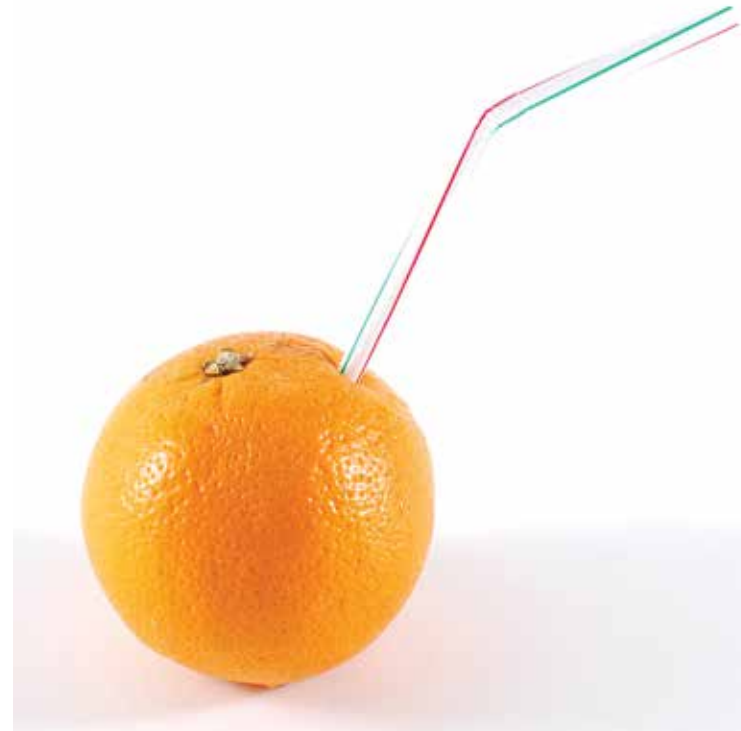


Orange

World concentrated juice market

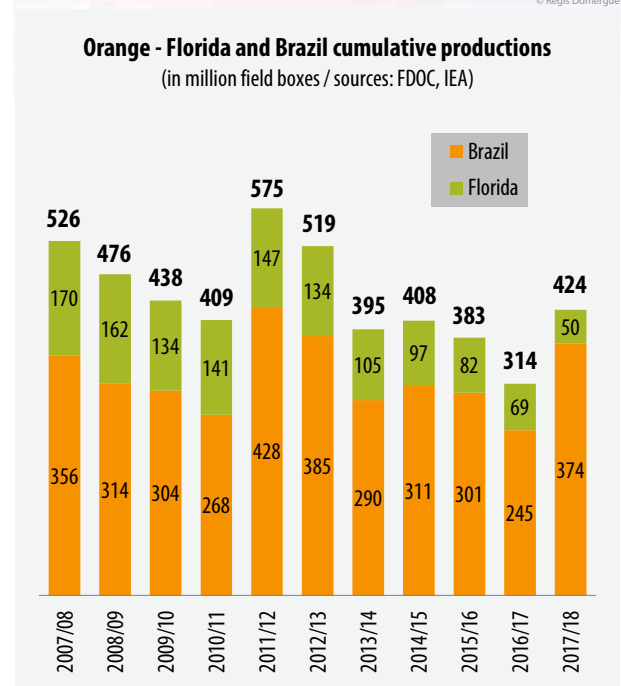
Perfect season in Brazil, but a perfect storm in Florida

Concentrate prices on the rise in 2017-18, with the Brazilian orange harvest back to a high level, and world demand still depressed? Astounding as it might seem, that is the expected market trend.



Brazil: no record, but back to a fine harvest

Four successive small or medium harvests had practically led us to forget how enormous Brazilian production could be. The 2017-18 campaign should set things straight, with a harvest which without being a record, is 35 % up on 2015-16 to register a level of 19.5 million tonnes; in the end, a level worthy of the world's number two orange producer. This boom should largely be credited to Brazilian citrus growing's leading zone, the Sao Paulo region, where the harvest is set to soar by more than 50 %. This staggering increase is nonetheless utterly credible. As is often the case after a very small harvest (2016-17 was the leanest season of the past 25 years), there is a particularly strong alternate bearing effect in production. Furthermore, the climate conditions have been favourable, with in particular the return of more generous rainfall levels. Hence, given less bad processing yields than in previous seasons, Brazilian juice production should climb to 1.3 million tonnes of 65°Brix concentrate (+ 58 % on 2015-16).



