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Welcome

Who could have foreseen that shortly after our last edition the world would be so profoundly changed? In what are extremely uncertain and difficult times for many, we are extremely thankful to be in an essential industry that has continued to endure.

The ripple effect of COVID-19 is being felt across the world and across all industries. In the food and beverage industry in particular, the on-trade market has suffered substantial losses as consumers take to their homes and we have seen a seismic shift in consumption patterns. Consumers are seeking comfort and familiarity from products and this has seen a resurgence in demand for traditional beverages. Health conscious consumers are also seeking products that boost immunity and offer perceived health benefits, increased demand for citrus juices being one such example of the direct effect of this.

Many businesses are having to adapt to new working practices, enforcing social distancing, reduced labour forces and growers and processors are navigating similarly dramatic shifts in the fresh fruit markets. Many ports have been closed and ships unable to dock heavily impacting the global supply chain. Throughout the report we touch on how COVID-19 has affected the markets in which we operate.

Despite the unprecedented influence the pandemic has had on our daily live the environment has witnessed unexpected benefits and the seasons continue as normal. As the northern hemispheres moves into the summer months, we are hitting another critical crop harvesting season across the globe, the Brazilian orange crop is about to begin as well as many herb and spice crops across Europe, Russia and China. Meteorologists are predicting yet another active hurricane season for 2020 and as we head into this, only time will tell how these forecasts will be.

For many of us 'working from home' has become the new normal but the relationship between our colleagues and customers have never been more important. We have introduced new ways of working to ensure we stay as close as possible to both our customers and suppliers. Our Procurement team would normally be travelling the globe visiting suppliers at this time of year. Since this was not possible, we recently organised a virtual citrus global roadshow which proved to be incredibly valuable to all concerned. We have also introduced a series of educational webinars designed to give something back to the customers we value so highly during this period of disconnection. Each webinar is followed by a Q & A session with one of our team of experts. If you are interested in hearing about the topics we have coming up in the months ahead please get in touch with your account manager or email us at marketing@treatt.com

Supporting our employees and their families, our local communities and our customers and friends in the F&F and consumer goods markets through such difficult times continues to be our highest priority. If you would like further details on how Treatt is responding to the COVID-19 crisis, please visit our website at www.treatt.com/coronavirus

Citrus Oils

Citrus Oils key takeaways

- Fundecitrus' forecast of a 100 mbx reduction in Brazilian crop from season 19/20 were confirmed
- COVID-19 has significantly affected processors across all growing regions
- California has seen a solid naval crop
- Mexico has seen consistent rain since March relieving the dry conditions experienced for quite some time
- Argentinian projections suggest a 25%-30% reduction in fruit for processing this season compared to last
- As COVID-19 caused the food service sector to close, more fresh fruit became available for processing
- Initial forecasts estimate a new harvest of 1.2 million metric tons of fruit, exceeding the projected final figure for 19/20 by 10%
- Mexican projections for the 2020 crop appear unchanged from the start of the year
- The price disparity between Persian and Tahitian oil remains wide
- In Mexico, as demand for fruit processing continues along with the potential of exchange rate fluctuations, we could see fruit prices increase over the next few weeks
- USDA forecast for Florida grapefruit is 4.85 mbx, of which 4.06 mbx is pink, leaving only 790,000 boxes of white
- Mexico anticipates the next grapefruit season which takes place in October to November will be better than the last
- Californian crop is down about 15%, due to general crop cycles

Citrus Oils the full story

USDA Reports a 100 mbx reduction in 19/20 Brazilian crop

Orange

Orange Brazil

The Crop season 19/20 officially concluded in April with a 386 million box (mbx) count. On 10th May, Fundecitrus released their first forecast of 287 mbx for crop season 20/21. This confirmed the initial thoughts of a 100 mbx (45%) reduction from season 19/20, which could still yield approximately 45,000 mts of cold pressed orange oil (CPOO). The report also confirmed that processing will start around 30 days later than a normal season meaning the traditional bell curve of oil qualities would be shifted back accordingly.

