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RAW MATERIAL MARKET FORECAST

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Q2 2024

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Overview

As we wrap up the first quarter of 2024, we are getting a better picture of the economic momentum and drivers that will impact the food, beverage and fragrance industry. The February consumer price index for food averaged 2.2% for the past twelve months with a disparity between food at home at 1%, and food away from home at 4.5%. Continued disparity has prompted fast food companies like McDonalds to predict that eating away from home is becoming unaffordable for the low to middle class. This may present more opportunities for makers of frozen and processed foods. Energy prices are still down 1.9% over the past year but February marked the first increase in energy prices since September of 2023 based on rising gas prices. Given the slightly higher than expected levels of inflation and low unemployment, the odds of interest rate cuts by the Federal Reserve seem unlikely until Q3 at the earliest.

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Crops are still a mixed bag of good and bad news. Q1 accelerated two trends in food pricing. Vanilla supplies continue to be strong which should allow some producers who switched to artificial vanilla to be in a cost position to switch back to pure vanilla extract. The opposite is happening as cocoa prices continue to rise dramatically, forcing some African processors out of the market due to high working capital requirements. The European Central Bank is reporting inflation at only 2.8%, however food and beverage is higher at 5.4%. Overall, consumer spending growth in the EU is likely to exceed the US as the EU is seeing higher wage growth and lower inflation which will give Europeans more spending power relative to their American counterparts. The largest opportunities seem to be in attracting budget conscious consumers who are fed up with food inflation.

Key Issues to Watch in Q2

- Will energy prices stabilize or will February be the first month of a trend of increasing prices after 5 months of declines?
- Will increasing consumer debt and higher housing prices slow consumer spending growth in the US?
- Will increased global logistics costs start to impact inflation?



Logistics

Pricing pressure is coming on two fronts. First, after a trend of reducing energy pricing, February saw an increase in fuel prices. The second issue is the ongoing attacks on commercial shipping vessels in the Red Sea causing longer routes which resulted in a 150% increase (early December to late February) in global spot ocean freight rates for forty-foot containers. This issue put west coast ports in high demand which may present a problem in Q4 if the labor contract with Longshoreman that expires on September 30th, isn't renegotiated before a strike.

A background image showing several stacks of cardboard boxes in various sizes, rendered in a light green color. The word "Packaging" is overlaid in white text.

Packaging

Resin pricing in Q2 is projected to grow modestly. This is driven by growing raw material costs and rising ocean freight costs. Corrugate pricing in Europe and the US are expected to improve due to slumping demand. The Producer Price Index for metal products including steel drums and pails is starting to tick up after showing improvement in Q4.



Vanilla/Vanillin

- Vanilla Beans- Pricing for the 2024 crop 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 while quality and vanillin content are expected to be high.
- Vanillin/Ethyl Vanillin - Competition with pure vanilla extract will not likely impact prices favorably until early 2025 after producers have time to implement any conversions. Pricing on Ethyl Vanillin is expected to trend up in Q2 due to production issues at one of the major producers. Extended issues may impact the remainder of the year as well.

A background image showing several slices of citrus fruit, likely lemons or limes, arranged in a circular pattern. The slices are cut into wedges, showing the internal segments and the outer rind. The overall color is a light, fresh green.

Citrus

- Orange oil: Low inventory is maintaining historically high prices and will continue through this current crop cycle. Brazil is expected to suffer another poor crop which is likely to drive the global market.
- Lemon oil: Pricing has flattened after some uptick in pricing due to reduced crops. EU and South Africa are picking up for losses in the US helping to keep prices stable.
- Lime oil: Pricing continues to stay inflated due to high demand and tight inventory levels. Similar to lemons, losses in US and Mexico are being made up in EU, Turkey and South Africa.
- Grapefruit/Tangerine/Mandarin: Production is expected to rise slightly from prior year contributing to stable prices.



Alcohol

- Ethanol is stable but at risk for increases due to recent transportation cost trends.

PG/DPG

- After a year of prices slowly dropping back to historical levels, major US producers like Dow and Lyondell have announced price increases at the end of Q1 and expect the Propylene prices to peak in Q2 before moderating again.



Cocoa/Coffee

- Cocoa pricing continues to hit new record levels as processors struggle to afford the beans. In the futures market, prices have doubled since the beginning of the year. West Africa is the main growing region and has suffered extreme weather creating a third consecutive year of supply deficit to demand.
- Coffee yields from Brazil are still suffering from poor crops however recovery for the upcoming crop may bring relief later in the year. Combined with productivity gains in harvesting, prices should be stable to slightly improved for the 2024/2025 harvest.

Starches/Sweeteners

- Sugar pricing is expected to trend up as some stock is diverted to ethanol production in response to rising fuel prices.
- Aspartame/Monk Fruit/Sucralose: Aspartame pricing is trending down in the short-term and Monk Fruit is benefiting from a strong harvest. Sucralose is at a low point in pricing and holding but may bounce back due to pressure from key producers early Q2.
- Maltrin: Supply is pushing prices slightly lower going into Q2.

Starches/Sweeteners Cont.

- Dextrose: Pricing climbed during Q4 but should see a reduction in 2024 as demand eases.
- Corn Starch-:Corn prices are starting to rise after reaching a three year low in the US and may be used to offset rising fuel prices.
- Gums: Xanthan gum supply is increasing which is leading to some improvement in pricing. Gum Acacia inventory is still tight from the ongoing conflict in Sudan and will continue to hold at the current high price levels.

Essential Oils



- Mint: Pricing is expected to be stable due to normal crop yields.
- Chamomile: Good year of production and stable pricing.
- Citronella: Reduced supply is driving the market higher.
- Eucalyptus: Pricing is trending slightly up due to stronger demand.
- Lemongrass: Poor crops are holding the market tight.

Essential Oils Cont.

A decorative header image showing several glass bottles of essential oils and some dried herbs, all set against a light green background. The bottles are of various shapes and sizes, some with cork stoppers and others with screw caps. The herbs are small, needle-like leaves, possibly rosemary or similar.

- Nutmeg: A small increase was realized for 2024.
- Soybean Oil: Pricing is holding steady into Q2 due to strong production.
- Rose Oil: Reduced production due to lower yields will drive prices up as a reaction to previous years lower pricing that drove farmers out of the market.
- Patchouli Oil: Pricing is rising in due to a global shortage coupled with plant disease.

Thank you!

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