Florida: doubly penalised

The fate of the two main protagonists on the world market seems to be direct opposites in this 2017-18 campaign. While Brazilian producers have reason to celebrate, their Floridian counterparts have been literally afflicted. Hurricane Irma wreaked devastation on an industry already greatly weakened by the damaging effects of greening, as ravaging as it is widespread. According to the press the cultivation area, which extends over a total of 180 000 ha, was 70 % affected by winds of between 120 and 180 km/h, and 15 % affected by winds of more than 180 km/h. Hence the 2017-18 season, which had been set to be the first marked by a slight but encouraging production bounce-back, is now expected to be the worst on record for the past 70 years. According to the USDA, the harvest should barely exceed 50 million field crates (2.2 million tonnes). Furthermore, this already historically lean figure is considered to be a big overestimate by highly representative professional authorities such as Florida Citrus Mutual, which is banking on 35 million field crates (1.4 million tonnes) instead. Hence Florida should produce no more than 150 000 to 250 000 t equivalent of concentrated juice in 2017-18. Overall, the combined production of the two main juice market protagonists should be around 1.45 to 1.50 million tonnes, a level slightly above the four-year average (+ 6 %).

Orange - Floridian and Brazilian harvests

in million 90-lb (40.8 kg) field boxes	2017-18	2016-17	average	2017-18 compared to	
				2016-17	average
Florida	50	70	88	- 29 %	- 43 %
Brazil	374	245	287	+ 53 %	+ 30 %
Combined	424	315	375	+ 35 %	+ 13 %

Sources: FDOC, Abecitrus

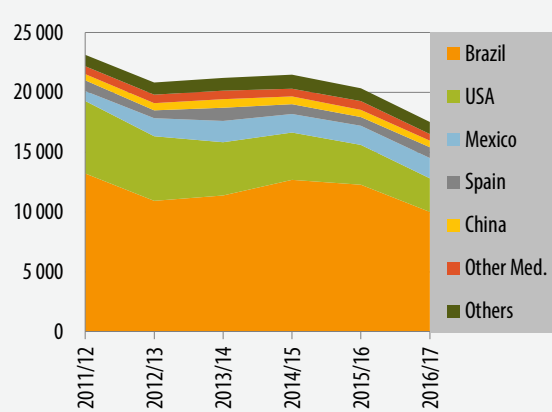


World concentrated juice production only slightly above average

What of the other market players? No significant production increase movement seems to be taking shape. In Mexico, the sector's world number three responsible for 10 % of total processing, there should barely be any change in the harvest. The cultivation area seems to be shrinking, especially in the main production centre of Veracruz, where the threat of greening is increasingly strong. Spain, which controls approximately 5 % of the world market and is the fourth biggest player, is in poor form with its orange harvest approximately 10% below average. Finally in China (3% of the world market), volumes for the industrial sector have seen a considerable and constant decline since 2013-14, because of greening increasingly ravaging the big, warm-climate production provinces in the south (Jiangxi, Hunan, Guangxi). Hence if we factor in these hypotheses and assume stable volumes from the other minor players, which together represent approximately 5 % of the market, concentrate production should be around 1.9 million tonnes (+ 6 % on the four-year average).

Orange - Processed volumes

(in 000 tonnes / sources: FDOC, professionals)



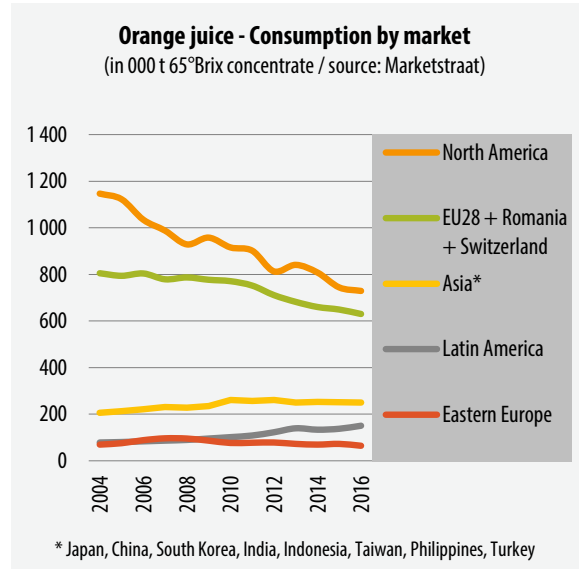
Orange - Processed volumes

in 000 tonnes	2016-17	Evolution from 2011-12	Market share
Brazil	10 008	- 3 212	57 %
United States	2 807	- 3 257	16 %
Mexico	1 700	+ 870	10 %
Spain	901	+ 6	5 %
China	550	+ 30	3 %
Other Mediterranean	555	- 104	3 %
Others	1 007	+ 52	6 %
Total	17 528	- 5 589	

