

Orange juice

World market

Main indicators back into the red

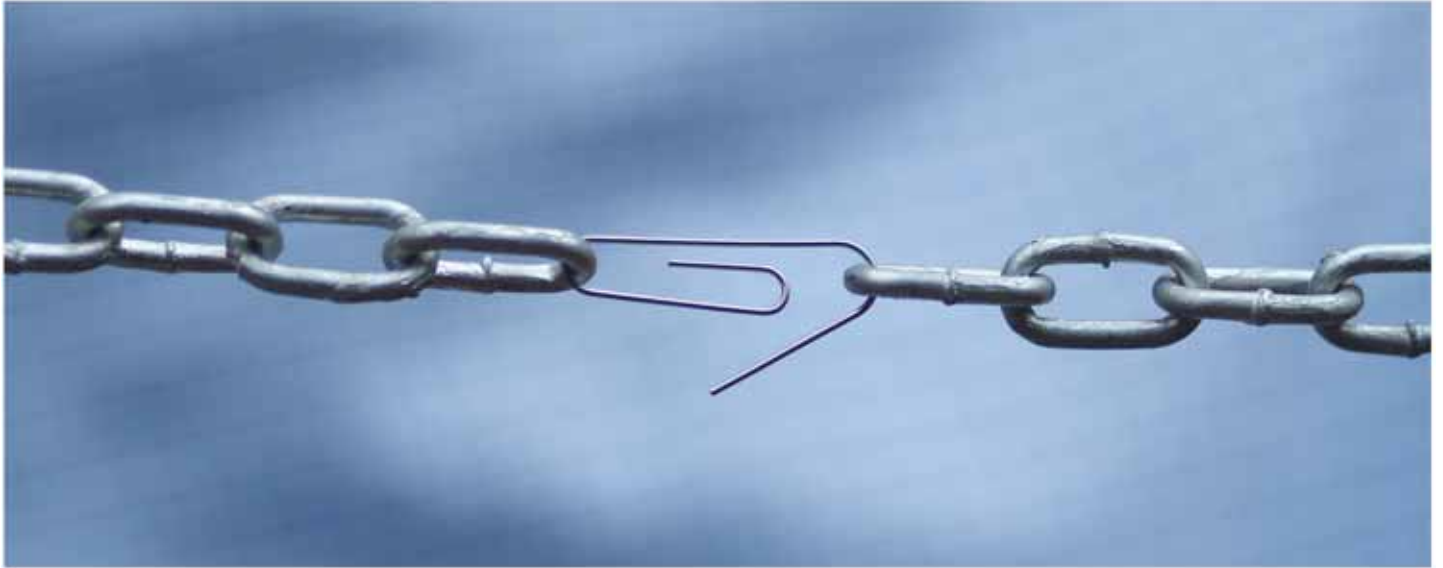
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The combination of a succession of rather moderate harvests in Brazil and the collapse of Floridian production had, in recent years, helped revitalise an orange juice market structurally weakened by a downturn in demand. The 2019-20 season is set to be very different, possibly leading into another tough period.

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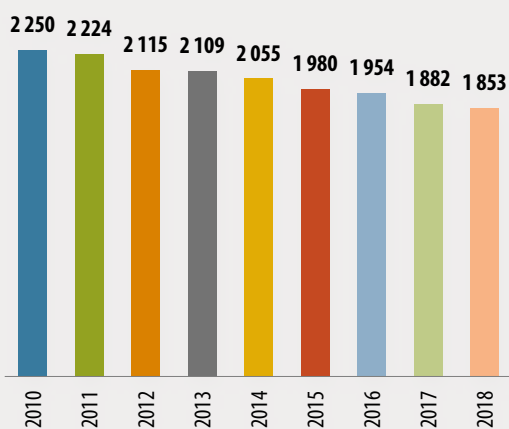
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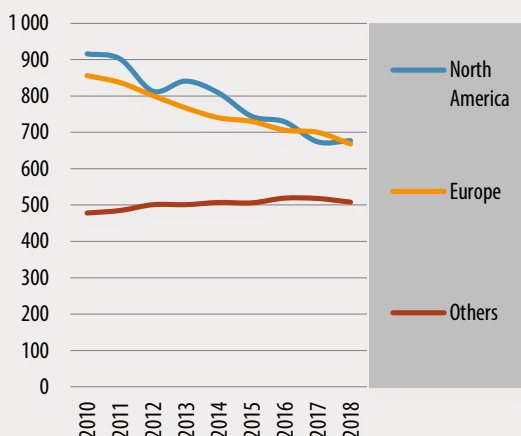
Orange juice - World - Consumption

