

MARKET REPORT



COVID-19 pandemic has had detrimental effects on the local and global economies. Demand for essential oils have looked promising, yet raw material shortages, restrictions on international freight etc. are exerting pressure on availability and prices. Sudden demand ripples have confused the local market, resulting in price hikes for some Sri Lankan origin essential oils.

- *Let us make this an opportunity to apologize to all our valued readers for not being able to publish our quarterly market report in April – Spring 2020, Issue 01.*
- *Over the months from March – mid-May the Sri Lankan government-imposed island-wide curfew restricting people's movement as a measure to curb the spread of COVID-19, which significantly affected production of essentials.*
- *During the curfew period, the Sri Lankan rupee depreciated to record lows and at certain points reached 200LKR/USD, which significantly benefitted the local exporters who had established price contracts. However, since curfew was lifted in mid-May, the rupee has settled at 184LKR/USD.*
- *Sudden increase in demand, especially for cinnamon leaf oil has prompted field distillers and collectors to hold back stocks, which is pushing prices further up.*
- *Market aversion for products of Chinese origin, have also created a positive outlook for some other essential oils of Sri Lankan origin.*

Cinnamon Bark Oil

April – June months are generally the peak harvesting period, with abundant raw material availability. However, given the restrictions on movements, farmers and collectors were struggling to supply materials to distillers, which resulted in production limitations.

Given the global demand hikes for essential oils, it is advisable for buyers to enter into contracts with potential suppliers. Especially, given the uncertainties across global markets and possibly an immediate bleak future. Contracts should provide some supply side security for all stakeholders, as distillers will have the confidence to stock up raw materials to ensure continuous production despite possible future restrictions due to subsequent waves of the virus.

Nutmeg Oil

Harvesting season for nutmeg begins later this year, so currently no crop for distilling is available.

Market prices can be expected to stay firm or go up given the limitations with raw materials.

Demand also has not improved for the product due to significantly low prices offered by Indonesia.

Cinnamon Leaf Oil

Cinnamon leaf oil prices continue to shoot up due to the sudden demand hikes.

Prices were hovering at a low of 12.20USD/kg in December 2019, which prompted many farm distillers to discontinue operations.

In our January issue, we advised potential buyers to stock up or enter into purchase contracts. Some of our clientele significantly benefited by following on this proposed advice.

Today the local trading prices are around 21USD/kg and can be expected to rise further.

Clove Bud Oil

Given the very low prices offered by Indonesia, Sri Lankan distillers are left to wonder if demand would increase in 2020.

However, due to significant global demand, some growth for Sri Lankan clove bud oil was observed during the past few weeks.

Citronella Oil

Due to the aversion of some markets from products of Chinese origin, Sri Lankan citronella oil appears to be benefitting.

The demand for the product appeared to be dormant for few years but has seen some hope in the recent weeks.

Clove Stem Oil

New crop harvested in December increased availability of raw materials resulting in prices to ease for clove stems.

Similar to clove bud oil, clove stem oil also struggles to compete with offers made by Indonesia. Increase in global demand has prompted some buyers to consider Sri Lanka as a supply source in the recent weeks.

Sources:

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