Sources: FAO, professionals

Demand still distinctly on the wane

In terms of demand, the latest available figures (civil year 2016) did not bring any nice surprises. The trend is still clearly a waning one, with an average drop in marketed volumes of approximately 2 % per year for the past four years. There is still a distinct and steady fall in consumption in the USA and EU-28, the world's main markets which together take in approximately 70 % of the world supply. It is still not being offset by the interest from Latin America, increasingly marked every year (especially Brazil, Argentina, Chile), the sole remaining growth region in the world. The Asian markets have been completely stable since 2013, while the East European markets are continuing to decline. If we extend these trends for 2017 and 2018, probably a fairly pessimistic scenario since the expensiveness of apple juice could play in orange juice's favour, potential consumption nearly perfectly matches the expected production level.



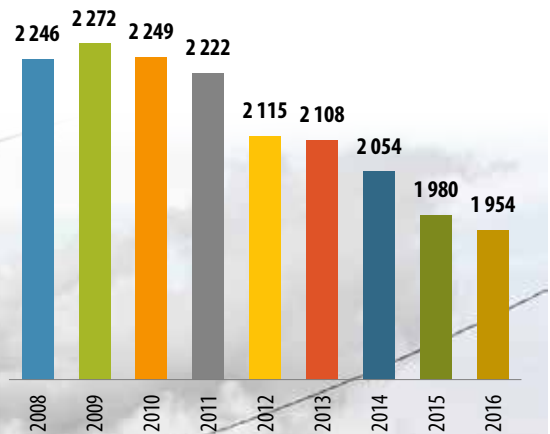
Orange juice - World consumption

in 000 tonnes concentrated juice equivalent	2016	% of world consumption	2016 compared to	
			2015	2010
EU	630	32 %	- 3 %	- 18 %
North America	729	37 %	- 2 %	- 20 %
Latin America	150	8 %	+ 9 %	+ 49 %
Asia	250	13 %	0 %	- 4 %
Eastern Europe	64	3 %	- 11 %	- 16 %
Others	131	7 %	+ 3 %	+ 6 %
Total	1954		- 1 %	- 13 %

Source: Marketstraat

Orange juice - World consumption

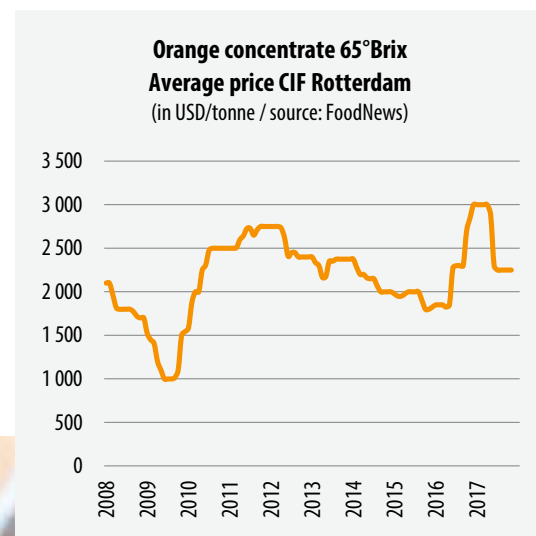
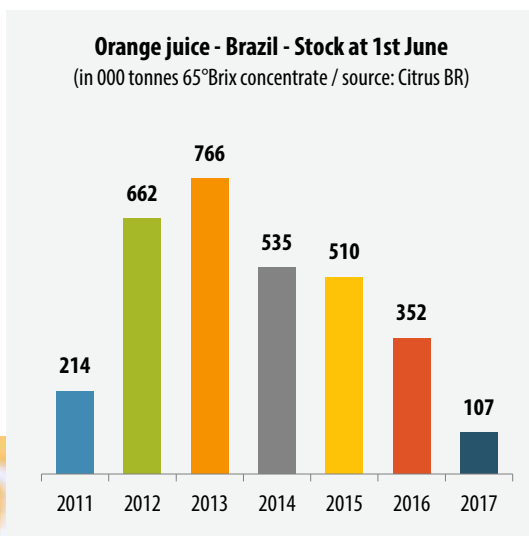
(in 000 t 65°Brix concentrate / source: Marketstraat)