(in 000 t 65°brix concentrated juice equivalent | source: Marketstraat)



Orange juice - World - Main markets

(in 000 t 65°brix concentrated juice equivalent | source: Marketstraat)



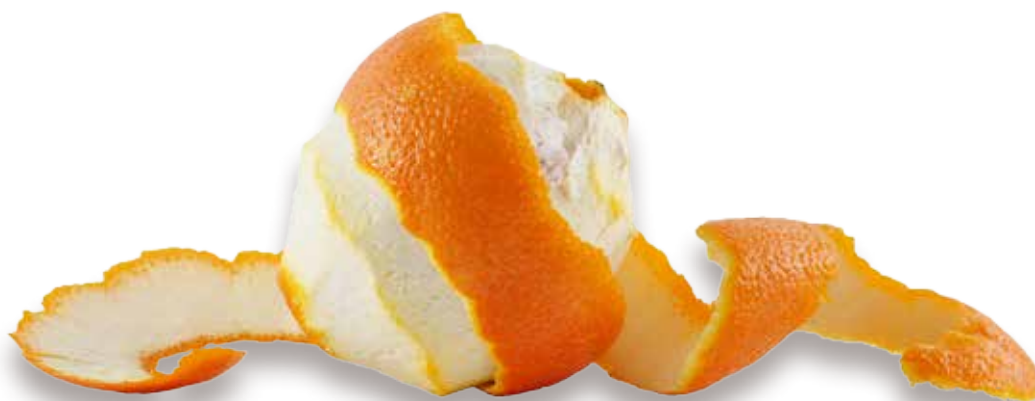
Consumption still on the wane, despite a slightly brighter looking USA

From a demand viewpoint, the market is unchanged and fairly gloomy. There is still a distinct downward trend, although the fall of approximately 1.5 % between 2017 and 2018 is a bit less than the average from recent years (2.6 %). Declining consumption is still prevailing in the EU, the world's number two market. The fall registered between 2017 and 2018 is actually among the biggest in recent years (approximately 5 %, i.e. nearly double the four-year average). Furthermore, the Asian markets have confirmed their trend for stabilisation or even decline, as has Eastern Europe. The only two pieces of good news are the ongoing slight growth in Latin America, and above all a slight uptick on the world's number one market, the USA. For the first time in a long while, decline has given way to a very slight increase. Is this a long-term trend? This is far from certain. In any event, this little ray of sunshine, and the ongoing growth in South America, are a long way from offsetting the fall on the other markets.

Orange juice – World – Consumption

in 000 tonnes concentrated juice equivalent	2018	% of world consumption	2018 compared to	
			2017	2013
Europe	668	36 %	- 4.6 %	- 13%
North America	677	37 %	+ 0.4 %	- 20%
Latin America	158	9 %	+ 7.5 %	+ 22%
Asia	232	13 %	- 4.5 %	- 4%
Others	118	6 %	- 7.8 %	- 10%
Total	1 853	100 %	- 1.5 %	- 12%

Source: Marketstraat



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High harvest level in Brazil

