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RAW MATERIAL MARKET FORECAST

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Q1 2023

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Overview

The outlook for Q1 pricing is moderate inflation with improved availability of inventory and some initial indicators of price competition. Despite intervention by the US Federal Reserve to fight inflation with higher interest rates, November food inflation for the trailing twelve months is still at 10.6%, down only slightly from the high in August of 11.4%. The worst inflationary pressures in food are in cereals/bakery and dairy, where both sectors have annualized inflation of 16.4%. However, the Bureau of Labor Statistics is forecasting 2023 food inflation to be in the 3% range. Some of the persistent inflation reflects challenges that include the continued impact of the Russia/Ukraine conflict, outages at refineries during the extreme cold around Christmas, and China demand coming back on-line after extensive Covid shutdowns.

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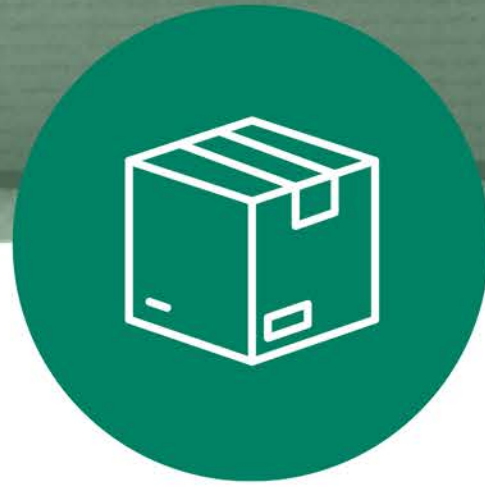
US wage inflation is still high at 4.6% over the past year with job gains in food and hospitality offsetting technology layoffs. European wage inflation is predicted to be 4.7% in 2023 by tradingeconomics.com which follows ongoing energy and food inflation in the Eurozone. These factors all point to a slow easing of inflation in 2023 rather than a rapid drop that comes with a recession.

Logistics



The World Container Index (Drewry Supply Chain Advisors) noted that as of January 5th, the world container index for international shipments is slightly up but likely to trend slightly down in the next few weeks at a rate that is down 77% from prior year but still up 50% over pre-pandemic 2019 levels. Diesel prices have eased but are expected to rise by late spring which will leave domestic shipments flat to current levels.

Packaging



Resin pricing is flat and according to [Plasticstoday.com](https://www.plasticstoday.com), capacity is set to expand in 2023 creating additional downward pressure, especially if recession hits the US as predicted by the IMF.

Vanilla/Vanillin



- Vanilla Bean pricing is stable and while supply is high, government intervention in Madagascar is preventing any price corrections currently.
- Vanillin/Ethyl Vanillin- More competition is pressuring prices slightly downward from the highs in early 2022.

Citrus



- Orange oil is impacted by yields in Brazil which is expected to suffer a 3% reduction in crop size and Florida is also expected to reduce crop yield at the lowest rate since the Great Depression.
- Lemon oil pricing has stabilized and should remain so going into 2023.

Alcohol



- Ethanol has stabilized and should see some relief as lower logistics costs slowly make their way into market pricing. Cis-3 products are still facing extremely tight supply and will continue to have inflated pricing through Q1.

PG/DPG



- Propylene Oxide (PO) is still very tight, but pricing has been stable (not rising) for 3 months and is expected to stay level for Q1 until producers can ramp up to full capacity.

Cocoa & Coffee



- Cocoa continues to be rising in price due to high demand, labor shortages and freight delays. This is not expected to be resolved until mid-2023.
- Coffee from Columbia is experiencing issues both with an estimated 4% reduced crop and logistical issues making this origin the most price sensitive. Brazilian coffee is spiking in price due to droughts.

Starches & Sweeteners



- Sugar: Pricing is stable after a spike in Q4 that peaked on December 23rd. Brazilian supplies are expected to be enough to hold prices in check in the first half of 2023.
- Aspartame/Monk Fruit/Saccharin/Sucralose: Pricing has stabilized and some additional availability of aspartame has hit the market while monk fruit and sucralose are expected to come down in pricing in 2023.
- Maltrin: Demand is continuing to drive tightness in the market and prices may rise slightly during Q1.

Starches & Sweeteners Cont.



- Dextrose: Demand for dextrose has grown faster than supply and continue to support price increases in the market.
- Corn Starch: US crop is looking to be the same to slightly worse than prior year and without a larger input from Ukraine, pricing will continue to be higher than historical averages.
- Gums: Xanthan gum from China is still inflated after peaking in Q2 2022 with possible easing of record soaring prices by mid-2023. Gum Arabic has seen pricing soften but availability is still unstable.

Essential Oils



- Mint: Pricing is rising due to some questionable quality product in the market limiting the supply of reputable stocks.
- Chamomile: Good year of production and stable pricing.
- Citronella: Pricing increased in Q3 but leveled off since Q4.

Essential Oils Cont.



- Eucalyptus: Supply is stable as well as pricing.
- Lemongrass: Current crop is supporting stable to lower pricing into 2023.
- Nutmeg: Higher prices are indicative of more product going to spice market and worse crop yields.

Essential Oils Cont.



- Soybean Oil: Production is stable and while prices remain high, the drought conditions are not expected to yield lower crop levels compared to the prior year. Prices are currently up 9% over the previous year.
- Rose Oil: Higher pricing is expected due to reduced crop yields in Bulgaria and Turkey.
- Patchouli Oil: No pricing change as the crop was strong but the market lacks competition for the Indonesian product.

Thank you!

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