Buyers re-entering the market to replenish oil stocks, at a time when processors have very little oil carryover from the previous season, is causing the market to rise at a faster rate than was initially anticipated. COVID-19 has significantly contributed to this, as processors have had to implement recommended social distancing measures to ensure employee safety. This has resulted in slower picking of fruit and additional costs of transporting pickers to and from farms, amongst other effects. We have also seen logistical challenges posed by the reduction in availability of containers and vessel slots. This caused shipping costs to increase as demand outweighed supply, with many buyers taking additional cover on inventories. However, our most recent concerns are twofold. Firstly, from Fundecitrus’ forecast, they predict a four bloom crop. The third and fourth bloom together represent approximately 10% of the total crop forecast. This means, due to the late harvest, that 42.6 mbx may not be processed at all in 20/21 season.

The other major concern which may have a negative impact on this, and potentially steal season, is the drought we are seeing which started in March/April. Water levels across the citrus belt are already starting to run critically low. Without sufficient rainfall over the next few months, this could prove catastrophic and create the perfect storm to fuel price trends similar to those seen before 2017. D-limonene and terpene prices in general continue to tail CPPO at a similar pace, particularly with COVID-19 increasing demand for cleaning and home care applications.

Back in March 2020 “where will the markets settle?” was a pertinent question for all, however as we move into the third quarter of this calendar year, it may now be more a case of will the markets settle or will we see prices spike once again?

USA (Florida)

The USDA officially concluded a 67 mbx season on the 10th of July 2020. Although a good number, the downward trend continued from March 2020 resulting in a total crop 7 mbx less than the initial forecast back in October 2019. This reduction may have been the result of heavier fruit drop because of COVID-19, in that some processors back in October 2019 “where will the markets settle?” was a pertinent question for all, however as we move into the third quarter of this calendar year, it may now be more a case of will the markets settle or will we see prices spike once again?

USDA forecast for Florida grapefruit is 4.85 mbx, of which 4.06 mbx is pink, leaving only 790,000 boxes of white

Mexico anticipates the next grapefruit season which takes place in October to November will be better than the last

Californian crop is down about 15%, due to general crop cycles

On May 11th Fundecitrus released their first forecast of 287 mbx for crop season 20/21. This confirmed the initial thoughts of a 100 mbx (25%) reduction from season 19/20.
As we move into the second month of the hurricane season, all eyes are now focused on the 2020/21 season, particularly as experts now predict a 60% chance of an above-average Atlantic hurricane season. Including 13 named storms, 6-10 of which could become hurricanes and 3-6 major, category 3, 4, or 5 with wind speeds of 111mph or more.

HBL UPDATE

Researchers from the Boyce Thompson Institute (BTI), in collaboration with the U.S. Department of Agriculture Agricultural Research Service (USDA-ARS) and the University of Washington have identified that neuropeptides found in the Asian citrus psyllid itself could potentially be a starting point in developing an insecticide that is specific to protecting trees from invasives for processing. Although it is very early, this is incredibly encouraging news and gives hope that in the future we may finally have a remedy to fight this bacterial infection.

USA (California)

Processors are just finishing up the season that has seen another solid Novel Crop. The processing industry received approximately 30% of fruit from the total crop this season at 70% serviced the fresh fruit market. Processors have also seen very good brix to acid ratios this season and yielded the benefits for the market to work off the carry over from last season. Although it is very early, growers are expecting a similar crop for next season and the market dynamics between the fresh fruit market and the processing industry are proving to be the same as the previous two seasons. But optimism in any form during 2020 should be embraced.

Mexico

For processors the season ended very early, in April, as there was no fruit left to process. Not only were processors challenged by the significant crop reductions on the previous year but also by the quality or lack of quality and fruit size that was experienced in the middle of 2019. Average aldehyde levels in OPD0 this season struggled to even get close to 11% which is a very significant factor for growers, as normal levels would be around 1% for those looking to sew down to 7% to control for the vintage or to make a concentrate.

Looking at weather, record temperatures reported over the last few weeks in the Gulf of Mexico (currently at 90°F / 32°C near shorelines) indications are that we can expect an active 2020 hurricane season, although to date this seems somewhat suppressed by the Saharan dust cloud (nicknamed Godzilla). Thought to be the most significant dust cloud in 50 years at a staggering 3,500 miles long, it originated in the Sahara Desert crossing the Atlantic Ocean reaching the Caribbean islands and parts of Mexico. Thoughts are it will lingering over the Mexican gulf before tracking and dissipating as far north as the Canadian border. At this point we may then see the hurricane systems start to develop. This could translate into positive news, bringing heavily needed rain, or a negative, a land formed hurricane hitting the citrus growing regions. At this stage optimism surrounds the concept of the 2020/21 season being average at best, or potentially lower. Although it is too early to anticipate a tangible crop estimate just yet with so many variables, we should have more clarity in the coming weeks.