Unlike for demand, production prospects are seeing a major change, particularly in Brazil. The official estimate published on 10 September 2019 for the São Paulo/Minas Gerais zone is reckoning on a harvest of nearly 390 million boxes in 2019-20, up by 36 % from the previous season, and 26 % above the four-year average. The flowering level was very good, especially because of the alternate bearing phenomenon, and the climate conditions were rather favourable (no long period of excessive temperatures, decent rainfall in most regions). Some observers nonetheless regard this estimate as a bit too optimistic, and believe that a downward revision of 5 to 7 % is possible, because of a dry period at the beginning of the year in certain zones, where irrigation infrastructures are insufficient. Even if this hypothesis is confirmed, the 2019-20 Brazilian harvest will be among the biggest in the past decade. The fruit sizing appears small, but the juice yield will be similar to 2018-19, and close to the four-year average.

Orange juice – Florida and Brazil – Harvest forecast

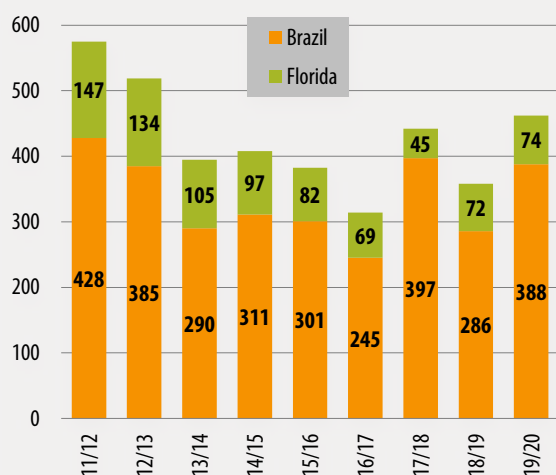
in million field crates	2019-20	2018-19	average	2019-20 compared to	
				2018-19	average
Florida	74	72	67	+ 3 %	+ 11 %
Brazil	388	286	307	+ 36 %	+ 26 %
Combined	462	358	374	+ 29 %	+ 23 %

Sources: FDOC, IEA



Orange - Florida and Brazil - Production

(in million field crates | sources: FDOC, IEA)

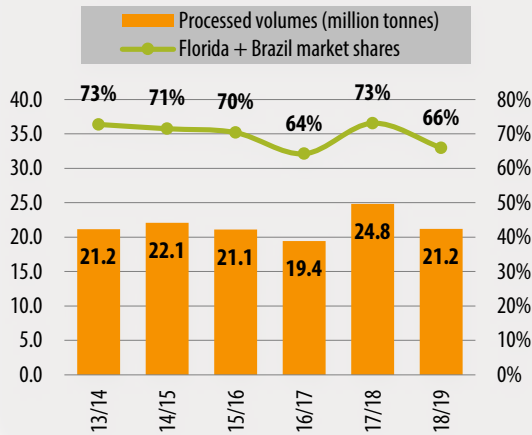


Floridian production on a stabilising trend

Florida is not expecting such a big upward movement as in Brazil, though the forecast issued by the USDA in mid-October is a minor victory. It confirms the stabilisation trend in Floridian production, after more than ten years in succession of more or less pronounced falls. With nearly 74 million field crates expected in 2019-20 (i.e. approximately 3 million tonnes), the harvest is actually set to be slightly bigger than in 2018-19 (+ 3 %). The climate conditions were rather unfavourable throughout the crop cycle, except for some drought in Indian River in spring. Furthermore, Hurricane Dorian gave the Floridian coast a sufficiently wide berth to avoid damaging the plantations. The fruit sizing and juice yield are somewhat greater than in 2018-19.

