

Rob's Crystal Ball



C&A

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CITRUS OILS

MARKET REPORT



CITRUS and ALLIED ESSENCES LTD.

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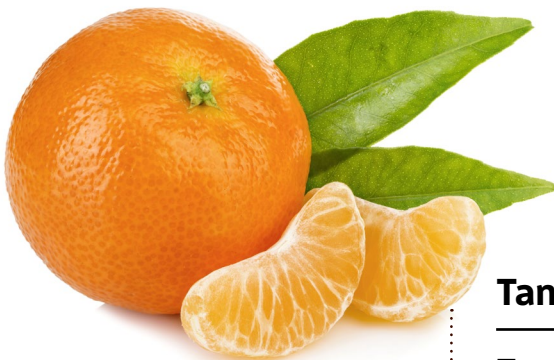
Writing market reports can be tricky. That's because while it is satisfying to make predictions (and to be correct!), the excitement of understanding markets sometimes does not translate to moving prices. There are only three things that can happen to a price: it can stay the same, go up or go down.

Given the price increases of the recent past, our customers want us to predict the moment at which prices are going to come down, and come down for real.

Unfortunately, a body in motion tends to stay in motion and expensive products often stay expensive until there is a significant change in either supply or demand. High prices are not moved in a downward direction because supply increases modestly, unless demand is soft.

This introduction forms the basis for what comes next in our market reports for orange, lemon, lime, grapefruit and tangerine.

Let's start with the easy one.



Tangerine

Tangerine continues to be a specialty citrus oil. Production is somewhat limited but so is demand. Predictable demand is possible because tangerine is mostly used as a modifier of orange flavors. There are very few tangerine drinks, tangerine candies or

tangerine dairy flavors. For reasons of adequate supply and steady demand, the price of tangerine oil has remained consistent over a decade. We believe that will remain true in the near future.



Grapefruit

There is not enough grapefruit oil in the world to satisfy diminishing demand. Although high prices have reduced the need for grapefruit oil in the fragrance business to a passing requirement for terpenes, and demand by the flavor and beverage industries is anemic, the reduction in supply continues to outpace the reduction in demand. This has moved ridiculously high prices to even more absurd levels. The rate of increase has slowed but the imbalance continues to favor less and less use. Grapefruit volumes in Florida are projected to be only 8.1 million boxes. This is down 800,000 boxes from last year. To put this into context, there was a time when there were 50 million boxes in Florida and not too long ago, the number was 20 million. There is grapefruit production in other parts of the world, but not much. Buy what you need and maybe a little extra, but not too much.



Lime

Bad weather in Peru has affected lime production. Since production in Peru is not that large to begin with, anything less than superb availability combined with high fruit yields from the trees does not move prices. As the saying goes, "any port in a storm", so every little bit helps, but not enough to move the global market prices.

The lime season in Mexico traditionally begins in Colima on the Monday after Easter. That is now! At this moment, it is far too early to predict what is going to happen. Especially since rainfall plays such an important factor in eventual production results. But at this early

moment it is fair to say that there was not enough production in Michoacán to create surplus inventory and bring prices down from the close of the 2016 season. There is definitely more fruit in Colima this year when compared to last, and we are hopeful the prices for industrial fruit will move downward, resulting in a price decline for lime oil production. Our next report in July will be far more definitive since the high season will then be upon us.

For now, we advise customers to cover their requirements for the short term since inventories are low.



Lemon

Lemon production in Spain over the winter was certainly better than in 2016. We traveled there and saw trees thoroughly covered with lemons. And we saw something else too, snow in the foothills surrounding Murcia. This is something so rare, it is possible there is no one alive today who remembers the last time it was seen. This also confirms the atypical weather in Sicily where a planned trip to a producer had to be canceled due to road closings attributed to snow. There was actually snow in Taormina, something that has not occurred in over 50 years!

Lemons do not mind cold weather as long as it is not too cold and does not last for an extended period of time. Therefore, lemon production in the Mediterranean region is not suffering. Spain and Italy are not experiencing

record production levels, but there is sufficient production to keep prices from soaring. And with that, we turn our attention to Argentina, the largest supplier of available lemon oil. The news from Argentina is for a normal size crop, similar in size to last year's. It is still early to make accurate forecasts but we would not be surprised if the initial estimates prove true. For these reasons, unless there is a marked change in currency values, we expect the price of lemon for 2017 to be close to the price in 2016. Our best guess is for an increase of less than 10%.



Orange

Florida's orange production is now estimated at 67 million boxes, down from 81 million boxes last year. Since production is now so low, the continued downward glide plane is of less consequence than was the case when Florida routinely produced 160 million

boxes of fruit. But less is less, and it certainly does not help the global pricing.

Estimates from Brazil show the smallest rate of change we have ever seen. Total boxes are estimated to be 245.31 million, an increase of .45%. Based on flat production, price relief cannot be expected to come from Brazil, so that leaves the rest of the world. Orange production takes place everywhere a humid subtropical climate is present with a decent population and therefore demand. In most places where oranges are grown on a modest scale, the fruit is consumed as fresh and there is little to no juice and oil production. There are some locations, like Mexico, Spain and South Africa, where there is increasing production. It is probably fair to say that if production increases, it will take 10 years for trees to grow to the point where the drastic reduction in Florida is even partially offset.

We expect orange prices to remain near current levels for the foreseeable future.