“Last season Argentina processed 1.45 million mts of lemons, but this season, after extensive evaluation, it is projected that number has dropped to 950,000 mts”

Lemon - Argentina

Argentina

As the market emerges from the lowest price levels seen for lemon oil in over 15 years, a consequence of global over supply, and reduced demand of lemon oil, we were confident that there would be a deliberate processing adjustment to re-align the situation. Last three months since we last report and lemon oil is a prime example and reminder of the volatile and variable markets we operate in. Because some processors sprung a deal of 30,000 mts in April against COVID-19 hit, they managed to keep processing delays down to only two weeks of their original plans.

Initially the 2020 crop looked comparable to last season at a total of 1.6 million metric tons (mts), but as we moved into the second quarter of this calendar year news started spreading that, in fact, there would be no need for a deliberate processing capacity adjustment. Last season Argentina processed 1.45 million mts of lemons, but this season, after extensive evaluation it is projected that number has dropped to 950,000 mts which will be processed from a total crop size of around 1.4 million mts - a considerable 25%-30% less.

Lack of rain during December, January, and February, combined with high temperatures are the main factors causing smaller lemon sizes and an overall lower total crop size. This is likely to result in a minimum reduction output of 2,000 mts of lemon oil compared to 2019, with very little carry over oil from last season. The short to medium term weather outlook is projected to be dry which lands consideration already to potential effects on the 2021 crop. Although it is far too early to anticipate this just yet, it will need to be closely monitored, as will some very chilly temperatures spanning the rest of this year. What does remain clear is the bottom of the market has been and gone. A few months ago we may have thought the year would be a stable one, but we now see strong potential that the market will bounce above and beyond just steadily, particularly if prices continue to rise at the speed we have seen over the last few weeks.

Spain

Moving through quarter two and into quarter three of this calendar year, the industry experienced a further reduction in fruit for processing as the fresh market took advantage of Turkey’s reduced lemon presence in the European market, which is the lowest demand for lemon in the current market. As a consequence, the consumer is re-feeding to fresh lemons for their high Vitamin C content and well-known immune boosting properties. During the last season, the demand increased by 33% and in April by 10% above normal average levels.

As the impact of COVID-19 took its toll during May reducing fresh fruit demand from the closure of the food service sector, more fruit for processing became available. Should the levels of fruit for processing continue to increase, the 2019/2020 season could conclude with approximately 250,000 mts of processed lemons. In comparison to the 2018/2019 season where 355,000 mts of fruit was processed this would represent a 30% reduction.

Looking ahead to the new crop which will begin in September, initial forecasts estimate 1.2 million mts of lemons will be harvested based on the projected final figure for 2019/2020 by 10%. As is usual for Spain’s lemon market dynamics the battle between available fruit for the fresh fruit market and processors will really depend on the demand from the food service sector and the European economy in general.

Lime (Expressed)

Mexico

The challenges for processors during the second quarter of this calendar year continued as growers gave the usual priority to the primary fresh fruit market. Demand for fresh limes has been firm for months from the US and that trend is anticipated to continue as we go through summer and into fall. The outbreak of COVID-19 significantly reduced the demand for lime not from concentrate (NFC) as the social distancing measures and restrictions imposed globally affected the food service sector, which normally consumes the largest volumes of lime NFC juice. This may have been offset by increased demand through the supermarket as at home consumption increased, but certainly we have seen a very different dynamic this year.

Processors are hoping for a better season than we saw in 2019. To date, the overall projections for the 2020 crop size appear unchanged from the start of the year. However, strong demand from the fresh fruit market (making fruit prices higher for processing) coupled with damage from the 2019 drought strongly suggests that the total volumes for fruit that will be processed in 2020 could be even less than in 2019. On a positive note, demand for lime peel during the first half of 2020 has been active. But there are strong concerns over what that demand will look like in the medium to long term, as a result of the reduction in demand from the food service sector. This leaves us to consider the effect on oil price, should the processing industry be under-supplied.