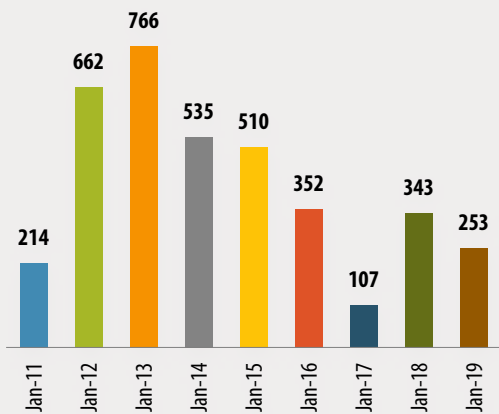
Orange juice - Volumes of processed oranges and Florida + Brazil market shares

(sources: USDA, IEA, FDOC, FAO, CLAM)



Concentrated orange juice - Brazil - Stock

(in 000 tonnes | source: citrus BR)



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World juice production

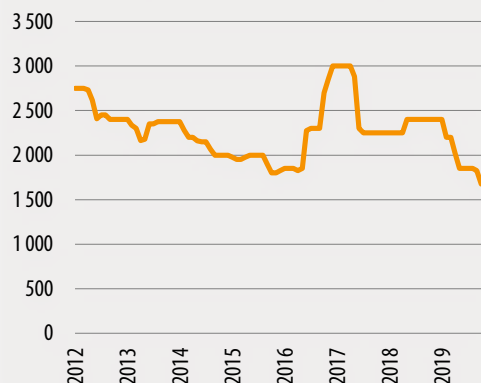
If these hypotheses are confirmed, the combined production of the big two should be around 1.5 million tonnes equivalent 65°Brix concentrate. This level is up by more than 20 % on last season, and is nearly 15 % above the four-year average. Above all, it points to a world production figure of more than 2 million tonnes, well in excess of world consumption (1.8 to 1.9 million tonnes). Availability – and therefore pressure – on the world market are set to be fairly high in 2019-20, especially with stocks levels rising. True, the 160 000 t equivalent of concentrated juice recorded in Brazil in early June does not compare in any way to the mountains of stocks in the middle of the decade (more than 500 000 t in 2013-14), though the trend is there.

Prices at rock bottom for the past ten years on the futures market

In this context there has been a major shift in prices. On the physical market, the loss of vigour since the start of the year gave way to a distinct fall in May, given the predicted scale of the Brazilian harvest. Rates per tonne of concentrate have stabilised in recent months at 1 850 USD/t into Rotterdam, after losing 550 USD/t from January (650 USD/t for NFC, down by approximately 50 USD from the beginning of the year). The futures market followed the same trend, and has been fluctuating since May between 0.95 and 1.00 USD/pound, its lowest level for ten years.

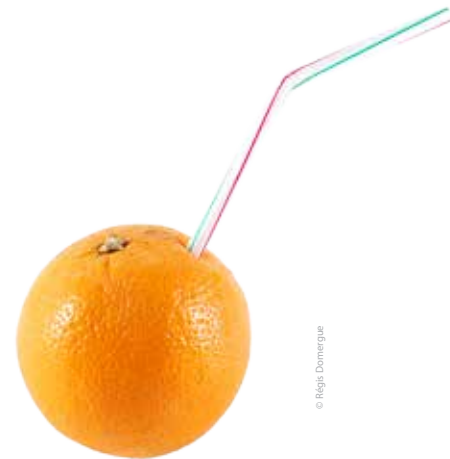
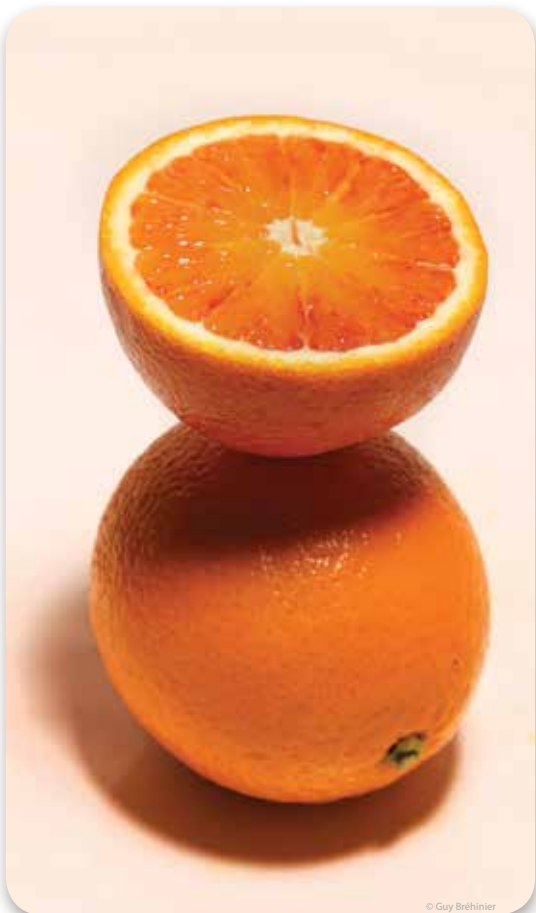
Concentrated orange juice 65°Brix Average price CIF Rotterdam