Lean stocks and a balance between production and demand providing an argument for high prices

Hence the big increase in Brazilian production should be put into perspective, since it will only restore a production level just sufficient to supply world demand. Furthermore, the market is no longer weighed down by stocks. The combined Floridian and Brazilian juice volumes, available in the production countries and the rest of the world, had dropped to less than 350 000 t equivalent of concentrate by the end of the 2016-17 season. These volumes literally choked the market between 2012 and 2016, with a level of close to one million tonnes (and even nearly 1.3

million tonnes at the end of the 2012-13 season). Brazil actually closed its 2016-17 season with barely more than 100 000 t of concentrated juice available, a level not seen for at least a decade! It is no surprise in this context to hear rumours of price increases. Operators are even talking of approximately + 350 to 400 USD per tonne of concentrated juice, according to reports in FoodNews. This revision would take the price to 2 600 USD, a level still far off last year's 3 000 USD, while supply and demand are balanced and stocks have fallen.



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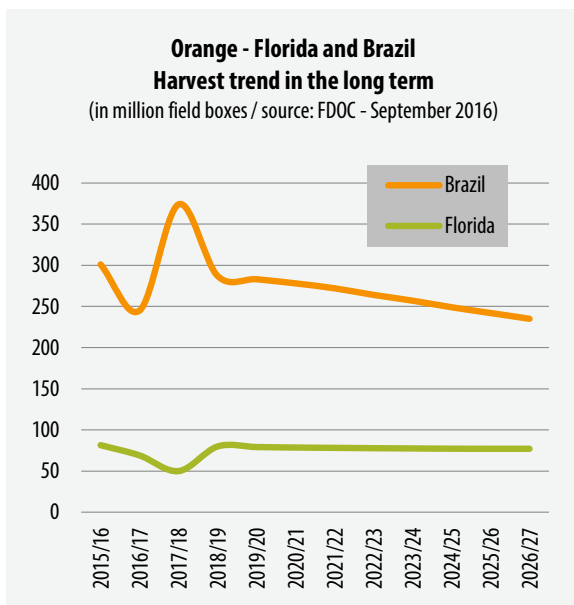
Brazilian sector in better health, but indicating only stability

A glass of orange juice should remain an expensive part of breakfast over the coming years. True, demand should barely see any favourable development, with decline probably prevailing. However, world production should remain restrained. True, the world number one Brazil is in better health than in the past. In plant health terms, the infestation rate of the cultivation area by greening registered for the first time a hesitant but encouraging fall in 2016-17, going from 17 to 16 %. Furthermore, the downward trend in cultivated surface areas seems to be slowing down (16 000 ha lost between 2015 and 2016, and approximately 1 000 ha between 2016 and 2017). While the shrinkage is based in the centre and north-west of Sao Paulo State, the trend is for stabilisation, or even sometimes increases in the north, south and above all the south-west, less hit by greening and better supplied with water. Finally, production yields have increased with the constant rise in mean density (687 trees per hectare on average for new plantations in 2015-16 as opposed to less than 500 until 2007 and less than 600 until 2012). Nonetheless, according to the USDA's latest model, these factors should only be able to limit the decline in production, with the harvests from the Sao Paulo centre maintaining a level below 300 million field crates, a long way off this season's mark. Furthermore, juice yields, although on the rise (267 field crates for one tonne of concentrate in 2016-17), remain a long way off those seen for the majority of the last decade (230 to 240 field crates per tonne of concentrate).



Sector more endangered than ever in Florida

In Florida, the uncertainties around the long-term future of the industry, already intense because of greening, are sharper than ever since Hurricane Irma. According to the USDA, the losses sustained by the citrus growing sector amount to more than 760 million USD (2.5 billion USD for Floridian agriculture). Dreyfus, a heavyweight of the sector, has declared a pessimistic outlook. Conversely, many producers are keeping up their spirits and not losing hope. Dan Richey, CEO of Riverfront Packing, said of the sector, paraphrasing Mark Twain, that "rumours of its demise had been greatly exaggerated". It is true that greening control is more effective and that research is contemplating the release of tolerant varieties in the medium term. The refloating of the sector will depend largely on the level of the aid package to be allocated by the local and Federal authorities. It is hard to imagine that the authorities will abandon the citrus growing sector, as recently as 2015-16 generated more than 45 000 direct jobs (full-time or part-time), and a turnover of approximately 4 billion USD (without counting the indirect knock-on effects) ■



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