasing recognition of Safrole as a carcinogen by the food and chemical agencies have resulted in driving the demand down.

Small distillers in field units produce cinnamon leaf oil predominantly, and the current market prices are lower than cost of production. It is safe to assume serious supply shortages in the recent future unless prices and demand picks up.

## Clove Bud Oil

Clove crops harvested end of 2018 was not significant as expected, thus raw material availability is limited exerting pressure on raw material prices.

Sri Lankan clove bud oil prices remain unchanged from previous quarter.

Sharp prices cannot be expected till fresh harvests are received at the end of the year. Given the prevailing weather conditions conducive of clove growth, growers are hopeful of better crops this year.

## Citronella Oil

The moderate rainfall experienced this year over the monsoon months was ideal for citronella growing. Raw material availability and production remains stable.

While Javanese citronella oil consecutively continues to remain competitive, demand for Sri Lankan citronella oil was observed to be growing in this quarter as well.

However, it would be safe to assume that prices will not vary significantly in the immediate future, but no decrease can be expected given the promising market signals.

## Clove Stem Oil

Similar to clove bud, clove stem raw material prices are not expected to adjust till fresh harvest is received in December 2019.

Clove stem oil prices remain unchanged and at a relatively high point.

## Sources:

1. Central Bank of Sri Lanka - <https://www.cbsl.gov.lk/>
2. Department of Meteorology - <http://www.meteo.gov.lk/>

"Our concept of sustainability is not limited to conserving the environment we operate in, but extends beyond to support smaller stakeholders and industry partners".

