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# RAW MATERIAL MARKET FORECAST

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## Q3 2023

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# Overview

The outlook for Q3 pricing will reflect the Federal Reserve's guidance that inflation has peaked and is starting to subside. Despite this optimism, the metric used to determine additional rate increases, the Personal Consumption Expenditure price index, was up slightly in April which may predict another rate increase to rein in inflation. April food inflation sits at 7.7% over the past year with improvements in meats, dairy, fruit, and vegetables. The cereals/bakery segment is running counter to this trend with annualized inflation still at a high mark of 12.4%. The USDA has reduced the full year food inflation forecast from 7.9% to 6.2%. Energy prices have declined over the past year except for a small spike of 3% in gasoline in April which may reflect OPEC's announcement of production cuts of oil.





Key issues to watch in Q3 as it relates to economic trends include The Federal Reserve's balance between moderating inflation and maintaining confidence in the banking system (particularly regional banks), energy inflation and wage inflation. Kiplinger predicts the Fed will pause in June on curbing inflation with additional rate hikes in favor of shoring up confidence in banking. Without the constraints of another rate hike, wage inflation seems likely to continue as the May jobs report showed a significant 144,000 jobs created over expectations. The US Department of Energy is forecasting gas prices to be up 7.3% for Q3 which should find its way into transportation costs of all raw materials while the Eurozone has seen a rapid decline of 8.9% in April energy prices.



# Logistics



Easing fuel prices may be ending due to the OPEC announcement to slash production which should raise gas prices 7.3% in Q3, 10.2% in Q4 and potentially higher in 2024.



# Packaging



Resin pricing is flat and according to Plasticstoday, despite increasing inventories which may hold in the short term, it is likely for pricing to improve towards year end. Corrugate pricing in Europe and the US are modestly improving since their peak during Spring 2022. Steel prices for drums is dropping after peaking in April but then dropping 6.9% in the monthly metals index. Additional mill capacity and declining imports indicate this favorable trend could continue.

# Vanilla/Vanillin



- Vanilla Beans: Pricing going into next year is positioned to improve as the current inventory levels are historically high and new/cheaper competition from Uganda and Indonesia are putting price pressure on the market leader- Madagascar. In addition, crop yields are also up significantly from 2018 when prices peaked. The only caveat in this market is government intervention and major weather events that hit every 15-20 years.
- Vanillin/Ethyl Vanillin: More competition is pressuring prices slightly downward from the highs in early 2022.



# Citrus



- Orange oil: Continued backlog of demand in Brazil is keeping prices high while lower quality crops is pushing up pricing on specialty orange ingredients.
- Lemon oil: Pricing sourced from Argentina is starting to show improvement while Sicilian product is still double the price of its peers.
- Lime oil: Pricing continues to stay inflated due to high demand and tight inventory levels.
- Grapefruit/Tangerine/Mandarin: All are seeing firm pricing driven by reduced production.



# Alcohol



- Ethanol has stabilized but improved pricing is likely to be constrained by incremental logistics costs.

# PG/DPG



- Propylene Oxide (PO) inventory levels have improved and competition between US and Asian suppliers have reduced pricing from the peak levels in 2022 but still significantly above pre-Covid rates.



# Cocoa/Coffee



- Cocoa continues to climb in price during Q2 with part of the blame is due to speculators holding inventory with an assumption it is still going higher. Production is rising 3.5% with consumption only rising 1.5%, so the underlying economic structure supports a longer-term regression from the current run up that started back in January.
- Coffee from Columbia and Brazil are still seeing escalating prices as Brazil continues to suffer a poor crop due to drought and there is a spill over effect on pricing from other regions.



# Starches/Sweeteners



- Sugar: Pricing has been rising but is stabilizing going into Q3 while the market looks for information about the current crop which is currently off to a good start but too early to tell.
- Aspartame/Monk Fruit/Saccharin/Sucralose: Pricing has stabilized and some additional availability of Aspartame has hit the market while monk fruit is expected to come down in pricing in 2023 while Sucralose could rise towards the end of Q3 due to strong demand at the lower prices.
- Maltrin: Demand is continuing to drive tightness in the market and prices may continue to rise slightly during Q3.



# Starches/Sweeteners Cont.



- Dextrose: Demand for dextrose has grown faster than supply and price increases continue but should stabilize in Q3 at these higher levels.
- Corn Starch: Corn prices have found some relief beginning in May and the USDA Crop Progress report from 6/4 shows above average crop planted with an expectation of favorable weather over the summer compared to prior years. Overall, 2023 pricing is expected to be 10% higher over 2022 and not see stable relief until 2024.
- Gums: Xanthan gum from China is still inflated at the end of Q2 but as material is starting to flow again, there should be some pricing relief at the end of Q3. Gum Acacia inventory is still tight from the ongoing conflict in Sudan and will impact the market for several months.



# Essential Oils



- Mint: Despite a forecast for a smaller crop, the impact of reduced demand has kept pricing consistent to prior years. The peppermint harvest that started in April is showing good signs with a small negative pricing impact from higher energy and wage costs.
- Chamomile: Good year of production and stable pricing.
- Citronella: Pricing is dropping to the point where production is also slowing which could turn the market.
- Eucalyptus: Steady supply and weak demand are bringing the pricing down slightly.
- Lemongrass: Poor weather and resistance to sell at lower prices is projected to push pricing up slightly.



# Essential Oils Cont.



- Nutmeg: Higher prices are expected throughout 2023 while long contracts are being filled but should improve in 2024.
- Soybean Oil: Pricing for Q3 is on the rise due to supply shortage and rising demand from food manufacturers due to India's abolishment of duty-free imports of sunflower oil. The USDA shows higher than average crop planting in the US as of June which may contain future increases.
- Rose Oil: Soft demand coupled with labor shortages to harvest the crop in Bulgaria should net out to stable to slightly higher pricing.
- Patchouli Oil: Pricing is rising on higher quality product but stable with improved availability going into Q3.



# Thank you!

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