

MARKET REPORT



Lower than usual demand over the period for Sri Lankan natural ingredients have affected producers big and small. Global economic uncertainty and slowdown continues. Strong competition for some Sri Lankan ingredients from Indonesia continues to worsen the situation for local producers. Sri Lankan presidential elections scheduled for mid November also adding to the local economic pressures.

- **Demand for Sri Lankan natural ingredients was lower than usual this year. Contributory factors assumed to be the general global economic slowdown as well as major companies in the industry holding large inventories. This has impacted all stakeholders in the industry, especially the cinnamon leaf oil producers, whole peppercorn producers as well as larger exporters of spices and allied products.**
- **Strong competition from Indonesia has continued to grow over the years and has had a significant impact on the trade of Sri Lankan clove, citronella and nutmeg oils. However, the prices seem to have stabilized in Indonesia, which is an encouraging signal for local producers.**
- **Presidential elections are scheduled for mid November, a period over which local economic activity could be expected to depress. The Sri Lanka rupee has further depreciated and trades at 182LKR/USD as at today. Over the period, inter-monsoonal rains in the evening were received in the major spice growing areas with sunny weather during the day, which is very conducive for farming. Better crops could be expected yearend and early next year for cloves, nutmeg, cinnamon etc.**

Cinnamon Bark Oil

Over the months from July to September, peeling cinnamon happens abundantly. However, as predicted in previous quarter, global demand (especially South American) for Ceylon cinnamon has depressed resulting in prices coming down, to be on par with cost of production. Across all grades of Alba, Special, C, M and H grades, minimum drop of 1000LKR/kg was observed.

Above has resulted in lower prices for oil grade materials as well. Given the weak Sri Lankan rupee and lower prices of cinnamon in the global markets, cinnamon bark oil prices have reduced.

However, it is advisable to plan purchases in advance given the concerns over raw material availability. At current prices of cinnamon bark, production does not appear to be sustainable and may prompt farmers and related industry stakeholders to divert attention to other crops.

Nutmeg Oil

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

As described in the previous issue, cinnamon leaf oil distilling has come to a stand still driven by the prevailing lower than usual prices and demand.

Cinnamon leaf oil remains one of the worst affected ingredients and the export statistics indicating a 30% drop in exports this year so far further supports the assumption.

Price of cinnamon leaf oil remains at a very low point and locally trading around 12.00USD/kg.

Serious supply shortages in the future could be expected, as most farm distilleries are being shutdown, which make up bulk of the cinnamon leaf oil producers. What is presently traded and exported are stocks from old distillations and should not be assumed to be fresh material.

Clove Bud Oil

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.

However, Sri Lankan prices cannot be expected to reach the Indonesian offers.

Citronella Oil

Inter-monsoonal rainfall disrupts harvesting, but is conducive of growing citronella. 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 the third quarter as well, which is further established by the export statistics indicating some growth compared to other ingredients exported by Sri Lanka.

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 over the third quarter of 2019.

Sources:

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