Brazil

Most processors have finished processing Tahitian limes new with only small volumes of oil uncommitted. This has potentially helped fill the gap where there was a lack of Persian lime oil available in the marketplace. Although we have seen oil prices increase as demand strengthened, the price disparity between Persian and Tahitian oil remains wide and may lead some to evaluate if the premium price for Persian is justifiable in all applications.
Lime (Distilled)

Mexico

As we moved from May into June it became apparent that the spring summer crop would be late. Processors have now begun to see a better flow of fruit filtering through their plants. COVID-19 certainly impacted both the processing industry and the fresh fruit market. It began for processors in March when they initiated safe working distancing practises, despite the fact that government restrictions at that point were yet to be confirmed. The fresh fruit market in particular felt the effects, as people were forced to stay in their homes, causing a rapid drop in demand. To date fruit prices for processing have remained firm around the $130/mt. However, as demand for fruit processing continues along with the potential of exchange rate fluctuations, we could see fruit prices increase over the next few weeks.

COVID-19 has impacted consumer trends, the outcome of which will undoubtedly effect the original delivery schedules for juice, oil and peel which have recently showed signs of slowing down. The picture will only become clearer as businesses sector begin to reopen over the next few months. It is prudent to consider the impact to the world’s economies both short and longer term. Some businesses across supply chains will purely seek to survive, some will certainly restructure in an attempt to reduce fixed costs rapidly. One question in many minds is, will this force certain businesses to refrain from working “just in time” for replenishment, or will some lock to reduce cash tied up in working capital forcing the risk down the supply chain and potentially back to the primary source? This then raises questions over sustainability. Lets consider particularly in such challenging and volatile markets as key lime.

Grapefruit

USA

The grapefruit market has faced some challenges over the last five years. citrus greening and low juice demand caused prices to increase noticeably in 2015. Hurricane Irma then hit the state of Florida in 2017, right before the grapefruit processing season. As a result, supply became very short, demand was high and in 2018, we saw prices at an all-time high. Those high prices were not sustainable though, and they have been on a steady decline for the past couple of years. However, prices that high and unsustainable, caused reformulation and a reduced demand over the past couple of years, especially for pink grapefruit, as some people were sitting on large volumes of high-priced inventory. It appears these volumes have been reduced and prices are now at a point where we see demand for pink grapefruit oil starting to increase. It would appear the market is starting to normalise.

Florida will start their grapefruit processing in October or November. As of right now, the USDA forecast for Florida grapefruit is 4.85 mt, of which 4.06 mt is pink, leaving only 790,000 boxes of white. One thing that could potentially affect these numbers is if a major hurricane were to hit Florida.

California is now in the middle of their grapefruit processing season, which runs from April through October. Their crop is down about 15%, due to general crop cycles. The trees will produce very good crops for a couple of years and then have a season that produces smaller volumes.

Mexico

It is anticipated that the next grapefruit season which takes place in October to November will be better than last season.

Last year the grapefruit crop was affected by the severe drought. However, this coming season we hope to see signs of some recovery from the drought and a more normal standard crop size.

Tangerine

USA (California)

Tangerine is an increasingly popular flavoured, used as an ingredient in a wide range of beverage categories, nutritional supplements and candies. Its high Vitamin C content and immune boosting properties has caused a spike in demand for this fruit during COVID-19 as consumers seek to look after their health.

California finished a strong clementine season in February. They will begin processing the next crop in early November and will run steadily through to mid-February 2021. The volumes of clementine have been increasing for the past three seasons and we expect to see this trend continue for the coming season.
The prevalent impact of COVID continues to be felt around the world, with increased costs (particularly freight costs) and raw material supply challenges faced daily. We continue to support and work closely with both our valued suppliers and customers, to ensure continuity within our sustainable and robust supply chain.