(in USD/tonne | source: Foodnews)



Brazil heading for a slight growth dynamic?

Production perspectives are pointing to a fairly pessimistic outlook for the medium-term evolution of the market. The growth trend in Brazilian production, perceptible in recent seasons despite a marked alternate bearing effect, should be confirmed in the coming years. True, surface areas are rapidly shrinking (400 000 ha of orange plantations in the São Paulo/Minas Gerais zone, i.e. 150 000 ha less than in 2011-12). However, the number of trees in production – i.e. the production capacity – has been relatively stable since 2015-16 (approximately 175 million orange trees in São Paulo State). Furthermore, the sanitary measures implemented are managing to contain greening (infestation rate practically stabilised at approximately 17-18 % since 2015). However there are big regional disparities, with very high contamination in the central zone (nearly 50 % or more in Brotas and Limeira, and 25 to 35 % in Porto Ferreira and Duartina). Variegated chlorosis, another major scourge, is already in rapid decline (from nearly 38 % in 2012 to just over 1 % in 2018).



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Florida projection: from collapse to decline

Last decade was catastrophic for Florida, with production going from approximately 160 million boxes to under 70 million. Greening decimated the cultivation area, dramatically reducing yields, in particular for older trees which now represent a large part of the stock (more than 60 % aged 15 or more). While production costs per hectare are tending to stabilise (at approximately 4 600 USD, i.e. a level nearly 60 % higher than the period prior to greening), the cost per crate is continuing to soar with falling productivity (5 to 6 USD until 2012-13 to more than 11 USD in 2016-17). There is carnage in the industry: the number of active plantations went from 7 400 in 2002 to less than 3 000 in 2017, with the juice manufacturing facilities shrinking drastically over the same time (from fourteen or so factories to seven in 2019, in the hands of the four big groups - Tropicana, Florida Natural, Peace River Citrus and Cutrale). Research remains very much geared up to combat greening, though no long-term solution will be available in the near future. Meanwhile, the industry is just ploughing on. The application of antibiotics such as streptomycins in orchards, authorised by the Environmental Protection Agency despite the recommendations of the Food and Drug Administration, is going full steam ahead. However, the prospects seem a bit less bleak for the coming years. The latest production projection by the FDOC is reckoning on a downward or even stabilising trend, depending on the planting rate. The most realistic hypothesis, since it is in line with the current planting rate (75 % offsetting lost trees), is predicting a production level of approximately 62 million field crates in 2029-30. Yet the scenario of completely offsetting the lost trees, leading to stabilised production, should not be ruled out: in 2018-19, and for the first time in ages, the cultivation area expanded, with planting rate exceeding mortality. With an upward trend in Brazilian production, a stabilising trend in Florida, rising stocks and a structural decline in consumption, all the ingredients seem to be there to ramp up the pressure on the market ■