**ETHYL VANILLIN / VANILLIN**
Vanillin and Ethyl Vanillin have both seen notable increase in price since the beginning of the year. The cost of the Ethyl Vanillin has increased by around ~25% since the start of the year, whereas the Vanillin has increased by around ~20%. An uplift in demand for Vanillin from the USA being a key driver, with a number of bigger consumers stockpiling due to concerns around the trade war and the implications this could cause. Another reason being that the larger producers in India have been unable to produce and ship the goods due to the lockdown imposed a couple of months ago. With the Ethyl Vanillin, it is believed that the biggest manufacturer of this material has taken a significant increase in production, however COVID-19 has had a substantial impact on the movement of goods, both imports and exports, resulting in the material being scarce in the market. This is likely to remain the case until global lockdown measures are relaxed and goods can be manufactured and shipped more freely.

**SULFUROL**
The cost for Sulfural has increased significantly since our last report. The feedstock has increased in price and become harder to source, as these materials are used in the production of pharmaceuticals. The issues with this material are expected to be compounded as some key producers are shutting down production for the whole of July whilst the factories undergo some standard maintenance. Indications suggest further firming could be seen in the short term. At this stage there is no sign of prices stabilising.

**GUM TURPENTINE**
The crop for Gum Turpentine has only just begun in China, however it has been noted that in the months leading up to the new crop there has been a slight decline in enquiries for the turpentine derived products. It is thought that this is due to the uncertain economic environment caused by COVID-19. Conversely, it is understood that several key raw materials have gone short in economic environment caused by COVID-19. Conversely, it is understood that several key raw materials have gone short in the market, meaning further demand in the coming months could encourage firmer pricing.

**ANISALDEHYDE**
Recent lower production levels in Europe have significantly limited material availability. India is another source for this material however COVID-19 has had a substantial impact on the movement of goods, both imports and exports, resulting in the material being scarce in the market. This is likely to remain the case until global lockdown measures are relaxed and goods can be manufactured and shipped more freely.

**CARYOPHYLLENE NATURAL**
The crop for Clove has been worse than anticipated due to the prolonged extension of the wet season in Indonesia. There has been significant economic uncertainty in the market because of COVID-19 which has caused many major consumers of Caryophyllene to reduce their demands for this material. This means that despite the crop not being as abundant as originally hoped, the price for the Caryophyllene is relatively stable as some of the big producers have been struggling to sell all their material.

**2-METHYLPENTANOCIC ACID**
Can impart pleasant fatty, creamy, dairy, oily characteristics with fruity notes in formulations. Typically used in cheesy flavours for bakery and soft confectionery at 5 ppm. Nature identical in parmesan cheese, raw and cooked mutton plus roasted lamb.

**2-PROPIONYLTHIAZOLE**
Bready, cereal, nutty, popcorn and pandan notes can be added with this molecule at 0.1 ppm. Extensively used to impart a basmati rice profile in place of the other less stable compounds 2-Acetyl-2-Thiazoline and 2-Acetylpyrazine. Reportedly found in fats, oils, lard, cooked spinach and pandan leaf.

**5-METHYL-2-THIOPHENECARBOXALDEHYDE**
Sweet, almond, nutty, cherry and bready notes can be achieved at 5 ppm in formulations. Reportedly found in roasted peanuts, wheat bread, coffee and popcorn. Naturally occurring in romano, sheep and goats cheese plus all forms of mutton, this molecule unsurprisingly imparts fatty, goaty and cheesy nuances. Used in cooked lamb/ mutton flavours for bakery and snack foods at 10 ppm, meat and dairy products at 5ppm, and in soups and gravies at 2.5 ppm.

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**4-METHYLNONANOIC ACID**
Naturally occurring in romano, sheep and goats cheese plus all forms of mutton, this molecule unsurprisingly imparts fatty, goaty and cheesy nuances. Used in cooked lamb/ mutton flavours for bakery and snack foods at 10 ppm, meat and dairy products at 5ppm, and in soups and gravies at 2.5 ppm.

**4,5-DIMETHYL-2-PROPYOLOXAZOLE**
One of our newest offerings, this can help to impart fatty, metallic flavours at 0.1 to 1 ppm. Reportedly found in coffee and roast beef.

**‘FREE-FROM’ WITH ALL THE FLAVOUR**
Demand for products designed to be ‘free-from’ ingredients people can be allergic or intolerant to continues to rise. Such products often help widen the offerings for vegans too. Creative flavours utilising HICs to add an authentic taste profile can increase the appeal of these products.